India has been very much in the business media in recent years. A Goldman Sachs report predicted that if certain assumptions are met, India could become the third largest economy in the world by 2050, behind China and the US. Its GDP grew at an average of 6% between 1992 and 2001, and has continued to grow strongly since, registering 8.1% growth in 2004. Broadly speaking, there are two types of opportunities that companies can pursue in India. The first type, market opportunities, consists of selling products and services to a huge and growing market. These products and services cover the whole range from fast moving consumer goods to consumer durables, to industrial products, to banking services. For example, Unilever has been very successful in exploiting market opportunities in India. Over a period of nearly 120 years, the company has built up revenues of US$ 2.3 billion in India, in the areas of Home and Personal Care Products and Food and Beverages. It has 80 production plants, employs more than 36,000 people, and supplies more than 1 million retail outlets directly. ABB India, which traces its history on the subcontinent to 1949, generated sales in 2004 of approximately US$ 535 million and profit after tax of US$ 35 million, with a workforce of 3,439.

The second type of opportunities involves companies leveraging India’s resources (low costs, skilled manpower, abundant and cheap raw materials such as cotton, leather, seafood, minerals, etc) to enhance their competitive position globally. We refer to these opportunities as efficiency enhancing opportunities. GE is a very good example of a company that has enhanced efficiencies by leveraging resources from India. In the early 1990s, Jack Welch formulated what came to be known as the 70:70:70 rule. This rule stipulated that 70% of GE’s work would be outsourced, 70% of this outsourced work would be done in offshore development centres, and 70% of this offshore work would be done in India. This meant that approximately 35% of GE’s work was being done in India.

Nevertheless, companies need to be well-prepared and take a long-term view of the project. The first few years should be spent learning the new terrain, finding the right partner and recruiting effective local managers.

Executive Summary
In this article, the authors discuss a few of the opportunities and pitfalls that companies experience in India. India offers substantial benefits in terms of human capital, including strong technical, scientific and management skills. The country is also emerging as a prime manufacturing and resourcing location. A stable democracy, a large English-speaking population and incentives for foreign investors have also served as magnets for attracting leading companies.

While market and efficiency enhancing opportunities abound, there are also
many challenges for companies wanting to do business in India. On the one hand, it continues to be one of the poorest countries in the world (ranked 155th in GDP per capita adjusted for purchasing power parity). On the other, it is a difficult environment to operate in, with inadequate infrastructure, erratic power supply, a very price sensitive market with heterogeneous tastes, and a fiercely competitive business environment with strong national and international competitors. See table 1 for cross country comparison on key parameters.

**Discover the Potential of the Indian Market for your Business**

As mentioned above, there is a fair-sized middle class with a rapid shift from the lower and lower-middle classes to a burgeoning middle class, and an even faster increase in the sizes of the upper-middle and higher classes, spurring an increase in consumerism and brand consciousness (see Table 2). Even more pronounced is the growth of a niche ‘super-rich’ class with a very high purchasing power, now estimated to comprise of over 100,000 households with net worth greater than US$ 1 million each. Companies have already been taking advantage of dramatic growth in such consumer markets as automobiles, motorcycles, computers, consumer durable, and cellular communication – all registering compound annual growth rates (CAGR) of 6%-29% from 1996 to 2011 (estimated). The domestic market opportunity will further benefit from the fact that over 70% of the population is below 35 years, while 50% is below 25. Furthermore, while for China it is 32.26, US 36.27, and Spain 39.51. By 2015, 44% of all Indians will be under the age of 20.

This means that branding and brands will be far more important than in the past. The organized retailing sector – until now one of the biggest challenges in India (with approximately 650,000 villages, 65% of the population living in rural areas, and 6 million retail outlets) – is projected to grow at 25-30% per year. This is being enabled by development of retail infrastructure. More and more consumers are shifting from markets to malls and about 6.5 – 7.5 million square metres of space from more than 400 malls is expected to be operational by the end of 2008. It is estimated that within 7-10 years India will become one of the 5 largest retail markets in the world. A country-wide network of several hundred department stores and shopping malls across 100 plus cities will drive this growth.

Companies that decide to tap the Indian market from a market-seeking perspective will face significant challenges and will have to overcome not only market, but also cultural and language barriers in order to take advantage of all the consumer potential. Therefore, we will...
### Table 2
The Structure of Indian Consumers (in million homes)

<table>
<thead>
<tr>
<th>Consumer Classes</th>
<th>Annual Income (Euros)</th>
<th>1996</th>
<th>2001</th>
<th>2007</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Rich</td>
<td>3,775</td>
<td>1.2</td>
<td>2.0</td>
<td>6.2</td>
<td>416%</td>
</tr>
<tr>
<td>The Consuming Class</td>
<td>800 – 3,775</td>
<td>32.5</td>
<td>54.6</td>
<td>90.9</td>
<td>179%</td>
</tr>
<tr>
<td>The Aspirants</td>
<td>385 – 800</td>
<td>54.1</td>
<td>71.6</td>
<td>74.1</td>
<td>37%</td>
</tr>
<tr>
<td>The Climbers</td>
<td>280 – 385</td>
<td>44.0</td>
<td>28.1</td>
<td>15.3</td>
<td>-65%</td>
</tr>
<tr>
<td>The Destitute</td>
<td>&lt; 280</td>
<td>33.0</td>
<td>23.4</td>
<td>12.8</td>
<td>-61%</td>
</tr>
<tr>
<td>Total</td>
<td>164.8</td>
<td>180.7</td>
<td>199.2</td>
<td></td>
<td>21%</td>
</tr>
</tbody>
</table>

Source: National Council of Applied Economic Research (NCAER)

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### Foreign Investments in India

**Did you know that...**

- India is the world's largest democracy with stable, mature, vibrant and exemplary democratic governance and institutions.
- It has a strong and transparent legal and accounting system.
- It is characterized by the primacy of rule of law and an independent judiciary.
- There are numerous watchful and pro-active NGOs.
- India has free, vocal, alert and high quality media, made up of 5,600 dailies, 15,000 weeklies and 20,000 periodicals in 21 languages with a combined circulation of 142 million.
- There is legal protection for intellectual property rights.
- Global investors upgraded India from 15th to sixth most attractive FDI destination worldwide in 2003. (AT Kearney FDI Confidence Index Report of Sep. 2003)
- The various state governments in India offer incentives for foreign investors. Special incentives and tax-breaks are also given for certain sectors such as power, electronics, telecom, software, hydrocarbons, R&D and exports.
- MNCs that have invested in India include GE, Dupont, Eli Lily, Monsanto, Caterpillar, GM, Hewlett Packard, Motorola, Bell Labs, Daimler Chrysler, Intel, Texas Instruments, Cummins, Microsoft, IBM, Toyota, Mitsubishi, Samsung, LG, Novartis, Bayer, Nestle, Coca Cola and McDonalds.

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**How to Market Products / Services Successfully in India?**

A large number of the problems faced by international companies in India can be attributed to inadequate preparation. Typical mistakes include wrong choice of partners, wrong estimation of market volume and pricing, unreasonable profit expectations (both in terms of volume of profit and time to profitability), and inadequate distribution.

**Take your time to understand the market:** Barring exceptions, we believe that there is no hurry for small and mid-sized companies to enter the Indian market. Most product and service segments are dominated by strong local or MNC companies already. Companies with deep pockets seeking fast growth would be well advised to take the acquisitions route. For small and mid-sized companies seeking organic growth, we believe that patience is the greatest virtue. The important thing to realize is that for most products and services, there is no single Indian market, but many different ones, and this is the reason it takes time to understand the underlying drivers of revenues and profits. For example, India has 29 states and 5 union territories with 18 official languages, each with its own script. Furthermore, there are 325 regional languages and 1,652 dialects — all embedded in different regional cultures. Contrary to popular belief, less than 5% of India’s population is fluent in English. These English speakers are clustered in the urban areas. The disparities in income are huge — not only between states, but also within regions, cities and city quarters.

For these reasons, seek good advice (from lawyers, consultants, etc) and do not try to save on this account — it might turn out to be very expensive later. Beware of “India Experts” – no single individual or firm can be an “expert” on such a vast country. Therefore, get the most specialized advice.

**Take a long term view:** It is very unlikely that you will generate high profits from India in the short term, so be willing to take a long term view. Do not view India as a solution to your profit problems at home. Think more in terms of building a long-term, sustainable market and supply base. Be prepared to invest money, and above all, management time. You may achieve nothing more than learning in the first few years.

**Select the right partner:** In many businesses, local knowledge is one of the most valuable assets you can have if you want to become successful and it is crucial for survival especially in the initial stages. There are lots of nice and charming businesspeople in India, which does not necessarily mean they are the right partners for you. Spend time interviewing partners and understanding how their businesses are structured: which geographic markets they are strong in, which market segments they cater to, and what their capabilities are. Investigate carefully the business and cultural
India remains by and large a very price-sensitive market, with real income levels still far below the US or Europe. Companies need to make a decision early on whether their existing products are suitable for the Indian market with its current characteristics or if they need to develop new products to fit the needs of the Indian market. The vast majority of those who have been successful in the Indian market have adapted their product, service, and communication strategy, and educated workforce and has been exporting professionals (engineers, production supervisors, accountants, etc) to many countries for decades. To recruit Indian managers, address your needs to a good HR consulting firm which offer services for different levels of staff. Needless to say, hiring local staff will keep your personnel costs low.

**Assess the real market size as a function of your pricing:** As many companies have discovered in the last decade, the existing opportunities need to be seen realistically and qualified. Depending on your product and pricing strategy, your potential consumer pool and market might vary significantly. Only very few companies with a very well-established presence, such as Unilever, can actually aim to reach 500 million Indian consumers or more. While the consumer market is sizeable and growing, it is important that each company carries out a structured assessment of the potential for their products, before beginning to build any expectations. Beside, while there are consumer and industrial segments that can pay prices comparable to those of developed western markets, India remains by and large a very price-sensitive market, with real income levels still far below the US or Europe. Companies need to make a decision early on whether their existing products are suitable for the Indian market with its current characteristics or if they need to develop new products to fit the needs of the Indian market. The vast majority of those who have been successful in the Indian market have adapted their product, service, and communication strategy, and educated workforce and has been exporting professionals (engineers, production supervisors, accountants, etc) to many countries for decades. To recruit Indian managers, address your needs to a good HR consulting firm which offer services for different levels of staff. Needless to say, hiring local staff will keep your personnel costs low.

**Recurt good local management:** India is complex – laws, languages, social structure, tastes, habits, etc. It is very difficult for foreigners to become operational in a short time frame. Therefore, recruit local managers and set up good incentive and control systems; India has a talented and educated workforce and has been exporting professionals (engineers, production supervisors, accountants, etc) to many countries for decades. To recruit Indian managers, address your needs to a good HR consulting firm which offer services for different levels of staff. Needless to say, hiring local staff will keep your personnel costs low.

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**Discovering the Potential of Sourcing from the Indian Market**

We now shift our attention to the efficiency-enhancing opportunities and specify the key success factors for companies to consider and the pitfalls to avoid when sourcing from India to increase their competitiveness.

The benefits of India’s human capital extend beyond cost and abundant supply to include strong technical, scientific, and managerial skills. The country is also emerging as a manufacturing and sourcing location of choice for various industries such as metals, textiles, leather goods, automotive components, engineering equipment, power equipment, and medical systems.

However, there are some general challenges and barriers when doing business with and in India. Firstly, it can be a difficult operating environment due to the government policies and processes, procedural bottlenecks, and the legacy of cumbersome labor laws. A company has therefore to factor in sufficient time to overcome such barriers and be prepared for them beforehand. Secondly, there are the socio-economic challenges related to poverty, illiteracy, and health concerns. Thirdly, and perhaps the most significant challenge, is a weak infrastructure – for example, 50% of villages are not connected by all weather roads. Other macro-level problems also deserve attention: India has a global logistics disadvantage due to its geographic location, since it is distant from major markets and shipping costs and...
India's Industry

Did you know that India has...

- A diversified and large industrial base, which is becoming globally competitive. Examples: Tata Steel and NALCO are among the lowest cost manufacturers of steel and aluminium in the world.
- Leading supermarket chains like Walmart and Tesco have set up sourcing centers in India.
- Moser Baer is one of the top three manufacturers of CD-ROMs in the world.
- Bharat Forge is one of the leading suppliers to auto giants, such as Ford, General Motors, and Toyota.
- India is the second largest tractor manufacturer in the world.
- India's Hero Honda is the world's largest motorcycle manufacturer with 2002 production of 1.7 million units. Honda and Kawasaki have made India as their global export hub.
- Suzuki, which makes Maruti in India, has decided to make India a manufacturing, export and research hub.
- Local pharmaceutical companies a presence in 60 countries.
- India is home to the largest number of pharma plants (61) approved by USFDA outside US. Indian pharma companies are expected to get a revenue of US$ 2.17 billion by 2008 (from $54 million dollars in 2003) in the US generics market.
- The auto parts industry is emerging as one of the country's fastest-growing manufacturing sectors and a globally competitive one with a turnover of US$ 5.1 billion in 2002.

This is expected to reach US$ 6.5 billion in 2005.
- India has emerged as an outsourcing center for auto parts for companies such as Ford, Daimler Chrysler, Fiat, Volvo and Renault. Visteon and Delphi, the world's largest component manufacturers have entered India for production. Toyota has made India a global hub for transmission systems. A rising share of Indian auto parts exports goes to original equipment manufacturers (OEMs).
- The Indian automobile industry has grown to a capacity of 1.2 million units per year. Car sales in 2003-04 crossed one million units.
- Hyundai has made India a hub for its world-wide exports of small cars.
- India is the second largest cement producer in the world with 110 million tons.
- Nine out of every 10 diamonds sold in the world pass through India for cutting and polishing.
- India has a large entertainment industry, which produces 800 movies per year overshadowing Hollywood. The turnover is expected to reach US$ 6.7 Billion in 2005 from US$ 5.7 billion in 2002.
- India's textile industry is the largest industry in terms of employment, expected to grow from the current US $37 billion to $85 billion by 2010, and creating 12 million new jobs in the textile sector.

Despite these challenges, India remains an attractive sourcing location. In this section, we will point out some of the opportunities available to companies that want to source from India.

While we recognize that the IT industry has been a critical contributor to raising India's visibility in the international business media in recent years, we also want to broaden the discussion to sourcing opportunities across all functions and industries.

The cost advantage of offshore outsourcing is generally in the range of 30 – 50% compared to onshore delivery, after additional costs arising out of the offshore model are factored in. The growth in the product development outsourcing market is likely to be robust and will be upwards of 40% during the year 2005. India can help companies achieve significant cost savings while realizing breakthroughs in product development. Over 100 MNCs have set up R&D facilities in India in the past five years. Oracle for example has such centres in Bangalore and Hyderabad, which are the largest outside the US with 6,000 staff. General Electric (GE) employs 16,000 staff. Its R&D centre in Bangalore is its research location outside the United States and hires over
200 PhDs/scientists every month. The centre also devotes 20% of its resources to 5 - 10 year fundamental research projects in areas such as nanotechnology, hydrogen energy, photonics, and advanced propulsion.

With more than 250 universities, 1,500 research institutions and 10,428 higher-education institutes, India produces 200,000 engineering graduates, a further 300,000 technically trained graduates, and a total of more than 3 million college graduates every year. It is estimated that there are 150,000 IT professionals in Bangalore as against 120,000 in Silicon Valley. The IT infrastructure is world-class in the big cities: India’s telecom infrastructure between Chennai, Mumbai and Singapore, provides the largest bandwidth capacity in the world, with well over 8.5 Terabits (8.5Tbs) per second.

In addition to services, India offers attractive advantages for product sourcing in textiles, leather, seafood, automotive components, chemicals, and pharmaceuticals. In the West, it is assumed that China will compete in manufactured goods, while India will provide call centers and a wide range of technology services. This perception is too simple. Both economies will be integrated into the global economy industry by industry, according to Diana Farrell, director of the McKinsey Global Institute. The following table gives a variety of examples for that.

Although sourcing can provide immense rewards and offer incomparable cost-savings for small, medium and large companies, it is not for everyone. Requirements to be Successful in Sourcing from India

You need to make sure what role sourcing from India (and indeed from any offshore location) plays in the overall strategy of your company; there necessarily has to be very a tight fit between the two. Indeed, there are certain strategies that minimize or even preclude the need to source from offshore locations. For example, Zara sources most of its apparel from Europe, and Trigema (a German apparel company) produces exclusively in Germany. These two companies have sourcing strategies that fit tightly with their overall company strategy. Assuming that there is a fit between your strategy and sourcing from India, there are several issues to consider.

Minimal prerequisites: Sourcing from India makes economic sense only if a) the activities can be broken down into detailed processes (that can be documented and performed by any suitably qualified person); b) the interface between the off-shored and in-house processes is meticulously planned and executed; and c) there is sufficient scale of operations for the cost savings to offset the coordination costs of managing across remote locations.

Location: Because of India’s size, it is natural that different industries are clustered in different states and regions of the country. While Bangalore is the major hub for ICT companies (the city has the highest number of engineering colleges in the world, hosts almost 50 percent of the world’s SEI CMM Level 5 companies and over 103 R&D institutions), the Salem-Erode belt in South India is the hub for cotton fabric, and Ludhiana (Punjab) for woollen knitwear. For this reason, the location decision has to be carefully made. You need to consider factors such as availability of qualified manpower, labour costs, availability of raw materials, transport and communications issues.

Beside these issues, companies might want to benefit from fiscal and other types of incentives being offered by state governments.
Define your requirements: It helps to outline your requirements in comprehensive and measurable terms. Put in writing the specific processes you want carried out in India, your desired outcomes, the costs you are willing to incur, and the type relationship you want with the Indian location (whether your own or an external supplier). To the extent possible, it is advisable to start small and scale up progressively. It is also important to have realistic expectations – for example, there is bound to be a learning effect and it may well take a year for the cost savings to reach their potential levels.

If you are working with an external supplier, make the selection carefully. Traditionally, businesses looked for vendors that offered the lowest price; today you have to look for those that bring value to your business and fit with your company’s values, systems and processes. To do so, assess their total capabilities and check their reputation. Another way to rate potential partners is by official industry standards, which are common in India, such as SEI CMM Level-5 (developed by Carnegie-Mellon University’s Software Engineering Institute, this is the main quality system for software service companies), the industry-independent ISO 9000 series, and/or Six Sigma, which emphasizes defect removal as the most important activity of the quality organization. It is an impressive fact that 80 of the world’s 117 SEI CMM Level-5 companies are based in India. World-renowned TQM expert Yasutoshi Washio predicts that Indian manufacturing quality will overtake that of Japan in 2013.

Coordination and Relationship Management: From the beginning on a consistent communication chain must be established and responsibilities should be clearly allocated. It is recommendable to create a structure that will allow for early identification of critical issues and their speedy resolution. Over time companies sourcing from India can then focus on increasing collaboration in product development, implementing uniform manufacturing standards and increasing efficiency and productivity.

Considering the amount of investments that have to be made, the potential risks, the operational challenges, and the complexity inherent in off-shoring, one question that is frequent asked is - how sustainable is India’s cost advantage? Studies have shown that exchange rate appreciation is the only likely factor to reduce the cost advantage of offshoring. Salaries continue to be competitive and the supply of personnel will meet the demand as per current trends. Summarizing the above discussion, you can be successful in India (both in selling and sourcing) if you are willing to invest the time, money, and above all managerial resources. You must keep in mind that India represents a diverse and complex business environment, which means that you must seek advice from specialists. Finally, you must have long term staying power. If you can manage all this, you will find many profitable business opportunities in India.