

EXECUTIVE SUMMARY

Background

Fortune 500 Companies in India: Success Stories gathers the experiences of Fortune 500 companies that have established operations in India across different sectors. It provides insights into their approach and strategy to market, as well as the tremendous business potential that India holds.

The study was a combination of primary and secondary research. In most instances, a case study was developed on each company based on secondary research, following which, insights and views from top management of the company were obtained to supplement the case study. The case study was then shared with the company concerned for validation and approval. Findings and insights from the various case studies have been synthesised and incorporated into this summary report.

Fortune 500 Companies in India

Fortune 500 companies have had a presence in India for more than two hundred years. A study by the Indo-American Chamber of Commerce indicates that currently about 220 out of the Fortune 500 companies from countries like the USA, UK, Germany, France, Japan, Netherlands, South Korea, Switzerland, Canada, and Sweden amongst others are present in the country. Today, these countries account for over 65.2 per cent of the world's economy.

Interestingly, the two-way bilateral trade (exports and imports) between India and these countries had increased from US\$ 32.38 billion in 1998-99 to US\$ 39.26 billion in 2002-03, representing a CAGR of 4.9 per cent. In 2002-03, these countries together accounted for 34.4 per cent of India's total trade.

Fortune 500 companies have invested in India across a spectrum of sectors: food and beverages (e.g. Coca-Cola, PepsiCo), consumer durables (e.g. Samsung, Philips, LG, Canon, Electrolux), automotives (e.g.

General Motors, Ford, Toyota, Bosch, Visteon), computers and software services (e.g. IBM, Sun, Honeywell), pharmaceuticals (e.g. GSK, Pfizer), consumer products (e.g. Unilever), financial services (e.g. Citigroup, HSBC), insurance (e.g. Allianz, Prudential), engineering (Siemens, ABB, Alstom, Bombardier), logistics (e.g. FedEx) and petrochemicals and chemicals (e.g. BP, Shell, BASF).

In fact, about 250 of the Fortune 500 companies are clients of Indian Information Technology (IT) companies. The Indian IT Industry had sales of US\$ 14 billion in 2003. Forty per cent or over 200 of the Fortune 500 companies are currently outsourcing their service and support services to India. The trend is likely to continue as indicated by a recent global survey by Hewitt Associates. The survey reports that over 60 per cent of Fortune 500 companies favoured outsourcing to India, and of those companies - not currently using an off shoring model, 71 per cent intend to start by 2005.

India offers several advantages that can be effectively leveraged by global companies to derive business gains. At the same time, there are challenges and companies need to develop strategies to overcome these.

In the ensuing sections, we seek insights into the key advantages and challenges offered by India as an investment destination, by drawing on the experience of Fortune 500 companies that have set up operations in the country. These insights are expected to assist companies seeking to establish operations in India and enable them to make successful investments in the country.

Fortune 500 companies are leveraging India advantages

India is the world's largest democracy and currently the 12th largest economy (4th largest based on PPP according to IMF). India has experienced robust growth and has a positive outlook (strong and stable GDP growth rate, strong economic reforms process, reduction in external debt as a percentage of GDP, and strong FDI inflows). Several leading multinational companies have invested in setting up large scale operations in the country.

The key advantages that India offers and the strategies developed by Fortune 500 companies to leverage these, are outlined in the following table:

Advantage	Strategies being used for leveraging the advantage
<p>Democratic system of governance: Progressive reforms process</p>	<ul style="list-style-type: none"> Entering new sectors as the reforms process opens them up for foreign direct investment (FDI). For example, Life and General Insurance
<p>Strong economic environment:</p> <ul style="list-style-type: none"> Growing GDP and FDI, falling rates of interest, changing composition of GDP and maturing capital markets 	<ul style="list-style-type: none"> Making private equity investment in infrastructure, telecom, cement, toll roads, bridges, manufacturing, technology, and pharmaceuticals
<p>Large domestic market:</p> <ul style="list-style-type: none"> Growing consumer population 	<ul style="list-style-type: none"> Entering markets across sectors. In addition, using India as a test market for clinical trials and developing products for the global market Growing through acquisitions of strong Indian companies across sectors
<p>Availability of resources:</p> <ul style="list-style-type: none"> Availability of raw material, well-developed technical infrastructure and low cost labour Good tertiary education infrastructure Highly skilled / productive workforce 	<ul style="list-style-type: none"> Setting up manufacturing bases in India, both for fulfilling local demand, as well as for developing a global sourcing hub Setting up R&D, software development and engineering centres that cater to their global operations Setting up centres for business process outsourcing (BPO) Leveraging India as a source of high quality managerial talent
<p>Enabling environment:</p> <ul style="list-style-type: none"> Independent and active judiciary English as a language of business 	

Fortune 500 companies are expanding their presence in India, endorsing it as an attractive business destination

Many Fortune 500 companies have established a presence and are leveraging India's strengths. Their success and the future potential they see in India are evident from the following future plans.

Expanding to serve the domestic market

- Expanding in the domestic market by getting into additional segments (launching new products and services), and/or increasing market share in existing ones
- Increasing investments for capacity expansion and improving technology, processes, people and infrastructure
- Increasing acquisitions to fuel growth and acquire new capabilities

Leveraging India advantages

- Increasing outsourcing from simple back office/shared services to engineering to R&D
- Growing exports to other group companies across the world, across various sectors such as automotive, engineering and consumer durables, by leveraging existing manufacturing presence

Structure of the Study

Fortune 500 companies in India: This section provides a synopsis of current economic and commercial relations between India and Fortune 500 companies, and sets the context for the subsequent insights and inferences.

India's advantages, and how these are being leveraged: This section outlines the advantages presented by India from a business perspective - democratic system of governance, strong business environment, and a large domestic market and availability of a highly skilled workforce and natural resources. It also discusses how Fortune 500 companies have effectively leveraged these advantages to set up operations and grow in India.

India's challenges, and how these are being overcome: In this section, the challenges faced by Fortune 500 companies in India are categorised along

four dimensions, namely, regulatory/governance, infrastructure/environment, supplier, and consumer, and presented at a macro level. The section also discusses the strategies being adopted by Fortune 500 companies to overcome the challenges, and in some cases, convert these into business opportunities.

Future plans: While most of the companies profiled were not comfortable in sharing their plans due to issues related to confidentiality, high level insights into the future plans of these companies in India have been drawn, based on an analysis of secondary and primary information. These are included in the final section of the report.

India advantages and how they are being leveraged

Since the advent of the liberalisation process, India has made significant progress towards a strong economy. The emphasis on forward-looking policies in a stable political and macro-economic environment has resulted in a steady and sustained economic growth of 5.6 per cent for the past 20 years. This is expected to improve further to a level of around 8 per cent in the future. In terms of GDP, India is expected to overtake several developed countries by the early 2030s. Among the BRIC group of countries (Brazil, Russia, India and China), India alone is considered to have the potential to show the highest growth (over 5 per cent) over the next 50 years.

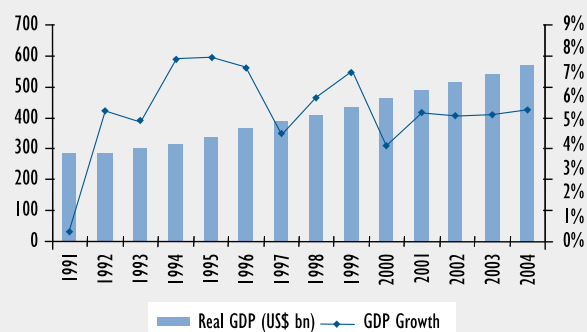
The rapid growth in the economy and positive outlook for the future are based on several advantages that India enjoys. Fortune 500 companies have been leveraging these advantages to establish and further grow their operations. These advantages are shown below, and further discussed in the following sections.

Strong economic environment

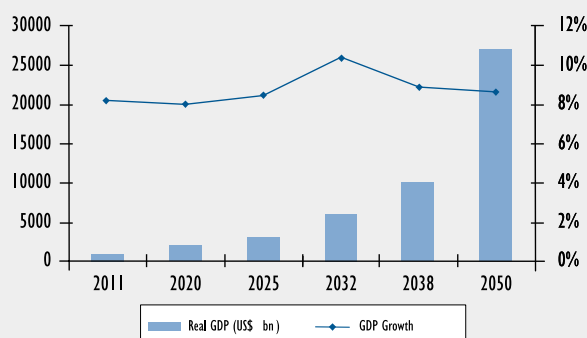
Advantage

The current fundamentals of the Indian economy are strong and stable. Macro-economic indicators are at their the best with high growth, strong foreign exchange reserves and foreign investment, robust increase in exports and low inflation and interest rates. India is the world's fastest growing free market democracy.

Healthy & Steady GDP Growth



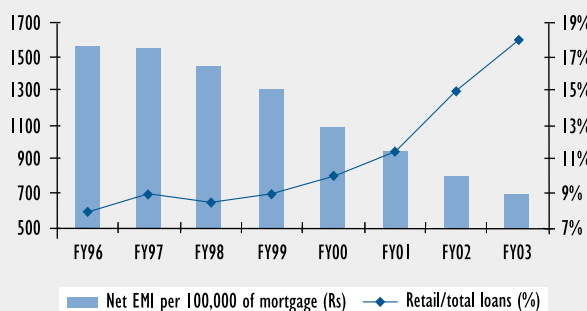
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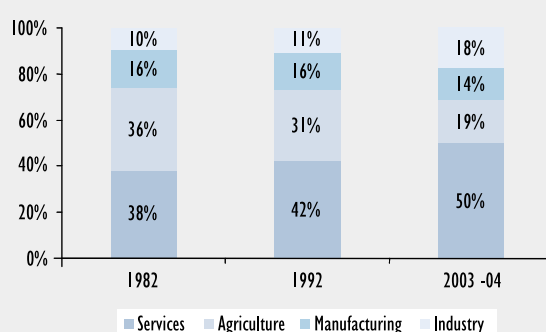
Source: "Dreaming with BRICs : The path to 2050" A report by Goldman Sachs

Foreign exchange reserves have consistently stayed above the US\$ 100 billion mark and were close to US\$ 133 billion in February 2005. This comfortable situation has facilitated further relaxation of foreign exchange restrictions and a gradual move towards greater capital account convertibility. The interest rate continues to decline giving the required fillip to consumption and investment.

Falling interest rates are propping up retail loans



Changing composition of GDP



The sectoral composition has been shifting to services and manufacturing with decline in agriculture's share. Services now account for more than half of India's GDP. Sectors like automotive, telecom, cement, roads, pharmaceuticals and IT have been growing strongly and driving the economy.

The sound fundamentals of the Indian economy have enabled high growth without compromising stability. The Indian economy has proved its strength and resilience even during times of crisis in other parts of the world including Asia.

India has a vibrant capital market comprising 23 stock exchanges with over 9000 listed companies. According to Credit Lyonnais (CLSA), the Indian stock market has the greatest short-term and long-term potential in Asia.

All these factors have provided a strong enabling environment for foreign investors to leverage the various opportunities provided by India.

Progressive reforms process

Advantage

The democratic process has ensured that reforms follow a bottom-up rather than a top-down path. This has ensured a solid foundation for reforms based on political consensus. The broad structure of the reforms process is agreed to by most political parties and has encouraged healthy competition between

the states of the Indian union for attracting foreign investment. India has been gradually and steadily opening up the economy. For example, FDI today can enter India in most sectors through the automatic route, peak customs tariffs are reducing steadily, licensing has been removed from all but a few sectors, and there is a bill to make Intellectual Property (IP) rights TRIPS compliant.

How is this advantage being leveraged?

The democratic system of governance and strong judiciary are allowing Fortune 500 companies to invest with confidence in India. The progressive reforms process is enabling companies to invest and leverage emerging opportunities in India.

Fortune 500 companies are taking stake in sectors like telecom, insurance, infrastructure and other sectors as the reforms process opens these to foreign stake holding. For example, India's focus on infrastructure development through increasing power generation, road and rail network have helped Alstom establish itself and grow in India.

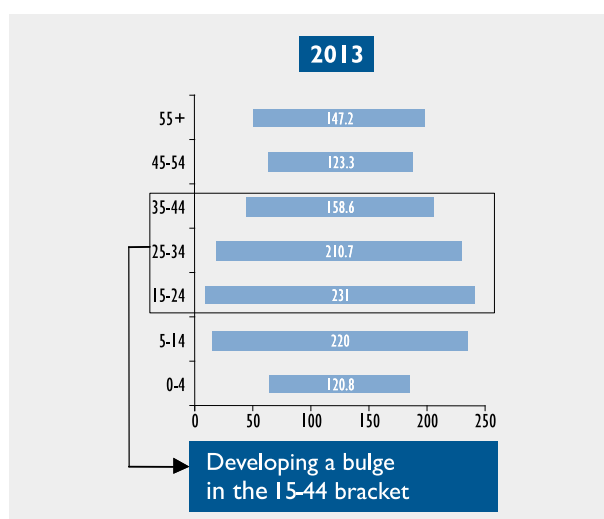
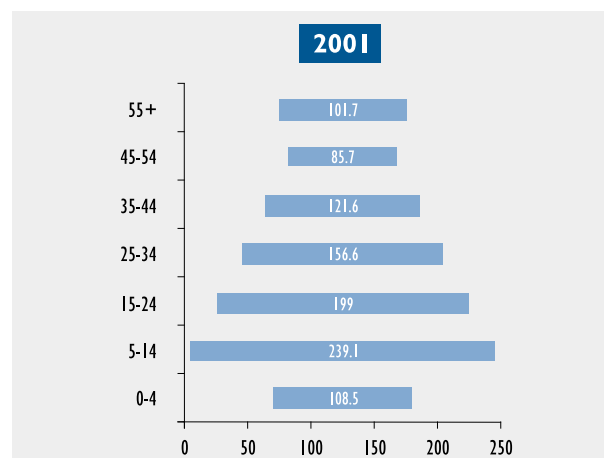
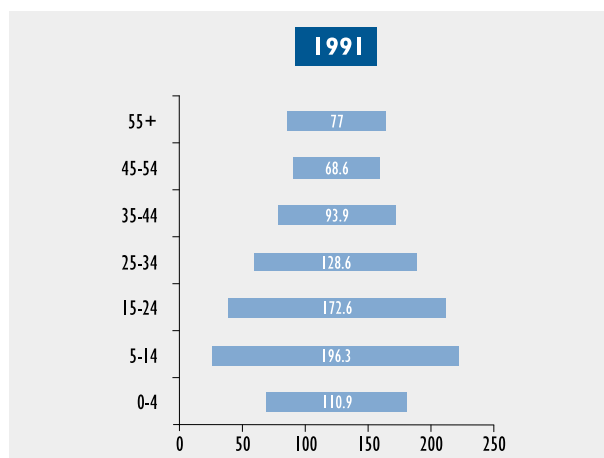
Large domestic market

Advantage

Demographic trends in India are changing, with increase in disposable income levels, consumer awareness and propensity to spend. According to NCAER data, the consuming class (annual income of US\$ 1000 or above) is growing and is expected to constitute over 80 per cent of the population by 2009-10.

At the end of 2001, nearly 54 per cent of India's population was below 25 years of age, while only 10 per cent were over 55. By 2013, nearly 200 million more people will join the nation's productive age bracket representing a quantum growth in the consumption class. Even more pronounced is the growth of a niche 'super-rich' class, now estimated to comprise over 100,000 households with a net worth of more than US\$ 1 million each.

India's demographic profile markedly favours consumption growth



The increase in income levels of the Indian population and the emergence of the consuming class that has higher propensity to spend, offers great growth opportunities for companies in the consumer durables and FMCG sectors.

India's varied demographic and geographic features provide companies ample opportunities to market products that cater to specific segments. India is also an ideal ground for developing and testing products.

How is this advantage being leveraged?

Developing products for the domestic and global markets

Apart from catering to the growing domestic market, Fortune 500 companies are leveraging India's large domestic market to develop products for global consumers. The following are some examples of companies developing products in India for global markets.

- Ford India exported 28,000 units of Ford Ikon in completely knocked down (CKD) form to South Africa, Mexico and Brazil in 2003. Ford has also exported Ford Ikon components worth over US\$ 10 million per annum to China since 2002.
- Saint-Gobain has been aggressive on the exports front, especially in the case of float glass. Saint-Gobain Glass started exporting within 55 days of commencement of production at Sriperumbudur. By December 2000, almost 40 per cent of the production was being exported to markets across the world. While focusing on the domestic market, the company has proactively approached exports as an opportunity to not only grow volumes, but also improve itself by competing in global markets.

Growing through acquisitions

The large and emerging domestic market is attracting Fortune 500 companies, across sectors, to grow through acquisitions of incumbent Indian companies, to get a quick presence. The following are some examples of companies growing through acquisitions.

- Following its global strategy of growth through acquisitions, Pfizer India has acquired businesses in India as well, resulting in growth and augmentation of its capabilities.
- BASF has consolidated its presence in India by making certain strategic acquisitions. It acquired Dr Beck India's OEM division making it a significant

producer of OEM coatings and industrial coatings. BASF also acquired the polystyrene business from the Chatterjee Group in 2000.

- Lafarge increased its presence in India through the acquisition route, by buying the cement business of Tata Steel and then following it with the acquisition of Raymond's cement facility.
- Anticipating a boom in retail banking in India, HSBC acquired the Non-Fund Activities from Gujarat Lease Financing Ltd. in 1999. In the year 2000, the bank acquired the Chandigarh branch licence from Deutsche Bank. In 2002, the bank acquired retail banking business from BNP Paribas and the retail banking operations in Kolkata from Bank of Tokyo-Mitsubishi. Currently HSBC has 37 branches across 18 cities.

Clinical trials

India's large geographic spread, varied climatic conditions, and rich bio-diversity make it one of the best places for conducting clinical research in the world for a variety of health conditions. Examples of some companies leveraging this advantage include:

- Pfizer using its Indian facility for clinical studies. The company has invested US\$ 12.5 million since 1995 in India on clinical trials.
- GSK plc's leveraging of India's process chemistry skills, product development capability and manufacturing strengths. For GSK, India's rich bio-diversity and doctor base, make it a promising clinical trials destination for GSK innovations. GSK conducts high-end statistical data analysis for clinical trials from its centre in India.

Availability of key resources raw materials & skilled personnel

Advantage

India has large domestic resources of metals, minerals, rubber, wood, oil and gas, which power domestic manufacturing. It is the third largest producer of cotton in the world. It also has about 120 billion tonnes of coal reserves - the fourth largest in the world. There is abundant availability of iron ore,

manganese, mica, bauxite, titanium, limestone and natural gas. India is one of the world's largest producers of milk, tea and leather. With its long coastline, fisheries and marine products are another area where it has resources in abundance.

Availability of a wide range of raw materials is a competitive advantage for India, as it reduces cost of inputs for manufacturing. Also, production of cash crops like cotton and rubber directly assist manufacturing growth as they act as immediate inputs for industry. India's coal reserves can go a long way in providing for ever-increasing power needs.

India has a well-developed technical and tertiary education infrastructure of over 250 universities, 1500 research institutions and over 10,000 higher education centres, that together produce over 1500 PhDs, 200,000 engineers, 300,000 non-engineering postgraduates and 21,00,000 other graduates each year.

India also has one of the lowest costs of labour among developing countries. Labour cost as a percentage of value added is only 21 per cent in India, as compared to 23 per cent for China and 30 per cent for Taiwan.

Institutes of excellence. The Indian Institutes of Technology (IITs) and The Indian Institutes of Management (IIMs) have come to occupy centre-stage, as an increasing number of global companies look to these institutes to enrol management trainees. The success of IIM management graduates has spurred development of other top-quality business schools and the total number of graduates is estimated to be more than 5,000 per annum.

India has a growing workforce that is English-speaking and highly skilled. For example, knowledge workers in the software and service industry have increased from 6,800 in 1985-86 to 650,000 in 2003. While many multi-national companies are able to realise significant cost savings by utilising the highly qualified labour force at attractive rates and translate this into an important competitive advantage, the Indian workforce also offers superior management skills and technical talent that are leveraged by companies in the IT and ITES sectors.

How is this advantage being leveraged?

Setting up exports hub/base

After experiencing success in manufacturing products to world-class standards based on quality, cost and delivery in India, many Fortune 500 companies are starting to export components / products to group companies across the world. The following are some examples of companies that export products out of India.

- MICO is the second largest auto component exporter in India. It exports components for the complete range of fuel injection equipment, parts for gasoline engines, spark plugs and auto electricals.
- Volvo exports components from India for Volvo, Renault and Mack trucks, as well as CBU buses to SAARC countries.
- Whirlpool is exporting refrigerators and washing machines to South Asia, Asia-Pacific, Latin America and West Asia. It also exports small kitchen appliances under its 'Kitchen Aid' brand to the US market.
- Toyota manufactures multi-utility vehicles (MUVs) in India, and recently launched a manufacturing unit to produce transmission components (gear boxes) for its global operations.

Shared services centres

Fortune 500 companies are setting up their own shared services centres in India to offer services such as financial/accounting services, payroll processing and taxation among others. The following are some examples of companies with shared services centres in India.

- Citigroup has established a company in India for its BPO activities. The company handles all the cash management and trade finance transaction processing for Citibank India, Sri Lanka and Bangladesh; credit cards services for the Eastern Europe, Middle East and Africa regions of Citibank and private bank back office processing work for Citibank in Europe.
- HSBC Group has started outsourcing its back office transaction processing and software development activities to India in order to maintain its profitability

levels, streamline its costs, improve productivity and cut bureaucracy.

- Prudential plc set up a centre in Mumbai in 2003 called Prudential Process Management Services (India) Pvt Ltd (PPMS). A third of the operations at PPMS comprise call centre services, two-thirds are business-process related.
- ABN AMRO has outsourced business processes from about 18 countries to its back offices in Chennai, Mumbai and Delhi. The headcount in these centres is about 1,200.

R&D, Engineering & Software Development Centres

To leverage India's intellectual capital, Fortune 500 companies are setting up R&D, engineering and software development centres in India; some of them are their largest centres outside their corporate headquarters in terms of investment and people. These teams work collaboratively with their counterparts worldwide on cutting edge technology. The following are examples of companies who have set up such centres in India.

- Philips Software Centre Private Limited (PSC) meets the need for high-quality, cost-effective software development capacity within the Philips organisation worldwide.
- Canon India's Software Development Centre (SDC) in India is one of the six such cutting edge technology centres of its kind. SDC undertakes contract software development from Canon Inc., Canon Development Americas and Canon Information Systems Research, Australia.
- ABB's Indian operations are increasingly being leveraged as a regional and global hub for projects, products, services and R&D for the entire group.
- UK-based Allianz Cornhill Insurance plc (an Allianz Group Company) has set up an Indian subsidiary Allianz Cornhill Information Services for software development and business process outsourcing. The centre currently employs around 100 people and is expected to increase its headcount to 400 by end of year 2005.
- DuPont's activities in India include an R&D centre that conducts field trials for crop protection

products and nationwide R&D centres for Pioneer® seed research for development of hybrids relevant to different crops in India.

- LG has set up R&D facilities in India at Bangalore and it is setting up another at Pune. Both the units carry out R&D work for the domestic market as well as the parent company. They also undertake customised R&D for specific countries to which the company exports its products.
- Intel set up its first R&D centre (Intel India Development Centre – IIDC) in Bangalore in 1999. Intel is using this facility to work in e-business applications, networking and communications, microprocessor and chipset design, manufacturing automation and systems software.

Managerial talent

Fortune 500 companies recognise and are leveraging India as a source of high quality managerial talent. These managers are trained and subsequently assigned to global positions

- GSK plc has high regard for the managerial talent available in India. Managers from India are regularly promoted to other geographies of GSK.
- Personnel from Citigroup India are routinely assigned to global positions at Citigroup.
- In Prudential, Indian managerial talent is well regarded and personnel from India have moved on to regional roles in Asia.
- Johnson & Johnson's (J & J) Indian R&D centre and testing centre provide services to J&J worldwide. Jansen Cilag (the pharma division of J&J) has a stability centre in India. Indian managers are constantly promoted to overseas operations. An Indian team is also managing the supply chain planning for the Asia Pacific region.

Sourcing base

Fortune 500 companies are leveraging the availability of a wide range of raw materials as it reduces cost of inputs for manufacturing. They are also exploiting economies of scale and their bargaining power (on account of bulk purchases) in India.

- Coca-Cola India exports commodities and

materials like tea, coffee, PET resin, performs, closures, crowns and labels to its global operations.

Mitigating market challenges

India offers a plethora of advantages and business opportunities. Challenges also do exist in the market. Fortune 500 companies in India have developed strategies to successfully overcome these. The government too is moving progressively to address these. Infrastructure development is a case in point.

- To encourage rapid development of infrastructure, FDI up to 100 per cent is allowed under automatic route in projects for construction and maintenance of roads, bridges and toll roads.
- The government is currently implementing the world's largest infrastructure project, the "Golden Quadrilateral" for linking major cities of India with modern highways. The project is expected to significantly enhance transportation efficiencies in the country.
- The port sector has been opened up for private sector participation. This is improving efficiency, productivity and quality of port services.
- With grants for 57 private sector projects totalling up to 30,000 MW, introduction of an independent central regulatory authority and foreign investment totalling nearly US\$ 73 billion, it is expected that reliable and efficient power would be available to meet the growing demand for power.

Fortune 500 companies across sectors have come up with innovative solutions by leveraging the advantages provided by India. Some of the strategies adopted by these companies are discussed in this section.

Localising the supply chain to derive India advantages

To compete effectively on cost, Fortune 500 companies are setting up operating structures involving various degrees of localisation of the supply chain. For example, local manufacturing is allowing Fortune 500 companies to avoid paying high import duties, in addition to leveraging India's low cost and

productive workforce. Many Fortune 500 companies are also leveraging the initiatives taken up by various state governments to attract investments, such as those related to improvements (e.g. business environment, resource availability), incentives (e.g. tax holidays, policy support) and investments (e.g. joint development). The following are some examples of how Fortune 500 companies are localising the supply chain to minimise import duties, in addition to leveraging India's low cost and productive workforce:

- LG manufactures PC monitors and refrigerators in India to overcome high import duties and to leverage Indian benefits.
- To derive Indian advantages and overcome high import duties, Samsung India has manufacturing facilities for colour TVs, microwave ovens, washing machines, and air-conditioners in India.
- BASF has adopted the strategy to manufacture its products in India in order to exploit the cost advantages of the country. The group aims to derive 70 per cent of its sales from local manufacturing facilities in India.
- High degree of localisation has enabled Ford to keep its manufacturing costs low. Ford India's localisation programme crossed the 90 per cent mark in 2003.

Leveraging industry associations to represent to government

Fortune 500 companies have had positive experience in leveraging industry associations to dialogue with the government.

To get clarity on government policies, Fortune 500 companies are developing strong relationships with industry bodies like CII, NASSCOM, etc. These relationships are used to share views with these bodies and through them, enable policy development/changes. Their experiences have been positive, as evidenced in policy change (e.g., reduction in customs duty for life saving drugs). Such strategies are effective since the government regularly listens and acts on suggestions made by these institutions, and the dialogue is much more logical and fruitful.

Developing processes and allocating resources for clearances and approvals

To overcome the issues with procedural bottlenecks, successful Fortune 500 companies have documented the process for getting appropriate clearances/approvals. Some companies have gone a step further and allocated resources to focus on this activity, including training personnel to effectively deal with government agencies.

For example, Saint-Gobain appointed a strong and committed top management to oversee the process of setting up its Greenfield unit. It employed local talent with deep experience in dealing with the government agencies and Indian business context, at the middle and senior management levels. This brought in a good understanding of the local context and the skill sets to navigate the procedural and structural requirements.

A large proportion of the Fortune 500 companies have also chosen the option of outsourcing some aspect of this work, partner with local companies, or recruit local talent to help them manage the regulatory process.

Investing in physical infrastructure

Fortune 500 companies are coming up with workable solutions. Most of the Fortune 500 companies have invested in offices/factories with generator sets to offer power back up. Fortune 500 companies are also investing in additional distribution centres, and planning for higher inventories to compensate for delays in supply chain due to inadequate infrastructure. For example, most of the IT companies are considering setting up virtual workplaces to minimise non-value-added travel.

Developing distribution networks to penetrate rural markets

Fortune 500 companies are expanding their reach into the untapped rural market for sustaining and improving their growth in India. They are allocating funds and resources to focus on rural markets, to

come up with innovative ways to penetrate these markets and to set up an effective distribution system. The following are some examples of how companies are penetrating rural markets.

- Unilever launched Project Shakti to extend its operations in over 12,000 villages spread across 8 states. Unilever has also included several Non-Government Organisations (NGO's) and state governments as the initiative helps the rural women to improve their financial position.
- Philips has structured the pricing of products to make it affordable for its target audience in small towns and rural areas. For example, the company created a specific brand 'Vardaan' for its colour TVs targeting rural and semi-urban markets.
- LG has Hindi and regional language menus on its TVs and has introduced the low-priced 'Cineplus' and "Sampoorna" range for the rural markets.
- Aviva has launched 'Amar Suraksha', 'Jana Suraksha', 'Anmol Suraksha' aimed specifically at the rural market.

Bringing in global suppliers

Fortune 500 companies have been successful in bringing global suppliers to India.

Fortune 500 companies have adopted the strategy of bringing their global suppliers to India, to localise production and to ensure uninterrupted supply. These global suppliers bring their world-class process, operating procedures, and technology that strengthen their supply base. In addition, they are also developing local suppliers by working with them to ensure consistency in quality, cost and delivery. Fortune 500 companies have been successful in this follow-source strategy. There are numerous examples of follow-source including Visteon, a global supplier to Ford that has started operations in India following Ford's entry and Hyundai's global suppliers setting up operations in India.

Supplier development initiatives

Most of the Fortune 500 product companies are working closely with their suppliers to inculcate world-class standards, not just for localisation and cost

advantages but also to export components to their operations worldwide. They are accomplishing this through different supplier development initiatives including making the global supplier partner with the local suppliers, providing financial assistance, transferring technology and knowledge, or getting into joint ventures. The following are some examples of companies focusing on their suppliers.

- ConAgra procures oil from India as opposed to importing sunflower oil from Argentina. It has developed about 12 suppliers around the country to bring them to world-class standards.
- GM has focused on increasing localisation levels and developing local suppliers, not only to reduce prices of its products, but also to eventually source parts from India.
- Volvo is actively pursuing opportunities to source component supplies for its plants in Europe and America from India. Volvo has had success in having its suppliers upgrade their facilities to meet Volvo's stringent requirements.

Managing product proliferation by developing India specific products

Acknowledging the preference for local tastes, Fortune 500 companies are either customising global products and services for the Indian market or developing products specifically for India. Companies are also paying a great deal of attention to cultural aspects and taking care not to offend sentiments. The following are examples of India-specific products developed by companies.

- Samsung washing machines have a 'memory re-start' that takes care of power failures. It has set up a "usability lab" at the Indian Institute of Technology to customise Samsung products to meet the specific needs of Indian consumers.
- Philips has succeeded by recognising cultural and lifestyle needs and customising products and technologies for India. For example, when the audio equipment worldwide shifted to CD system,

Philips India developed a combined tape recorder and CD player since both media were prevalent in the country.

- Nestle has adopted a strategy of improving its products through innovation and research to cater to variations in tastes across regions. It operates an experimental kitchen and sensory laboratory in India that is creating innovative products/flavours.
- FedEx offers customised packaging options and free documentation support for fast growing and export-oriented industries in India including automobile, pharmaceutical, leather, heavy engineering and gems and jewellery.
- To counter the electricity problem in rural India, Electrolux launched a new range of refrigerators called 'Bijlee' which offers a 12-hour power backup through a built-in battery. It is targeted at rural households with a monthly income of US\$ 60-160. It has an in-built power pack that can operate on an external connected battery during power cuts. Electrolux is also promoting its 'Tamanna' refrigerators, which come with in-built FM radios and message recorders.

Innovative pricing and selling and offering product portfolio choice

Fortune 500 companies have come up with innovations in selling, pricing and portfolio choices after conducting extensive market study and analysis. To address the price and value sensitivity, companies are adopting various marketing strategies such as:

- *Services to promote products* Bosch has launched car service centres, through the franchise route. These add to its top line and also promotes MICO and Bosch's spares and products.
- *Launching variants in different price ranges* ConAgra has countered the threat of low-priced competition by launching lower-priced products under another of its popular brands thus preventing consumers from trading down into cheaper substitutes.

- *Focusing on segments whose needs match existing strengths* Volvo focused on high-end commercial vehicles in India. By playing to its strengths and staying focused on identified segments, the company has been able to clearly differentiate itself and achieve a position from where it can successfully enter the volume segment also, if required.
- *Offering a wide product range* Saint-Gobain manufactures a wide range of glass products enabling the company to tap into different market segments like building/architecture, mirrors, automotive, and photo frames

HSBC expanded its customer base by extending its product range to include a wide variety of investment products and enhanced its reputation in India of being a provider of international quality investment products and services

- *Adopting in-licensing* To augment its portfolio and counter competition from local companies that leverage the process patent regime in India, GSK adopted the in-licensing approach to launch products. This allowed GSK to have a product portfolio to counter the local competition, while simultaneously respecting the worldwide Intellectual Property Rights of the innovator company.

Developing markets by educating consumers

Fortune 500 companies are developing markets in India by educating consumers, using different strategies such as:

- *Tying up with educational institutions* IBM has initiated plans to increase the market potential by increasing IT awareness amongst the masses. IBM has entered the academic sector providing IT education, thereby expanding the user market. IBM has partnering relationships with a number of well known educational institutions in the country including the IITs at Delhi, Kanpur and Chennai

Cisco has taken a pioneering initiative of developing the market for networking equipment in the country. The company has taken the initiative of educating many professionals in the sector through tie-ups with various engineering institutions, thereby increasing the market awareness and market potential in the country

- *Working closely at the grassroots level* Prudential is reaching out to new and low insurance penetration markets in order to increase its market share. The company works closely with NGOs and micro-finance institutions to spread awareness about the concept of insurance in rural areas
- *Selling concepts* Volvo produces state-of-the-art, high-end trucks and buses that are relatively expensive. These products needed intensive selling and customer education. Volvo sold the concept of heavy duty, highly reliable trucks. It provided value added services like driver training and vehicle maintenance, and worked closely with its customers to improve vehicle utilisation and returns
- *Leveraging understanding of local environment* Despite strong growth in the passenger car market in the 1990s, Toyota decided to enter India through the MUV segment. This was based on an extensive market study and analysis that indicated the potential for a world class MUV that would offer the driving experience of a car and would also be affordable. Toyota was able to establish itself in the MUV segment.

While leveraging India's advantages and overcoming the key challenges, successful Fortune 500 companies in India are also adopting strategies to ensure long-term survival and growth. These are discussed in the ensuing section.

Other common success factors amongst Fortune 500 companies

Apart from strategies to leverage India's advantages and overcoming challenges of doing business in India, successful Fortune 500 companies in India have

adopted few key success factors that have enabled them to succeed and grow in the Indian market.

Providing strong parental support to local managements and partnerships

Successful companies have established capable and empowered local management to better understand the local business environment. The global parent company supports the local management by transferring best practices, know-how, products, services, technology, and knowledge. The following are some examples of how collaboration between the parent organisation and local management has led to successful operations in India.

- IBM Corporation provides continuous support to IBM India in terms of global human resources and technology, and also exchanges its talent pool across countries.
- Citibank leverages its local management effectively, supported by a high quality workforce. It also has the flexibility to innovate and launch new products within the guiding principles defined by the parent.
- ICICI Prudential drew from the experience of Prudential's global network and the Indian parent ICICI's local knowledge. As it developed its capability, ICICI Prudential matured into a fully board-managed organisation with support from both the parents as and when solicited by ICICI-Prudential.

Implementing world class processes and practices

Fortune 500 companies are importing and implementing world-class processes and practices in India. This is allowing them to reduce cost, improve productivity, quality and delivery levels to make them globally competitive. This is also enabling them to increase exports from India. Following are examples of companies that have implemented world-class processes and practices in India:

- Toyota uses Toyota Production System (TPS), a sought after best practice for achieving highly

efficient 'lean manufacturing' for manufacturing industries worldwide. Just-in-time (JIT) production and in-process quality assurance are hallmarks of TPS, which is applied throughout the company's global production structure

- Shell has brought its international best practices via its local businesses. For example, the company entered the Indian lubricant market in 1994 and incorporated best multinational business practices in the area of lubricant blending, with the best Lube Oil Blending Plant at Taloja being rated one of the best in Asia

Improving perception through social activities

Successful MNCs have also worked on proactive social activities, to improve perceptions and gain acceptance. The following are a few examples:

- Novartis has built a brand image through social programmes like a Joint Effort to Eradicate Tuberculosis, which is a campaign aimed at creating awareness about tuberculosis and provides scientific information and assistance to practising physicians to treat their patients
- PepsiCo is committed to developing educational and health programmes for communities near its bottling plants. The company runs health programmes such as setting up village clinics, health camps, eye check-ups and blood donation drives in several communities throughout the country
- BP companies are working closely with Non-Government Organisations (NGOs) in various parts of the country mainly in the area of road safety and community development. The company supports the development of rural communities where it has operations, and Tata BP Solar works mainly in the areas of rural development and with the underprivileged sections of society

Taking a long term view

Fortune 500 companies have taken a long term view of India that has allowed them to focus on investing in infrastructure, establishing market presence, gaining

market share and leveraging India advantages like R&D, intellectual capital, exports hub and outsourcing.

Taking a long-term view is important, since investments in infrastructure involve significant short-term outflow that can only be recovered over the long term. Given the high price/value sensitivity in India, this cost cannot be passed on to the consumer immediately or in the short-term.

For example, GM entered India with a long-term view; having sensed that future growth in the global auto market will come from this region. Its approach therefore was to establish a base in India and grow with the market as it matures.

In the current and preceding sections, the different strategies being adopted to gain a competitive advantage and achieve growth by setting up operations in India were discussed. In the next (concluding section), the future plans of some of the Fortune 500 companies in India are discussed, to get an insight into their confidence level and outlook for India.

Future plans

While many Fortune 500 companies have established a presence and are leveraging India's strengths, their success and the future potential they see in India will be evident from their future plans. Due to issues of confidentiality, some companies could not share their future plans with us, though their outlook on the country is positive.

Expanding in the domestic market

Fortune 500 companies across sectors have plans to expand in India in the immediate future validating that India is an attractive and growing market. This expansion is in the form of increasing capacity, getting into additional segments, and/or increasing market share in existing ones.

- ABB, in addition to increasing market penetration and gaining higher volumes, is also expanding its range of offerings and introducing new revenue streams.
- Alstom is planning to double production capacity in India to generate more business in the next 2-3 years.

- Bombardier hopes to sell more than 100 aircraft in the 20-90-seater category during the next five years in India.
- HSBC Bank plans to expand its capital market, corporate and investment banking teams in India.

Launching new products and services

In line with their strategy to gain market share by offering India-specific products and services and transferring global technologies, some Fortune 500 companies are planning on launching new products and services across sectors in India.

- Volvo is planning to introduce more models, especially tractor-trailers in India.
- Allianz Group plans to foray into wealth management, asset management and pension funds sectors in India.
- Pfizer is planning to introduce new drugs in India after the product-patent regime becomes effective.
- Sony plans to launch new products like Playstations (games) and Vaio and technologies like WEGA Engine Technology in India.

Increasing investments

Fortune 500 companies across sectors have plans to increase investments confirming the country as a low risk destination. The investments are directed at capacity expansion, technology, processes, people, acquisitions, and infrastructure. Pharmaceutical companies are waiting for the Patent Bill to be passed, to increase investments by two to five fold, while insurance and financial services companies are waiting for pension sector reforms to be implemented, to increase investments. Toyota is planning to invest US\$ 28.3 million to increase capacity from 45,000 to 60,000 units per annum.

- Bosch is looking at investing about US\$ 125 million in setting up a CRDi facility in India. In the initial stage, it is planning to import CRDi kits and sell them in India.
- Samsung is planning to expand its manufacturing facility in India with an additional investment of US\$ 15 million. In addition, Samsung plans to invest

over US\$ 25 million to expand its R&D centre.

- Canon is bolstering its India marketing efforts with an investment of US\$ 4 million in advertising, market research, and retail expansion, in-store branding and training programs.
- LG is planning to invest over US\$ 208 million in India in the next three years to expand its business.
- Electrolux is planning to invest US\$ 8 million in a research and development (R&D) centre by 2007.
- Intel Corporation is planning to invest around US\$ 25 million to set up its second research and development (R&D) facility in Bangalore.

Increasing outsourcing

Fortune 500 companies that are already outsourcing products and services to India are looking to either expand the service or increase scope of the service by outsourcing more. Companies currently not outsourcing to India are looking at ways to leverage this opportunity by considering different options from simple back office/shared services to fabrication and engineering.

- Philips plans to expand the operations of its Shared Service Centre in Chennai by increasing the number of employees to 300 by end 2005.
- Electrolux is in the process of sourcing components worth US\$ 30 million from Indian manufacturers. It plans to increase the value to US\$ 300 million by 2007.

Increasing acquisitions

Some Fortune 500 companies have plans to grow further through acquisition of strong Indian companies. Siemens AG is exploring acquisition opportunities in India in order to expand its presence in the Asian region. Siemens top brass in India have started the process of identifying segments beyond its traditional businesses that would fuel growth in the coming months.

- Citibank is looking to acquire an Indian private sector bank.
- ABN AMRO Bank plans to invest US\$ 1 billion in India for selective acquisitions.
- As and when the right opportunities are available, Novartis plans to expand its business in areas of interest namely cardiovascular, central nervous system, pain and inflammation and gynaecology therapeutic segments.

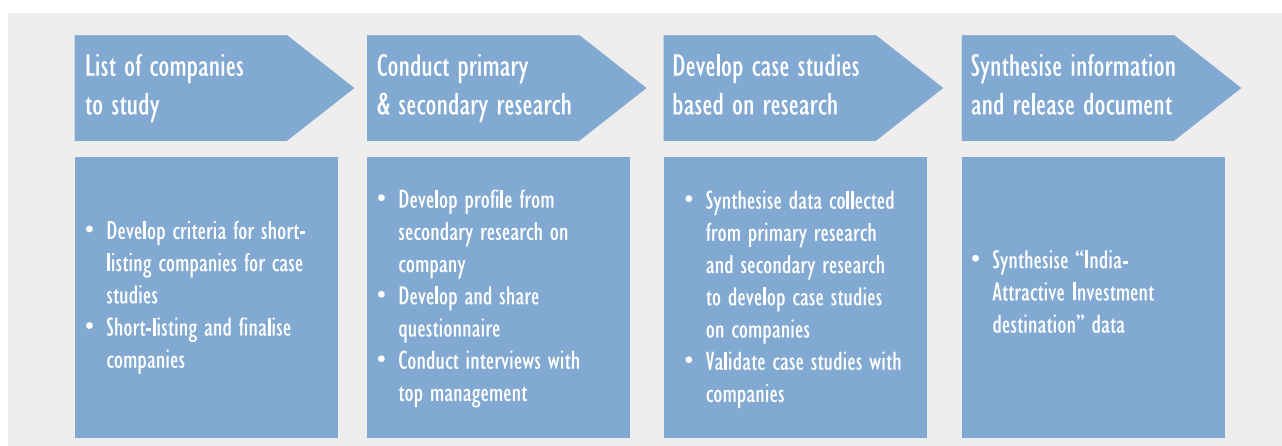
Conclusion

Fortune 500 companies are successful in India, and have plans to strengthen their presence further. The insights gained from their experiences can be a useful guideline for other MNCs seeking to enter India. The perspectives included in this report will enable MNCs to develop an entry strategy for India. The advantages to be leveraged and the success factors used by Fortune 500 companies to mitigate India challenges will provide insights in developing a comprehensive business plan for foray into India.

Approach to the study

The objective was to study Fortune 500 companies in India to understand and capture their experience

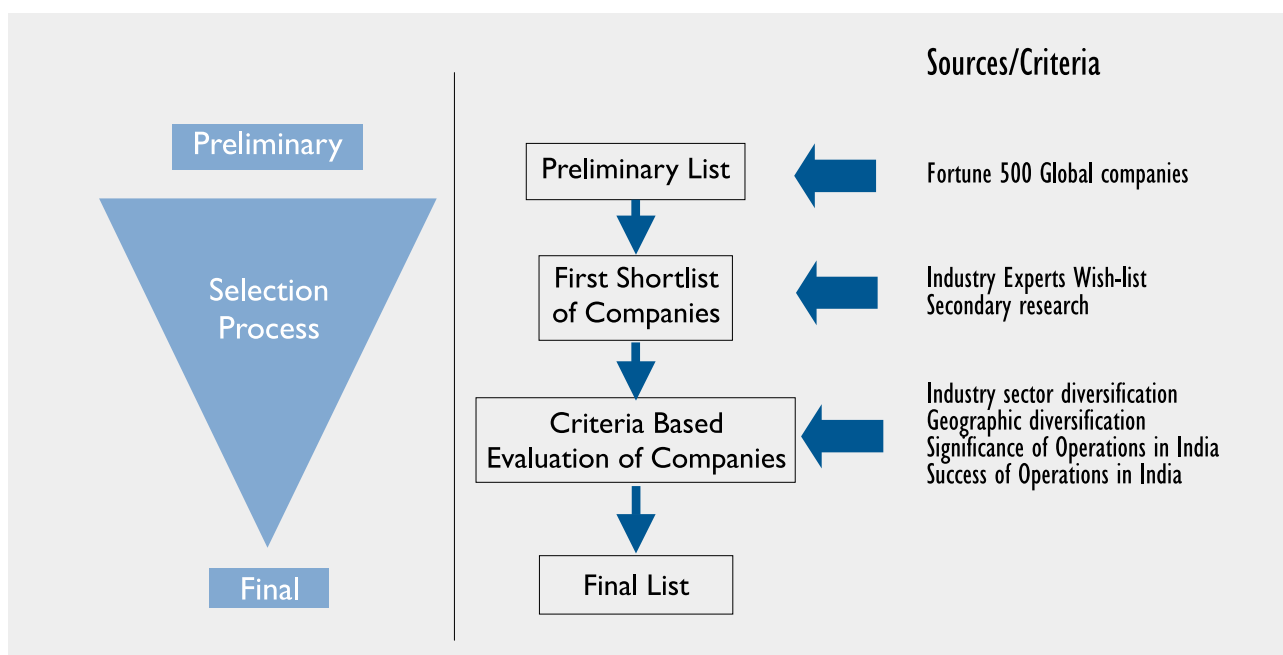
and insights, and to project India as a business destination. The study was approached in the following four stages.



List of companies to study

The following criteria were applied to shortlist Fortune 500 companies for the study, based on which a list of potential companies to study was drawn up

- Size of the parent (based on sales volumes and Fortune ranking)
- Success of the company in India (growth rates, niche products, future plans etc.)
- Significance of operations in India (size, turnover, number of people employed, importance to the worldwide organisation etc.)
- Representation from different sectors (Automotive, Retail, Financial Services, Pharmaceuticals & Biotech, Healthcare, Consumer Durables, FMCG, Agro, Telecom, Services, etc.)
- Representation from different countries (US, UK, Germany, Netherlands, Japan, South Korea, France, Netherlands, Switzerland, Sweden, etc.)



Conduct primary and secondary research

A profile of the company was first developed based on secondary research and this was used to prepare for discussions with top management of Fortune 500 companies. In addition, a questionnaire was developed and shared with some companies to help them understand the objective and provide a perspective on discussion points. The questionnaire was shared only with companies that requested it. The following is the list of questions that was used during interview with top management.

- 1 Why did you choose India?
- 2 What were your key considerations before investing in India?
- 3 Have your expectations been met? What are your experiences?
- 4 What have been the reasons for your success in India?
- 5 What are the three key challenges that you are facing while doing business in India?
- 6 How have you mitigated these challenges?
- 7 How are you leveraging the advantages provided by India?
- 8 What is the general perception of Indian operations at your headquarters?
- 9 What is the structure of local management?
- 10 What are your future plans for Indian operations?
- 11 What is your vision for operations in India in terms of investment, people, etc?
- 12 What are the factors preventing companies from investing in India?

Develop case studies based on research

In most cases, a case study was developed from secondary information and supplemented with insights gained from primary interviews. This case study was shared with respective companies for their validation, to strengthen it by getting information not discussed during the meeting, and to get their approval. For companies that could not be met personally, a case study was developed based on secondary research, and shared with the company to solicit views and approval.

Synthesise information and release document

The final stage of the process was to develop the current report that synthesised insights gained on Fortune 500 companies in India.