

The State of The Scooter Market, Part 1

As the industry heads into Indy for the Dealer Expo, we find ourselves swimming in a sea of articles proclaiming scooters are the fastest growing segment of the powersports industry. But are the little tiddlers really right for your dealership? Is there really as much potential growth in the scooter market as the importers would have you believe? Rather than speculate, we went to somebody who is directly involved in the scooter market on a day to day basis — Malaguti importer and MRP scooter accessories guru Joel Martin. After more than a decade in the trenches, both on an OE and aftermarket level, Joel is uniquely positioned to see beyond the smoke and mirrors surrounding the scooter market. “I talk to dealers every day, so it is no surprise to see the amount of misinformation that is out there about the scooter market,” he notes. In Part I Joel gets to the bottom of the scooter craze and next month look for tips on making the scooter market work for you. Meanwhile, Managing Editor Colleen Malloy offers a closer look at another contender in the scooter contingent: The Genuine Scooter Company.

Photo Courtesy of RYMED

Remember Fight Club?

By Joel Martin

There certainly are more advanced scooter dealerships serving the market with new and interesting concepts — America features the most diverse scene of retail outlet operations for this method of transportation in the world. There is everything from the department store style mega-dealerships to the big box discount retail chains such as BJ's/Sam's Club/Target at one end of the spectrum down to the Vespa boutiques, used car lots, vintage scooter repair shops and the mom and pop retailers which are the backbone of this industry. Every day people of varying mechanical backgrounds are opening up scooter shops all across America; thanks in part to the rising number of scooter brands entering the marketplace.

What started as a couple of established European brands, a couple Japanese OEM offerings and a handful of inexpensive off-name brands has ramped up to 44 Asian importers alone! A good portion of these brands from Asia are here to stay whether to become part of a growing scene or just wreak havoc on pricing is anyone's guess, but as they say, *caveat emptor!* Ask yourself key questions including: Why are sales rising? Where are they all made? Who makes what? Is this bike DOT-approved? And my personal favorite: Is this really a Honda?

This background information should help you understand why as a dealer you should purchase scooters and accessories from suppliers who are trying to build sustainable networks and a profitable scooter scene in America and not just purchase the least expensive brand offered to you at the Indiana show this year.

The First Rule Of Scooter Club

Remember the movie *Fight Club*? Well, the first rule of scooter club is that nobody knows anything. The second rule of scooter club is that nobody *really* knows anything.

According to the Motorcycle Industry Council (MIC), U.S. scooter sales increased from 12,000 units in 1997 to 48,445 by 2004. MIC estimates the real total at around 86,000 units (when factoring in non-reporting companies). I suggest this number is on the conservative side. As the Malaguti importer, I never reported any of the Malaguti scooters sold in the U.S. and I know many others in the industry do not report their sales figures to MIC.

Actually, there are just a handful of OEM MIC members, and only a couple of them are involved in the scooter market. (Just so were clear there is a membership fee to enter the MIC. Nor is it mandated by law that you become a member, so most of us small scooter-only importers don't join since there's no benefit to joining except for the booth discount at the Dealer Expo or inclusion in press releases which mostly mention Vespa's return to the U.S. market).

These numbers do not take into consideration a significant number of players that have entered the market since 1997 — both legal and gray market importers who the MIC doesn't track. You can't even rely on state registrations because most states classify them differently, don't release figures, or as in the case of Puerto Rico, don't require scooters to be registered at all.

Remember those 44 companies? It's no surprise that the majority come from Asia, but it isn't just China. These days they come from all over, including India, Korea, Taiwan, Vietnam and, of course, mainland China. Love them or hate them, they are here to stay. My personal estimate of the actual number of sales is around 125,000 units for 2005. That's not huge compared to a population of almost 300 million, but what is striking is the consistent growth of 9% to 17% each year for the reporting companies.

Looking at the numbers reported by the MIC, the majority of the sales in the U.S. are not Vespas or big displacement luxury scooters but the basic 50cc Japanese bikes. Honda and

Expert Opinion: Somebody Who Knows Something



A couple of months ago *MPN* asked for a scooter expert's opinion on some of the crazy things that have been happening in the scooter market. Like my *Fight Club* analogy suggests, nobody seems to know everything about this business, but if there's such a thing as a scooter community veteran, then I've done more than a few tours of duty. I started off back in 1995 by helping out my father at his car dealership after school selling used 49cc scooters. Five years later I officially entered the industry by working for an Italian manufacturer (Malaguti), later becoming their U.S. distributor, and I eventually worked with several leading distributors in the country to help them set up their scooter operations. Since then I have seen this industry develop, change, renovate itself and evolve over the past decade. I guess I'm as qualified as anyone to comment on the "scooter scene." Back when I first started, there were only three major importers in the U.S. bringing in scooters from Europe and only a handful of inexpensive imports from Asia besides the "big two" Japanese OEMs which continue to dominate the industry; Yamaha and Honda. Scooter sales just weren't that impressive back then, but year after year the sales figures have continued to grow and now scooters are suddenly the hottest selling segment of the powersports market.

— Joel Martin

Yamaha leads the numbers game because of a combination of quality product and an extensive distribution system. Suzuki reported sales for only two units, their high-end 400cc and 650cc Burgmans. The real majority of sales in America are mainly 50cc clones based on the leading two models, the Yamaha Vino and Honda Metropolitan, manufactured by mainland Chinese companies. You will probably see lots of these in the Chinese Zone at the Dealer Expo.

The Second Rule Of Scooter Club:

Nobody Really Knows Anything

About ten years ago the motorcycle industry woke up to the fact that China was increasing its production to about 40% of global unit output. It became the worldwide leader in motorcycle manufacturing, outpacing its Asian rivals Taiwan, Japan and Korea. Despite the global domination of the Chinese in scooter production, Taiwan remains a strong contender for U.S. market share with several major scooter manufacturers currently exporting to the U.S., including ETON, KYMCO, PGO, Standard Motor Company, SYM (at one point I imported these as well) and TGB, among others.

These Taiwanese based company beat their mainland China competitors to the punch because until about 2002, most developed markets such as the United States and Europe were exempt from the mainland Chinese invasion due to the products' relatively poor quality, inability to pass strict EU regulations, and the lack of a strong distribution system on the part of the Chinese manufacturers. The first few mainland-made scooters we saw in the U.S. were manufactured by Jianshee, Jincheng and Sundiro.

Despite the initial quality issues, America's appetite for inexpensive scooters grew and many distributors started looking for better quality product to import from



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Asia. The rise in MIC numbers is mainly due to the fact that the average scooter dealer cost in America for the past five years has been in the \$1,000 to \$1,600 range with European scooters at the high end. Meanwhile, the average cost of a 50cc scooter from a factory in China has been around \$300 to \$400 for the past few years, despite rising retail prices around the world. This meant that any interested party could go to China and make good margins on really cheap goods. In fact, these margins have attracted the attention of big name brands who wanted private label scooters including some well-known sporting goods outfits and the buyers at Target, Pep Boys, Costco, etc.

Adding fuel to the fire is rising transportation costs. On average we still have some of the lowest gasoline prices in the world, maintaining the average price per gallon under \$3. Currently in Europe they pay more than \$5 a gallon and they are one of the largest scooter markets in the world, so obviously there is a correlation between inexpensive transportation and gasoline prices.

The Rise And Fall Of The European Empire

Scooters and Europe have always gone hand-in-hand in the average American dealer's mind. This can be easily attributed to the incredible marketing job done with the original Vespa and more recently, the job that Piaggio has done in making its Vespa brand synonymous with scooters. Back in 2000, there was an overnight boom in scooter sales overseas. Due primarily to government incentives and high gas prices, scooter sales reached an all-time high in Europe. Companies like Aprilia over-expanded and then watched millions vanish as they built a distribution empire across the world, including the U.S. At the time many companies including Malaguti looked at America as the place where they could continue to grow and also tried to expand.

The demand was so high for European product that I would find gray market importers bringing Malagutis into San Francisco and selling \$2,000 scooters for \$4,000! The demand for European scooters continued late into 2002 as we saw gray market importers even bringing in Peugeot, one of the most expensive European brands, without being authorized by the factory in France. We also saw attempts to revive the Italjet brand and import Benelli scooters at one point, despite their incredible factory prices.

However, none of us on that side of the business could have foreseen the devaluation of the dollar over the past few years. When I first started importing Malaguti, the dollar would get 1.12 Euros, but by December 2004 the Euro was trading at \$1.37 meaning that any company importing from Europe had gradually lost over 40% in the exchange rate. To make matters worse on the home front, a change in licensing laws and a easing of government subsidies created the

worst bust in the history of Italian scooter sales.

The competitive nature of the European market was further troubled by rising Asian tigers. New brands such as SYM and KYMCO were quickly eating up market share once held by the European brands. Even joint ventures such as the previously profitable MBK-Yamaha operation ceased their European production in order to be competitive.

Piaggio decided to focus on survival by acquisition and began the first round of European mergers to decide the fate of European-made scooters. In 1980 there were more than 100 moped/scooter manufacturers in Italy alone. In 2001, when I began working in Italy, there were six main scooter manufacturers left: Aprilia, Benelli, Beta, Italjet, Malaguti and Piaggio/Vespa. Since then, we have seen Beta stop manufacturing scooters, Benelli was sold (by the Chinese!) to avoid foreclosure, Italjet has closed its doors, Spanish scooter maker Derbi was purchased by Piaggio, and eventually Aprilia was purchased out of bankruptcy court as well. By 2006, the only two remaining Italian-owned operations are the Piaggio Group (now comprised of Aprilia, Derbi, Gilera, Vespa, etc.) and Malaguti Moto.

So what does this have to do with Asia? Well, frankly everything. Malaguti and Piaggio are both looking to Asia for their futures. Malaguti is currently the largest assembler of Yamaha vehicles in mainland Europe for scooters and dirtbikes. Both companies continue to reorganize and have America in their long-term sights. Both Malaguti and Piaggio face extraordinarily high labor costs in Italy, employment regulations, and a lack of raw materials in Europe which have lead them to look at China for their future competitiveness with Piaggio taking the lead due to its now enormous corporate size. Suppliers in Italy and in Europe have also been closing or moving production to Asia showing that even for Italian companies, the China threat has been real.

Despite their struggles, some good news for Italian brands has come out of Asia. Companies such as Italjet are being reborn by manufacturing their designs in India with Kinetic. This caused a big buzz at the EICMA show in Milan this year, and many people have wondered who the new importers for the U.S. will be.

Benelli was also present at the show in spite of rumors that it had closed for good. Benelli was recently purchased by the Qianjiang Group, and I had a chance to talk to the new managers. Qianjiang currently sells to several distributors including Mondial, Powersports Factory and Vento North America. They have plans to begin exporting the scooters directly from China to their U.S.

distributors sometime in 2006 under the Benelli name. Be on the lookout for updates at this year's Dealer Expo.

Japan Inc. Loses Its Grip?

Many dealers call me and ask if their scooter really is a Yamaha or a Honda? The answer is, well sort of. Let me explain, in the late '90s, the Japanese Big Four decided that the growing Chinese presence could not be ignored. The Big Four were tackling issues that had to be attached head on





such as rampant design copying, price wars with suppliers, soaring labor costs in Japan, and the increasing market penetration from Mainland China manufacturers. Like the mythical hydra, Chinese factories were popping up left and right, so it seems that the Japanese OEs decided that if they couldn't beat them, they would join them.

Honda is the fastest mover so far among the Japanese motorcycle makers. To date, it has established four motorcycle-making joint ventures in the separate motorcycle hubs in China: Wuyang-Honda in Guangzhou, Jialing-Honda in Chongqing, Tianjin-Honda in Tianjin and Honda-Sundiro in Shanghai. If any of these names look familiar it's because you might have seen it on the side of a bike at your local Pep Boys. Honda might be a part owner of these factories, but in some cases they have little or no control on how their "partners" choose to compete with Honda product abroad. As the the best and biggest motorcycle company in the world, Honda has made sure that their agreements state that these units are not to be exported to the U.S., but agreements are extremely hard to enforce in the "wild west" of Chinese capitalism.

Each market in Asia is increasingly difficult to penetrate since each market has a force that dominates sales in a particular country – in Korea it is Hyosung and Daelim (both former Japanese subsidiaries). This has been the key to some of these players entering the U.S. market, since you can't visit the Daelim website without being reminded that this was Honda Korea at one point just as KYMCO and SYM were both originally part of the Japanese affiliate in Taiwan. This simple reality has given a lot of credibility to these new scooter brands.

However, with that credibility comes an equal amount of confusion. One of the biggest issues facing Asian brands is its homogenous product. Entire bikes are easily copied in countries without enforceable copyright laws. As these models come to the U.S., more and more distributors are seen selling bikes which appear identical, except for the stickers. Case in point — models imported by Diamo, United Motors, Vento, Tank and now even TNG can appear identical to the naked eye.

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This leads to more end user confusion than anything else since dealers (hopefully) buy based on the distribution network, price, spare parts availability and other factors such as warranties.

Speaking of a warranty, more distributors are now increasing their scooter warranties from two years to a full four years. Just two years ago the industry standard was a one-year warranty and before that no warranty at all was the norm. Having the same molds is leading these distributors to pay attention to parts, service and support since they are all competing for the same customers with the



almost identical product derived from

some Honda or Yamaha designs.

Even mid-priced brands such as KYMCO have had to raise their

standard warranty up to three years to help differentiate themselves from the lower priced brands. Since they have higher margins, they are using these gains to pay for the increase in customer service. However, it isn't brands like KYMCO that are creating problems for Honda and Yamaha, but rather off-brands whose quality Honda would never allow for export yet still come into the U.S. bearing similar names and styling identical to Honda products. These off-brands continue to push to get into the U.S. by any means possible due to the high margins in America (and until just recently, the ease of entry in the U.S. ports).

How can we blame these manufacturers for wanting a piece of the American dream? In 2002 the United States was the second highest importer of Chinese motorcycles and scooters, importing 422,000 units (\$55 million), representing 8.5% of overall motorcycle annual export value. This number has now multiplied making the American powersports industry even

more reliant on China as a source of its profits. The U.S. market is huge, and mainland makers will do everything in their power to hold on to it or enter it including importing brands with Honda or Yamaha labels. Yamaha and a U.S.-based importer recently settled their ongoing argument over a brand called, of all things, Yamoto.

My biggest suggestion when dealing with new Asian brands is to do your homework and not base your decision on sales reps brochures or unit pricing. Like everything in life, you need to talk to other dealers, find out who makes the product, what aftermarket support is available, if they are investing in expanding the scooter scene, and how long they've been in the market. Buying from these more reliable companies will hopefully continue this scooter boom we are seeing and build a sustainable network for years to come.

If you need some advice or what brands to pick up, you can always write me. Good luck at the Dealer Expo in Indiana this year. You can reach me at: Joel@mrp-speed.com. ■

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