

China and the American Scooterist

ScooterWorld

August/September 2005

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ScooterWorld

ScooterWorld has several new contributors this issue: Joel Martin and Steven Elliott join our Bryce Ludwig in covering imports from China. Sandra Carr has written several articles for us and now takes on fashion and accessories as an ongoing subject. Jeffrey Kochan will be reviewing movies that have scooters in them. Jeff has been attending the Sundance Film Festival for years, and I have always loved his write ups and recommendations. Thanks to all! And congrats to Jeff and Dianna on the birth of a baby girl, and happy first anniversary to Bryce and his wife.

I spoke with several industry professionals and shop owners to get their opinions on the impact of Chinese scooters on the US market. I appreciate the time they took to speak with me. I am always impressed at the generosity of the people I meet in the scooter field.

Our next issue will include many of our standard features. And we will continue to cover all things scooter!

As always, thank you for reading, and happy scootering!
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by Joel Martin

My fascination with scooters began one afternoon in 1995 when I showed up at my father's car dealership to witness a stunning transformation; my father Froilan had begun selling Japanese and Chinese scooters instead of cars. At the time I had no clue what they were or what they did, but I decided to help him out in my afternoons. Little by little his sales increased until one morning I looked up and counted about five hundred scooters and realized he was onto something.

Since that eventful afternoon in 1995 I have watched this industry grow, adjust, transform itself, and evolve. At that time, there were only three importers in the US bringing in scooters from Europe including Cycle Imports/Cosmopolitan Motors with the Derbi line and Rossel Imports with Italjet. There were also only a handful of importers from Asia besides the big two; Yamaha and Honda. Scooter sales just weren't that impressive.

According to the Irvine California based Motorcycle Industry Council (MIC), U.S. scooter sales have increased from 12,000 in 1997 to 48,445 in 2004. The MIC estimates the real total at around 84,000 units (when counting non-reporting companies). These numbers do not take into consideration a significant number of players that have entered the market since 1997. By my last count there were over 44 companies that advertised themselves as importers – most of these scooters come from Asia.

The majority of the scooter industry does not report their sales figures to the MIC; membership is not mandatory by law so most of small distributors don't join. My personal estimate of the actual number of sales is around 125,000 units. 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.

Looking at the numbers reported by the MIC, the majority of the sales in the US are not Vespas or high displacement units but 50cc Japanese bikes. Honda and Yamaha lead the numbers game because of a combination of quality product and an extensive distribution system of 2,000 plus dealers; Suzuki reported sales for only two units, the 400cc and 650cc, but if they had their full lineup they would have sold considerably more. The majority of Asian 50cc distributors try to sell clones based on the leading two models; the Vino and Metropolitan.

The biggest growth in the scooter market is coming from Mainland China. Chinese bikes are here to stay, and as a scooter industry professional, I'm taking a serious look at what the impact of these bikes will be on the American consumer.

Reported US Market Sales in 2004

Yamaha	17,714
Honda	17,314
Piaggio	7,914
Suzuki	3,382
Aprilia	2,121
Malaguti	1,900

China: the motorcycle empire

In 1995 the world woke up to the fact that China was increasing its output capacity to about 40 percent of global motorcycle output. At this time it became the global leader in production outracing its Asian rivals Taiwan, Japan, and Korea. Taiwan has many major scooter manufacturers that currently export to the US including SYM (under the MRP and Tomos name), Kymco, PGO, ETON, Standard Motor Company and several others. By 1996 China had surpassed production in Europe and the United States in production and companies began to take notice. In 2003, China makers turned out 14 million motorcycles, approximately 48 percent of global output – today Chinese production is over 50% and still growing.

In order to understand this better I will analyze the Chinese effect on first on European manufacturers, second the Japanese big four, and finally the main players in Asia itself.

Until 2002 most developed markets such as the United States and Europe were exempt from the mainland Chinese invasion due to poor quality, inability to pass strict EU regulations, and the lack of a strong distribution system on the part of the Chinese manufacturers. The distribution barrier was overcome once importers and distributors in Europe and United States decided to private label and take advantage of the margins.

The average price of a 50cc scooter from a factory in China is around \$300. The rise in MIC numbers has also not gone without notice from the MBA's working at your local outlet including Aaron's rental, Costco, Pep Boys, Sams Club, and even Walmart drooling at the chance of making a quick profit.

Crisis in Europe

In 2000 and 2001 there was a boom in Italian scooter sales due primarily to government incentives; scooter sales reached an all time high. Companies like Aprilia over-expanded and lost millions in building its distribution empire across the world, including the U.S. It was common knowledge within the industry that the company was losing money on each scooter sold in the US.

The following year 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 the rising influence of the Asian tigers. New brands (such as Daelim, SYM, and Kymco) were taking market share once held by the European brands.

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 2001, when I began working in Italy, there were six main scooter manufacturers left: Beta, Benelli, Italjet, Aprilia, Malaguti, and Piaggio. Beta and Benelli stopped manufacturing scooters, Italjet closed its doors, Aprilia was purchased in bankruptcy by Piaggio and now only two remain.

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. Benelli has sold its designs and can currently be found in scooters distributed in the U.S. by companies such as LS Motorsports under the Diamo brand name; looking at a Velux you can't help but seeing the original Benelli in all its glory. Italian companies and designs are finding new life in Asia and China. In the end, the Chinese invasion of the European market might have actually helped the end consumer by eliminating redundant investment, outdated brands, and created a more competitive environment.

In Europe, companies have struggled with the increased competition from Mainland China. As larger corporations, competitors like Honda, Yamaha, and Suzuki are better suited to take these companies head on.

The Japanese response

For the past 11 years, motorcycle makers in China and Japan targeted different markets. Japan makers were mainly exporting to the United States and Western Europe; Chinese makers were selling to developing countries in Asia and the Pacific, but recent developments in China's motorcycle industry have driven many makers to begin exporting to developed countries, cutting slightly into the market share of the Japan makers.

Japan has also seen the entry of vehicles from Taiwan and China threatening their once impenetrable empire. Companies such as Kymco now sell in Japan, and Mainland Chinese companies are attempting to meet compliance with Japanese standards. China's entry into the WTO has forced Japan to double its efforts to work in China and not against it.

The Japanese big four decided in the late 90s that the growing mainland market could not be ignored, and that issues such as rampant design copying, price wars with suppliers, soaring labor costs in Japan, and the increasing market

penetration from Mainland China manufacturers should best be attacked head on.

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 Boy's. Honda might be a part owner of these factories, but in some cases they have little or no control on how their partners competes with Honda product abroad.

Asia is an extremely competitive environment in the world of scooters. Each market 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 reality has led the Chinese manufacturers to focus attention to the higher end and higher profit markets of the United States and Europe.

America: The Land of Opportunity

In 2002 The United States was the second largest importer of Chinese motorcycles and scooters, importing 422,000 units (\$55.01 million), representing 8.5 percent of overall motorcycle annual export value. The U.S. market is huge, and mainland makers will do everything in their power to hold on to it.

Some Chinese brands, such as Loncin, Lifan and Qingqi, may be familiar to scooterists and scooter shop owners in the US since these are the main suppliers for engines of mainland produced scooters. Loncin and Lifan engines can be found in many OEM scooters these days including up and coming brands available in the US market. Of the ten major manufacturers there are only three (Jincheng, Qianjiang, and Zongshen) that most scooterists are familiar with. I won't go into detail about some of the companies selling to Pep Boys or the inexpensive Qingqi you see at the local flea market. Anyone with any self-respect should avoid these brands.

Jincheng exports close to 60 percent of its huge annual output of some 700,000 motorcycles. These were formerly imported by United Motors in the late 1990's, and now you see them being imported by Mid West America and others.

Zhejiang-based Qianjiang may be a company you have heard about; it is imported by TNG, Vento USA, Power sports Factory-BKM, Xtreme Scooters, and Mondial among others. The most common of these models is the 49cc CPI named the "Moskito" imported by Motorrad North America and branded an "MZ" which is assembled by CPI. This same model is also manufactured by several Chinese manufactures including Wangye and imported by companies such as United Motors.

Last year, Qianjiang exported 60,000 50cc motorcycles (mainly to Europe and the United States), 20,000 100cc models to the United States, Mexico and Africa, 10,000 125cc scooters to the United States, and 5,000 150cc scooters to the United States and Mexico. Seventy-five percent of its total export volume goes to these two countries.

Currently the hottest market in the United States is not on the mainland. By my own research over 50,000 new scooters have sold in the first 5 months of 2005 in Puerto Rico. And the number one selling scooter in Puerto Rico is the Qianjiang BN-150, Vento R4i, or Wangye GY6 150cc scooter. Qianjiang sells to many importers and each company private labels this product and sell it under a different name. You can probably find ten different private label Qianjiang models by walking into two or three stores in Puerto Rico.

Considering the Opportunity

Sourcing from China may actually be a good thing; if you had asked me two or three years ago I would have told you that the quality is not there, but the quality of manufacturing has improved to the point that some importers are offering better warranties than the ones offered by the big four. China is catching up to Taiwan and, in my opinion Taiwan is as good as or better than Japanese manufacturing. For example, United Motors recently began offering a three-year warranty on all its scooters (beating the industry average of one-year). Many companies have followed suit since the EU mandated that all scooters carry a two year warranty on engines. Kymco now offers a two year warranty on all its bikes in the US. Improving quality and lower cost means that the "Made in China" stamp may not be such a bad thing.

Top Chinese Scooter Manufacturers

Grand River Group
Qianjiang Group
Jialing Group
Lifan
Loncin Group
Honda-Sundiro
Zongshen Group
Jianshe Group
Luoyang Northern Enterprises Group

In some cases it just means the unit is disposable like in the case of a Pep Boys scooter. As they don't have the technical expertise to repair the scooter at each store and the units are so inexpensive, it is actually cheaper just to give you a new one whenever it breaks down. Eventually, these companies may be able offer they type of customer support, warranty, and marketing once strictly associated with Italian or Japanese scooters. In the future you might get treated better at a Vento dealer than at a Yamaha store.

Another company that needs special notice is Zongshen. They have been in the US market on and off the last few years. Currently, Mod Cycles/Verucci and Zongshen USA import them. With an output of close to 1 million, Zongshen can be considered as one of the fastest growing motorcycle manufacturers in China. Many scooterists are familiar with the name because in February 2004 the company started collaborating with Italian firm Piaggio to improve its scooter-style motorcycles. The partnership has since provided Zongshen with design and performance technology for several scooter models being produced under the Piaggio brand for the local market.

Currently, they have launched a brand called the "Shuni" scooter (Chinese for elegance) at the production plant of Piaggio Foshan Motorcycle. The Foshan factory is co-owned by Piaggio Spa as the two partners have equal shares in the venture (45%-45%), while the remaining 10% is held by the Foshan Municipal Authority. The new "Shuni" is based on the Zip scooter, one of Piaggio's greatest hits in Europe. Piaggio is looking to eventually sell these new Chinese manufactured scooters in its home market and abroad under both the Chinese brand and the Piaggio brand. I wouldn't be too surprised if in the next few years American Vespa dealerships are selling made in China Piaggio scooters. There are already numerous parts inside Aprilia, Malaguti, Piaggio scooters that are sourced from Asia.

Zongshen Group is also in talks with Harley Davidson for the manufacture of 250 to 450cc motorcycles. These will bear the Harley Davidson brand name or an off brand for the China market only. Harley Davidson is thinking ahead, taking notice of fake Harley's that have appeared out of Brazil and China in the past. So you can expect to see more news out of Zongshen since it has multiple strategic alliances and joint ventures with Honda, Piaggio, and possibly even dear old Harley.

Good things for the American Consumer

China is the world's fastest growing market for motorized two-wheel vehicles, with annual demand of more than 17 million units and it is also the world's largest manufacturer making over 50% of the worlds motorcycles and scooters. Until recently these may have been primarily "disposable" scooters, but the quality is getting better every day. On my first trip to Asia in 2003 I was impressed by the quality and market penetration of brands such as Kymco and SYM. On my most recent trip to Shanghai in January I was impressed by the speed at which companies such Zongshen and Qianjiang are catching up to their Taiwanese and Japanese counterparts. The evidence is everywhere; technology is being transferred at a much faster pace than ever before.

This is actually a good thing for the average American. As their home markets become more developed, the consumers in China are asking for better quality control, durability, and value. These are the same things being asked by the US public of current importers. The manufacturers in

Asia are quick to adapt and aside from the low-end bikes, extremely well organized distributors like Kymco, United Motors, Diamo, and TGB are importing 70% of what is out there. These companies are now becoming the majority as the smaller fly by night players quickly fade out of the industry; and these are the guys the big four are keeping an eye on.

Of course, the rise in Chinese scooter sales has also led to an increased need for technical support for Asian brands. At MRP, we are working a number of major US distributors, including TGB, Daelim, and LS-Motorsports/Diamo. They have sent us product to research in order to be able to answer dealer technical questions on upgrades and common issues distributors might or might not be aware of. Once improved third-party technical support is available, you will see more dealers switching to these brands. A good indicator of brand quality is when a distributor develops third party endorsements – some newer distributors that have gone the extra mile to develop these relationships have been Kymco USA, Diamo, TGB, Daelim, just to name a few.

In the end I believe the best indicator of where the market is going and the Chinese presence is the reaction of the big three. In the next few months the 2006 models will be announced by Honda, Yamaha, and Suzuki. I have a feeling there will be more scooters and more choices for the American public in order to further compete with the Chinese. Thus, more choices and more options for the American buyer will allow you to decide the future of scootering.

Joel Martin has bachelor's degrees in political science and marketing from the University of Florida. He has extensive marketing and field sales experience, having worked for Coca-Cola Enterprises, Electronic Arts, and Sony Music. Since 1995 Mr. Martin has been selling scooters with his grandfather Manuel Martin and father Froilan Martin. He began importing Malaguti scooters in 2001, SYM / MH Motorcycles in 2004, and has evolved the Martin family company into MRP Inc. a leading North American scooter technical training OEM support center and accessories parts distributor. Mr. Martin also works as an industry technical consultant for several leading firms including Vectrix USA, Daliem Motors USA, LS Motorsports, and Extreme Scooters LLC. For more information visit www.MRP-SPEED.com

Sources:

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