Smart Business

India with its skilled manpower, technological prowess and lower labour costs is an ideal destination for smart-sourcing, says **S. Ragunath**

INNOVATION: This six-seater vehicle from the Toyota stable is the first of its kind in India

Sourcing from India has been an ancient activity. It began with raw material and now it is raw talent. Enamoured by Indian talent, multinational companies that began sourcing for the costs, stayed for the quality and are now investing for innovation. In the years to come, the Indian subsidiaries of multinationals will have a significant impact on the parent company's success — in terms of their capability to provide research and development and also to push their products and services internationally or in terms of greater value addition through manufacturing products or offering services. Indian subsidiaries desiring to play in the global market of the parent companies are being encouraged to develop a base for export competitiveness by participating in an international network of resources and capabilities.

When GE Medical Systems (GEMS) entered the Asia Pacific market with its products, it had to re-engineer them for local conditions. Their operations in countries such as India, China and Korea created a market within GEMS, an internal market for the distinctive capabilities of each country operation. The Indian operations of GEMS showcased software capabilities while China offered its mechanical competence and Korea its prowess in application specific integrated circuits. These distinct sources of value addition that went into their products contributed to the competitiveness of GE Medical Systems in the Asia Pacific region.

Subsidiaries and joint ventures of MNCs in India are also executing plans to win against local competition for a fast growing domestic market. More importantly, they are engineering products for the local market. This demonstrates persistent efforts to unravel local customer needs, attention to cost, quality and best in class suppliers.

Consider the way Toyota manages its operations in India through the joint venture company Toyota Kirloskar Motors Limited (TKML). They began their operations in India by offering the multi utility vehicle (MUV) "Qualis", in the segment that was least populated in the crowded automobile market and soon became a strong contender in the MUV marketspace. "Qualis" was a gameplan against modest competition in the MUV segment and the ruggedness of "Qualis", its turning radius and the driving ease matched the modest Indian infrastructure for motorisation. TKML had launched a product to fit the local conditions and a deep appreciation of customer needs.

Let us examine the attention to cost, quality and best in class suppliers. TKML reduced the cost of production of Qualis by 38 per cent over the product life cycle due to more efficient production plus savings from quality vehicles with fewer defects and thus lower warranty costs to the company. TKML optimises fixed cost to ensure flexibility in variable cost.

There are some basic building blocks of TKML's attention to cost and quality. These are transfer of Toyota's home grown practices to Indian operations: a lean production system, which consists of tightly integrated production system including just in time scheduling — for example TKML has a JIT schedule of 16 days for engine supply from Taiwan.

TKML reduces cost on daily basis. They focus on 'MUDA' — waste and the removal of 'MUDA' — waste and wasteful movements such as excessive operator or machine motion or over processing, implement reusable packaging system and Kaizen or continuous improvement.

TKML fosters team based production with daily reviews by seven member teams, along with their supervisors, on what issues they faced the previous day and how should they resolve it. The use of ANDON system, where a worker can show a card for stopping the production line, is a very powerful empowerment tool. Workers attach prime importance to finding the problem and solving it. Instead of allowing the vehicle to continue down the production line with a part missing or wrongly installed, a worker is empowered to stop the entire production line so that the mistake is corrected. TKML practices genchi genbutsu — 'seeing is believing'- going to the place of occurence and identifying the causes — through direct observation. They engage in the Five — Why process — a process of asking the question "why" every time one arrives at the answer for the previous — "why" to establish a causal chain between the most apparent problem and the root cause.

Robotic automation is one of the ways in which TKML reduces production costs. They practise Jidoka — automation through machines with human like reflexes balancing human labour and robot technology. To improve quality, TKML has an approach that considers that quality starts not from the production line but from the supplier base. The barrier to cycle time improvement is outside the boundary of TKML. More so as TKML attempts to localise production as much as possible and focuses on what parts local companies can produce cheaply and produces vehicles with those components in mind. The supplier base consists of more than 70 companies. Therefore TKML works with the supplier base to improve their development and manufacturing processes. TKML and the supplier jointly look at what the supplier's cost should be to meet their targets and provide for margins. Both work to achieve cost reduction. To use this approach Indian suppliers excel in value engineering and analysis but more importantly TKML and their suppliers have invested in each other's success.

Real time information concerning local costs, suppliers' capabilities, transportation possibilities, en route location of materials and financing potential have become a crucial competitive weapon for TKML and a critical component of its business strategy. For example, Toyota has found merit in sourcing the manual gear box from India for its plants in nine countries producing multi utility vehicles.

The competition in Indian industry is changing from firm level competition to competition between supply chains.

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A COAT OF PAINT: Part of the production process

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International operations in India re-create an efficient supply chain to serve the local market and win against competition. Such companies are increasingly seeking competitive advantage through strategic supply chain partnerships. As in the case of Toyota, the value addition that is happening in India is a product of transfer of internal best practices and external supply chain management.

The information technology industry in India presents another interesting scenario. A substantial part of the IT export revenue comes from small and medium firms who unlike their counterparts in brick and mortar industries do not depend wholly on our inadequate infrastructure of roads, ports or airports to deliver value to their clients. These companies partner companies from developed economies from proof of concept stage to demonstrating ability to execute large scale projects. There is tremendous opportunity to create revenue flows within the Indian market in areas where there is a strong need to activate the service supply chain concurrently and not sequentially. Information technology companies have a major role in expediting services flow from service providers to customers and issues and requirements flow from customers to service providers. The noteworthy result from this exercise is seen through improvement in operational efficiency and financial performance for both the service provider and the customer. For instance, companies like Converge Labs offer mobile commerce platform called M- Bay that enables payment through mobile phones and an application called M Ticket that allows mobile phone users to buy ticket through their phones. For instance, Deccan Aviation, the Indian version of low cost no frills airline, signed up with Converge Labs to offer mobile ticketing to its customers in addition to e-ticketing through the web. Business value also comes from helping customers overcome their innate limitations. For example, NowPos offers voice email service whereby mail recipients can hear rather than read messages. The company has a growing subscriber base in India, besides China, Middle East, Japan and Vietnam, where text based communication is a difficult choice for a large part of population who are more at ease with verbal communication.

Money is also being made through information technology by enhancing timeliness of information. Locating, filtering and communicating that is useful to the consumer can foster customer value and loyalty. The humble farmer who has to decide to which market he must direct his bullock cart for obtaining a fair price for his produce in a 15 kilometres radius from his farm finds the ITC Ltd. sponsored "e-Chaupal" a welcome solution to his dilemma. "e-Chaupal combines a web portal in the local language and PCs with Internet access placed in the villages to create a two-way channel between ITC and the villagers. The project started with soyabean farmers in Madhya Pradesh. Currently, 4,000 chaupals in six states cover multiple commodities like prawns, cotton and coffee.

In India, the most valuable resources are people and their technical expertise. The biggest opportunity lies in knowledge-based services like research and development, design, information systems and managing shared services. As a result, significant profits and intra corporate sales that the Indian subsidiaries generate come from these service-based activities. The cash flows from these transactions will be among the favourable net balances of trade that India based companies will provide in the future.

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