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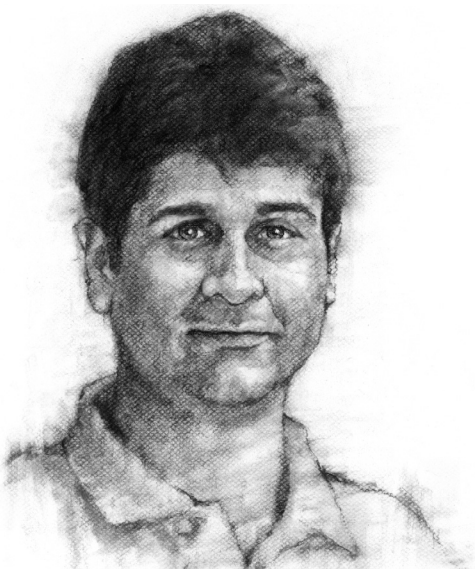
McKinsey Quarterly

CONSUMER PACKAGED GOODS PRACTICE

Learning from emerging markets: An interview with Bajaj Auto's Rajiv Bajaj

The managing director of India's second-largest motorcycle producer explains how the company's emerging-market experience is helping it expand internationally.

Laxman Narasimhan



Founded in 1945, India's Bajaj Auto first sold imported two- and three-wheeled scooters before obtaining a license from India's government to become a manufacturer in its own right, in 1959. Today, the company is India's second-largest motorcycle producer, selling nearly three million vehicles annually and operating in more than 50 countries.

Since 2005, Rajiv Bajaj has been managing director of the company his grandfather founded. Educated in both India and Britain, he has been instrumental in focusing Bajaj Auto on motorcycle manufacturing, driving down costs and raising productivity in the company's operations while investing heavily in research and development. In this interview with Laxman Narasimhan, a director in McKinsey's Delhi office, Rajiv Bajaj discusses the transformation of Bajaj Auto, what can be learned from its experience in emerging markets, and its effort to expand internationally.

The Quarterly: *How has the Indian market evolved in recent years?*

Rajiv Bajaj: Over the past two decades, India has been progressively and significantly liberalized, both economically and socially. That has increased both the wealth and spending capacity of consumers, resulting in almost unparalleled market scale for consumer durables in general and automotive products in particular. Yet in my view, India's markets are not just underpenetrated but also undersegmented. I think they are underestimated in terms of their potential to be the center of gravity of the world for many businesses in the future.

The Quarterly: *You are positioning Bajaj Auto to be an emerging-market champion. What does that mean to you?*

Rajiv Bajaj: For me, being an emerging-market champion means aligning the organization's ideas, energies, and resources toward building a few key motorcycle brands that, collectively, could make us one of the world's most comprehensive and profitable motorcycle makers. It means building and positioning Bajaj as a global motorcycle specialist and, given the rapid pace of evolution of our market, leveraging our expertise and experience to expand into emerging markets similar to ours.

The Quarterly: *What makes you feel you're the "rightful owner" of the opportunity that India's emerging consumer class represents, rather than a developed-market player?*

Rajiv Bajaj: Markets are shaped by customers more than they are by manufacturers. We have operated in the Indian market for 65 years—we are part of it, have grown with it, and we understand it intimately. And that hasn't changed just because India is now the world's second-largest motorcycle market, and perhaps its most profitable one. Our competence has been shaped at the crossroads of a market characterized by the world's most stringent emission standards, relatively expensive fuel, constant pricing pressures, and consumer expectations of high-quality, durable vehicles. We're the player that reflects this market.

The Quarterly: *You say that markets are shaped by customers, yet, of course, manufacturers also play a role in driving consumer demand. You've created and put together some terrific brands in India and on a global level. What aspirations of consumers are you trying to meet and surpass?*

Rajiv Bajaj: There are two kinds of global motorcycle makers: niche, with often unsustainable scale; or mass, with commoditized brands. Our strategy hinges on bringing together the best of both worlds, so that more consumers may be able to experience the pride of owning an aspirational motorcycle brand.

The Quarterly: *Just how local are these consumer needs? For instance, are consumer segments in Nigeria and Indonesia similar to those you service in India?*

Rajiv Bajaj: We've consciously sought to ensure that the individual attributes that define our chosen brands have appeal across markets, both the nations that you mention and others in the Southern Hemisphere. For this reason, we believe that our strategy has global validity. However, even though consumers across markets often seek similar attributes in our products, the way we position our brands and the product mix we offer are certainly strongly influenced by the local context consumers live in and the nature of local competition. That definitely varies from one market to another.

The Quarterly: *One common market attribute is affordability. How do you think about that, and how do you ensure that your product is accessible, since consumers in many emerging markets can be quite geographically dispersed?*

Rajiv Bajaj



Vital statistics

Born December 21, 1966, in Mumbai, India

Married, with 1 child

Education

Graduated with a degree in mechanical engineering in 1988 from the University of Pune

Received an MS in manufacturing systems engineering in 1991 from the University of Warwick

Career highlights

Bajaj Auto (1990–present)

- Managing director (2005–present)
- Joint managing director (2003–05)
- President and whole-time director (2002–03)
- President (2000–02)

Fast facts

Actively involved in Society of Indian Automobile Manufacturers

Winner of Amity School of Business Leadership Award for Brand Excellence

Member of the World Economic Forum's Young Global Leaders, business, (honored in 2005)

Interests include yoga and homeopathy

Rajiv Bajaj: We measure affordability as the monthly cost of ownership of our product, adjusted for resale price, relative to the competition. That's the basic equation. In terms of accessibility, we aim to have sales and service facilities within a 30-minute radius of our consumers, wherever they may be. We're also constantly improving online connectivity. But, I have to say, we always emphasize quality ahead of accessibility.

The Quarterly: *What innovations in manufacturing, distribution, and retailing are required to address the issues of affordability and accessibility?*

Rajiv Bajaj: All of our innovations are directed at supporting our unique business model, which rests on selling specialized brands at the front end, derived from flexible platforms at the back end. What this means in practice is that when Bajaj "makes volume, sells niche," it enables affordability, and when our dealers "distribute volume, sell niche," they ensure accessibility. It sounds simple, but it's the result of long experience in this market—and not easily replicated.

The Quarterly: *Now you're taking your business model outside India by expanding internationally. How does your organization need to evolve to meet its needs as a global company?*

Rajiv Bajaj: As I said, our strategy is brand centered at the front end and platform based at the back end. So the key to profitable growth, in every market that we participate in, is our ability to continually improve the alignment between new categories and current core competencies. That is, we need to figure out how to take what we know and do well and to make it appeal to consumers in other markets. We also need to learn to do this in a manner that's not just appropriate for Bajaj brands but also harmonious with those of our global partners, KTM and Kawasaki, which operate, predominantly, in markets in the Northern Hemisphere.

The Quarterly: *Multinationals have skills and experience to bring to emerging markets. Have you learned any lessons from observing and competing with international players? Have they made mistakes that you want to avoid?*

Rajiv Bajaj: You don't operate successfully in any market without doing a lot of things right, and that applies equally to companies in developed markets and in emerging markets. From our European partner, KTM, we are learning the principles of sharply positioning a brand as opposed to promoting a diffused product. That's critical to building sustainable scale in markets with diverse consumer segments serviced by many manufacturers. From our Japanese partner, Kawasaki, we are learning the principles of building a responsive supply chain as opposed to a rigid manufacturing facility.

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The Quarterly: *What lessons can international companies learn from your success?*

Rajiv Bajaj: This may be a lesson applicable to many emerging markets. From our market, international companies can appreciate the rich rewards of bridging brand aspirations and affordability. By looking at our business model and success in India and elsewhere, they can understand some of the principles of building such a bridge.

The Quarterly: *Why do you think many multinationals either avoid emerging markets or enter them only in a limited fashion?*

Rajiv Bajaj: Perhaps such organizations have an inadequate strategic understanding of how to build a business in markets where their natural category is nascent or they lack the competitive will to do so.

The Quarterly: *Where do you see Bajaj Auto ten years from now?*

Rajiv Bajaj: Bajaj has a limited window in which it can hope to differentiate itself on the basis of its unique business model. So for as long as we can, we’re going to do our best to establish Bajaj as the largest garage of some of the world’s most specialized motorcycle brands. ○