RIGHT PASSAGE TO INDIA

I promised you way back in part 1 of our journey that I would cover a wide range of subjects relating to the opportunities in Asia, from an overview to studies on each of the major states. All this to persuade you that Asia is the place to go to save and grow your business. In Part 3 we looked at the Indian demographics and economy, here I start to look at “doing business”. In part 5, we shall look at China.

India, for some time now is the focal point of the global trend toward strategic offshoring, and has simultaneously become appealing as a market in its own right. With GDP growth more than double that of the United States and the United Kingdom during the past decade, and with forecast continued real annual growth of almost 7 percent, India is one of the world's most promising and fastest-growing economies, and multinational companies are eagerly investing there.

Yet the performance of the multinationals that have tried to exploit this opportunity has been decidedly mixed. Many of those notable for their strong performance elsewhere have yet to achieve significant market positions (or even average industry profitability) in India, despite a significant investment of time and capital in its industries. Why? Perhaps because the market entry strategies that have worked so well for these companies elsewhere—bringing in tried and tested products and business models from other countries, leveraging capabilities and skills from core markets, and forming joint ventures to tap into local expertise and share start-up costs—are less successful in India. Our research suggests that the most successful multinationals in India have been those that did not merely tailor their existing strategy to an intriguing local market but instead cut a strategy from the whole cloth. In short, they have resisted the instinct to transplant to India the best of what they do elsewhere, even going so far as to treat the country as a bottom-up development opportunity.

With less of a focus on the initial entry and with a longer-term view of what a thriving Indian business would look like, the more successful companies have invested time and resources to understand local consumers and business conditions: tailoring product offerings to the entire market, from the high-end to the middle and lower-end segments; re-engineering supply chains; and even skipping the joint-venture route. The reward for this effort: Of the 50-plus multinational companies with a significant presence in India, the 9 market leaders, including British American Tobacco (BAT), Hyundai Motor, Suzuki Motor, and Unilever, have an average return on capital employed of around 48 percent. Even the next 26 have an average ROCE of 36 percent.

Getting local in India

India's per capita income is half of China's and one-fourth of Brazil's, and as much as 80 percent of Indian demand for any industry's products will be in the middle or lower segments. As a result, multinationals must resist the temptation merely to replicate their global product offerings; the products and price points that are competitive in India are often considerably different from those that work well in other countries.

In particular, in India companies must reach into the middle and lower-end segments or they may end up as niche high-end players, with insignificant revenues and profits.

Multinationals that understand the Indian consumer's expectations and price sensitivities can tap into what is often a large and promising market, but they shouldn't assume leading with a lowest price tag. Indian consumers, even in the lower-end segments, will pay a premium if the value of superior features and quality is seen to far outweigh their cost. LG Electronics, for example, re-engineered its TV product specifications in order to develop three offerings specifically for India, including a no-frills one to expand the market at the low end and a premium 21-inch flat TV for the middle segment. By keeping the price of the latter offering to within 10 percent of the price of TVs with conventional screens, LGE persuaded many consumers to buy it. These innovations have led the company to a top-three position in the country's consumer durable-goods and electronics market in a little over three years, with revenues of nearly a billion dollars in India. And Toyota Motor captured nearly a third of the multi-utility-vehicle (MUV) market by offering a significantly superior product at a limited price premium.

Latest IMF projections

(year over year percent change)

			Projections		Difference from 2008 WEO projections	
	2007	2008	2009	2010	2009	2010
World output[1]	5.2	3.4	0.5	3.0	–1.7	–0.8
Advanced economies	2.7	1.0	–2.0	1.1	–1.7	–0.5
United States	2.0	1.1	–1.6	1.6	–0.9	0.1
Euro area	2.6	1.0	–2.0	0.2	–1.5	–0.7
Germany	2.5	1.3	–2.5	0.1	–1.7	–0.4
France	2.2	0.8	–1.9	0.7	–1.4	–0.8
Italy	1.5	-0.6	–2.1	–0.1	–1.5	–0.1
Spain	3.7	1.2	–1.7	–0.1	–1.0	–0.9
Japan	2.4	-0.3	–2.6	0.6	–2.4	–0.5
United Kingdom	3.0	0.7	–2.8	0.2	–1.5	–0.9
Canada	2.7	0.6	–1.2	1.6	–1.5	–1.4
Other advanced economies	4.6	1.9	–2.4	2.2	–3.9	–1.0
Newly industrialized Asian economies	5.6	2.1	–3.9	3.1	–6.0	–1.1
Emerging market and developing economies[2]	8.3	6.3	3.3	5.0	–1.8	–1.2
Africa	6.2	5.2	3.4	4.9	–1.4	–0.5
Sub-Saharan Africa	6.9	5.4	3.5	5.0	–1.6	–0.7
Central and eastern Europe	5.4	3.2	–0.4	2.5	–2.6	–1.3
Commonwealth of Independent States	8.6	6.0	–0.4	2.2	–3.6	–2.3
Russia	8.1	6.2	–0.7	1.3	–4.2	–3.2
Excluding Russia	9.7	5.4	0.3	4.4	–1.3	–0.3
Developing Asia	10.6	7.8	5.5	6.9	–1.6	–1.1
China	13.0	9.0	6.7	8.0	–1.8	–1.5
India	9.3	7.3	5.1	6.5	–1.2	–0.3
ASEAN-5	6.3	5.4	2.7	4.1	–1.5	–1.3
Middle East	6.4	6.1	3.9	4.7	–1.5	–0.6
Western Hemisphere	5.7	4.6	1.1	3.0	–1.4	–1.0
Brazil	5.7	5.8	1.8	3.5	–1.2	–1.0
Mexico	3.2	1.8	–0.3	2.1	–1.2	–1.4

Source: IMF, *World Economic Outlook*, January 2009.
[1]The quarterly estimates and projections account for 90 percent of the world purchasing-power-parity weights.
[2]The quarterly estimates and projections account for approximately 76 percent of the emerging and developing economies.

Very often, however, companies need to develop completely new products to compete at target price points set by local competitors, as Hindustan Lever Limited (HLL), a part of the multinational Unilever, did with its low-priced detergent brand, Wheel. Responding to local competition, HLL lowered the active detergent content of its existing product, decreased the oil-to-water ratio, and then launched the new detergent at a 30 percent discount to the price points of the company's more traditional detergents. Today, Wheel accounts for 45 percent of HLL's detergent business in India and for 8 percent of total HLL sales.

In other cases, companies must significantly localize their product offerings to meet Indian consumer preferences. Hyundai, for example, spent several months customizing its small-car offering, Santro. Because Indian consumers attach significant importance to lifetime ownership costs, Hyundai reduced the engine output of the Santro to keep its fuel efficiency high, priced its spare parts reasonably, and made more than a dozen changes to the product specifications to suit the Indian market conditions. In contrast, other global automakers entered the market with vehicles that had low gas mileage and high repair rates and after-sales service costs.

Companies can bolster their profitability by re-engineering their supply chains. Hyundai, for instance—in contrast to other global auto manufacturers in India, which source only about 60 to 70 percent of their components locally—buys 90 percent of its components from cheaper Indian suppliers rather than importing more expensive parts from its usual suppliers elsewhere. Multinational pharmaceutical companies outsource a large share of their production to third-party manufacturers within India—an uncommon practice for major pharmaceutical companies elsewhere in the world. And both Hyundai and LGE have built global-scale manufacturing facilities to capture economies, making India a global manufacturing hub that can serve other markets as the local market develops.

Using extensive third-party distribution also helps. In India, organized retail distribution systems reach less than 2 percent of the market, so there is considerable pressure to find innovative ways of reaching retail consumers. This third-party distribution system is crucial to capturing demand created by the superior price-to-value offerings available in smaller cities and rural areas, which make up a large share of the Indian market. In fact, successful multinationals—such as Castrol (acquired by BP in 2000), LG Electronics, and Unilever—have built deep third-party distribution networks that serve second-tier cities and villages. Here again, a local strategy is crucial. One multinational company, for instance, used to own its entire worldwide distribution infrastructure, including warehouses and trucks. Applying that business system in India, where large companies face high labour and overhead costs, made it impossible to attain nationwide reach. Moving to a third-party distribution system employing a network of dealers and agents proved very successful.

In contrast to companies that rotate expatriate managers in and out of the country every two or three years—often a recipe for failure—most successful multinationals, such as Citibank, GlaxoSmithKline, and Unilever, have an Indian CEO in their local operations. Given the need to tailor products, supply chains, and distribution systems to local markets, local managers tend to be more effective. If the CEO is an expatriate, combining longer postings with a strong local second in command, as in the case of the South Korean giant Hyundai, seems to be crucial to

success. In addition, multinationals such as Castrol have benefited from strong local boards to counsel, challenge, and help local operations.

Skipping the joint venture

Multinationals entering new markets have traditionally struck up joint ventures with local partners for a variety of reasons, including their ability to influence public policy, to bring into the venture existing products as well as marketing and sales capabilities, and to comply with regulatory requirements when foreign participation was restricted to less than 50 percent of a business.

While joint ventures are still crucial to gaining access to privileged assets in some industries—metals and mining, for example, and oil and gas—our research shows that, where possible, multinationals are better off going it alone. Of the 25 major joint ventures established from 1993 to 2003, only 3 survive. Most foundered because the local partner couldn't invest enough resources to enlarge the business as quickly as the multinational had hoped. As a result, most of the multinationals that initially entered the market through joint ventures have exited them and pursued independent operations. Multinationals, such as Hyundai and LGE that have achieved real success in India have bypassed joint ventures entirely, and newcomers are increasingly entering the market on their own. Even when a joint venture is unavoidable, successful multinationals ensure from the outset that they retain management control and have a clear path to eventual full ownership.

Participating in the regulatory process

Multinationals in deregulating industries often need to be flexible and patient during the natural process of regulatory evolution.

Regulations governing the mobile-telephony sector, for example, have been amended several times since 1994 as it has grown; it had two licensed operators per region back then and now has as many as six. Although most multinationals left the sector when the regulations governing it changed, Hutchison Whampoa continued to invest in India. Ten years later, Hutchison Essar is one of the top three Telco’s in the country (as reckoned by market share), and interviews with industry experts suggest that the company enjoys strong profitability.[5]

If regulations are a crucial factor for an industry, the CEO needs to spend a lot of time managing them. The most successful multinationals haven't relied on third-party legislation managers or joint-venture partners to address regulatory issues; instead they have invested much time and energy to identify and understand the key policy makers, to formulate robust positions for investment, and even to suggest regulatory changes. In addition, these companies have garnered support from constituencies such as state governments, which compete for investments, and industry associations that lobby for similar regulatory changes.

CULTURAL DIFFERENCE

Cultures are the fundamental beliefs about how the world works and forms ways in which we interact and communicate with others and develop and maintain relationships. Doing business in a particular nation requires a focus on a multi-dimensional understanding of its culture and business practices. Understanding those differences and adapting to them is the key.

India is a complex country, and those arriving here to do business will discover significant differences in the operating culture which becomes a major barrier for success. The following tips will give an idea of the working and business norms in practice at India.

In the United States of America, efficiency, adhering to deadlines and a host of other similar habits are considered normal and are expected. When it comes to India, one needs to understand that one is dealing with people from a different cultural background that think and interact differently. As a result, what is considered to be reasonable and feasible in America may not work so in India and vice-versa.

Aggressiveness can often be interpreted as a sign of disrespect. This may lead to a complete lack of communication and motivation on the part of the Indians. One needs to take the time to get to know them as individuals in order to develop professional trust. Indians are very good hosts and will therefore, invite you to their homes and indulge in personal talk often. All this is very much a part of business. One is expected to accept the invitation gracefully. Taking a box of sweets, chocolates or a simple bouquet of flowers would definitely be a welcome gesture. Indians respect people who value their family. They will allow family to take priority over work, whenever necessary.

Criticism about an individual's ideas or work needs to be done constructively, without damaging that person’s self-esteem. As Indians are used to a system of hierarchy in the work place, senior colleagues are obeyed and respected. Supervisors are expected to monitor an individual's work and shoulder the responsibility of meeting deadlines.

It is important to double-check and keep track of time. Educated Indians have learnt to adapt to the western methods of monitoring one’s own work and completing it on schedule.

An Indian who hesitates to say ‘No’ may actually be trying to convey that he is willing to try, but presuming the task to be unrealistic in nature, he may worry whether he would get the job done. It is important to create a safe and comfortable work environment where it is okay to say "No" and also okay to make mistakes without the fear of repercussions.

In a group discussion, only the most senior person might speak, but that does not mean that the others agree with them. They may maintain silence, without contradicting them (or you) out of respect for their seniority. Westernized Indians on the other hand can be quite assertive and direct and it is fine to treat them in the same manner. Politeness and honesty go a long way in establishing the fact that your intentions are genuine.

Women are treated with respect in the work place. They feel quite safe and secure in most organizations in India. Foreign women working here will find it easy to adapt to an Indian work environment. However, they need to plan their wardrobe carefully, keeping in mind the conservative dress codes in India.

Humor in the work place is something that some Indians are not used to. Most traditional Indians are teetotalers/vegetarians, so their eating habits need to be respected. Westernized Indians are more outgoing and do socialize and drink (excessively at times).

These tips mentioned above may not apply to all situations, as India is a land of contrasts and each person you meet will be unique blend of Indian/Western values. People from different socio-economic strata, educational backgrounds, class and religion may behave very differently.

Conclusion:

Clearly, any entry into a new market requires a certain degree of tailoring to its specific needs and conditions. For some companies, the entry into India has forced a fundamental rethinking of product offering, cost structures, distribution systems, and management teams. Companies that successfully tap into the promising Indian market often ignore conventional wisdom, including the need for joint ventures.

For any expatriate the pace, pressure and protocol of living and working in a new country can be overwhelming, but there are many positive aspects to living, working and doing business in India – the valued friendships that one makes with Indians, the beautiful and exotic places to visit, the multi-varied cuisine to experiment with, and the many, many interesting things to buy. An expatriate who is prepared to accept the differences and make the necessary adaptations will definitely be greeted with the sweet taste of success in all business endeavors.

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