



# CATCHING THE RIDE CAPTAIN

ROYAL ENFIELD, INDIA'S LEADER IN THE LEISURE MOTORCYCLING SEGMENT, IS READY FOR THE PACK OF MOTORCYCLE MAKERS CHALLENGING IT

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CEO OF ROYAL ENFIELD

## IT

happened quietly enough for the general public to never have noticed. Only a handful of people in the press and industry really saw it. And a few connected the dots.

It was in November that the first spark in what could be a corporate battle for the ages—for India's leisure motorcycle market—was lit. Probably simmering in board rooms till then, the battle saw its first marker when Vimal Sumbly, CEO, Triumph India, quipped, "I have been hearing a lot about cafe racers in the last few days. This is the real cafe racer," at the India launch of the British Motorcycling giant.

Though Sumbly was talking about the company's flagship 835cc cafe racer Thruxton, you don't have to be a gearhead to know who he really had his guns pointed at—it was a direct shot at the Continental GT, the 535cc cafe racer launched by Royal Enfield motorcycles.

You could say that one is reading a lot into it and there is nothing deliberate about it all, but Triumph also chose a date only two days after the Continental GT launch for its own launch. In the very small and somewhat world that is inhabited by motorcycle makers, their marketing teams, PR agencies and motoring journalists, it is hard to see how it could have been just pure coincidence. Our wager is on that Triumph was letting the current incumbent at the top of India's plus-250cc segment know that it was here for its slice of the pie.

Siddhartha Lal, the 40-year-old CEO and Managing Director of Eicher Motors Ltd., the parent company of Royal Enfield, however is unperturbed. Affable and composed at the launch of one of the most important motorcycles in the company's history, Lal shrugs off talks of rising competition. "The competition will be there as long as we are in the market. The ones who created this market in India and today in the plus-250cc market, we have more than a 95 percent market share," says Lal.

Lal tells us that the team at Royal Enfield is once again reimagining what the company needs

to be in the coming decade and is taking steps on the product front, the distribution front, the brand front and the after-market front to that effect.

"We are very confident on the type of motorcycling that we are trying to propagate. The type of brand we have and the type of motorcycles we are coming out with. With this [the Continental GT] we are uniting Indians to motorcyclists around the world. We believe that this is going to be the most attractive style of biking."

Lal also made clear what he thought of the challenges to its domination of the 250-800cc motorcycling segment in India. "Some of the other motorcycles are really heavy...excessive...really loud in terms of brand etc. But that's not what we stand for at all," he says with a grin. "There are people who enjoy that kind of biking and buy those kinds of motorcycles," says Lal to the posers. They are buying a motorcycle more for a statement. That's not us at all. We are catering to the ones that want to use their motorcycles on a regular basis."

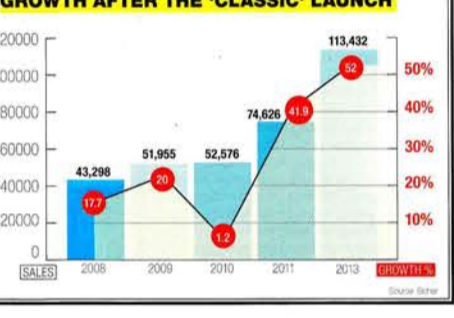
### TURNAROUND MAN

Lal's confidence (some may call it brashness) comes from a position of strength and more importantly, experience. This is not the first time he has faced overwhelming competition. The last time it happened, he and Royal Enfield were well and truly pushed to the corner.

In the late 80s and the 90s, Royal Enfield was more than in a bit of trouble under the onslaught of Japanese motorcycles. Bought by the Eicher group in 1994, the century-old motorcycle maker had seen the market slowly move away from it. "We had the Indo-Jap fuel efficient, reliable motorcycles coming to India. In the UK, Europe and US, the Japanese had come in during the 80s and wiped out the local motorcycle industry. A similar thing happened in India and our position was precarious," Lal explains.

Legend has it that this third-generation entrepreneur from the Lal family of Delhi, which controls the Eicher Group, asked for the reins of Royal Enfield to be given to him—it is said that the company was contemplating shutting it down. Lal would not corroborate that part, but he tells us on the rethink that recharged the company.

"When I got involved personally in the year 2000, it was still a bit of a struggle because the market was still down. When we got down to exploring what we want to be as a company, we weren't going anywhere. Do we want to be a commuter-motorcycle maker or more? It was after a lot of analysis, work and thinking that we came around to setting a direction," he tells us.



Lal and his team figured that they no longer could compete with the Indo-Jap wave on their grounds and retreated into the leisure motorcycling segment, which at that time did not exist. "We figured out that Royal Enfield in India also denoted leisure—a motorcycle meant to be enjoyed on long distances. So we decided that rather than get into different markets and different segments just yet, let's first try to consolidate rather than diversify," he reveals.

At that point, Lal understood that there was no significant market for mid-sized motorcycles above 250cc. "We were saying that even if there is no market, we are going to have a go at this. It took us a further ten years before we made and then dominated the market."

Royal Enfield, under Lal, took baby steps towards this goal. Known primarily for the iconic Bullet motorcycle (a favourite of the stragmen of the hinterland and the Indian armed forces), Royal Enfield now took a crack at the urban 18-35 segment with the 350cc Bullet Electra, which was launched in 2001.

### REFOCUSING THE ROYAL

A motoring journalist, who wishes to remain anonymous, says that the Electra was a significant improvement in both offering and perception when compared to previous Royal Enfield motorcycles.

"The Electra came with more colors [earlier motorcycles were mostly available in black or chrome], had an electronic ignition, a smoother engine, brakes that actually worked and was actively marketed as a young motorcycle. You suddenly saw college kids...maybe 1 out of 10 as opposed to none before...owning an Enfield. It was significant," he recollects of that time. The Electra was followed by the 350cc Thunderbird, a cruiser, the very next year, which Lal says was focused on a higher age group and a more serious motorcycling segment. Slowly and steadily, Royal Enfield was also stepping away from the perception that its motorcycles were loved by garage mechanics and repairmen. These new motorcycles had a better paint quality and finish, a smoother and more reliable engine, and also braked and started far easily than the old ankle-breaking motorcycles.

"We changed the positioning...it showed us that it takes ten years sometimes to change people's minds about something," he says. "While on the back-end, we made investments in the manufacturing process, the real change came with the work we did at the front-end...the retail points."

Lal says that it was imperative that these retail points be improved. "The place where people came

## LIKE A GUN: FROM RIFLES TO CAFE RACERS

1891	1893	1901	1932	1949	1952	1955	1970	1977	1989	1994	2001	2005	2008	2009	2013
The Townsend Cycle Company gets into the motorcycle business and the Enfield Manufacturing Company comes into existence. It is a soon rival parts.	Royal Enfield is established in India.	The first Royal Enfield motorcycle is produced. It has a 1.2 hp engine mounted on the front wheel driven through a gear drive belt.	The Bullet motorcycle is born. There are three versions: the 250cc, the 350cc and 500cc.	Madras Motors is launched to import British motorcycles into India. The company launches the 350cc Bullet on account of acquiring a bulk order from the Indian Army.	The Indian Army orders for 800 350cc Bullet motorcycles. The motorcycles arrive from Redditch, UK.	The Redditch Company partners with Madras Motors in India to form Enfield India. Work commences on setting up a factory near Madras.	The Enfield Cycle Company goes out of business. Production of the 350cc Bullet continues.	Enfield India begins exporting the 350cc Bullet motorcycles to UK.	A 240hp 500cc Bullet is released. The bike is primarily aimed at export markets.	The Eicher Group acquires Enfield India. The company's name is changed to Royal Enfield Motors Ltd.	Siddhartha Lal takes over as CEO of Royal Enfield at a time when the Eicher Group is considering selling the division. During 2001-2004 Lal helps revive the company's fortunes and strengthens stakeholders' involvement with the brand.	Royal Enfield celebrates its 50th anniversary in India. Siddhartha Lal becomes CEO of the Eicher Motors Group.	Royal Enfield exports the Classic 500cc Bullet to European markets. The bike is India's first EFI Euro 3 compliant motorcycle.	The 500cc UCE Engine is launched in India. The Classic version achieves cult status and sales grow rapidly.	The Company's new plant rolls out the first motorcycle. The Dragadam facility begins production. The same year Royal Enfield launches the Continental GT Cafe Racer internationally and in India.

to purchase the motorcycles and get them serviced had to be up to the mark. They had to give a customer the confidence that where he is buying the motorcycle from, he can trust the guy, who is going to service it for him. A lot of work went into our distribution network," he tells us.

According to Lal, all of their efforts came together and got tied into a new brand philosophy that has dictated the Royal Enfield story since then. "The philosophy is what we call pure motorcycling. We narrowed our approach to not be excessive or superfluous, but uncomplicated, accessible, and focused on fun. The entire approach is to not to be bogged down but to just enjoy the ride."

### SLOW RIDE TO THE TOP

Royal Enfield too has been enjoying the rides its patrons have been taking. Since falling to near-closure proportions in the late 90s, the company has grown from strength to strength since Lal took over. On the back of some spectacular launches, like the 350cc and 500cc Classic, environments has been the lowest of economic conditions to register double-digit growth ever since.

Even before the Continental GT was launched in November, Royal Enfield reported that it had sold 123,018 motorcycles in the nine months leading up to the end of the third quarter of 2013 as against



81,464 motorcycles it had sold in the same period in 2012—a stunning growth rate of 51 percent at a time when almost every other motorcycle maker have seen sales slow, flatten and even decline.

Profit for Eicher Motors, which also includes VE Commercial Vehicles, the company's decelerating joint venture with the Volvo Group for commercial vehicles, grew by 91.3 percent to ₹211.6 crore from ₹110.6 crore over the same period on the back of the spiralling motorcycle sales.

To put in perspective how far the company has come since that rethink and redirection after Lal took over, take a look at this stat—in the first quarter of the year that the Electra was launched, Royal Enfield sold 6,500 motorcycles. It sells as many in little over half a month now.

After opening its new plant in Chennai at Otagadam at a cost of ₹150 crore, which eventually will be capable of producing 300,000 motorcycles each year, the company said that it will be making 150,000 motorcycles this year. This has now been revised to 175,000 motorcycles on the back of growing demand. "In April, this year we projected that we will be producing 250,000 motorcycles (including at the original plant in Thrivuvuru) in 2014. We are stuck to doing that and are already exploring ways in which we can increase that by another 50,000," says Lal.

Rakesh Batra, Partner and National Leader, Automotive Sector, for accounting and auditing firm Ernst & Young, indicates that Royal Enfield is probably benefiting from taking a different path at the right time. "The excitement around the [plus] 250cc segment is because of the growing disposable income in India. This is the reason why the industry has seen some growth," he says.

He however points out that the market for motorcycles that are 250cc and above is very small in terms of volume. "It is only 1.3 percent of the motorcycle market in India. It is probably not time to get excited about this segment just yet. While the segment is growing fast, it is a longer term play right now. The volumes are still very small," he adds. According to him, new products from more players will help expand the segment, much like it happened in the SUV segment.

### THE CHALLENGERS

Triumph's Sumbly is aiming for. He believes that the market would be only growing exponentially from here. "The premium motorcycle segment is growing at double digits. With the changing customer scenario, double income families, growth in infrastructure in the country and people looking for premium products and experience, we see our brand growing steadily



across the next few years," he says. Sumbly points out that Triumph Motorcycles has entered the Indian market with iconic models from all major motorcycle categories such as Classics, Roadsters, Adventure, Cruisers and Supersports. "So in a way we are strengthening the entire premium motorcycle category. The current market scenario is in its developing stages with enough room for all the brands to co-exist and grow," he says.

Batra believes that Royal Enfield has established a unique and strong position and will be difficult to dislodge from its spot on top of the market. "It has been around for a long time. It was earlier considered a rural workhorse. There were the milkmen and others who relied on their Royal Enfields. But now it has become a trendy motorcycle that urban customers choose as well. The company has done a good job on the technology front besides the branding and marketing," he says.

On our question as to who Lal and Royal Enfield see as their customer, Lal responds that this question has driven them to continuously improve on their brand philosophy.

"Who do we see as our customer? We believe that we are a very different brand because we are very inclusive. Really, anybody with a passion for our kind of motorcycling as could be our customer," he says. "We do not position Royal Enfield as an



"Our motorcycles are not objects to be put in a garage. Our motorcycles beg to be ridden every day."

and much more interesting than the typical film or cricket star that you have," Lal asserts.

The journalist agrees on Lal's assertion and says that Royal Enfield has done a fantastic job of propagating this sense of community. They have built the community gradually with their Royal Enfield trips and rides, riding clubs across cities, and events like Royal Enfield Rider Mania [a biking festival backed and held by Royal Enfield]. Any new entrant would have to do the same for their motorcycles in India. You have already seen Harley-Davidson do that. I expect Triumph and the rest to do the same," he says.

Sumbly confirms as much when he says that the firm would like to reach out to as many people as possible. "Of course, the urban sector is our primary audience and we are extremely critical. However, we are sure that there are Triumph lovers in every corner of this country," he adds.

### NOT FOR YOUR GARAGE

Sumbly says that Triumph is looking to create a niche with its competitive pricing and product offerings. "Phase 1 of our strategy is to align our presence across all strategic locations where we are assured to gain competitive advantage and generate strong brand eminence. With regards to target sales figures, our estimates are 500 in 6 months, 1,000 in a year and 1,500 motorcycles by mid-2015."

Lal stresses that Royal Enfield and scale him have never been driven by volumes and time till date in the way any analyst would perceive—but by their importance when the decade-rebelling would arrive in the form of global competition.

Lal was always aware that his real competition was going to come through foreign lands, from where the likes of Triumph and Harley-Davidson, Suzuki and Honda are now arriving into India. "The game was always global because the competition was always going to be global. To be successful at a global level, you need a certain scale to operate. Or you cannot invest in platforms and technologies and you will die at some point," he says.

Lal and Royal Enfield have also been taking the route these global motorcycle makers have taken to arrive in India to target international markets

## BAJAJ GETS INTO THE GAME

April-Nov 2013-14	Production	Sales	Export
Engine capacity 500cc - 800cc			
Bajaj Auto	119	246	0
Royal Enfield	772	146	467
Engine capacity 350cc - 600cc			
Bajaj Auto	8,916	2,651	5,778
Royal Enfield	14,449	11,986	1,816
Engine capacity 250cc - 350cc			
Bajaj Auto	232	623	0
Royal Enfield	110,828	108,733	924

albeit in reverse. The Continental GT for example was launched in UK, which Lal says is the company's natural overseas home as it is from where the brand originates.

### GOING GLOBAL

"We believe that the market we are going to be a global firm. We are going to be big in every market that we enter into. That means we are going to look to be a significant player and try and become number one or number two in the mid-sized market...to be a significant player in the overall motorcycling industry," he adds. Royal Enfield exported 3,207 motorcycles from April to November of this year, as compared to 2,549 motorcycles in the same period of 2012.

"It will get us prepared to be successful in US, Europe, Australia and Japan. It will also have a spin-off effect on emerging markets," he says.

For emerging markets, we already have a business model proven in India," he adds. "The market which we feel is ripe for us is Latin America, because the level of motorcycling and the per capita income there is already higher, but there is still a large base of commuting motorcycling similar to what we have in India. We want to take this base and graduate them on like we have done in India." Lal says that besides Latin America, the company would also look at South East Asia, because this region is already ahead of India in terms of market development and will be more conducive to their approach. "The next wave after that could be Africa and other parts of Asia," he says.



### THE NEXT LEVEL

Back home, the market rumour is that Harley-Davidson would bring the 500cc motorcycle from its new Street range to India, while Hero would bring a 250cc motorcycle, made in collaboration with its American subsidiary Erik Buell Racing.

Triumph is also said to be developing a 250cc motorcycle for India though Sumbly tells us that any talk on lower cc motorcycles is speculation at the moment. Officials from Harley-Davidson did not respond to requests for comments on this story.

According to Ernst and Young's Batra, a major challenge for companies in this segment will be to get the right price point that is attractive for consumers. "For the global companies localizing the price point will be a challenge. At the price point that they sell at, there is not a very big market. They have to adjust their pricing according to their buyers in India," he says, indicating Royal Enfield's primary advantage as its motorcycles are in the ₹1 lakh to ₹2 lakh range, as against the cheapest motorcycles from Triumph and Harley-Davidson that start at above ₹5 lakh. Bajaj Auto however has priced its recently launched 390cc KTM Duke competitively at ₹1.8 lakh and its 300cc Kawasaki Ninja at ₹3.6 lakh and seeing some traction for it.

"The companies also have to ensure that they keep their dealer networks profitable. The companies have to be able to offer a package to the customer. The consumers should not suffer because of issues with spare parts and after sales service. The overall network has to grow so that customers don't face such issues," Batra spells out the market mantra.

According to Lal, Royal Enfield's first major challenge in the face of competition is complacency. He understands that players in other segments are now more wary of Royal Enfield. "As we become larger and more profitable than we are...earlier other motorcycle companies really didn't care about us as we were a small unprofitable company...the competitive pressure is going to increase tremendously," he says.

"Everyone is trying now to come into what has traditionally been our segment in India. But then we are also going into markets globally. We are exposing ourselves that much more to competition and pressures. What got us to this point is not going to get us to the next point. It is going to be a global mid-sized motorcycle leader. We have to reinvent ourselves once again," Lal states with inputs from Shruti Chakraborty and Ashna Ambré