

News monitored for: Royal Enfield



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Siddhartha Lal

MD & CEO/EICHER MOTORS

Continental Rider

How Siddhartha Lal is taking Royal Enfield on a journey to dominate the world of mid-sized bikes, even as rivals begin to snap at his heels in his home market.

By ALOKESH BHATTACHARYYA



It is not usual for the CEO of a company that has 2.7 per cent market share in its home market to draw up plans to dominate the world in its business. Far from being usual, it would actually be laughable. But when Siddhartha Lal, 41, says much the same thing, it doesn't seem quite so absurd.

Here's why. The ₹1,758-crore Eicher Motors, maker of the iconic Royal Enfield bike and of which Lal is Managing Director and CEO, is a blip on the overall Indian motorcycle map, but it dominates the market for mid-sized motorcycles be-

tween 250cc and 800cc. And Lal wants to take this strength overseas. "There is still an opportunity in 350cc-600cc single-cylinder bikes globally," says Deepesh Rathore, Director at Emerging Markets Automotive Advisors or EMMAAA. "Not many global brands are present in the segment." The global market size is estimated to be 700,000 motorcycles, which is puny. Even in India, it is a small segment. But the point is that the motorcycles are bigger, pricier and bring heftier margins, making the business profitable enough to attract the likes of Harley-Davidson, Triumph and Indian.

Is Royal Enfield strong enough to make a global foray? It isn't improbable. Numbers from the Society of Indian Automobile Manufacturers, or SIAM, show that in the early 2000s, Royal Enfield grew at low single digit while the industry grew close to 20 per cent per annum, but today the company is sprinting – from sales of 20,000

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"It's not only about business and this and that, you've got to enjoy yourself, have fun, everyone should have fun"

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INDIA'S BEST
CEOs

motorcycles a year in the early 2000s, to 50,000 at the turn of the decade to 200,000 last year. The Classic 500 and 350, launched in November 2009, drove the rise, and now comprise more than 50 per cent of Royal Enfield's sales. This year, it will likely hit 300,000. Then, the company has sound financials – its top line is climbing, it is hugely profitable, it has no debt, lots of cash in the bank, no pledged shares. Throughout the downturn in the automobile market, its balance sheet showed no signs of strain.

The Man, the Machine, the Dream

In almost every way, Royal Enfield's balance sheet and bikes mirror Siddhartha Lal as a person and leader. The motorcycles are not ultra-powerful sports bikes or inexpensive commuter bikes, but mid-sized, simple yet classy machines that are leisurely, unhurried, fun. Like Lal. His motto in life is to remove distractions and focus on the core. "It's not only about business and this and that, you've got to enjoy yourself, have fun, everyone should have fun," he says. Which is why his company doesn't borrow money, and doesn't engage in "funny things" like forex management: "We do only spot trading; anything else is speculation." He says he's a "sporadic" leader. "I'm more project-oriented than a true manager who's on top of everything." He gives it his all when it comes to the bikes, though. He can be fiercely focused, but at the same time, he loves his frequent breaks – to Paris, to the Himalayas, for inspiration. He knows what he and his company are good at. So, even when he draws up a global expansion plan, he sticks to

the core – mid-sized, simple, classy motorcycles. And he believes he can sell them worldwide.

Becoming strong in India is the first step. "We've got good traction in India, we have a strong brand, business model, very good capability in our manufacturing, engineering, sourcing..." he says, between mouthfuls of roast chicken as we meet over lunch at a prominent hotel in Gurgaon. Having flown down from Bangalore, Lal looks the relaxed, assured, unhurried leader, at ease in a white checked shirt, sleeves rolled up, slightly unkempt hair and beard, ever smiling. "We now have the muscle and the appetite to make a strategic entry into international markets," he declares. The UK, US, Europe, Latin America, Southeast Asia and other emerging markets are all in his sights. He won't be alone – other notable Indian firms will give him company, albeit the segments would be different.

The new global push began, appropriately, in England, where Royal Enfield, originally a British company, packed up in 1967. Last September, the company launched the new Continental GT535, built in India with inputs from around the world, first in the UK, then in India in November, and in the US in February this year.

But why developed markets? "Motorcycling in those markets has become quite extreme – there are the extremely heavy cruisers, or extremely fast 200-hp sports motorcycles, or extremely expensive motorcycles," points out Lal. "We feel that there's a position in the non-extreme part of the market, for people who don't want something which is intimidating, but something which is still evocative."

The strategy is showing initial signs of promise. Last year, Royal Enfield sold 450 motorcycles in the US – Bullets and Classics. This (calendar) year, the company has already sold more than 1,000 units, and company sources say the GT is a big contributor.

"Even in developed markets, there will always be demand for mid-sized bikes," says Bharat Gianani, Senior Research Analyst with Angel Broking in Mumbai. But he points out the biggest constraint as well. "As of now, (production) capacity is not there to fulfill the demands of even the domestic market. Royal Enfield is still one to two years away from targeting the US seriously."

Lal is showing signs of being serious. In August, he hired Rod Copes, a 20-year Harley-Davidson veteran as Royal Enfield's President for North America. "We're hiring a very strong team around him," says Lal. "My point is that when we're going after a market, we're going after it properly." Distribution, of course, will be key and as Lal admits, the company's primary weakness lies there. "Our default is not that we go in and do the same thing that all other motorcycle manufacturers do, which is to have multitude of full-service dealerships," he says. "This is very early stages, but right now sales, service, spares are all together. We're seeing if there are ways of disaggregating that."

More than developed markets, though, emerging markets of Latin America and Southeast Asia beckon Lal. "When we look at our future we certainly think that the biggest growth potential for us is in developing markets in terms of numbers." The company appointed a distributor – Corbeta Group – in July in Colombia, where it plans to start selling motorcycles this year. Royal Enfield's spokesperson says the company will do rides for journalists and customers next year, participate in the Bogota Auto Show, and open exclusive, company-owned retail

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RETURN (3 YEARS)
308%

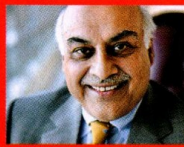
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INDIA'S BEST
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THE OTHER NOMINEES: AUTO & ANCILLARIES (Mid-sized Companies)



Jayadev Galla,
Amara Raja Batteries



V.C. Sehgal,
Motherson Sumi Systems



Arvind M. Poddar,
Balkrishna Industries



Arvind Dham,
Amtek India

stores to strengthen its brand.

The Colombian market, of course, already plays host to the two biggies of the Indian motorcycle market – Hero MotoCorp and Bajaj Auto – albeit only in the form of imports. But the ₹25,722-crore Hero MotoCorp is building a factory with a peak capacity of 150,000 motorcycles (the market size is about 650,000 motorcycles), which will become operational by mid-2015. “We will be the first Indian motorcycle manufacturer in Colombia,” says a Hero MotoCorp spokesperson. Hero, of course, plays in a segment different from Royal Enfield’s, but its muscle and experience in ramping things up swiftly will give it an advantage in any market. That is where Royal Enfield’s challenge lies. “Entering any new market involves significant investments in dealer networks and brand building – expansion across the globe would be slow,” says EMMAAA’s Rathore.

Home is Where the Fight Is

In India, the concern is that Royal Enfield is not able to make enough motorcycles to meet demand. A new plant at Oragadam near Chennai, its second – the first, legacy plant is in Thiruvottiyur – has doubled production capacity and reduced customer waiting time by half to five months. The company plans to increase capacity to 600,000 by 2016. (Comparatively, market leader Hero’s current annual capacity is 7.65 million.) Royal Enfield has also bought a 50-acre plot near its

Oragadam factory for a third plant. Is there enough demand? Angel Broking’s Gianani says leisure biking has picked up in the country, and that will help maintain demand for Royal Enfield motorcycles.

However, competition is rising. Harley-Davidson recently launched in India its smallest motorcycle, Street 750. While Angel Broking’s Gianani feels global sports bike makers can’t compete with Royal Enfield because of high prices, EMMAAA’s Rathore feels otherwise. “Limited sales of the Continental GT indicate that Royal Enfield has perhaps hit a price ceiling for its products,” says Rathore. “At the price point that Royal Enfield operates at, price is not the most important factor for buyers. In India, H-D Street is selling nearly the same numbers as Continental GT even though the Street is priced twice as much.” As per SIAM numbers, for the seven months from April to October, Street has sold 1,904 units, while Continental GT has sold a handful more at 2,035 units. Other manufacturers may also join the ‘sweet middle’. Hero MotoCorp showcased a 620-cc “street racer” motorcycle at the 2014 Auto Expo – the Hastur – and is not averse to launching bikes in the 250-500cc range. “Hastur was a statement of intent,” says the Hero spokesperson. “We will soon launch a 250-cc motorcycle.” Lal is not sitting idle, though. “You’re certainly going to see a lot more motorcycles from us,” he says. “We’ve a product plan right up to 2020.” The first new bike is likely to emerge by

early 2016. What is clear though is that he will stick to his core – no super-sport motorcycles, and no bikes below 250cc.

Plus, 2015 will see a major push into smaller towns. Currently, the top 20 cities account for more than 50 per cent of its sales. “Today, in a C or D-class town we’re able to sell 20-25 motorcycles a month, which makes it really interesting business for a small businessperson,” says Lal. The small-town push may reap rich dividends for Royal Enfield, given its powerful brand following there. This November, 500 owners of Royal Enfield, part of the All Meghalaya Royal Enfield Owners Association, came together at Imphal for cultural and riding sessions. But Royal Enfield’s followers are not blind worshippers – they bring in the critical element too. Take Rajesh Swarnakar, a Shillong-based wine and spirit trainer and entrepreneur, who owns a black Thunderbird 500cc cruiser. “The height should be reduced. Harley-Davidson cruisers are low, anyone can ride them and balance the bike with both their feet. You can’t do that with the Thunderbird,” says Swarnakar, himself a not-so-short 5-foot 8 inches. Plus, “cruisers entail long-distance travel, so mobile chargers are a must”, inbuilt GPS, in-built fog lights, more advanced oil-cooled engine, the list goes on.

There’s obviously room for improvement. ♦

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