
Building Indian Businesses*A Reflection*

It has been a pleasure knowing Pradeep for over 20 years. He has been a pioneer in India on reading the global tea leaves, much before others realised their importance and he and CUTS read them better than most others. Indian industry has been transformed by changes in the global arena and changes in our trade and economic policies. The freeing of the trade account, the easing of entry into new businesses and the 'freeing' of the Indian rupee have transformed our country since 1991. The world is always a challenge and those who make a difference, relish this challenge.

On completion of 30 years of CUTS, it is a time to look forward with anticipation and look back with satisfaction. This essay in this Festschrift for Pradeep is my own small contribution to the continuing discussion on how to take our country forward.

To run a company one needs a holistic business sense, which is a mix of a sense of what will sell at a profit, need for capital, technology, human relations and marketing. The critical part of any company is its leadership. As is said, the bottleneck is only at the top!

Marketing is a key aspect of a business, but effective only when the company has strengths in research and development, low cost manufacturing, financial strength, committed and competent personnel, etc.

Success today hinges on the ability to anticipate or create a future. And, who better to influence that than marketing people, who are closest to the market place.

This brings me to the theme of change.

Change is what drives the global economy. Companies have to continually reflect on what should or could change and realign themselves to, or still better, drive the change. In the 1990s the Indian 2-wheeler market was over 50 per cent scooters, 25 per cent motorcycles and 25 per cent mopeds. By 2001 it became 66 per cent motorcycles, 25 per cent scooters and 9 per cent mopeds. It took us some time but we reinvented ourselves. Some may say, and this includes me, a bit too much! But change we did and successfully.

Also, in 1990 exports were 5 per cent of our sales. Last year this was 35 per cent. And, we are in a slow moving auto industry! Those in consumer electronics or storage devices or music industry have seen much greater change.

Assessing what will change and what will not is a critical capability. I have been hearing of electric or even hydrogen vehicles coming for 20 years and they have still not gained market or business success. Maybe they will, in the next 10 years.

In dealing with change, I have found a few ideas useful:

- Anticipate, anticipate, anticipate. As Andrew Grove of Intel has said, only the paranoid will survive.
- Future usually comes slowly. It gives one enough inkling. However, we do not listen because we do not like what we hear and those in the game are too invested in the present to destroy it for a different future. Prof Christensen of Harvard calls it the inventors' dilemma. Our shift to motorcycles required a huge emphasis on and efforts in the development of our in-house R&D capabilities. This response was facilitated by a change of day-to-day management from me to my son, Rajiv.
- So, we should check our assumptions. Very often an assumption we make becomes invalid and leads to our failure. Assumptions of growth are the most common ones that go awry. Many companies assumed a rate of growth or market size or their market share that did not materialise but had invested with borrowed funds to prepare for that

growth. In recent times, one can add assumptions about movement of currencies. Thinking that the world would change in a non-linear way is a reasonable assumption.

- Economies and therefore businesses move in cycles. This is a safe assumption. Hence, building in the possibility of a downturn is a sensible thing to do. A couple of years of flat sales. A plunge in margins. Still, the company should remain on even keel. Financial analysts may disapprove of cash hoards but every successful company sits on one.

Bajaj Auto has not had debt on its balance sheet for over 30 years. It instead had a great deal of cash and cash equivalents. No leveraging of our equity! Same applies to BHIL and BFS, which were formed 5 years ago by demerging Bajaj Auto. These companies together till now have raised less than ₹ 1 crore from our shareholders. Their total market capitalisation today is around ₹ 70,000 crore! This is in addition to the excellent dividends we have given each year.

We are a nation in transition—from agriculture to industry, from rural to urban, from poverty to prosperity, from lack of choice to competition, from commodity to brand, from domestic to global markets. Our marketing strategies and structures have to grapple with our realities and these transitions. In my view the game is played around strategy, brand, product, price and distribution.

Strategy is the fundamental stance of a company. What business are we in? What will we do and what will we not do? There are many distractions for a successful company. Not getting distracted most of the time and getting ‘distracted’ at times when a giant new opportunity or threat looms on the horizon, is a key task in managing a company. In today’s open world even sustaining a single globally competitive business is a herculean task. Managing multi-business conglomerates that we have in our country, due to our earlier license permit *raj*, is even more difficult.

At Bajaj Auto we have always followed a policy of sticking to our knitting and remained focused on 2 and 3 wheelers, that is, the mobility business. In spite of excellent profitability and cash flow, we did not manufacture anything else in Bajaj Auto. Second, we

retained our independence by not giving equity to our technical collaborators. Third, we have had a volume orientation.

All these have been vindicated by time. We did see an opportunity in financial services, which we entered to finance Bajaj Auto's customers. However, we started new companies for entering the consumer financing and insurance businesses.

Brand represents who we are. Bajaj Auto was a value for money brand for 30 years. This may no longer be a desirable proposition for shouting from the roof tops for marketing reasons. Customers want up-market association and will pay a premium only for brands with them. So, for a decade, beginning with Pulsar, we have been repositioning ourselves in the consumers' mind.

In a situation wherein many producers of goods and services are short changing the consumer, brands, especially mother brands, are very important in our country. Tata, Mahindra, Godrej, Bajaj have resonance.

When we started our insurance companies, we and our partner, Allianz, a major global player, branded the companies Bajaj Allianz in General Insurance and Allianz Bajaj in the Life Insurance sector. Within a couple of years, however, they agreed with us and we decided on 'Bajaj Allianz' in both the companies, because Bajaj has a better connect with the customer. When GE tied up with State Bank of India (SBI) for credit cards it was SBI that mattered to the customer.

In a world of focus and Al Ries and Jack Trout, using a brand for multiple products, what they call line extension, is an anathema. However, I believe it is still relevant in many cases in our country. Of course, this has to be done with care and brand values nurtured across the extensions. Also, to differentiate one model from another sub brands are naturally very important. For example, 'Pulsar' or 'Discover' under the mother brand 'Bajaj'.

Within a strategy and brand, one develops products in consonance with them. Spotting the gap where a product is required and getting the balance between features and price to generate volumes and profit, is an art. Gifted marketing men get it

right. Steve Jobs was a master of this art. For a desirable product, consumers are willing to pay significant premiums. Bad quality has little market at any price.

It is also important to have a presence in both the premium and the mass market segments. Premium segments generate prestige and profits. And the mass market generates the volumes to keep the company, suppliers and dealers financially viable. Not all manage to straddle this task. The consumer electronics brands of the US and Europe have evaporated due to their abandoning the mass market. Separate brands for these two segments generally help. However, there are successful companies like Harley Davidson and BMW in motorcycles that only operate in the premium segment.

Distribution and after sales service are a much neglected part of marketing, dull and boring. Dealing with small town people, one finds not hip enough. But it is a real differentiator of performance. A wide and competent network, covering rural markets, committed and loyal to the principal, is a priceless asset and a sure shot ingredient for success. In the case of Unilever in India, for a long time it was their most powerful weapon, maybe more than products or advertising. And, it is also the human side of marketing. Building and retaining bonds with distributors is one of the things I had truly enjoyed when I was running Bajaj Auto.

In doing all this, often there are important trade-offs to be made. There are so many constraints and pulls in opposing directions, which one has to resolve in the real world. For example, the trade-off between market share and margins.

Indian companies are being transformed from being focussed on the domestic market to having a large presence outside the country. This is creating new challenges for them. Which markets should they target? Under what brand should they sell? This is the next frontier for Indian marketing professionals and I am confident they will rise to the occasion.

I have been and continue to be bullish on the Indian economy and Indian companies. What we are suffering from is poor governance. So, for the next 1–2 years, the economy would splutter, especially due to a bleak global environment and a weak monsoon.

But the inherent strength of our people and companies, a global urge for improving one's lot, especially in developing countries of Asia, Africa and Latin America, would in my view assert itself and lay the basis for sustained progress.

It has been our generation's privilege to lay the foundation of our industrial economy. Looking at the competence and energies of the next generation of entrepreneurs and business leaders, I believe the future is in good hands. To them I wish Godspeed and Godbless.