

# The changing multinational

MNCs have had a very successful run in India. For some, this country will become the nerve centre of their operations. A Team **India Now** report.



**A DIFFERENT FEEL:** President A.P.J. Abdul Kalam with Samuel J. Palmisano, chairman and chief executive, IBM, at the Bangalore meet

**W**hen Samuel J. Palmisano, chairman and chief executive of the \$91 billion IBM, addressed a mammoth gathering in Bangalore in June, he spoke to the President of India A.P.J. Abdul Kalam; 10,000 IBM employees who were on the spot; 50 top IBM executives from across the world and 50 Wall Street financial analysts who had been flown down; and another 340,000 IBM employees via webcast. In this large gathering there were no CEOs of other multinational companies. That's just as well. They would certainly not have been saying "Play it again, Sam".

What Palmisano has been talking about of late may not be quite acceptable in the MNC community. "Bangalore has become the epicentre for some of IBM's most important global projects," he said. "You get a different feel for the world if you are in Bangalore than if you are in midtown Manhattan."

Palmisano has been harping on how it is necessary for MNCs to develop into virtual corporations. For IBM this means that its meatspace (real world, for those who are not up to the latest jargon) headquarters may remain in Armonk (New York). But its heart will be in India.

That may seem a bit farfetched today. In calendar 2005, India contributed just \$1.5 billion (including exports) to IBM's \$91 billion revenues. But its growth at 55 per cent was ahead of all other geographies, including Russia (29 per cent), China (8 per cent) and Brazil (7 per cent). Want more evidence. Take a look at the employee numbers. From just 9,000 in March 2004, IBM India leapfrogged to 24,000 in March. By June 2006, it had further polevaulted to 43,000.

"India is where tomorrow's managers, tomorrow's markets and tomorrow's money-making opportunities lie," says an IBM executive, off the record. "We will be there." He's not saying that, 20 years down the line, the CEO of IBM Inc will be operating out of India. But he could well be an Indian. That won't raise eyebrows. Several Indians - former McKinsey chief Rajat Gupta or Pepsico President Indra Nooyi, for instance - have won their international spurs (see chart -- Top notch). And where they are physically located isn't really important in a networked world.

MNCs have had a very successful track record in India. And they are set for even



**STRATEGIC MARKET:** EMC chairman Joe Tucci is doubling investment

better times. In the West and even in countries such as Korea, where the new generation of MNCs are coming from, most markets are saturated. Companies fight for fractions of a percentage point of market-share. Growth in categories such as fast-moving consumer goods (FMCG) does not depend on market growth. You register what gains you can through price increases, better margins and what share you can steal from the other guy. By contrast, in India, it's volumes that are growing. Rates of 20 per cent plus are par for the course.

Until a couple of years ago, the eyes of the world were focussed on the BRIC (Brazil, Russia, India, China) countries, after the Morgan Stanley report pictured them as the growth engines of tomorrow. Now, Brazil and Russia seem to have fallen off the radar screen. Only India and China are delivering on the promise.

The argument that India is lagging and China is better off in terms of, say, foreign direct investment (FDI) has been repeated so often that people have begun to believe

in it. Yes, in absolute numbers China is way ahead. But what everybody forgets is that India has a history of successful MNCs and FDI. In China, these companies have been able to enter only post liberalisation in 1979.

Who are the people who have been pouring big money into China? They are companies like Unilever and Procter & Gamble (P&G). Unilever - through its subsidiary Hindustan Lever - has been in India for 118 years; Sunlight came to India in 1888. P&G has been here for 55 years. They are in a position to fund their own growth plans. If, after so many decades, they still have to depend on their parent companies for financial succour, you couldn't call them successful MNCs. They would be failures. All this business about who is getting more FDI has to be seen in this perspective. Eliminate the companies that have successfully set up shop in India and you will find that the figures are far more comparable.

In hitech areas, where investments are necessary because of rapidly changing technology, or in companies that haven't been here for too long, investments are indeed coming in. Palmisano has committed \$6 billion over the next three years. Microsoft last year announced a \$1.7 billion plan. Cisco and Intel have chipped in with \$1.15 billion and \$1.0 billion apiece.

EMC, though on a smaller scale, has doubled its proposed investment. In February 2005, it had announced a warchest of \$250 million. In June this year, Joe Tucci, chairman, president, and CEO of the \$9.66 billion EMC Corporation, said on a

### INVESTORS' FAVOURITES

The A.T. Kearney FDI Confidence Index 2005	
China	2.197
India	1.951
US	1.420
UK	1.398
Poland	1.363
Russia	1.341
Brazil	1.336
Australia	1.276
Germany	1.267
Hong Kong	1.208

Calculated on a 0-3 scale.

Source: A.T. Kearney.

## TOP NOTCH

## Indians who are or have been CEOs of foreign MNCs

<b>Aman Mehta</b>	CEO	HSBC
<b>Arun Netravali</b>	President	Bell Labs
<b>Arun Sarin</b>	CEO	Vodafone
<b>Dinesh Paliwal</b>	President & CEO	ABB North America
<b>Indra Nooyi</b>	President	Pepsico
<b>Manoj Singh</b>	MD	Deloitte
<b>Rajat Gupta</b>	MD	McKinsey
<b>Rakesh Gangwal</b>	President & CEO	US Airways
<b>Rono Dutta</b>	President	United Airlines
<b>Sanjay Kumar</b>	Chairman & CEO	Computer Associates
<b>Victor Menezes</b>	Chairman & CEO	Citibank

visit to Delhi that the storage major would pump in another \$250 million. "India has rapidly become one of the most strategic markets for EMC's expanding global business," said Tucci. "We see a great future for EMC here."

India has climbed one place in the latest A.T. Kearney FDI Confidence Index. It is now No 2, having pushed the United States to third spot. Leading the pack is China (see chart — Investors' favourites). "India has joined China at the centre of the FDI radar screen," says A.T. Kearney. The global strategic management consultancy firm adds that "India appears to be on the cusp of a takeoff".

If you dig deeper into the track records of MNCs in India, you will find a huge number of successes. The India Brand Equity Foundation (IBEF) has documented many of these (see following case studies). So why is this fact not universally recognised?

Former chairman of Pepsico India P.M. Sinha, who worked for several years with Hindustan Lever, has an explanation. "Many people regard Hindustan Lever as an Indian company and not the largest MNC in India," he says. This is true of several others too. Take ITC. Some people do remember there's a BAT in the background. But the man on the street, who smokes the company's ubiquitous Scissors and Wills, doesn't.

The best-performing MNCs have been actively localising. A McKinsey study says that successful multinationals in India have three key characteristics.

- They have invested for the long term and made a strong organisational commitment by assigning senior managers to work with established local teams.
- The successful companies have adapt-

ed their businesses to local conditions rather than forcing foreign models on India.

- Multinationals that succeed in India help to create and shape the market.

It is not as though each and every MNC has succeeded. But there is a lesson to be learnt from those that have stumbled too. India is not a clone of the West and never will be. If you try to replicate marketing and advertising campaigns designed for, say, the US, they may not work here.

Pepsi realised this. When it came to India first, it launched its soft drinks with a Hinglish (Hindi-English) campaign: "Yahi hai right choice baby, aha." (This is the right choice, baby.) There are others, however, particularly in the foods arena, who have come in with products that are alien to the Indian palate.

"The smart MNCs realise that - in marketing terms - India is not one unit," says Avinash Oza, a faculty member of the Indore-based Daly College Business School. "You have to treat the country as 20 different markets, each with its own oddities and tastes. If you try to force one product across the length and breadth of the country, you will fail." This is the reason why the attempts by some MNCs to whittle down their portfolio of brands and concentrate of a few "Power brands" have not worked.

There has also been a tendency to misinterpret data. According to the latest Merrill Lynch-Capgemini World Wealth Report, the number of dollar millionaires in India has soared 19.3 per cent in 2005 to reach 83,000. In the past, on the basis of similar data, particularly with regard to the middle-class population and their spending power, assumptions have been made that

You have to treat India as 20 different markets. If you try to force one product across the country, you will fail.

they are just waiting to lap up what the well-heeled in the West buys. Companies have tripped because they have not understood the psychology of the average Indian; he is by nature conservative. That is changing. But MNCs in a hurry will inevitably fall flat on their faces.

The large mass of MNCs hasn't. And it is also true that companies that fail at first pick themselves up, redesign their products and (more importantly) the pricing, and hit pay dirt in their second coming.

"Today MNCs are saying that they cannot afford not to be in China," says New York-based Om Prakash, president of garment exporter Tuff Ones. "Tomorrow, they will be saying that they cannot afford to be in India. Actually, many have already started saying that."

The IBEF study mentioned earlier lists several advantages that India offers. Among them:

- A democratic system of governance.
- Progressive reforms.
- A strong economic environment.
- A bustling stockmarket, one of the oldest in the world.
- A large and growing domestic market.
- Abundant natural resources.
- Low labour cost.
- A good tertiary education infrastructure.
- A highly-skilled and productive workforce.
- An independent and active judiciary.
- Widespread familiarity with English.

There is a message for all MNCs in that. If you have missed the earlier bus, hey, what are you waiting for? Catch the next Air India flight. As you will discover in our subsequent pages, the 787 Dreamliner is all set to take off.

# IBM India

## No blues for Big Blue



IBM India, a subsidiary of International Business Machines Corporation (IBM), was set up in September 1999. IBM entered the Indian market in a joint venture with the Tata Group in 1992. Later, it decided to convert the JV into a wholly-owned subsidiary.

IBM is the only company in the world that offers end-to-end solutions to customers from hardware to software, services and consulting. Since its inception in India, IBM has expanded its operations considerably.

The company has interests in sales and marketing of servers, PCs, and software products and services. IBM's businesses in India include the IBM Software Group, IBM Global Services, IBM Consulting Services, IBM Global Financing, IBM Solution Partnership Centre (one among 10 worldwide), Linux Solution Centre (one among seven worldwide), Software Development Centres, and a Global E-Business Centre.

IBM India was chosen as one of the Top 3 Employers in Indian IT's Best Employers Survey conducted by Dataquest-IDC India. The same survey ranked IBM subsidiary — Daksh eServices — as the Best Employer in the BPO Sector.

IBM Global Services India was awarded the prestigious Gold certification by Cisco Systems, for the relentless pursuit of customer satisfaction, training, support and

specialisation requirements set by Cisco. IBM has set the agenda for the industry with its 'on demand business' - a kind of transformation where an organisation changes the way it operates and reduces costs, serving customers better, reducing risks and improving speed and agility in the marketplace. IBM is already working with customers to transform them into 'on demand' businesses.

IBM Global Services is the world's largest information technology services and consulting provider.

Efficient implementation of channel strategy is one of the key factors driving IBM's success. IBM's sales grew considerably as a result of the channel infrastructure, programmes and opportunities provided by the company to its partner organisations.

Realising that India was a highly untapped and fast-growing market, IBM set up operations in all the sectors of its businesses in the country. IBM reduced prices of specific products making them more competitive in the market.

IBM expanded the scale of its BPO operations in India with the acquisition of Daksh, the third largest BPO outfit in India. This enabled IBM to have an international presence in BPO operations with big-ticket customers and scale up its telecom, insurance and Internet customers.

IBM has announced that it is going to invest \$6 billion in India over the next three years. It plans to set up a new breed of service delivery centres. Also on the anvil is a Systems and Technology innovation, development and executive briefing centre in Bangalore. A telecommunications research and innovation centre is planned at its India Research Lab in New Delhi.

IBM India's estimated revenue for 2005 stands at \$1.5 billion. The contribution of the Indian market was around \$510 million. A lot of the other revenue comes from global services. In terms of employee numbers, the total has gone up from 24,000 in March 2005 to 43,000 in June 2006.

IBM chief Sam Palmisano has been to India four times in the past few years. On each occasion he has announced a step up in the company's activities here. According to him, the globalisation approach has given Big Blue the flexibility to "locate business functions where the necessary skills reside and redeploy people and teams wherever market opportunities dictate". India fits the bill.

### On the Web

**IBM India:** <http://www.ibm.com/in/>

**IBEF case study:** [http://www.ibef.org/artdisplay.aspx?cat\\_id=166&art\\_id=6815](http://www.ibef.org/artdisplay.aspx?cat_id=166&art_id=6815)

# Motor Industries

## Revving up



Founded in 1951, Motor Industries Co (MICO), a member of the Bosch Group of Germany, is a pioneer and acknowledged leader in fuel injection equipment and spark plugs. It is the country's largest manufacturer of diesel fuel injection equipment and among the largest in the world. MICO employed around 10,000 associates across all its plants in 2002-03. MICO has its headoffice in Bangalore and manufacturing facilities in Bangalore, Naganathapura (near Bangalore), Nashik and Jaipur, apart from a nationwide network of dedicated sales and service outlets.

MICO manufactures products as diverse as industrial equipment, auto-electricals, hydraulics for industrial and tractor applications, electric power tools, packaging machines, and Blaupunkt car audio systems. Its products find applications in different areas such as pump sets, tractors and power tillers, diesel locomotives, defence applications, and in most vehicles on Indian roads.

The company has a dominating presence in the OEM segment, in the supply of fuel injection equipment and injectors. It has nearly 80 per cent marketshare in this segment. Approximately 70 per cent of revenues come from OEM sales, about 15 per cent from spares and 15 per cent from exports.

Several factors have contributed to MICO's success and growth. First is the

strong parental support in terms of technology transfer coupled with a high degree of localisation. MICO has successfully followed the policy of localising global knowledge. The company has a strong focus on R&D, and spends about 2-3 per cent of its turnover in this area.

In 2002, MICO launched India's first Bosch Car Services Workshop (BCSW) in Delhi. The company plans to open about 150-200 BCSWs all over the country, with a capacity to service 1.5-2 million vehicles annually. MICO has adopted the franchise route for BCSW.

Bosch, through MICO, is effectively leveraging India's large and growing automotive market, as well as the talented engineering pool, by establishing development centres and branded service stations, apart from using MICO as a source for exports. MICO Application Centre (MAC) has been established in India for R&D purposes. It has emerged as a key global R&D competency centre catering to the entire Bosch Group.

MICO also exports components, primarily to its parent Bosch. It has been focusing on boosting exports through becoming a global source for selected Bosch products.

Among its future plans, MICO aims to improve competency levels in India so that it can get more sourcing work from its parent company.

The flagship of the Robert Bosch Group in India is MICO. This company recorded sales of \$650 million in 2005. Net profit was \$74 million. The Bosch group's turnover in India was around \$850 million.

Bosch is looking at the possibility of manufacturing electronic control units and anti-lock braking systems in India in the coming years. It has just flagged off its production facilities for common rail high pressure pumps. The company is investing close to \$120 million for manufacturing these common rail diesel systems. This is part of the \$400 million investment planned in the country till 2008.

Robert Bosch India, a wholly-owned subsidiary of Bosch in India, is the company's largest software development centre outside Germany. According to the company, by the end of 2006, it will employ around 3,000 associates working on software development for intelligent vehicle systems.

### On the Web

**MICO:** <http://www.boschindia.com/content/language1/html/index.htm>

**IBEF case study:** [http://www.ibef.org/art-display.aspx?cat\\_id=188&art\\_id=6820](http://www.ibef.org/art-display.aspx?cat_id=188&art_id=6820)

# Sony Entertainment Television

## Set for expansion



# SONY®

Sony Corporation was founded in 1946. Since then, it has grown to become one of the most reputed brands in the world.

Today, Sony Corporation's businesses span a range of industries such as audio visual electronics, information technology, broadcast, telecommunications, entertainment, satellite broadcasting, and even insurance and finance.

SET Satellite (Singapore) and SET India are involved in the operation and distribution of television channels and advertising sales in India and abroad.

Sony Entertainment Television (SET) - the first channel - was launched in 1995.

The other channels include SET MAX and SAB. Sony also distributes non-owned channels in India through The One Alliance, a joint venture with Discovery Communications India.

Sony has been cashing in on its brand image. Although it covers a wide range of industries, there is a clear connection with entertainment.

This helped in the move into television. Sony's strong brand image has been one of the most influential instruments for entering the Indian market.

Employees are a big part of Sony's success in India, especially in the entertainment business.

SET was able to assemble a strong

team of talented production executives who were able not only to adapt formats, but also to relate them to the Indian market.

India, with a population of over a billion people, of which the largest percentage is below 25 years of age, is an attractive market for any entertainment channel.

Increasing disposable income levels and growing percentages of households with TV sets (by the end of 2005, only 47 per cent of households had TV sets), provide strategic leverage.

SET has believed in innovative content and young positioning. It has launched innovative, contemporary and groundbreaking shows in India.

Through fiction shows such as *Ek Mahal Ho Sapno Ka*, *Kkusum* and *Jassi Jaisi Koi Nahin* and non-fiction shows such as Indian Idol and Fame *Gurukul*, it has achieved loyal viewership and great success.

India's media industry is expected to grow from \$6 billion in 2004 to \$12 billion by 2008. SET will create new strategies for achieving higher marketshare.

Another target is to become the biggest channel for overseas Indians.

It has already started a move to expand its distribution in Europe in its search for South Asian viewers located in that continent.

SET is the first venture of Sony Pictures Entertainment, the biggest entertainment powerhouse of America. It is seen in over 40 million households throughout India, Pakistan, Sri Lanka, Bangladesh and West Asia. Although its ratings have slipped marginally in a competitive market, the company is confident that it will soon recover its pride of place. Among the proposals under consideration is a takeover of SET Singapore. This will give the Indian arm access to international content and sports coverage. There has also been some talk of an Initial Public Offering (IPO) in the Indian market.

Recently SET agreed to provide content to Zee Network's DTH (direct to home) television platform. This agreement was inked between Zee and The One Alliance. The One Alliance is a joint venture between SET and Discovery. Set up in April 2002, the company distributes 15 leading channels to over 61 million homes spread over 4,000 cities and towns across India.

### On the Web

**SET India:** <http://www.setindia.com/>  
**IBEF case study:**  
[http://ibef.org/artdisplay.aspx?cat\\_id=447&art\\_id=12185](http://ibef.org/artdisplay.aspx?cat_id=447&art_id=12185)

# Unilever

## Leveraging advantages



Hindustan Lever Ltd (HLL) was formed in 1956, out of the merger of three Unilever subsidiaries in India operating since 1931. The first Unilever product introduced in India was, however, much earlier. It was Sunlight in 1888. HLL, a 51.6 per cent subsidiary of Unilever, is the largest FMCG company in India. It operates in two segments:

- ◆ Home and Personal Care (HPC): It includes soaps, detergents, oral care products, hair care products, skin care products, cosmetics, deodorants and fragrances.
- ◆ Food and Beverages: It includes tea, coffee, wheat flour, salt, ice creams and culinary products.

HLL employs over 40,000 people across the country. An unmatched distribution reach, directly covering over a million retailers, and a wide, price-competitive product portfolio are the reasons for its market leadership. Sales of HLL have shown a steady performance over the past few years. HLL is the market leader in almost all the segments it operates in – jams (75 per cent), deodorants (62 per cent), personal wash (58 per cent), hair wash (54 per cent), fabric wash (38 per cent), packaged tea (31 per cent), and occupies second position in toothpastes, instant coffee and ketchups. HLL has developed some of the best brands in the country in the FMCG sector.

HLL has won many awards like the Best Consumer Household Products Company from Forbes Global; India's Most Respected Company from Far Eastern Economic Review; and one of India's Best Managed Companies by Asia Money.

HLL has adopted a focused growth strategy by concentrating on brands which constitute most of the business. From marketing 110 brands in 2000, HLL now focuses on 35 power brands, chosen for their scale and potential. Non-core business has been divested or transferred through joint ventures. This has helped HLL achieve product differentiation and improvement in sales.

HLL has in the past taken over sick enterprises and converted them into viable businesses. HLL took over Union Home Products in Mangalore, which is now HLL Detergent factory. In the process, HLL has saved jobs and developed local economies.

As a business process outsourcing (BPO) hub, HLL has made BPO an integral part of its overall growth strategy. The company has started managing backoffice processes for Unilever operations in Malaysia, Australia and New Zealand.

Among its future plans, HLL is planning to enhance its distribution and product communication strategy. Meanwhile, Unilever plans to increase outsourcing to \$1,000 million over the next three to four years.

Hindustan Lever, the Indian subsidiary of Unilever, had a turnover of \$2.4 billion in 2005. Net profit was around \$300 million.

The company has been doing some housecleaning in recent times. It has sold its 49 per cent holding in Quest International India to ICI India. Earlier this year, it had transferred its entire shareholding in 100 per cent subsidiary Tea Estates India to Maxwell Golden Tea, a Woodbriar Group company. The 100 per cent stake in Doom Dooma Tea Company has also been transferred to McLeod Russel India. It has also sold off the Nihar hair oil brand to Marico.

The company has been setting new management structures in place. The brand portfolio rationalisation and management restructuring is to help the company cope with more competitive times.

The company's big thrust now is on putting alternative distribution systems in place for rural areas. The Project Shakti initiative has been very successful. (It is a case study in several US b-schools.) It is now being extended. There are new distribution initiatives for urban areas too.

### On the Web

**Hindustan Lever:** <http://www.hll.com/>

**IBEF case study:** [http://www.ibef.org/artdisplay.aspx?cat\\_id=447&art\\_id=6833](http://www.ibef.org/artdisplay.aspx?cat_id=447&art_id=6833)