
Through the looking glass

What successful businesses find in India

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Contents

Through the looking glass: What successful businesses find in India	4
View India through a kaleidoscopic lens	8
Decode the patterns	10
Pattern 1: The market is highly segmented	14
Pattern 2: Niche segments demand tailored solutions	16
India: The clear-cut story	18
Pattern 3: Relationships can make or break channel strategy	20
Pattern 4: Integration and collaboration are central to strong supply chains	22
India as a springboard to other markets	25
Pattern 5: In India, think operating models for India	26
The ties that bind: What the US and India have in common	27
Final thoughts	28

Through the looking glass

What successful businesses find in India





India is expected to become the world's third-largest economy by the middle of this century, yet for global businesses, achieving sustainable profitable growth in India is hardly straightforward. India's growth story is enduring, but many businesses find it hard to detect clear-cut patterns in a market characterized by dizzying economic and cultural diversity, a mosaic of traditional and modern practices, complicated policy-making processes, and uneven development. Stepping through the looking glass, as Alice discovered in Lewis Carroll's well-known writings, the game is familiar but the rules, players, and landscape are perplexing.

In this environment, there is no simple formula for success, but we find common patterns in the approaches of companies making breakthroughs in the Indian market. They are looking past India's dazzling demographics and are pinpointing the exact opportunity that plays to their strengths in a highly segmented market. They are making choices about where they can make a difference—be it fulfilling new aspirations, solving long-standing problems, delivering superior service, or creating new market mechanisms to close the institutional gaps that are inherent in developing markets. Peering through the looking glass at India, these companies know that they must shift their perceptions, challenge conventional thinking, and decode complex patterns in order to succeed.

The old adage “everything you say about India, the opposite is also true” has long served well to describe the enigmatic—and often frustrating—riddle that is India for Westerners. In recent times, global investors have come to recognize that India is now home to more billionaires than Great Britain and more hungry children than sub-Saharan Africa. However, even that is an oversimplification, because in between these extremes are multitudes of Indian consumers with different purchasing powers, habits, preferences, and attitudes. These Indians live across 28 states that are at varying stages of development, exhibit diverse cultures, and speak different languages. They are the reason India cannot be ignored by any global business.

In contrast to the export-fuelled growth of East Asia, almost 60% of India’s gross domestic product (GDP) is made up of domestic consumption. India’s growth may sputter every now and then; the Indian government’s most recent economic survey projects a growth rate above 6% for the economy in fiscal 2013–14, compared to the recorded rate of more than 9% in 2010–11. The long-term trend, however, is that of continued economic expansion thanks, in part, to favorable demographics. India’s working-age population is expected to exceed China’s around 2028 and, on average, be around 36 years old that year compared to over 40 in China.¹ Global businesses are also noticing the resourcefulness of this young working population, which is able to produce clever, low-cost improvisations to meet the needs of a large, demanding home

market. In India, this is sometimes known as “jugaad” that Ratan Tata, Chairman Emeritus of conglomerate Tata Sons, defines as “a Hindi word which does not have an exact English translation, partly because it is derived from the common Indian experience of innovating frugal, homespun, and simple solutions to the myriad problems that beset everyday life in India.”²

India indeed offers a multifaceted opportunity, as John Flannery, president and chief executive officer (CEO) of General Electric (GE) India, explains. “One leg of the stool is Indian labor and research capabilities for global application. Second is the supply chain, or making investments right now to manufacture in India, both for our domestic India business as well as exports. Finally, there’s commercial; that is, developing products for the domestic market. There are other countries where we earn more revenue, and we are working to fix that, but probably no other country where we have that depth of supply chain, engineering, and commercial. All three of those things matter to GE. So if you consider what countries have that level of nexus to the company, India is probably at the top.”

¹ PwC analysis based on various historical and forecast sources, including Oxford Economics.

² Navi Radjou, Jaideep Prabhu, and Simone Ahuja, *Jugaad Innovation: Think Frugal, Be Flexible, Generate Breakthrough Growth*, 2012. This book has a foreword by Ratan Tata.



Listen to John Flannery, president and CEO, GE India, describe India's strategic importance to GE at www.pwc.com/indiaexpansion

View India through a kaleidoscopic lens

India has the potential to be the fastest-growing large economy in the world over the next four decades and become the third-largest by 2050. Measured in terms of purchasing power parity (PPP), which adjusts for price level differences across countries, India's GDP could very well overtake that of the US by then. (See "India: The clear-cut story" on page 18.)

Still, India's growth is not a uniform motif, but a composite of kaleidoscopic patterns that requires careful analysis. Our projection assumes that India will continue to implement the growth-oriented policies that began in 1991. The progress, however, will be relatively uneven. For example, Gujarat, a business-friendly state on India's west coast, just witnessed the signing of memorandums of understanding (MoUs) worth \$5 billion in energy and petrochemicals at its 2013 global investor summit.³ But not all states in India's federal system are as proactive in attracting investment, making the country's evolving regulatory system difficult to navigate.

Take the retail sector. The Indian government recently approved foreign direct investment (FDI) in multibrand retail in cities with a population of over one million, but because this is subject to approval by individual states, less than 20 of the 50-plus eligible cities are welcoming this investment.⁴ Another area ripe for reform is India's indirect tax structure, which is characterized by multiple taxes that accumulate as goods move in and out of different Indian states. Businesses complain that within the existing system, fiscal rather than market considerations influence the structuring of supply chains and distribution networks. India's central and state governments now appear to be moving closer to an agreement on implementing the goods and services tax (GST), a uniform value-added tax that will subsume a number of federal and state taxes, but the date of introduction remains unclear.



³ "Vibrant Gujarat Summit: Rs26,000 Crore MoUs Signed in EPD Sector," *Daily News & Analysis*, January 12, 2013.

⁴ Kapil Sibal, "On the Right Side of History: To Foster Growth and Fight Inflation, FDI in Multi-brand Retail Is a Logical Step," *The Times of India*, October 4, 2012.



Decode the patterns



Many factors combine to make India a challenging place to do business, even for seasoned global businesses. While Western companies were focusing their strategies on upper- or middle-income consumers, newly empowered niche segments—such as urban working women and rural youth—emerged as new drivers of India’s growth. The 70% of Indians who live in rural areas are now spending at a faster rate than urban Indians. (See “India: The clear-cut story” on page 18.) Addressing their aspirations is also far from straightforward, as 93% of retail business lies within the unorganized, or “nontraditional,” sector.

Companies that are considering entering or expanding in India’s unique business environment must tailor their strategies carefully. As shown in the framework on the next page, this includes creating the right **value proposition**, designing the appropriate **operating model**, investing in the financial and human **capital** required, and understanding the local **business environment**. Entering and growing in any market is an evolutionary journey, and a company’s maturity within each of these four intertwined elements will depend on the stage of its India operations.

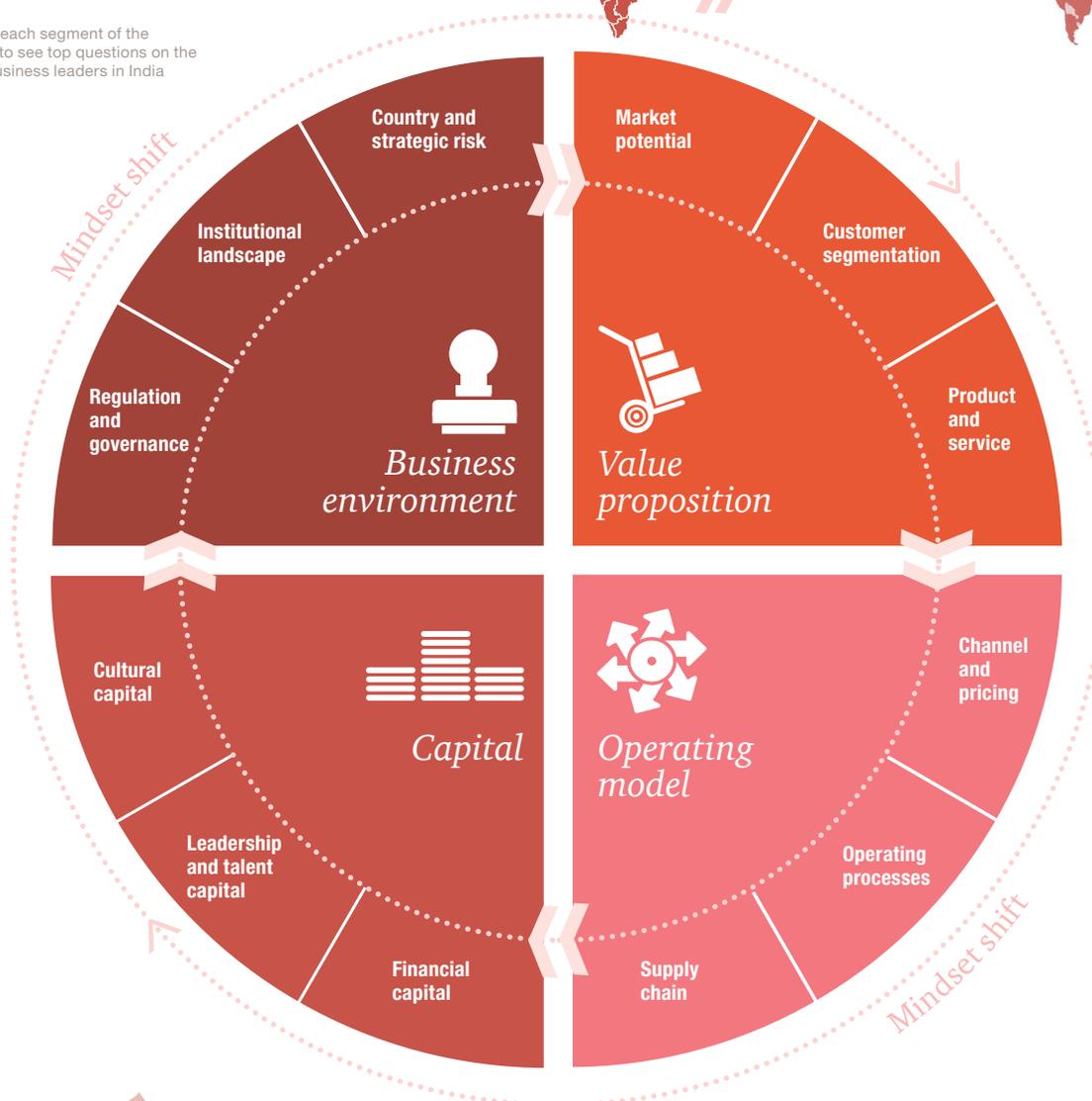
India entry and expansion framework



» toward new horizons



Hover over each segment of the framework to see top questions on the minds of business leaders in India



Companies can be at different stages along the spectrum between nascent and mature within each of the 12 segments of the framework. Business capabilities can be measured and benchmarked for their maturity within every segment.



In this paper we focus specifically on how companies manage their value propositions to win over the diverse Indian consumer base and which operating models deliver results in India. In future papers, we will explore the entwined elements of capital and business environment that are equally important considerations for entering or expanding in India. Accessing financial, leadership, and talent capital is essential for companies looking to grow in India. The ability to develop and deploy this capital within the nuances of Indian culture will play a key role in a company's success. Similarly, some would argue that understanding the business environment is the first step to entering the Indian market. It is important to understand the regulatory and governance processes, recognize the institutional gaps in areas like credit supply and logistics, and manage the country and strategic risks posed by India's geography and history.

On the following pages, executives of several US-headquartered companies, including The Coca-Cola Company (Coca-Cola), General Electric (GE), Ford Motor Company (Ford), Microsoft Corporation (Microsoft) and some that did not wish to be identified, share their experiences related to value propositions and operating models in India. In addition, some entrepreneurial Indian companies offer insights into what it takes to succeed in their domestic market. Their approaches and strategies are diverse, yet the stories they tell share common patterns.

Pattern 1: The market is highly segmented

When a company is entering the vast Indian market, a sound appreciation of the different customer, product, and geographic segments will enable it to identify the most accessible and desirable customers, specify where they are located, and determine what offerings might best meet their needs. Additionally, a deep understanding of the socioeconomic trends across the different states will enable an organization to identify nascent new markets to establish a first mover advantage.

John Flannery, president and CEO of GE India, describes how India forces established companies to change their mindset and approaches: “As a long-term legacy product engineering company, we tend to say, here’s what we make—now who can we sell that to? The first thing we’ve had to really crack and break down in India is answering questions like: How does a village healthcare provider operate? How much can customers pay? What do they really appreciate? How will the workforce want to operate the equipment? And you really have to go backwards from there.”

As an example, GE’s lullaby warmer is an infant incubator that meets the particular requirements of rural Indians and is adapted to work in local conditions. This incubator costs less than 1% of traditional incubators, which are priced up to \$20,000, and works without a constant supply of electricity. GE removed sophistications such as software that monitors a baby’s pulse. Instead, it introduced a simple digital scale and LCD monitors to measure and display data, as well as added a jaundice attachment to address the waterborne diseases that often plague Indian babies in this target group. An important innovation in the lullaby warmer is the use of wax, which regulates body temperature for four hours without electricity.⁵

“India: The clear-cut story” on page 18 shows the strength of the Indian middle class and the power of various other consumer segments in driving purchases across product categories. The competition to win over these consumers is intense, particularly as India’s domestic players and those from other emerging markets are quick to spot evolving

trends and seize new opportunities. “Value fashion,” for example, is an expanding category in India, where 50% of the population is under the age of 25 and demanding clothes that are fashionable and affordable at the same time. Max Retail, a subsidiary of the Dubai-based Landmark Group and the largest value-fashion retail chain in the Middle East, is experiencing rapid growth in India. In a market where the penetration of apparel in organized retail is low but expected to go up to 30%–35% by 2015, the company is introducing fashion at “keen prices” across big and small cities. There are already more than 50 Max Retail stores in India, with plans to almost double operations in the near future.⁶

India’s diversity means that not only income but also geographic segmentation is important for companies that want a pan-Indian presence as they expand across the market. “When you look at our flavor portfolio, Fanta is immensely popular in the South, while Limca (a Coca-Cola brand in India) plays a very, very important role in the North. So there is no universal India brush you can paint across the country,” says Sanjeev Kumar, chief financial officer (CFO) of Coca-Cola India (CCI). Coca-Cola recently announced plans to invest \$5 billion in India over the next eight years to strengthen its capabilities across the country.⁷ “These investments are end-to-end, from manufacturing to supply chain to distribution and building the capability of the feet on the street—all towards capturing that opportunity which we think is immense in India,” says Sanjeev Kumar.



Hear Coca-Cola India CFO Sanjeev Kumar explain why the world’s largest beverage company is increasing its India investments at www.pwc.com/indiaexpansion

⁵ PwC’s report *Profitable Growth Strategies for the Global Emerging Middle* (GEM) released in January 2012 discusses the next wave of business opportunity for global businesses—the consumer segment that lies just below the middle-income tier in emerging economies. It discusses value propositions and innovations for the GEM segment, which is projected to reach market share in excess of \$6 trillion by 2021, exceeding \$1 trillion in India alone.

⁶ PwC, *Winning in India’s Retail Sector*, 2011.

⁷ Malavika Sharma, “Coca-Cola to Spend \$5 Billion in India by 2020, CEO Says,” *Bloomberg News*, June 26, 2012.

Understand the multiplicity of Indian consumer segments and each sector's needs and aspirations, including how they will evolve over time. Identify your target segment or segments and define what's valuable to these groups before introducing a product or service.





Pattern 2: Niche segments demand tailored solutions

It may be tempting to enter a new market with established products and services. That approach facilitates a quick entry and limits the risk of new product launches in relatively unfamiliar territory. However, this strategy may not always succeed in India where local preferences and desires must be considered and addressed for sustained success. It is also possible that an Indian competitor product already exists, and thus a superior product or solution is required to win market share and maintain price advantage.

In March 2010, Ford introduced Figo, its small car offering for the Indian market. The launch was led by Michael Boneham, Ford India's president and managing director from 2007 to 2012 (he has since retired), who relates that prior to Figo, Ford was "an interesting niche player in India, trying to shoehorn global models for the Indian consumer." Back then, Ford India's sales in India hovered around 28,000 cars a year. With Figo, Ford entered the country's crowded market for small cars with a "made-for-India" car. In 2012, Ford India sold 120,000 cars, both in the domestic market and through exports.⁸ (See "India as a springboard to other markets" on page 25.)

The growth of India's auto market—poised to be the third largest in the world by 2020—is being driven by small cars, which account for 70% of all passenger vehicle sales. But that fact alone cannot guarantee success in a highly competitive market where automakers offer multiple models at close price points. Ford conducted an exhaustive "new

car buyer survey" to identify the triggers that move potential car buyers to purchase a car in India. Figo targeted the youth who has "his head in the cloud and feet on the ground." This is the young, often first-time car buyer, who could be recently married or promoted, drives to work (in a country where the affluent ride in chauffeur-driven cars), and wants value for money rather than the cheapest car on the market. Technology and mobility are key differentiators for this buyer, so Figo became the first car in India to offer Bluetooth for the young value-conscious consumer.

Microsoft targets a wider range of customers in India. As Shafalika Saxena, Microsoft India's chief marketing officer, explains: "India is unique. At one end of the spectrum we have a wide white space with less than 10% PC and broadband penetration. At the other end, there is a large and highly sophisticated technology community comprising the world's second-largest pool of developers and a major tech hub." To expand its customer base, the company has developed thousands of local apps available on Windows Phone and Windows 8, including well-known Indian brands such as the mythology-based children's comic series *Amar Chitra Katha*, popular online restaurant guide Zomato, Bollywood-showing cinema chain PVR Cinemas, and domestic news channel NDTV Play. Microsoft provides user interface and assistance in 12 Indian languages. The company is also reaching out to the country's youth in large numbers through educational programs. Saxena estimates that Microsoft India has trained 450,000 underprivileged young people and more than 700,000 government-school teachers in technology skills for the modern economy.

⁸ Samar Srivastava, "Ford India's Outgoing MD on His Success in the country," *Forbes India*, November 9, 2012.

Tweaking existing products and services could seem lucrative, but may not pay off in the long run. Create a differentiated offering to consistently command a price premium over an array of substitutes. This will often require redesigning and reengineering an existing product portfolio.

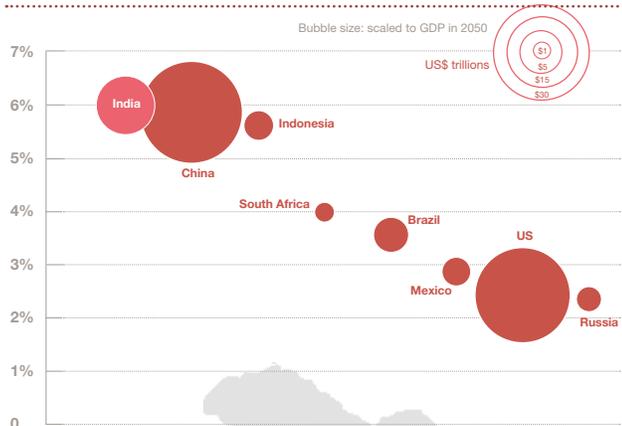


Photos here and on page 12 show Microsoft's educational projects Jyoti and Shiksha in India.

India: The clear-cut story

India will be the world's fastest-growing large economy through 2050

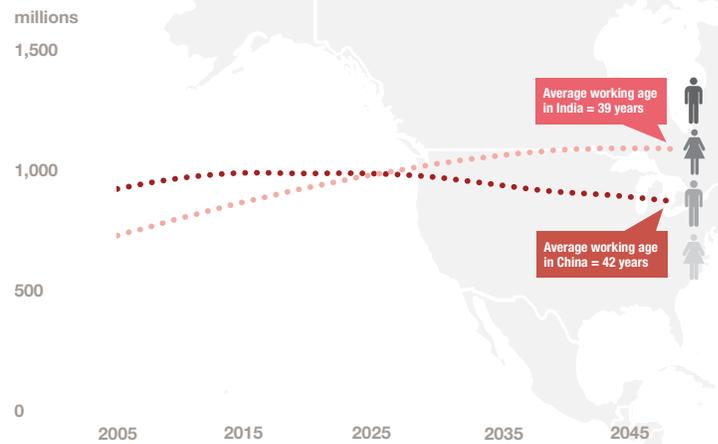
Gross domestic product (GDP) and compound annual growth rates of select world economies, 2010–50



Source: PwC analysis based on various historical and forecast sources, including Oxford Economics

Within 15 years, the Indian workforce will be larger than its Chinese counterpart. And it will stay younger

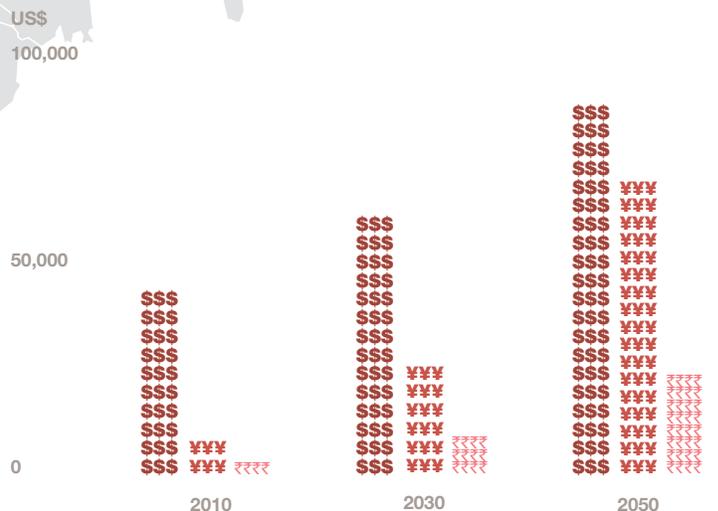
Working-age population (16–64 years old)



Source: PwC analysis based on various historical and forecast sources, including Oxford Economics

On a per capita basis, Indian income will remain relatively low, forcing companies to offer greater value

GDP per capita at purchasing power parity (PPP) exchange rates, US\$ in 2005 prices



Source: PwC analysis based on various historical and forecast sources, including Oxford Economics

India China US

India's diverse and large consumer segments are driving purchases across categories

700,000,000

Rural consumers



Shampoo, toothpaste
Some electronic products
Food and beverages

Equivalent to almost half the size of the Chinese population (1.3 billion people)

500,000,000

Young consumers

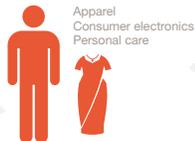


Two-wheelers
Mobile phones
Apparel and accessories

Larger than the combined populations of Brazil, Russia, Germany and the UK (484 million)

350,000,000**

Middle-class consumers



Apparel
Consumer electronics
Personal care

More than the size of the US population (315.5 million)

126,700*

US\$ millionaires



Luxury cars
Luxury products
Homes and apartments

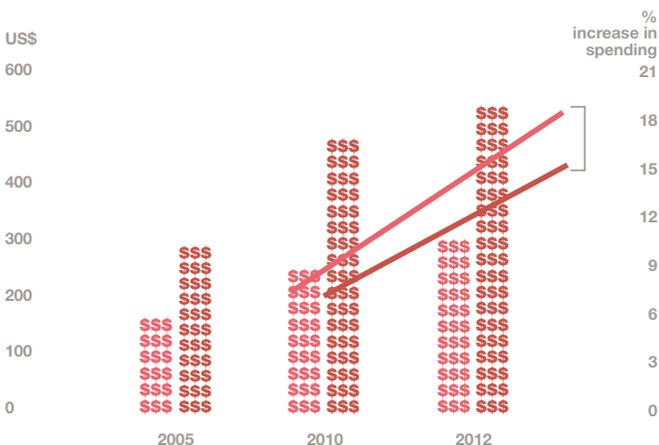
Sources: PwC analysis, first published in *Winning in India's Retail Sector*, 2011

* Capgemini, Merrill Lynch Wealth Management

**Income levels for middle-class consumers, according to the Indian National Council on Applied and Economic Research, range from INR140,000 to 780,000, which, using a conversion rate of USD1 equivalent to INR45, is USD3,111 to 17,333.

Rural Indians are now spending at a faster rate than urbanites

Annual consumption expenditure per capita—2005, 2010, 2012—and rate of increase in spending, 2010–12



Source: Oxford Economics and CEIC
2012 data is a provisional estimate from the National Sample Survey Office

■ Rural ■ Urban



Pattern 3: Relationships can make or break channel strategy

Managing a channel in India requires refined skills, unlikely to have been honed in mature markets. Within India's vast, unorganized trade, it is difficult, timely, and costly to build new channels from scratch. Therefore, many new entrants become reliant on third-party channel partners, sometimes on unfavorable business terms, and often bear the brunt of delivery, performance, and service issues. In some instances, companies have accessed channels through direct acquisitions of Indian companies. Even then, building strong relationships with channel partners is a must to succeed in the local environment. Investing in customized partner management programs and building the capabilities of the internal salesforce are very important in a relationship-driven market like India.

For Coca-Cola, reaching India's millions of consumers, with their varied tastes and preferences, continues to be a work in progress. Coca-Cola reentered the Indian market in 1993⁹ with the acquisition of Parle Brands, the owner of popular beverages such as Thums Up cola drink and lemon-flavored Limca. Sanjeev Kumar believes the purchase was critical to securing national reach. "We acquired popular brands as well as a franchise system of over 50 bottlers that had built relationships in the trade with retail, which they knew personally. They had nurtured those markets and built leading 'heritage' brands. That gave us a solid platform which we could grow our business on," Sanjeev Kumar says. With its mix of international and domestic brands, Coca-Cola India is the market leader in sparkling beverages in the country.

The lay of the land in India demands strong relationships with trade. PwC research estimates that India's retail sector, worth \$350 billion, has a low organized retail penetration of 5%–8%. Modern trade has now reached a compound annual growth rate (CAGR) of 15%–20%, but the 12 million

mom-and-pop stores—known as *kirana*—comprising India's unorganized market will continue to coexist with modern trade players.¹⁰ How does a global business manage its relationship with these millions of *kiranas* that are typically family-owned and -managed small businesses?

Coca-Cola India has adapted Coca-Cola's global blueprint for distribution, Right Execution Daily (RED), to India where the company estimates it does the largest retail audit anywhere in the world. RED is an enabler for Coca-Cola's front-end feet on the street, providing the sales teams (either directly from the company or from the franchise bottlers) with a list of things retail outlets can do to improve performance, from finessing the merchandise display to something as simple as fixing the light in a cooler. In a relationship-driven market like India, the focus extends beyond just ensuring product availability. "Today what we are trying to do in some places is segregate order taking from delivery...so that the person who visits a store, spends quality time selling the product and not just delivering the product," explains Sanjeev Kumar.

Coca-Cola's customers span the whole range in India, from modern supermarkets to rural shacks and from fine dining restaurants to street vendors. India's varied customer base requires an equally diverse pool of channel partners, something that Microsoft knows only too well. Its 18,000 partners in India receive tailor-made support. "Our partner training is focused on both how to sell and to help end users get the most out of the offerings. We train our partners to help teachers in educational institutions with using software, enable small and medium enterprises with leapfrogging to the public cloud, and even advise and assist major IT service providers with their large-scale transformational projects," says Shafalika Saxena.

⁹ Coca-Cola's first foray into India was in the 1950s, but the company left in 1977, returning in 1993 after India started the process of economic liberalization.

¹⁰ PwC, *Winning in India's Retail Sector*, 2011.

In this highly dispersed and segmented market it is necessary to incentivize and manage a diverse set of channel partners. Sometimes, this means giving up some control in order to increase market penetration. Building long-term partnerships with channels, who may have established relationships with competitors, is a critical element of success in the Indian market.



 Hear Coca-Cola India CFO Sanjeev Kumar explain how the company is strengthening its relationships with India's retail trade at www.pwc.com/indiaexpansion



Pattern 4: Integration and collaboration are central to strong supply chains

The need to support diverse customer-facing channels while navigating India's complexities, such as an overburdened infrastructure and variable tax rates, increases pressure on the supply chain. For example, India-based participants in PwC's Global Supply Chain Survey 2013¹¹ reported average inventory turns of just over 8 compared to the global average of 15. Managing customer requirements and competitive pressures and finding supply chain talent are bigger concerns in India.

Some entrepreneurial Indian companies are succeeding in this environment by embracing innovative supply chain practices that are creating a competitive advantage. Fabindia, India's largest retailer of apparel and furnishings crafted from traditional Indian techniques, has a supply chain comprising 16 community-owned companies. In keeping with its philosophy of "inclusive capitalism," many of the 80,000-plus artisans employed at the grassroots level own stakes in these supplier companies.¹² Fabindia has also set up a fund as a wholly owned subsidiary to invest in these supplier organizations. Its vision is to continue integrating the artisans as shareholders in Fabindia's business model, including possible future mergers with the supplier companies. Fabindia's sales revenues have grown almost a hundredfold from roughly \$2 million to \$200 million between 1998 and today. Its business model has secured the vote of confidence of global private equity.¹³ L Capital, the private equity arm of Louis Vuitton Moët Hennessy (LVMH), the world's biggest luxury goods group, recently bought an 8% stake in Fabindia.¹⁴

Mother Dairy, a \$1 billion Indian dairy and food company, has built its business mainly from servicing consumer needs in and around the capital city of New Delhi. It has an enviable supplier and distribution network and sources significant quantities directly from farmers and farmers' organizations. It distributes its products through a network comprising bulk vending machines (for liquid milk), company-owned retail outlets (for milk, dairy products, fruit, and vegetables), franchise stores, and mobile vending units on tricycles that crisscross the busy lanes and by-lanes of Delhi every morning.

"The milk and produce businesses are managed on very tight value chains. So over and above the farmer-based procurement model, we have done other things. We sell almost a million liters daily without any packaging, saving Delhi four tons of plastic every day. We need cold, safe milk to reach people. Nobody says it has to come in packaging. Our view is whatever is superfluous, remove it," says Siva Nagarajan, managing director, Mother Dairy. Mother Dairy regularly trains dairy and produce farmers on good agricultural practices and its field force tests up to 100 samples of milk every day at retailers for safety. An important factor driving the company's nationwide expansion plans is the trust it enjoys among Indian consumers.

Collaborating with suppliers and introducing innovations to reduce costs are universal supply chain priorities, but India's evolving manufacturing and production trends provide a unique window of opportunity for global companies to create the supply chain infrastructure they need for long-term growth in India. "Everyone talks about the consumer market here but you've also got to understand the trends in terms of production. A lot of the agricultural produce today is subsistence farming, where farmers consume what they grow. As they become more professional, they will grow what the market wants," says the head of a major US-headquartered food processing company in India.

Keen to vertically integrate its operations in India, this company introduced a new crop to farmers in a state whose farmers and government wanted to diversify away from irrigation-intensive farming. The company established rural agricultural centers to provide seeds, training, and knowledge sharing, and within a year thousands of farmers were participating in its program. As the farming community's participation expanded, the state government granted the company the license to buy directly from farmers, eliminating the need to work through agents. This was a significant step forward in India where agricultural markets are centralized and regulated by many states within the Agricultural Produce Market Committees (APMC) Act. Recognizing that the system has created inefficiencies such as layers of intermediaries

11 79 of the 503 participants in this survey are from India.

12 Fabindia website, "Company" available at: <http://www.fabindia.com/intl/company>.

13 "How Fabindia's William Bissell is Changing the Rulebook of Business," *The Economic Times*, November 2, 2012.

14 Indulal PM, "L Capital Buys 8% of Fabindia," *Reuters*, February 15, 2012.

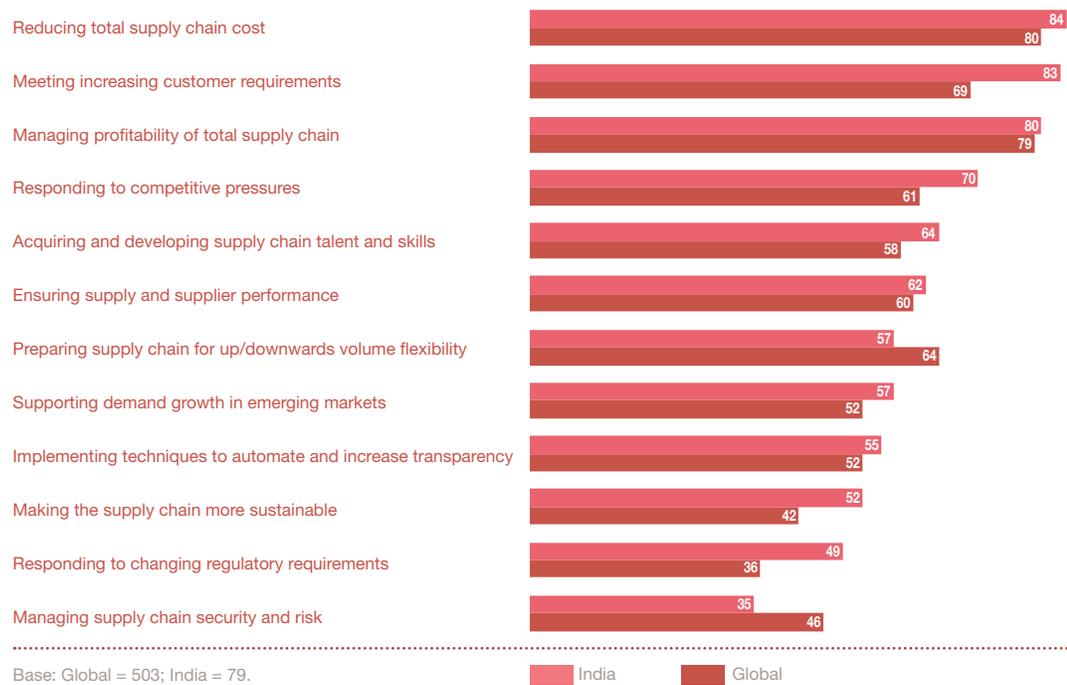
Companies operating in the Indian market need to build supply chains that respond to evolving demand and supply patterns. This requires the flexibility that comes from partnering and collaborating more with suppliers and accommodating front-end channel operators. Ultimately, this boils down to trust and working together with stakeholders on shared goals and objectives. This approach can help to more effectively and efficiently navigate infrastructural and regulatory challenges.

between the farmer and the customer, public policy is now cautiously encouraging direct procurement from farmers.¹⁵

By working directly with the farmers in the supply chain, the food company has been able to increase their output and offer them more for their produce, while reducing its own costs through improved volumes. In the process, it has also become an early contributor to furthering an important Indian development priority: improving Indian farmers' connectivity to the marketplace. Interestingly, farmers are under no obligation to sell to the company. "You have to make that leap of faith," believes the executive. "If we can double the farmer's yield there will be more available to us, so chances are we can buy it a little cheaper. It also allows us to run at higher capacity utilization throughout the year, and that's a significant advantage in India because typically the yield is not enough to keep one plant running throughout the year."

PwC's Global Supply Chain Survey finds that reducing costs and addressing customer requirements are relatively greater concerns in India

Percentage of participants who judge the supply chain trend as critical or significant in 2013



¹⁵ Mumbai Agricultural Produce Marketing Committee website; available at http://mapmc.org/about_apmc/introduction.htm.



India as a springboard to other markets

India not only is a market in its own right, but can also serve as a launchpad into other regions. Once the highly demanding and value-conscious Indian market is built into the DNA of a company, opportunities to earn revenues in new markets can swiftly follow. India's size and complexity, along with its large pool of talent, offer the right environment to "stress test" both new products and processes. India forces companies to do more for less, sometimes resulting in surprising breakthroughs that are exportable to other growing markets, and even mature ones.

Microsoft's Shafalika Saxena believes that India's diversity leads to a certain kind of "creative tension" that the company has been able to harness. "We work with over 1.2 million developers in India," she says, who create a large percentage of the global apps on Microsoft platforms.

Many businesses recognize that innovations that originate in India are transferable to other high-growth markets, provided there's a clear understanding of the regulatory, institutional, and political landscapes in those economies. Ford's Figo is now being driven in as many as 37 countries where demand for small cars is high such as South Africa, United Arab Emirates, and Mexico. That may be just the beginning, as the company continues to benefit from India's emergence as a hub for small-car manufacturing. "Over time, there will be more of an alignment between consumers in India and those in Europe," believes Michael Boneham, as considerations like fuel efficiency increasingly influence purchasing decisions worldwide. Since July 2011, Ford has announced up to \$1.5 billion in building up its capacity in India, one of its largest investments anywhere in the world.¹⁶

When it comes to exporting low-cost innovations, India's homegrown multinationals can offer useful lessons. Bajaj, a leading motorcycle manufacturer, launched Bajaj Boxer for the rural Indian customer, positioning it as "the SUV of motorcycles." The motorbike offers power, sporty looks, and a smooth ride on punishing rural roads. Following its success in India, the company showcased the motorcycle in other growing markets with similar needs, such as Egypt. There, Bajaj organized a marathon tour that started at the foot of the pyramids and traveled 2,500 kilometers over 13 days to introduce the bike to potential buyers.¹⁷ The company expects exports to account for half of its sales in the next three years.¹⁸

One of Coca-Cola's India-based innovations, the solar-powered cooler, is helping Indian retailers cope with power outages and serve beverages at the right temperature. "This is the kind of innovation that is a response to a challenge faced in India but has application universally. You could take this and use it in Africa and Latin America. As the focus on reducing the environmental footprint increases, I can even see it being used in large-format modern trade outlets," states Sanjeev Kumar.

These are no longer isolated examples. With "frugality" becoming important in the deficit-burdened economies of the US and Europe, visionary business leaders are seeing a wider application of Indian innovations. "Everyone's first reaction is that the product must work well in Africa or Indonesia. But again, especially in the healthcare business, these things are going to go into the developed markets. Look at the structural issues around budgets and healthcare costs in Europe and the US," says GE's John Flannery.



Hear John Flannery, president and CEO, GE India, describe how GE is exporting healthcare innovations from India at www.pwc.com/indiaexpansion

¹⁶ N. Madhavan, "In Driver's Seat: Ford India is Changing the Way its Parent Ford Motor Company Functions," *Business Today*, March 18, 2012.

¹⁷ PwC, *Profitable Growth Strategies for the Global Emerging Middle (GEM)*, January 2012.

¹⁸ S Ravikumar, "Bajaj Auto EZpects 50 per cent of sales to come from exports in 3 years," *The Economic Times*, July 22, 2012.



Pattern 5: In India, think operating models for India

Having established that India is a market worth entering, a company must understand the core capabilities it needs in order to effectively and efficiently establish its presence. Supply chain and channel management are obviously critical elements, but the overall operating model (organizational design, IT, sales-force structure, etc.) must be able to support differentiators such as agility, speed to market, and ability to drive low-cost innovations.



Listen to John Flannery, president and CEO, GE India, describe how the global organization changed its structure for India at www.pwc.com/indiaexpansion

GE took a leap of faith in India when it changed its organizational structure to have all India business units report directly to a country CEO instead of to US-based business unit heads. On paper, India's tremendous need for healthcare, energy, and transportation infrastructure should have been enough to ensure the company's rapid growth in the country. In reality, GE found that India demanded both more focus and agility than a traditional reporting structure provides. John Flannery explains the reasoning behind the organizational shift: "India is a hundred and ten percent of what I do. With that dynamic, we start to care much more about the products we have here, about the customers, what the government thinks, how good our employees feel. The other thing is local decision making, not having to wait weeks and months to get things approved, and having the ability to go to a customer, shake their hand and say 'we'll do that.'"

Flannery acknowledges such shifts are not easy, but believes they are necessary. "If your strategic priority is to really want to be big in the emerging markets, having US- or European-centric highly controlled, highly centralized decision making, at least in our mind, is a dangerous organizational structure for what the next 20 years might hold," says Flannery.

This country structure was a first for GE globally, and learnings from it are now being shared worldwide.¹⁹ With GE targeting a growth rate close to 20% in India over the next few years,²⁰ the new structure is providing the company with a solid foundation. "Our real success and our real growth is coming from new products that we've designed very specifically for India," says Flannery.

¹⁹ Dibeyendu Ganguly, "Matrix Evolutions: How GE Underwent a Fundamental Change in Its Organisational and Matrix Structure," *The Economic Times*, February 17, 2012.

²⁰ Promit Mukherjee, "GE's India Unit Targets 20% Growth," *Daily News & Analysis*, June 16, 2012.

Creating the operating model for entering and expanding in India requires a complete mindset shift and a thorough understanding of the differentiators needed to succeed in the local environment. What's tried and tested in mature markets may not have the right capabilities and structural elements for India.

The ties that bind: What the US and India have in common

While the Indian economy and political landscape are frustratingly complex, one connection that can help US executives understand India is a common experience of democracy. With the successful fulfilment of 15 general elections, the Indian population has proven that the largest democracy in the world is stable and here to stay. In the US, the process has evolved over 237 years; seen through that lens, the 66-year history of democratization in India would place India on a recognizable developmental trajectory and include the notable parallels mentioned below.

The dominance of Indian family-run business houses has a reflection in the early economic history of the US. Over time, family-run US businesses developed into professionally run companies with wide shareholding patterns. This is happening in India.

The US middle class shaped the political, social, and economic landscapes of the US, a process now under way in India as the emerging middle class starts exercising its influence.

The creative tension among federal and state governments in the US is starting to play out in India, where increasingly, decisions are being made at the state level. In India, 35 states and union territories compete aggressively to attract capital and projects.

Finally, the large home market of the US allowed companies to experiment and create products, services, and business models that were then exported globally. Today, innovations are being tested in the large Indian market and then being exported to other developing markets across the world.

Final thoughts

Detecting the distinct patterns that make up the India opportunity, working with all the challenges they present, and helping to overcome them is proving to be a winning strategy. As Shafalika Saxena, Microsoft India's chief marketing officer, remarks, "We made the decision to grow with India rather than grow at India." Companies entering and expanding in India are building mutually beneficial long-term relationships with Indian stakeholders, creating innovative operating models adapted to India's local conditions, and discovering breakthroughs that are creating value for their businesses far beyond India.





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