Case Studies on

MNCs in India: The Competitive Strategies

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OVERVIEW

"India is now truly a land of opportunity."[1]

– John Redwood, Economic Competitiveness Policy Group, UK

"The economic dominance of the US is already over. What is emerging is a world economy. India is becoming a powerhouse very fast."[2]

– Peter Drucker, Management Guru

Hardly a day passes without hearing about the rise of India in the global economy. Newspapers, magazines, television shows and internet keep on reporting about it. Actually the reasons are many. A country – with the world's second largest population and one of the largest economies – has been growing so fast for so long. With GDP growth averaging 6.1% over the last decade and 9.4% during 2006–2007,[3] India has become one of the most promising and fastest growing economies. This has raised fears – will India lead the world economy; through its low cost, will it bid down wages elsewhere? While some are cautious about India sustaining such an impressive growth rate, considering India's high public debt. While others seek lessons about how India did it.

Just 16 years after ushering in economic reforms, India has come out of its sluggish growth after independence. These reforms aimed at transforming India from an underdeveloped and closed economy into an open and progressive one. It buoyed foreign investment and increased earnings through services and industry. These reforms cemented a robust economic growth, which is now one of the world's fastest. The real GDP growth averaged 8.6% since FY 2003 and is expected to grow by an average of 9% a year through 2012.[4]

Since the emerging countries have increased their contribution to the world economy (Exhibit I), more and more MNCs have started showing greater interest in them – with India on the top, due to its large and attractive consumer base. India and China are also being called as re-emerging countries because they have started regaining their former prominence. Until the 19th century, these countries were the world's two biggest economies producing on an average 80% of the world GDP. However, Europe's industrial revolution and globalisation dipped their contribution to only 40% by 1950. But with an annual growth of around 7% over the past 5 years, compared to 2.7% in the rich economies, they have bounced back. According to IMF forecasts, they are expected to grow at an average of 6.8% a year, while developing countries will have a growth of a mere 2.7% in the next 5 years (Exhibit II). If the pace continues, than it is believed that the emerging economies will account for two-thirds of global output in terms of purchasing power parity.[5] Along with

1 http://www.ibef.org/artdisplay.aspx?art_id=6409&cat_id=471&page=2

2 Ibid.

3 "At 9.4%, GDP growth second fastest-ever", http://timesofindia.indiatimes.com/At_94_GDP_growth_2nd_fastest-ever/articleshow/2090174.cms, June 1st 2007

4 Zainulbhai Adil S., "Securing India's place in the global economy", *The Mckinsey Quarterly*, 2007 special edition, page 10

5 "The New Titans", http://www.economist.com/displaystory.cfm?story_id=7877959, September 14th 2006

the economic growth, Indian spending power too has grown significantly. Since 1985, their real average household disposable income has roughly doubled. So even household consumption soared, creating a new Indian middle class.

India ranked 48 in the global competitiveness index and 31 in the business competitiveness index 2007–2008 (Exhibits III (a) and III (b)). India has emerged stronger on the global investment radar, much ahead of US and Russia. It was ranked the second best FDI destination after China in 2007.[6] India's value proposition is based on three major parameters – its low cost-high quality-scalability model giving it an edge over other emerging destinations; a quality pool of knowledgeable English speakers; and the ability to focus on core competencies and talent to strengthen and expand existing business offerings. Its market potential and macroeconomic stability are the key drivers of FDI attractiveness.

However, compared to its close competitor China, a survey by AT Kearney revealed that "investors favour China over India for its market size, access to export markets, government incentives, favourable cost structure, infrastructure, and macroeconomic climate. The same investors cite India's highly educated workforce, management talent, rule of law, transparency, cultural affinity, and regulatory environment as more favourable than what China presents. Moreover, they maintain that China leads in manufacturing and assembly, while India leads for IT, business processing, and R&D investments."[7] Respondents mark bureaucracy, lack of infrastructure and an ambiguous policy framework as the key deterrents that adversely impact MNCs operating in India.

Indian government got to make their investment climates favourable. Right now they need to improve and maintain both its soft and hard infrastructure. Hard infrastructure includes country's poor and insufficient roads, electric power deficit, poor transportation, overcrowded airports etc. Soft infrastructure, like schools and hospitals, help improve literacy and bring down infant mortality rate.

MNCs' RISING INTEREST IN INDIA

With globalisation, trade barriers have come down and business giants have spilled across the world. Emerging economies have been their lucrative markets. With flaring global interest in Indian economy and its huge consumer base, many Multi National Companies (MNCs) have started foraying there to extract the maximum market share. Some viewed India as a high potential market, while others wanted to exploit it as a low-cost manufacturing base.

In spite of India's huge potential, MNCs have shown a mixed performance. Many, who were remarkably successful elsewhere, have failed or yet to succeed. Indian market poses special challenges due to its heterogeneity, in terms of economic development, income,

6 "India second best destination for FDI in 2007: UNCTAD", http://economictimes.indiatimes.com/articleshow/2464156.cms, October 16th 2007

7 "MNC's bullish on India – CII-A.T. Kearney survey", http://ibef.org/artdisplay.aspx?cat_id=60&art_id=6909, July 18th 2005

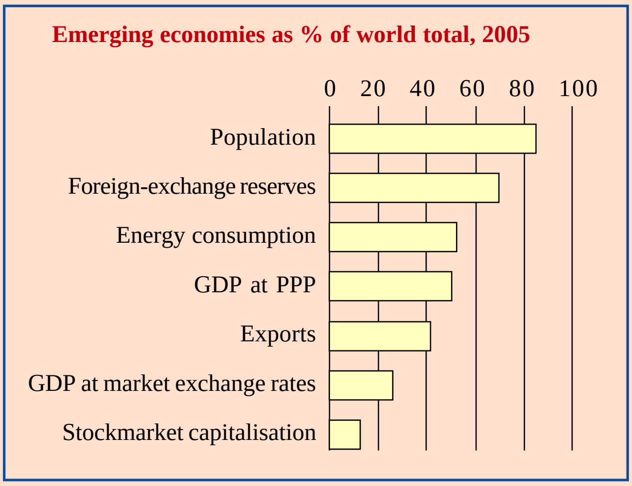
religion, cultural mix and tastes. On top is the heating competition among local players as well as the leading MNCs. Not all companies have been struggling to understand Indian consumer behaviour. Doing business in India is at a turning point; market entry strategies, for example, that clicked once don't promise success always.

Success in India will not happen overnight. It requires commitment, management drive and focus on long-term objectives. Proper business models are needed. They are not prescribed but need to be derived from the mechanisms that enabled them to develop – the global management processes (providing the global support and technology) and the local management processes (driving local autonomy and capability). Critical success factors for MNCs in India are highlighted in the Exhibit IV. MNCs need to invest heavily on market research to analyse the local preferences and craft their marketing and branding strategies accordingly.

Among the various MNCs having subsidiaries in India are Colgate, Palmolive, Procter & Gamble, General Electric, IBM, Intel, Pepsi, Coco Cola, Microsoft, Oracle, Unilever etc. Almost 70% of MNCs – that have participated in the first CII-AT Kearney MNC Survey 2005 – have evinced a high likelihood of making additional medium- to long-term investment in India. Apart from that, three out of every four MNCs have met or exceeded their internal targets and expectations in India.

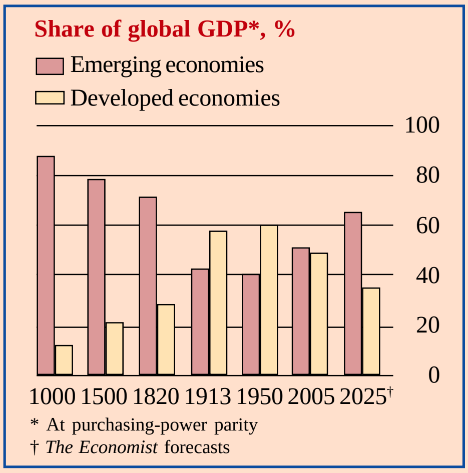
MNCs in India face a range of challenges. This book examines their much-needed critical success factors. Through the experiences of some well-known MNCs in India, the book explores how they keyed in rightly to benefit maximally while others couldn't.

Exhibit I
Why They Matter



Source: "The New Titans", http://www.economist.com/displaystory.cfm?story_id=7877959, September 14th 2006

Exhibit II
Re-emerging Economies



Source: "The New Titans", http://www.economist.com/displaystory.cfm?story_id=7877959, September 14th 2006

Exhibit III (a)
Global Competitiveness Index 2007–2008

Country/Economy	Rank	Score
United States	1	5.67
Switzerland	2	5.62
Denmark	3	5.55
Sweden	4	5.54
Germany	5	5.51
Finland	6	5.49
Singapore	7	5.45
Japan	8	5.43
United Kingdom	9	5.41
Netherlands	10	5.40
...	...	...
...	...	...
...	...	...
India	48	4.33

Source: http://www.gcr.weforum.org/

Exhibit III (b)
Business Competitiveness Index 2007–2008

Country/Economy	Business Competitiveness Index 2007-2008	Sophistication of company operations and strategy	Quality of the national business environment
United States	1	1	1
Germany	2	2	2
Finland	3	9	3
Sweden	4	3	4
Denmark	5	5	5
Switzerland	6	4	6
Netherlands	7	7	7
Austria	8	8	9
Singapore	9	14	8
Japan	10	6	12
:	:	:	:
:	:	:	:
:	:	:	:
India	31	27	33

Source: http://www.gcr.weforum.org/

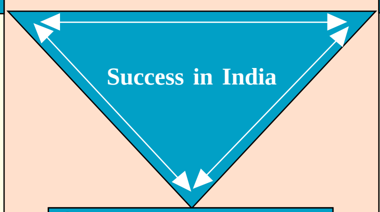
Exhibit IV

Success is Built on Three Strong Pillars

... And 10 Key Success Factors

(A) Commitment at the global level

1. View India as a key focus area
2. Formulate bold, long term targets that drive decision making
3. Create processes that accelerate the integration as well as localization of organization
4. “Change the rules” regarding global metrics, standards to meet market challenges



(B) Empowered local management

5. Build for the long term in India regarding people, HR practices and relationship with external stakeholders
6. Define a value-added role for the country management
7. Establish local team credibility
8. Leverage India opportunities beyond the product market

(C) Localized product-market business models

9. Localize parts of the value chain to obtain Indian cost and capability benefits
10. Formulate India-specific business model strategies (product, value, pricing)

Source: “The New Titans”, http://www.economist.com/displaystory.cfm?story_id=7877959, September 14th 2006