

PGDM, 2019-21
Sales & Distribution Management
DM-332
Trimester – III, End-Term Examination: June 2020

Time allowed: 1 Hour and 30 Min

Roll No: _____

Max Marks: 30

Instruction: Students are required to write their Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means**. In case of rough work please

Note: Answer all 3 questions at the end of the Case:

The World's Favourite Indian- A Case Study

This is the title that Rahul Bajaj conferred on the company that he built slowly, but steadily, wobbled for some years under his leadership, and took off, stratospherically under the restrained, yet brilliant leadership of his successor Rajiv Bajaj. The firm in question is Bajaj Auto, which is No. 3 globally in two wheelers and no. 1 in three wheelers. What is most impressive is the substantial growth in the domestic market and undisputed leadership in the export market, where the firm exports over 40% of its output to 79 countries spread over Asia, South America, Africa, and countries of the Western World.

The previous financial year(2017-2018), and the current year(2018-2019) was a doomsday scenario for the Indian Auto Industry which contributes 17% to the Country's GDP.

Substantial decline in Sales, profits, leading to restriction in production and layoff of workers is a common theme across the industry. However, when it comes to Bajaj Auto, the performance has been extraordinary and the outlook increasingly bright.

A look at the results certainly confirms this assessment:

Results for 2018-2019:

Total turnover increased by 18.5% to H 31,899 crore. This was the Company's highest ever top-line.

Total operating income (net sales plus other operating income) grew by 20.1% to Rs. 30,540 crore — also Bajaj Auto's highest.

Operating EBITDA increased by 4.7% to Rs. 5,387 crore.

Profit before tax (PBT) after exceptional items grew by 15.9% to Rs. 6,703 crore, which was also the best for Bajaj Auto.

Profit after tax (PAT) increased by 14.9% to H 4,675 crore — this, too, being the highest ever.

Surplus cash and cash equivalents as on 31 March 2019 was up by 5.3% to Rs. 16,368 crore.

An outstanding achievement:

The Company exported over 2 million motorcycles, three-wheelers plus its new quadricycle, the QUTE, to a widespread global market, which is increasingly receptive to its offerings. .

Review of Sales performance: Let us start with domestic sales of motorcycles. Here are the facts for FY2019:

Total domestic sales of all motorcycles grew by 7.8% to almost 13.6 million units

Bajaj Auto's sales increased by 28.7% to over 2.5 million units. Consequently, Bajaj Auto's share in the domestic motorcycles market increased by 3 percentage points to 18.7%

Regarding export performance for FY2019:

Total exports of motorcycles increased by 15.4% to over 2.86 million units

Bajaj Auto's sales went up by 21.6% to almost 1.7 million units

As a result, the Company's share in total exports of motorcycles grew by 3 percentage points to 59.2%

The Dream Years under Rahul Bajaj: The two wheeler industry comprises scooters and motorcycles. Since the 1950s scooters had occupied a disproportionately large share of this market overshadowing motorcycles. This was largely due to their significantly lower prices, and the economy in fuel consumption that their lower engine capacity compared to their motorbike rivals(175CC for a Vespa, compared to 250CC for a Java, and 350CC for a Royal Enfield Bullet. The first entrant to the Scooter Business was the Lambretta produced and Marketed by the Automobile Products of India(API) started by MA Chidambaram a well connected Chennai based Entrepreneur in 1949. This company had a monopoly on Scooters upto the early 1960s. Bajaj Auto was the next entrant which was a morphed trading company started by Jamnalal Bajaj in 1959. This company ran a poor second till it was taken over by Rahul Bajaj who was one of India's first holder of a Harvard MBA in 1965. Under his leadership the company not only matched and surpassed API and subsequent new entrants including the Public Sector Scooters India, but became a virtual monopoly in the Indian two wheeler market with Customers waiting time going upto almost 15 years of order placement.

This wonderful state of affairs continued into the 1980s and it looked that it would go on forever. The Indian Government had permitted foreign Auto companies to enter India through joint ventures with Indian companies. The big three of the 2 Wheeler world(all from Japan). Honda Motor Corp. Yamaha, and Suzuki, were eager to enter this large market Obviously their first choice was Bajaj Auto the undisputed leader. However Rahul Bajaj was intent on one sided negotiation, demanding financial majority, Control over the hard technologies and absolute control over Marketing. As a result things did not work out with any of the Japanese giants, and Bajaj was left with no suitors. Another critical decision taken by Bajaj was not to enter the Motorcycle space and rely totally on the Scooter market.

As things panned out, Bajaj, not only lost a great opportunity of acquiring leading edge Internal Combustion technology for 2 wheelers, but surrendered valuable competitive space to its rivals which included the Hero group, and the TVS group both of whom were new players in the 2 Wheeler space. Though Bajaj Auto finally decided to enter the motor cycle segment, their offerings could not compete with the superior tech, based products of their competitors. A belated collaboration with Kawasaki of Japan(a niche player in the 2 wheeler business) did not help to improve the competitive efforts of the company. From being the virtual monopolist of the Indian two wheeler industry for decades, Bajaj, went as low as No.5

It was this sad state of affairs that Rajiv Bajaj, inherited from his father in the early 2000s. Interestingly, he accepted the Managing Directorship, only on the condition, that his father would not interfere in the key decision making of the ailing giant.

While there are many contributing factors to this company's resurgence after a steep fall in its fortunes in the 1990s and early 2000s, including a key strategic decision to move away from scooters to exclusive focus on motorcycles(the firm is planning to re- enter this market with e scooters in which it would be a pioneer), there is a key area, in which it has performed increasingly competitively. It is its brilliant conceptualisation of Sales Management, and the positive focus on relationship with its Associates, the Bajaj Dealers.

Unlike the approach of its competitors in the industry and in most other industries, Bajaj, encourages its dealers to concentrate on profitability, which is the ultimate objective of any business concern. A look at some basic facts reflects and reinforces this exceptional approach of the worlds favourite Indian towards becoming the national favourite for Dealers in the domestic market

Investment and Return on Investment(ROI): To become a Bajaj Franchise the basic investment required is between Rs. 40 to Rs. 50 Lakhs, which covers spare parts and interiors. If the new Franchise has the sales potential of 200 bikes right from the starting month, the initial amount to be paid will be Rs. 90 Lakhs to 1.4 Crores depending on the planned product mix.

If the prospective franchisee already has a floor space of 3000 Sq. Ft. to 4000 Sq. Ft. with the initial amount to be paid, the application for a Franchise can be made and the lead time for processing and acceptance is minimal.. Apart from the amount indicated above, Bajaj does not stipulate any other deposits. An impressive pre-condition of the company to safeguard sales and avoid cross selling clashes between Franchisees is the insistence that any new Franchise location must be distanced adequately from an existing one.

Training Support: Bajaj provides complete end to end training to the Franchise staff on product features and its sales processes. When it comes to the showroom aspect Bajaj offers comprehensive support pertaining to the interior, layout and design of the showroom. It also provides complete guidance to the Franchise pertaining to corporate norms to be followed by them.

Concern for Dealer Profitability: Any business will require some breathing time to reap return on investment done in the business. A person investing in a Bajaj Franchise can expect to reap benefits and expect Return on Investment in an extremely short period of time. The expected return on investment is around 18% to 24% annually, with significant contribution from Spare parts sales, apart from Workshop revenue arising out of servicing and repair, and direct Vehicle Sales.

A contrarian view on the current crisis in the Indian Auto Industry:

During the recent and seemingly prolonged crisis in the Auto Industry, where every other player was appealing to the Government to intervene with supportive tax measures and profuse spending, Rajiv Bajaj was in a contrarian mode. Given below is a newspaper quote dated Sept. 11, 2019

While the industry by and large has lamented loudly on the sustained decline in its sales and profitability and conveyed its expectations of Government sops through reduction in direct and indirect taxation rates, Bajaj Auto's Managing Director Rajiv Bajaj believes that the unprecedented slowdown in the sector is largely due to "overproduction and excess stocking" by companies based on unrealistic growth forecasts, and ruled out the need for a reduction in the GST rate. Rajiv pulled no punches when he accused the industry, of not being with the times in terms of production and sale of contemporary vehicles instead of the decades old technologies reflected in their domestic and export offerings. He appealed for a modern and truly competitive stance to his industry brethren. This indirectly raises the fundamental concern for moving the recording and accounting of Sales numbers and values away from the conventional practice of stock transference to distributors & dealers to actual Consumer off take.

Q.1. How has Bajaj Auto been able to motivate its Dealers and enable to perform competitively? Which of the Company/s initiatives with this key Stakeholder group in your view has contributed most to this? Provide relevant details from the case. 10 Marks

Q.2. In terms of Product Marketing Strategy and Market segments where has Bajaj scored over its rivals in the two wheeler market. Do you think that these factors would continue to yield Competitive advantage in the future, including the current trends in the Domestic and International Markets? If yes, why?, if not why not? 10 Marks

Q.3 The firm has taken a unique initiative in a functional area of Management which is generally talked about a lot, but little attention paid to it, in the real world of Sales and Distribution. Provide details from the case and your own assessment of how it would contribute to the firm's long term Competitive advantage. 10 Marks