



Rahul Bajaj

Rahul Bajaj (born 1938) is recognized as one of the most successful business leaders of India. He heads the Bajaj Group of Companies which is a leader in a variety of manufactured products and financial services in India and abroad including motorized two and three-wheelers, home appliances, electric lamps, wind energy, special alloy and stainless steel, cranes, forgings, infrastructure development, material handling equipment, travel, general and life insurance and investment, consumer finance & asset management.

Rahul Bajaj holds an Honours Degree in Economics from Delhi University, a degree in Law from Bombay University and an MBA from Harvard Business School. Mr. Bajaj has been conferred Honorary Doctorates by four Universities including IIT Roorkee.

He is the Chairman of the Board of many companies. He was elected to the Upper House of Parliament (Rajya Sabha) in June 2006.

Rahul Bajaj has received numerous prestigious awards and recognitions from reputed authorities and organizations, notable ones being the award of 'Padma Bhushan' by the Government of India in 2001, Alumni Achievement Award by the Harvard Business School and Life Time Achievement Awards from Economic Times and Ernst & Young.

Rahul Bajaj is a Member & former Chairman of the International Business Council of the World Economic Forum, Geneva, a Member of Harvard Business School's Global Advisory Board and the International Advisory Committee of NYSE Euronext. He is also a Member of the International Advisory Council of the Brookings Institution, Washington DC, a Director on the Board of Commonwealth Business Council and a Member of the Executive Board of the Indian School of Business.



“The future is about cooperative competition”

Interview with Rahul Bajaj, Member of Parliament (Rajya Sabha)

Mr Bajaj, in the long term some people foresee the business world evolving into a bipolar one: the “West” versus the “Emerging Markets.” Would you concur with that view?

I will first answer a question you did not ask. And that question is about geopolitics and thus not directly connected to the corporate sector but to politics. We all know that for the last 40 years the US has been the strongest and most developed country in the world. And until 1989 we had the Cold War, which already created a bipolar world. But in the last 20 years, we have had a unipolar world which obviously has some downsides. Many people – including me – do believe that the US should be admired for its successes. But then, anybody with that kind of success would get a little opinionated about himself. And now we have a situation which is neither unipolar nor bipolar but multipolar – or, if you like, without any poles at all. With China's emergence, we may consider a bipolar world in the medium term.

And what about the emerging markets? How do you see their economic development? What role does India play here?

» Now we have a situation which is neither unipolar nor bipolar but multipolar – or, if you like, without any poles at all.

«

I agree that emerging countries will become larger economically. So, I see the future as the West 'and' emerging markets – not as the West 'versus' emerging markets. Western companies will enter emerging markets and these will become important markets for them, as they already have for many successful companies like Nokia and Unilever. In turn companies from emerging markets – with a low-cost labor and manufacturing base – will also enter other emerging markets and Western markets. India and China will be the two big markets and generators of new global players.

We are witnessing the emergence of some powerful multinational companies with their roots in the BRIC countries and growing fast through M&As, such as India's Mittal Steel or Tata Steel. Should Western companies see them as a threat?

Western companies should view them as serious competitors, but this differs from sector to sector. In the short run, competition will be more serious in commodity sectors such as steel than in product sectors such as cars. Be aware that the developing countries are very different from each other. Of course there is going to be tremendous competition in the future. But all these markets are also going to help each other. The developing world is helping by providing huge markets while the developed world is helping with technology. So one can look at it as a kind of convergence. The future is about cooperative competition. You have to cooperate and then compete. The developing world will still need capital and technology, and broadly speaking, these are still in the developed world.

What do multinational companies have to do to be successful abroad?

Large emerging market companies have to enter global markets for both offensive and defensive reasons. Offensive, because these companies have at least a cost advantage which they should and can leverage in global markets that are many times bigger than their domestic markets. Defensive, because if they do not take on their competitors globally, they will become sitting ducks in their domestic market.

What does Bajaj aim to achieve? How have you positioned yourself compared to your competitors?

In the two-wheeler context our objective for mobility is "Japanese quality at Chinese prices." This adequately addresses the two-wheeler market in developing countries, which accounts for over 88 % of the world market. Threats to this position are the Japanese OEMs achieving the same cost position through their presence in India, China, etc. and Chinese OEMs improving quality.

What is your vision for the Bajaj Group in that scenario?

My vision for Bajaj Group companies in the coming years is fourfold. It is about mobilizing, globalizing, financing and de-risking India. Mobilizing India means that we want to supply 4 million two-wheelers per year in a total market

» Of course there is going to be tremendous competition in the future. But all these markets are also going to help each other. The developing world is helping by providing huge markets while the developed world is helping with technology.



of about 10 million units. Globalizing India means that we want to enhance exports rapidly and set up international facilities to be among the three largest global players in two-wheelers. Financing India refers to the need to ramp up the operations of Bajaj Finance, both for Bajaj vehicles and other consumer products. De-risking India, finally, means that we want to expand the business of our two joint venture insurance companies all over the country.

Talking about "mobilizing India": some well-publicized statistics show that any gains in cutting carbon emissions by the West are going to be neutralized by carbon emissions from emerging economies that are industrializing and growing fast, and thus contributing disproportionately to global warming. What is your view on this debate?

» In the long run, we need to think of drastic measures and innovation to eliminate emissions. «

Very broadly, that argument reflects an effort by the developed countries to flee from their responsibility for the current state of the environment. Barring China, no emerging economy is a large emitter of greenhouse gases. The per capita levels in developing countries are a fifth or less of those in the developed world. The developed world should first atone for its sins and not indirectly stymie the development of developing countries through such talk and ideas like a carbon tax.

So what is the answer to that problem?

It is a dilemma that has no easy answer. The picture has two sides which don't seem to agree with each other. Hillary Clinton came here with a lot of demands on emission standards. Our leaders said we are not accepting those – period. The one side says: you are so many people and developing so fast that you will produce a lot of emissions and you need to do something about it. Correct, as far as it goes. But our government is already doing a lot and has taken many proactive steps. For example, we have quite strict emission standards for vehicles. All these suggestions are just to reduce the impact and not to eliminate emissions. In the long run, we need to think of drastic measures and innovation to eliminate emissions.

In recent years climate change and sustainability have become highly relevant customer buying decisions for cars in markets like the US and Europe, admittedly driven more by rising energy prices than environmental conscience. Do you expect these concerns to have a strong effect on consumers in the BRIC countries as well?

Petrol and power prices, though subsidized, are higher in India than in the US on a purchasing power parity basis. Indian consumers are hence less wasteful and, therefore, more environment-friendly. However, the Indian prices need to be decontrolled by eliminating subsidies. Indian government policy of facilitating these choices has helped too. Hence a large number of alternative fuel vehicles using CNG or LPG have been sold. Electric scooters and e-bicycles have become popular in China, but are still a nascent segment in India.

Traffic and environmental issues also have a significant impact on regulations: tightening emission standards, increasing driving restrictions in cities, and major subsidies, for instance for electrical drivetrains. These regulations may have an enormous impact on future sales. How does Bajaj cope with regulatory uncertainty?

By proactively entering these new segments. In three-wheelers we are leaders in alternative energy technology, be it CNG or LPG. Today, especially electric technologies may not be cost-effective. But we are well positioned to scale up as and when they will be. Remember that we are active in the less-than-\$1,000 two-wheeler market. For these customers, both the initial cost and maintenance cost are very important. Hence the relevance of battery cost and life.

New regulation, especially in mega-cities, in combination with massive traffic congestion may drive the development of completely new business models like car/bike-on-demand or new vehicle concepts that work in combination with mass transportation. What is your perspective on such thoughts? Does it impact Bajaj's future plans?

The only thing one can be certain about is that tomorrow is going to be unlike yesterday. As of now, these forces are

» Petrol and power prices, though subsidized, are higher in India than in the US on a purchasing power parity basis. Indian consumers are hence less wasteful and, therefore, more environment-friendly.



not very strong. But, for example, use of two-wheelers in conjunction with suburban trains is an established phenomenon in many places in India, like Mumbai and Pune. So, we do not see these forces as threats but as opportunities and we would respond to them as they develop. And we have to learn to minimize global risks of all kinds.

Everybody is talking about e-traction nowadays. In China sales of e-bicycles have grown massively to more than 20 million units last year. Do you expect this to be the dominant drivetrain for individual mobility? How does Bajaj prepare for the post-oil time?

There are aspects for and against electrics. Currently it is only clear that the tendency towards electrics will increase, but my sense of it is that it will be gradual. I would not be surprised if some material for a new battery turns out to be rare. Electric bikes have not taken off in India because of power shortages, difficulties in easy recharging and issues of reliability of batteries. But changes are afoot and if breakthroughs in batteries happen then the Indian market will respond earlier because of the lower acceleration and top speed requirements of our customers. Bajaj is watching the situation with interest and is building basic expertise in these areas. We will not be caught unaware.

Will the technology shift toward e-traction contribute to a major shift of power within the industry?

It seems unlikely to me. All major existing OEMs have programs in these technologies, be it the GM Volt or the Renault Leaf. Export efforts of Chinese OEMs are successful in the low-price end of the market. But the quality of even conventional internal combustion engine two-wheelers has failed them in markets like Indonesia. The world will not see them as advanced producers of electric two-wheelers.

The financial crisis has had a massive impact on automotive sales worldwide in the first half of 2009: up to minus 35 % in Western markets, minus 50 % in emerging markets like Russia, plus 3 % in India. Only China is still strong with plus 19 %. Do you expect market growth within emerging markets to pick up again?

» There are aspects for and against electrics. Currently it is only clear that the tendency towards electrics will increase, but my sense of it is that it will be gradual.



Auto sales have at least stopped falling even globally because of government initiatives such as cash-for-clunkers. As the world economy is bottoming out, I believe growth will return to emerging markets but in single digits only.

In some Western segments, car ownership is losing its two allures: individual mobility as a prerequisite for economic prosperity, and the vehicle as a status symbol. Given the enormous traffic and environmental issues in India's mega-cities, do you expect a similar trend in India or will we see vehicle penetration rise to Western levels?

» A good example of innovation is Tata's Nano. No one had that kind of car for that kind of price. So basically the whole car is the innovation even though it is a standard car.



Mobility and status remain important in India. A crucial difference is that the mass mover in India is a two-wheeler rather than the car, especially in non-metro cities. With the increasing urban sprawl in India, traffic jams have become a way of life. In metro areas, metro trains (mass rapid transport systems) are making an entry. Mumbai always had a rail mass transport system. But till we develop integrated end-to-end urban transport systems, as in Europe, the lure of personal mobility will persist. More realistic pricing of urban public transport is essential. Presently political influence forces costs down but delivers low quantity and low-quality solutions. Ultimately, however, decongestion of metro areas through better smaller towns is the better answer to this issue.

Sales of European and American car companies are dropping. At the same time Indian and Chinese manufacturers are growing and using their cash to go into new fields. What strategic decisions do you envisage?

If you compare China and India, some answers are similar, others are different. I can only speak for India. Unlike China and Southeast Asia, we are not depending on exports. As a result the recession did not hit us as much as others as we have a large domestic market.

What roles do innovation or innovative approaches play in the car industry? Are we on the right track or do we need to be more innovative?

A good example of innovation is Tata's Nano. No one had that kind of car for that kind of price. So basically the whole car is the innovation even though it is a standard car. And it is perfectly suited for developing countries where you cannot travel fast in the first place, as the very congested roads are not made for that. I see a big scope for India and Bajaj to develop new products that are more suited to developing country markets. The Bajaj three-wheeler is one such product, as are the Tata Nano and Ace. Maybe they are not leaders in technology but they are leaders in innovation. They offer a unique "cost-quality" package in engineering, product development and in manufacturing. And they are small and very fuel-economic.

Your product portfolio currently comprises two-wheelers and three-wheelers. In several countries motorization has taken a path from bicycle to motorcycle to car. Are you preparing your company for following this path too?

Opel started out as a bicycle manufacturer in the 19th century. Honda and Suzuki started out as two-wheeler manufacturers. It does not take much prescience to discern this trend. Till 1991, Indian government regulation obstructed such an evolution. Otherwise we possibly would have made this transition earlier. Like Honda did, we intend to develop both segments simultaneously. Over the next decade we will predominantly remain a two/three-wheeler company, but beyond that it could change. We will move from two/three-wheelers to a four-wheeler car in the long run.

» Over the next decade we will predominantly remain a two/three-wheeler company, but beyond that it could change.



Several former world-leading OEMs got into bankruptcy or at least serious financial problems this year. At the same time emerging OEMs such as Bajaj, Tata or Chinese OEMs (BYD, Chery, etc.) enjoy continuous growth and prosperity. Do you expect the center of gravity of the automotive industry to shift as it has in the steel or even the motorcycle industry?

Emerging market companies will continue to grow faster. But we are nowhere near the kind of change in market leadership in the auto industry as has been experienced in the steel industry. There is one major difference. Global auto companies, other than Chrysler, are already present in most major emerging markets. The Western steel producers like

Corus or Arcelor were not. Second, building a brand and network in the auto sector is a drawn-out process. It took the Japanese a decade to establish a beachhead in the US. But given their troubles, mergers between established auto producers are likely and have occurred – think most recently of Chrysler-Fiat and Porsche-VW.

And how do you expect the structure of the two-wheeler industry to evolve?

In two-wheelers, the Japanese have globalized. US and European companies have largely folded up. So, while Indian and Chinese companies can be expected to gain share, a very radical shake-up seems unlikely. In cars even less so, though some Chinese car companies are posturing aggressively.



It appears that OEMs from emerging markets such as Bajaj, Tata, Beijing West and Geely are strategically taking over Western OEMs and suppliers to boost their technical know-how and increase competitiveness. What role do acquisitions have in the future development of emerging OEMs?

Growth will continue to be a mix of acquisitions and green-field investments. The proportion depends on the company and the segment it is operating in. For components, the proportion could be tilted in favor of acquisitions. For Bajaj, acquisitions in the developed world aim at technology and brand more than capacity.

If we put it all together, what is your view of the future of the automotive industry?

Economic mobility is a basic human need and will continue to remain so. In fact growth in emerging markets will propel this industry further. Emerging markets are going to be the centre of future growth, even as developed markets continue to be large markets. This is going to create space for the emergence of OEMs from developing countries. Their role in the industry will grow but not enough to supplant existing OEMs. Technology and capital are still in the developed markets. We also have to ensure that we function ethically within a values framework. There is no

room for greed, weak regulations, excessive bonuses and complex financial products like CDOs and CDSs which few understand.

Mr Bajaj, thank you very much.

The interview was carried out by Michael Traem, Arthur D. Little CEO, and Thomas Kuruvilla, Managing Director, South East Asia and Middle East.

» For Bajaj, acquisitions in the developed world aim at technology and brand more than capacity.