

TALK

Is the Russian Motorcycle Market as Big as Its Landscape?

--Interview of Mr. Alexander Rudakov,
President of UMCMOTO

By CHINAMOTOR Team



Mr. Alexander Rudakov,
Director General of UMC

Background: Ural Motorcycle Company Ltd. (UMC) was established in 2005 as a professional company specializing in production and marketing of motorcycles under the brand "PATRON". The UMC team is composed of experts in production, commerce and sales who have got long-term work experience at large enterprises. Today this company offers the Russian customers more than 25 models of motorcycles under the brand "PATRON" for riding, fun and extreme sports, whose spectrum includes scooters, bikes, ATV and some other vehicles. The competitiveness of PATRON vehicles is achieved through moderate price along with the good quality and attractive design. Ural Motorcycle Company Ltd. has well-developed dealer network in Russia. At the beginning of 2012 this network includes more than 140 affiliated firms. UMC is one of the top ten largest importers of Chinese motor-vehicles in Russia.

Ural Motorcycle Company is situated in Izhevsk city, which has been the main center of motorcycle industry with the largest production volume of motorcycles since USSR times.

CHINAMOTOR: When was UMCMOTO established? When did you start the motorcycle business? How many bikes do you import each year? Do you also import spare parts? If you do, how big is your business in the spare parts sector? Say, how much USD?

Mr. Alexander Rudakov: I established Ural Motorcycle Company in 2005. Before this I was the Sales and Marketing Director at the state factory producing 350cc motorcycles "Izh", and I stayed at the position for 8 year. I started the motorcycle business in 1992 selling Russian motorcycles and spare parts in our region. Specialists who have the great experience in motorcycle business work for UMC from the start. For 2012 the volume of purchases is set for the 12 000 units of motor-vehicles and spare parts worthy of USD300000.

CHINAMOTOR: How many countries do you import motorcycles and parts from?

Mr. Alexander Rudakov: Our company imports the motor-vehicles and spare parts from China and also sells Russian winter motor-vehicles of different manufacturers. We try to choose those suppliers who offer the best combination of price and quality and represent their interests as the distributor in the territory of Russian Federation.

CHINAMOTOR: What kinds of vehicles are UMCMOTO's most imported bikes? Scooter, cub or streetbike or ATV...?

Mr. Alexander Rudakov: Most of all UMC imports scooters – 40%, then motorcycles – 30%, ATV – 12%, winter motor-vehicles – 12% and mopeds – 6%.

CHINAMOTOR: How long have you been co-operating with Chinese suppliers? What is your opinion about Chinese bikes now? Who are Chinese major competitors in Russian?

Mr. Alexander Rudakov: We have been cooperating with Chinese suppliers since the time when the UMC was established. Now our company runs business with those suppliers who tend to give attention to quality assurance and whose vehicles are EEC approved. In order to achieve good results we regularly discuss the quality questions with the

factories. If to speak about Russian market, then the quality level of the vehicles imported from China is getting higher step-by-step. Many importers choose the higher quality vehicles and change the suppliers because of many claims from the customers.

"At the same time for many Russian customers, the main criterion of purchased vehicle is the price, so the importers try to deliver inexpensive vehicles with low quality. This way has no potential, because the customer "having sated" with such vehicles will opt for high quality products."

Also the certification procedure in Russia which became stricter in 2011 makes the factories and importers to be more serious about the quality.

The major competitors of Chinese vehicles in Russia are Japanese second hand vehicles of scooter type whose price is close to the price of new Chinese vehicles. Also present-day new Chinese bikes with engine 250 cc and more can compete in terms of price with Japanese second hand 400 cc bikes. And low quality Chinese vehicles are the competitors of high quality Chinese vehicles as well.

CHINAMOTOR: Which Chinese brands are your major suppliers? Can you please make a brief conclusion or description for these brands which you are familiar with? What is their competitiveness respectively? Before, the after service of China-made bikes was blamed by many people due to the shortage of spare parts and some other factors such as the poor quality and shortage of technicians, is it properly solved in Russia now?

Mr. Alexander Rudakov: Our major suppliers are such factories as Haojin, Sonik, Shineray, ZNEN and Yingang. We are also familiar with such brands as Loncin, Benzhou, Longjia, Dayang, FYM. Besides there are many other brands about which we regularly learn at Chinese exhibitions.

The feature of the good brand is that the factory which represents it really tries to act within the framework of quality management system ISO 9000-9001. In general their vehicles are assembled in compliance with the approved technological processes, and the component parts are in accordance with European



Show of PATRON vehicles at motorcycle season opening



At Haojin factory. Mr. Thomas Peng and UMC team

certificates. The factory promptly responds to different remarks and improves them. Also such factories strive to develop the new products taking into account the latest technical achievements of Chinese motorcycle industry.

The problem of providing the spare parts for Chinese motor-vehicles in Russia is still not completely solved. There is the shortage of spare parts. Some importers don't want to do with spare parts, because placing orders of spare parts and customs processing are difficult and time-taking. At common factories the spare parts catalogues often don't correspond to actual vehicle samples. Customs clearance documents can be drawn up with many mistakes. The quality of spare parts may not correspond to the expected ones. The part of actually received spare parts can differ from ordered parts. At the best factories these problems are generally solved, but the terms of spare parts delivery can be rather long. Also the customs clearance for spare parts in the Russian customs takes 2-2,5 times more time than

for the vehicles. All above factors are the reasons of spare parts shortage.

There is also the lack of technicians in Russia, but it is not that big problem, because the Chinese vehicles have been actively sold in Russian market since 2005. But there are very few special maintenance manuals for motor-vehicles.

CHINAMOTOR: What is Chinese motorcycle and spare parts' market share in Russia? How about the Japanese and Indian brands' market share there?

Mr. Alexander Rudakov: Chinese motor-vehicles market share in Russia is growing, but already not so fast, e.g. in 2005 it was 23% of all the vehicles imported to Russia (scooters, motorcycles, ATV, snow mobiles), in 2006 – 41%, 2007-68%, 2008-79%, 2009-63%, 2010-68%. I think that year-end value of market share for 2011 will be close to 80%. And for some kinds of vehicles the growth dynamics is quite different.

The Indian brands are practically unavailable in Russian market.

The share of Japanese vehicles is conventionally big mainly due to second hand vehicles. As an example, the

whole import volume of second hand vehicles in Russia in 2010 was 48608 units, including 47041 units of vehicles from Japan (scooters - 37549 units and motorcycles - 9492 units). The total quantity of Japanese new vehicles in 2010 was 9727 units (scooters - 74 units, motorcycles – 1332 units, ATV – 1135 units, snow mobiles – 7186 units).

The total quantity of vehicles imported from China in 2010 was 180263 units (including scooters and mopeds - 111316 units, motorcycles (incl. more than 50 cc scooters) – 31218 units, ATV – 11541 units, snow mobiles – 243 units).

As for spare parts' market share, it's more difficult to say, but it is obvious that spare parts for the Japanese mass production models are available almost all the time while for Chinese models the spare parts are in short supply, though the spare parts for Japanese models are also imported from China.

CHINAMOTOR: Which stage has the Russian motorcycle industry been? There were used to be some famous Russian brands before, how about their situation now?

Mr. Alexander Rudakov: Actually nearly all kinds of motor-vehicles were produced in USSR before. The volume of production was close to 1 million units. At present the Irbit motorcycle factory is still working. It produces heavy motorcycles and motorcycles with sidecar "URAL" (with 4-stroke 650 cc engine). It supplies its products mainly to European and USA markets. Meanwhile the volume of production is not large, about 3000 units.

Kovrov plant also has small volume production. It produced motorcycles "VOSHOD" with 2-stroke engine before and recently started to use Chinese engines. This plant imports finished Chinese vehicles as well. And it is the military plant.

Other factories stopped their production. The main problem of Russian motorcycle industry was that all the factories were the part of

military-industrial complex and motorcycle production wasn't their major activity. In 1990's when the condition of machine building deteriorated the factories couldn't fully maintain the motorcycle production and carry out its modernization. So in 2000's many factories couldn't stay afloat, and there was never any enterprise producing modern 4-stroke engine in Russia.

Three ATV assembly sites (with more than 250 cc engine) using Chinese and Taiwanese parts were opened in Russia for the last two years in order to save transport and customs costs. Our company also plans to start motorcycle assembling and we are studying its cost effectiveness.

CHINAMOTOR: What is Russia's position in the whole European motorcycle market? What are the market volume and the average annual sales volume?

Mr. Alexander Rudakov: If compare European and Russian markets the main differences are climate and income level. Also almost in all European countries it is obligatory to have driving license to ride 50 cc vehicle and register it while in Russia it is only a project yet. The volume of Russian market in quantitative terms is several times more than markets of certain Eastern European countries, but it yields to three leaders of Western Europe (Italy, France and Germany). Taking into account the population size and the territory it can be said that Russian market has growth potential since the quantity index of mopeds, scooters and motorcycles has the lowest value in Russia now among the EC countries per capita.



According to our estimates Russian market volume within next 10 years will reach the level of 5-6 million units of motor-vehicles. Annual sales volume after the



At UMC warehouse

fast growth period increases by 10-15% at an average and it is supposed to be at a level of 0,70 million units per year in 5 years.

CHINAMOTOR: What is the Russian government's opinion towards motorcycle? Does the government set any policies to encourage the development of motorcycles facing the growing gas price? What is the fuel price there?

Mr. Alexander Rudakov: Unfortunately Russian government doesn't set any special policies to support motorcycle business. The state regulates automotive industry, where there are special laws to encourage the assembly factories establishment and localization of certain components production. The last law which affected the motorcycle business was the new Technical Regulations. This Technical Regulation determines the new order of motor-vehicles certification, the order of factories inspection and it also stipulates for obligation for the manufacturer to have the sole distributor in the territory of Russia. The aim of this law is to make difficult the import of low quality motor-vehicles

to Russia and provide the after-sales service of the products by the manufacturer with the aid of sole distributor. Probably the law about the police registration of 50 cc mopeds and scooters and getting the driving license for them will be adopted in future like in many European countries including Ukraine. Also due to Russia entering the World Trade Organization the customs duties are planned to be set 2 times less in 5 years.

The fuel price nearly doesn't impact the motor-vehicles sales now, because they are not the main type of vehicles. The average fuel price is 25 rubles or \$0,83 per liter.

CHINAMOTOR: What are the requirements to enter Russian market? Are there any certificates required? How is the customs clearance between China and Russia, how to get through the clearance procedures fast?

Mr. Alexander Rudakov: To enter Russian market successfully it is necessary to have good quality batch production, regular providing with spare parts, proper technical documentation and patience. Every manufacturer should have sole distributor

in the territory of Russia. The great attention is paid to the certification of products (availability of European certificates and test reports) and production process (ISO 9000-9001).

To get through the clearance procedures fast is practically impossible. Even when all the necessary documents are available the customs has the right to impose additional requirements at its own discretion, because Russian customs reckons China among the countries with high risk in terms of goods prices reliability and conformity of goods to the documents. Unfortunately, the large amount of "black" and "grey" import is still coming from China to Russia through the unfair business partners from both countries. The standard customs requirements correspond to the international ones. The contract, properly drawn up shipping documents, bill of lading, certificate of origin, supplier's customs declaration, Russian certificate for vehicles and spare parts, freight invoice are required. Except the time necessary for customs clearance procedure the time of goods staying in ports, customs transit points and customs warehouses should be taken into account. To coordinate this work without the partner in Russia is very difficult.

CHINAMOTOR: How many days are fit for motorcycle riding in Russia each year? Which factors bring the major impact to the motorcycle sales? Is the climate one of the major factors?

Mr. Alexander Rudakov: The average season of active motorcycle riding in Russia lasts for 6 months

and in southern regions – up to 8 months. The main factors preventing the bulk motorcycle sales are climate and poor quality of road surface.

CHINAMOTOR: What is the average monthly income in Russia?

Mr. Alexander Rudakov: The average monthly income in Russia is \$650.

Depending on the region this level varies much:
 \$1500-1700 - Moscow,
 \$1000-1200 - St. Petersburg,
 \$750-1000 - large cities,
 \$400-500 - cities with population from 50 to 200 thousand people.
 \$250 - in rural localities.

CHINAMOTOR: What are the best-selling models in Russia and which displacement bike is the most popular one? Which group are the major motorcycle consumers? What is the major function of motorcycles there?

Mr. Alexander Rudakov: The best-selling models in Russia are 50 cc scooters and 50-80 cc mopeds, because for this vehicle category (up to 50 cc) police registration and driving license are not required.

The major consumers of 50 cc scooters are young people, and mopeds are mostly bought by small city's and rural consumers. In general people use the motorcycles and





In UMC warranty service shop

mopeds to be mobile on busy city roads, for travelling out-of-town and daily transport in the country.

All types of 125-250 cc Chinese motorcycles (road, street-bikes, sport and enduro) are sold well but with sufficiently less volumes. The demand in more powerful motorcycles with more displacement has been arisen recently.

CHINAMOTOR: Which marketing modes do Russian motorcycle dealers take? Do the consumers have to pay the full payment one time or is there a paying installment policy which enables them to pay a certain sum every month?

Mr. Alexander Rudakov: Russian dealers offer different marketing modes for motorcycles such as full payment by cash or by bank card, via bank's credit (most of dealers), by installment (as the dealer runs risk he provides his own scheme of installment for the consumer). About 50% of vehicles dealers sell the vehicles via bank's credit – the consumer pays a certain sum every month to bank himself.

CHINAMOTOR: Has the Russian motorcycle market returned to the level before 2008? Has the impact brought by the economic crisis disappeared or is it still continuing at present?

Mr. Alexander Rudakov: Yes, in 2011 Russian motorcycle market returned to the level before 2008. Generally the impact brought by the economic crisis disappeared, but many people are afraid of crisis repeating because of instability of worldwide market.

CHINAMOTOR: Can you please tell us some important

motorcycle exhibition in Russia? And which are the most significant for the Chinese companies?

Mr. Alexander Rudakov: We have annual trade show MOTO PARK in the end of March – beginning of April in Moscow. Chinese suppliers attend this exhibition regularly, but very often because of the customs clearance difficulties they have to stay without the goods in empty booths. Other exhibitions are not so significant and often united with automobile shows.

CHINAMOTOR: How about the spare parts and accessories such as the apparel and helmets ect market in Russia and the profit?

Mr. Alexander Rudakov: The spare parts market is not saturated yet. Unlike the accessories, most of the spare parts are sold without brand. I have already told above about the complexity of spare parts importing. Different companies run business with spare parts, accessories, apparel and helmets in Russian market. They are both motor-vehicles importers and special purpose companies. This market segment is steadily growing. Some companies including UMC set up the spare parts web shops. The profitability of this business is higher than vehicles business. In addition to selling of wide range of spare parts for our vehicles we also plan to sell different kinds of accessories under our own brand name in the longer term.

CHINAMOTOR: Thanks a lot for your enlightening answers and we firmly believe many people will learn a lot and enrich their old knowledge of Russian motorcycle market after reading the interview; this will benefit their business a lot in the two markets. At last, we would like to hear your suggestions about the content of CHINAMOTOR magazine? Which parts are most interesting and helpful for you? Which part should be paid more attention?

Mr. Alexander Rudakov: Thank you for your attention to our company and Russian market. Unfortunately I didn't read CHINAMOTOR magazine very often since I saw it when I attended exhibitions only. Generally the information about the factories and their products is gathered on the base of practical experience due to visiting factories, vehicles testing and sales. Most of all I like the page Cover Story about the history of the factories, then Special Reports and Observation. It can be said with confidence that the road to the cooperation would be shorter if I regularly had the magazine in my hands. Now it will be so.

I wish your magazine every success and prosperity for many years and productive cooperation in motorcycle business for both our countries. **CHINAMOTOR**