

The Competitive Advantage of Local Firms in Developing Economies: The Case of Bajaj of India

Charles A. Rarick
Barry University

ABSTRACT

While multinational firms from advanced economies often have a competitive advantage in developing countries, local firms can successfully compete against them using localized knowledge and abilities. This paper discusses the strategies local firms can use against foreign multinationals and examines the case of Bajaj Auto, a company that was able to defend itself against strong foreign competition. This paper expands upon the earlier work of Dawar and Frost and provides a focus on Bajaj Auto.

INTRODUCTION

As many of the developing nations of the world have begun to liberalize their economies, local firms operating in those countries face a new and challenging environment. Many of the developing countries of the world practiced protectionist economic policies in order to allow local industry the opportunity to survive and grow. Economic reform brings the threat of foreign competition, and many local companies feel as if they are not able to meet the challenge from more established and efficient MNCs. While consumers in the developing economies benefit from a greater choice of product, local providers face a variety of challenges from their new competitors.

ADVANTAGES OF MNCs

Many MNCs enjoy the benefits of having strong international brands and the proven ability to market those brands. Previous international experience has provided the ability to market to diverse customers. In addition to strong brands and superior marketing skills, multinationals usually have strong financial abilities and proven management skills. Multinationals from advanced economies can compete against local firms using better technology. Finally, multinationals often have the advantages that come from economies of scale and economies of scope. The ability to produce more efficiently due to having larger operations and the ability to transfer resources across company areas produce a strong competitive advantage for multinationals.

ADVANTAGES OF LOCAL FIRMS

With so many disadvantages, it may seem hopeless for local firms to attempt to compete with large foreign competitors. As Dawar and Frost (1999) point out, while the foreign multinational does pose a significant threat, and some local firms will not be able to survive the threat, the situation is far from hopeless for local firms. Local firms bring a number of advantages, and those advantages are often hard for foreign firms to duplicate.

One of the most significant advantages possible for the local firm is a cost advantage. Whereas the foreign firm may have the advantage of economies of scale, the local firm has been operating in the developing country and has often had to be creative with its operations in order to reduce costs. The local firm is an expert in cost reductions in that local economy. At the same time, the local firm has already developed a distribution channel, and has established itself in the consumer's mind. Creating a competing channel of distribution can be an expensive undertaking for the multinational.

The local firm has an intimate knowledge of the local market and can fine-tune its product offerings to the needs of that market. Capitalizing on local tastes and preferences can be a strong competitive advantage. Foreign marketers may be skilled at international marketing, but the local firm has knowledge of the local market and its culture that would take time for the multinational to acquire. The local firm can also appeal to consumer's sense of nationalism in order to promote its product over that of the foreign multinational.

THE CASE OF BAJAJ AUTO

In the early 1990s India began a program of economic reform. The Indian constitution, created in 1947, stated that India would have a socialist economic system. Foreign competition and investment was discouraged by protectionist governments. With the Indian economy on the verge of collapse, changes in public policy were enacted. Foreign competition and investment began to enter India.

Bajaj Auto began with India's struggle for independence. The company's founder, Jamnalal Bajaj worked with Mahatma Gandhi in India's struggle for independence from Britain (Budhiraja, Ghoshal, and Bauman 2002). In the beginning the company imported two and three wheel scooters from Italy. After more than a decade Bajaj was given a license from the Indian government to manufacture the Italian scooters. In 1971 the company began to manufacture its own brand of scooters, the Bajaj brand.

Bajaj now produces in three product groups: scooters, motorcycles, and three wheelers. The company is competitive in all three product categories, however, the strongest market position is in three wheelers. Bajaj produces a motorized rickshaw and has almost the entire market share in India for this product. The motorized rickshaw is a popular transportation vehicle in India and is often used in lieu of a taxi. Bajaj still retains the dominant market position in scooters in India, however, market share eroded with the introduction of foreign competitors. Scooters from Japan made significant inroads into Bajaj's scooter market, however, this is a declining product concept in India as average incomes continue to rise in the country. Increasingly, Indian consumers are demanding motorcycles instead of scooters. Bajaj produces three levels of motorcycles for the Indian market: entry, executive, and premium. The company has a strong market position in the entry and premium markets and the Japanese dominate in the executive market. Bajaj faces stiff competition in the motorcycle market from Japan. Honda, Suzuki, Kawasaki, and Yamaha as all have established themselves in India.

With these strong foreign competitors attempting to reach their customers, Bajaj had to create its own competitive advantage. One of the strengths Bajaj possesses is its reputation for inexpensive and durable products. Indian consumers give Bajaj the highest ratings for product quality and durability (Kanabayashi 2001). Bajaj also has an extensive distribution and service network throughout India. Over the years Bajaj has been able to create over 400 dealerships and over 1,300 service centers in both urban and rural areas of India.

No manufacturer knows the Indian market better than Bajaj. It has developed products that fit with Indian needs and can draw on the Indian consumer's sense of national identity. In many developing countries consumers want products that are inexpensive, yet durable and reliable. Bajaj knows this fact and produces products that appeal to the basic needs of its market. As Rahul Bajaj states: "If your customers want stainless steel, don't give them platinum" (Budhiraja, Ghoshal, and Bauman 2002). This intimate knowledge of the local market has allowed Bajaj to produce and market its products in ways foreign competitors find difficult to duplicate.

Bajaj went from producing a standardized product in a heavily protected market (a market with a ten year waiting period) to a strong global competitor. The transformation of Bajaj Auto is a model for other producers in developing countries to follow. The company has developed capabilities in research and development that emphasize what Indian consumers want. Bajaj maintains close relationships with its suppliers and strives for efficiency at every turn. The company has developed improved engine performance and product styling that best fit the Indian market. It has developed its own version of total quality management and constantly looks for improvements for itself and its suppliers (Annual Report 2003).

The case of Bajaj Auto shows that local firms can compete with foreign multinationals. While Bajaj cannot relax and feel confident that its success is assured, the company has made an impressive transformation and currently competes with the strongest firms in the world in its local market. The success of Bajaj provides important lessons for others. The company has been able to successfully defend its market by following simple guidelines. First, Bajaj gives consumers what they want. With a greater understanding of its local market, Bajaj has been able to produce products that are desired by its consumers. Secondly, Bajaj pays constant attention to cost reduction and efficiencies. For example, the company has developed wind power to generate electricity for its manufacturing operations. To be competitive against stronger firms, local companies must be creative. Lastly, Bajaj strives for improvements. The company knows that in order to survive it must be better tomorrow than it is today. The past practices in India of subsidized inefficiency are gone, and the environment is constantly changing. Bajaj Auto provides an excellent example of a local firm that was not fearful of foreign competition, and one that developed its own competitive advantage in order to prosper in its transition economy.

SOURCES

Bajaj Auto Annual Report 2003.

Budhiraja, S., S. Ghoshal, and R. Bauman. (2002). *The Transformation of Bajaj Auto*. European Case Clearing House.

Dawar, N. and T. Frost. (1999). *Competing with Giants: Survival Strategies for Local Companies in Emerging Markets*. Harvard Business Review, March-April, 1999.

Kanabayashi, M. (2001). *Japan Targets India's Market for Motorcycles*. The Wall Street Journal, May 8.