

Doing Business in India

Presented by Eduardo Vila, Will Minton



Discussion Agenda



Background

- History & Origins
- Demographics
- Social, Cultural, and Political Landscape



Major Industries



Business Environment



Business Strategies



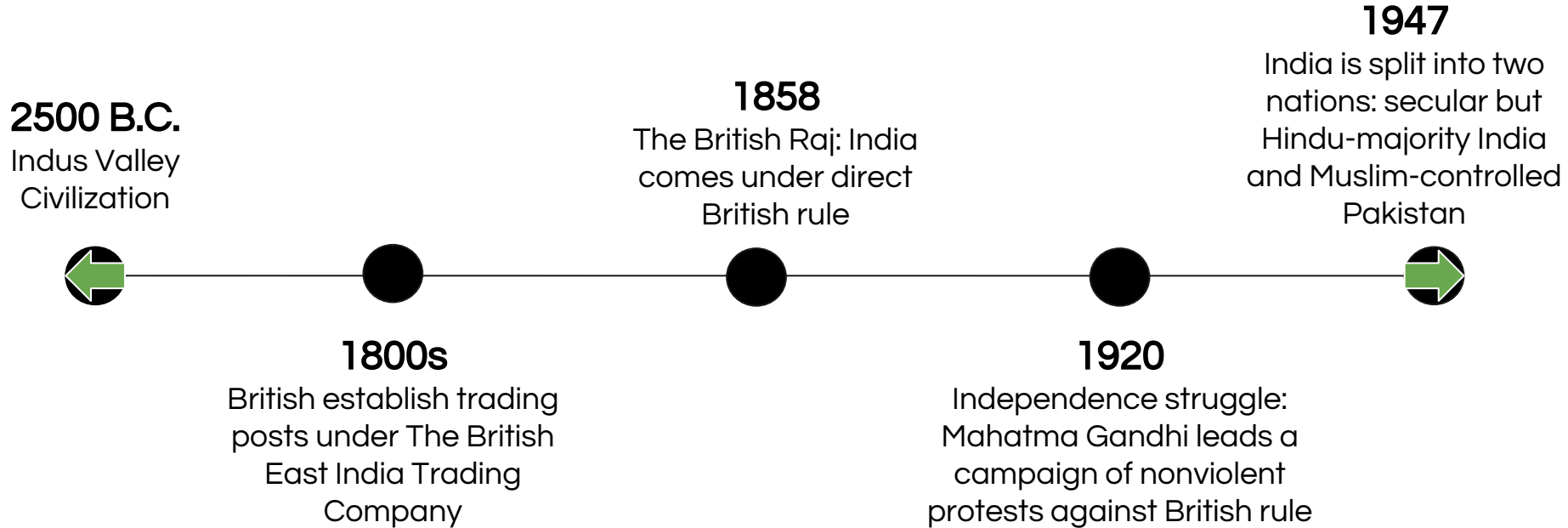


Background



Origins and History

Some of the oldest human remains in South Asia date back to around 75,000 years ago



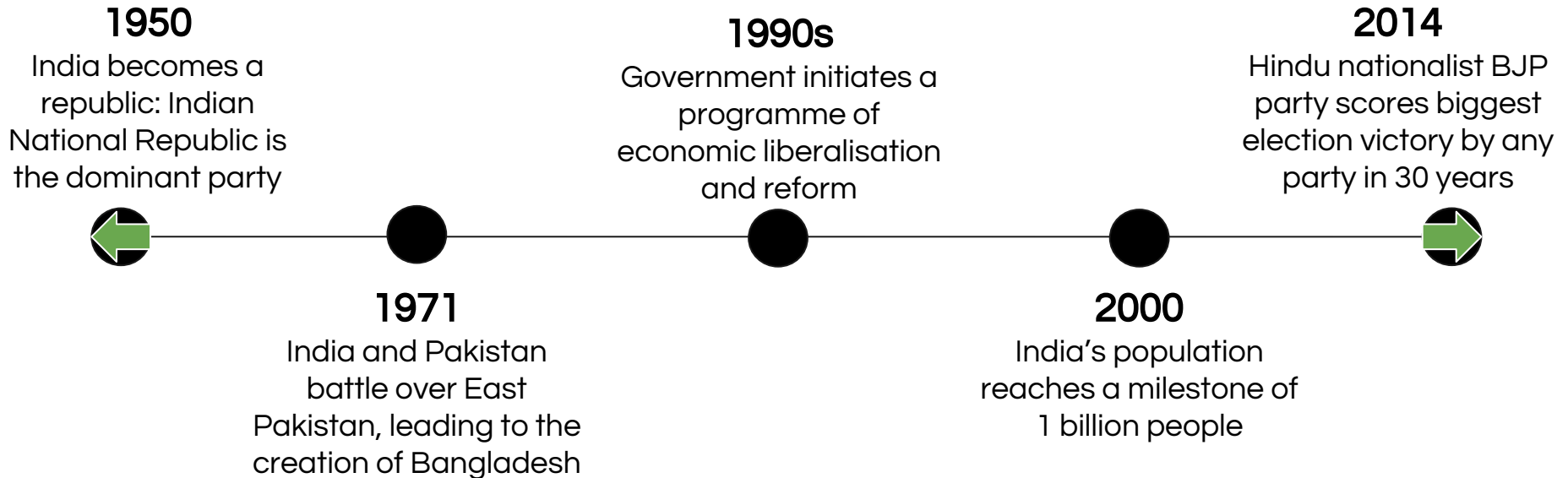
Source:
<http://www.bbc.com/news/world-south-asia>





Origins and History

Increasing Population Growth has been a huge trend in India since the 1950s



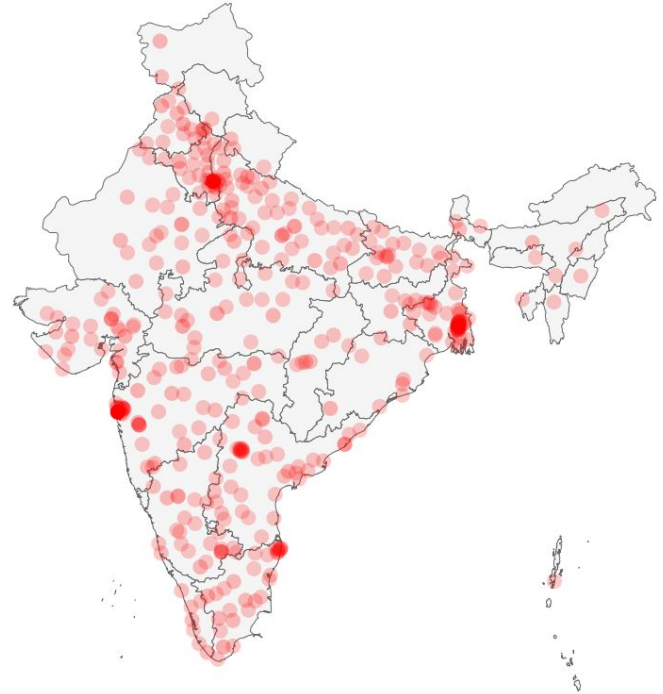
Source:
<http://www.bbc.com/news/world-south-asia>



India Demographics

Divided into 29 states

- Indian state populations range massively in size – the largest, Uttar Pradesh, holds almost 200 million people. The smallest, Sikkim, holds just over half a million inhabitants
- India's largest state Uttar Pradesh (199,581,520) would be the fifth most populated place in the world, falling just behind China, India, the United States and Indonesia.
- India is the world's 7th largest country by surface area.

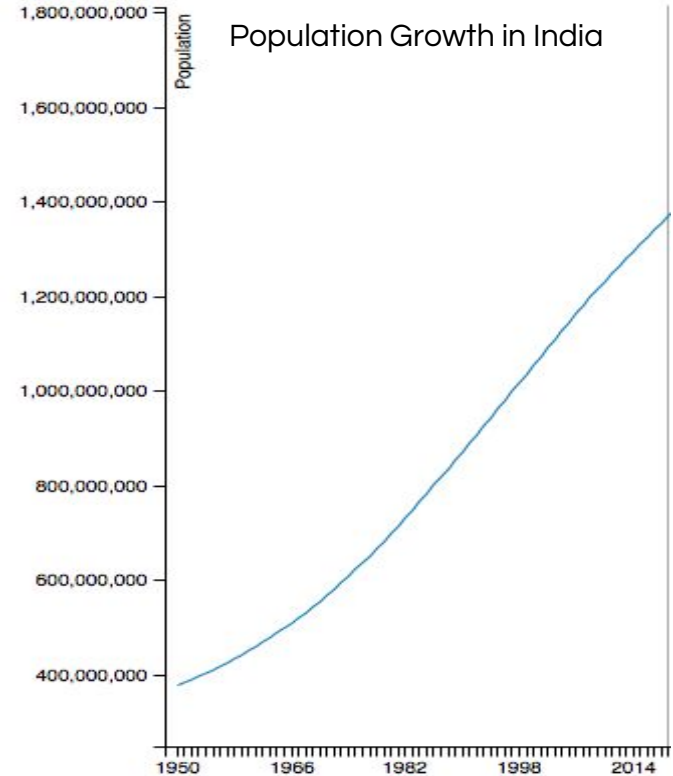




Demographic Characteristics

Population dynamics in India

- Population size: 1.339 bn (2nd largest in the world)
- 1 of every 6 people on the planet live in India, and between the 2001 and 2011 censuses, the country grew by 17.7%, adding 181.5 million people.
- From 2001 to 2011, India was the 3rd fastest growing country in the world behind Nigeria and Pakistan



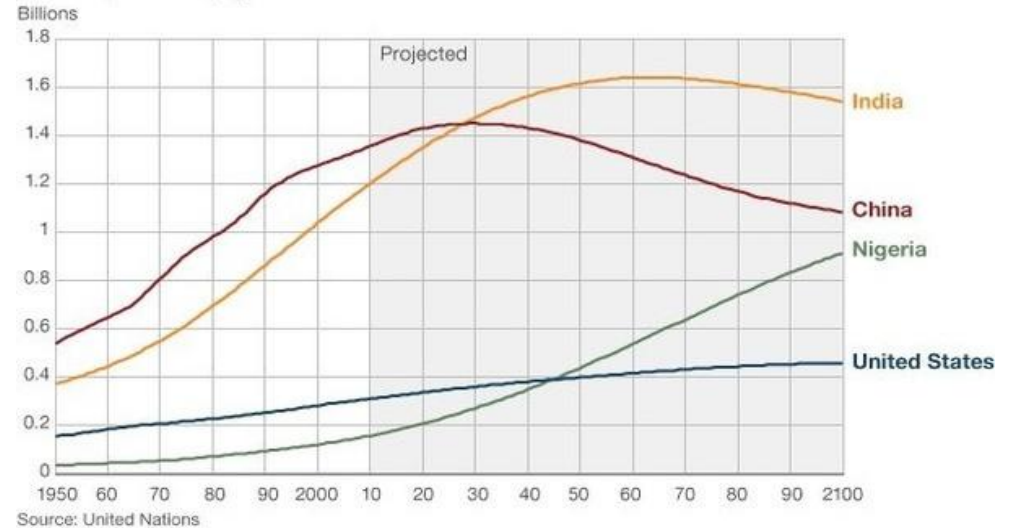


Population Growth in India

- During 1975–2010 the population of India doubled to 1.2 billion.
- India is projected to be the world's most populous country by 2024, surpassing the population of China.
- It is expected to become the first political entity in history to be home to more than 1.5 billion people by 2030
- India population set to reach 1.7 billion by 2050.

Population growth in China, India, Nigeria and USA

1950-2100, actual and projected



https://en.wikipedia.org/wiki/Demographics_of_India





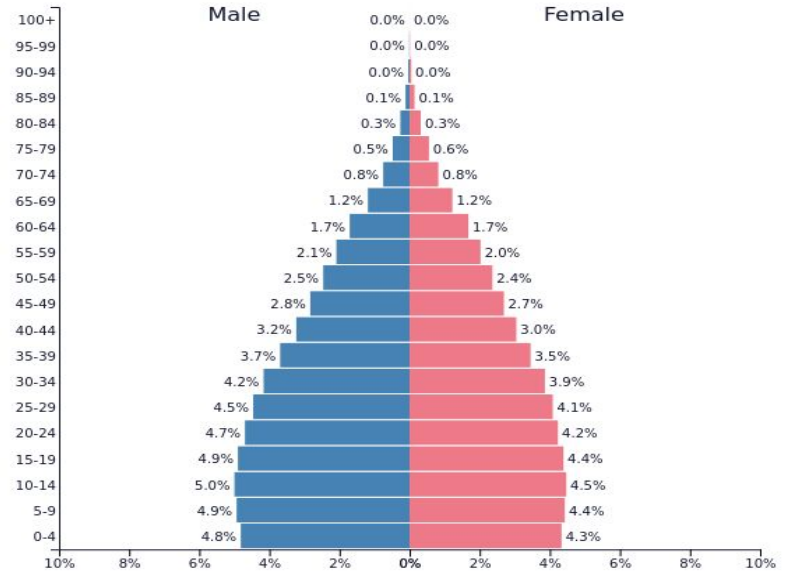
Demographic Characteristics

Healthy and Young Population Pyramid

Median age: 28.1 years old (142 in world)

- For men: 27.5 years old
- For women: 28.9 years old

However, this healthy population pyramid is not constant throughout India: the North has a much younger population than the South.



PopulationPyramid.net

India - 2017
Population: 1,342,512,705





Huge Population



Wide inequality

51% of households possess barely 8% of total assets, while the top 4% of households control more than 31% of total assets

Great population of Indians suffer from a very low standard of living

- Rates of malnutrition among India's children are almost five times more than in China, and twice those in Sub-Saharan Africa.



Lack of infrastructural facilities leave many regions undeveloped and underserved

- These infrastructural facilities include transportation and communication facilities, electricity generation and distribution, banking and credit facilities, economic organisation, health and educational institutes etc.



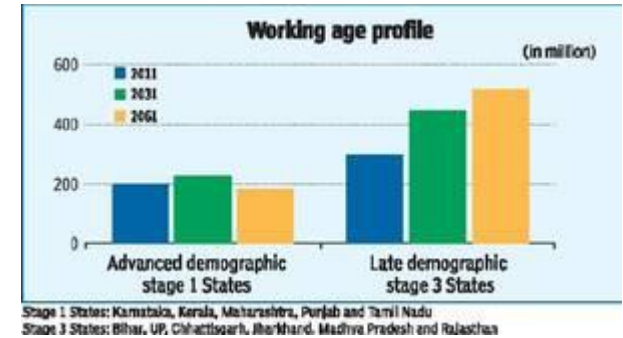
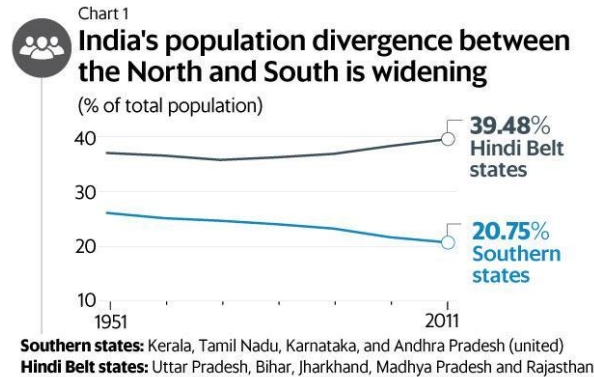
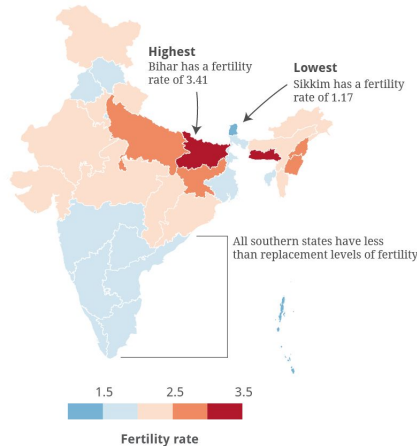
Source: <http://www.worldbank.org/en/news/2013/05/13/helping-india-combat-high-rates-of-malnutrition>



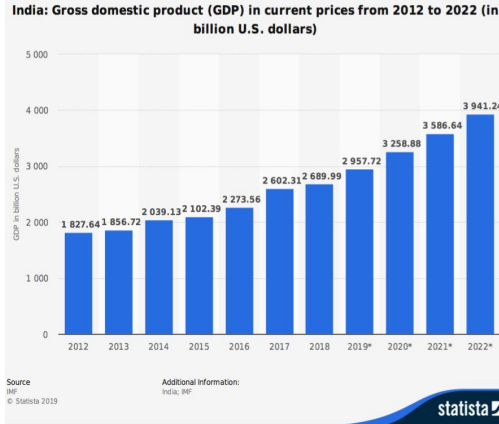
Ageing South and Young North

- Five states will account for more than half of the workforce growth in India, and they are all in the north.
- Companies should take this into account when deciding where to enter the Indian market.

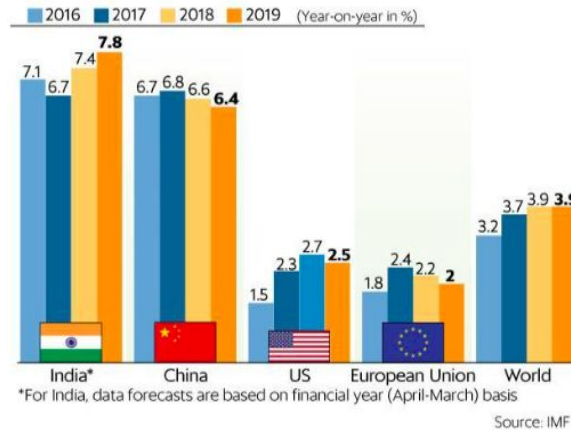
Fertility rates across India



Fast-growing, services-focused GDP



2018 GDP: \$3,000 bn



Country with the fastest growing GDP in the world in 2018, ahead of China and other developing countries.

Sector wise Indian GDP composition in 2017 are as follows : Agriculture (15.4%), Industry (23%) and Services (61.5%).

India is 2nd larger producer of Agriculture product. India accounts for over 7% of total global agricultural output.

GDP of Industry sector is \$560.97 billion and world rank is 6.

In Services sector, India world rank is 8 and GDP is \$1500 billion.

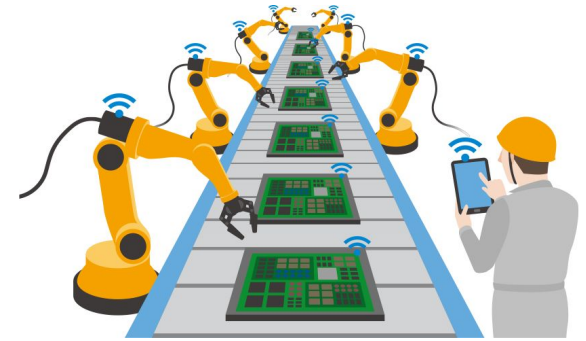




India GDP composition

India has continued to flourish in the manufacturing sector for goods varying from renewable energy to pharmaceuticals

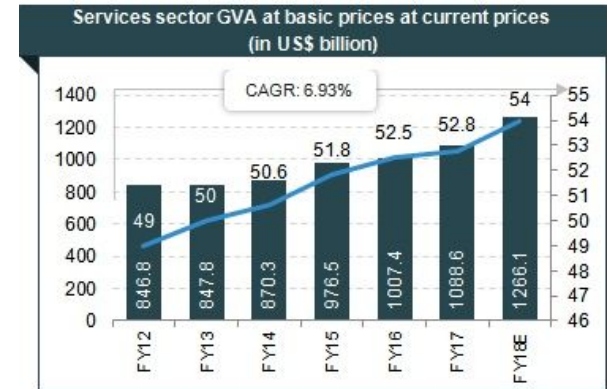
- The pharmaceutical sector was valued at \$33B in 2017
- The Indian renewable energy sector is the fourth most attractive renewable energy market in the world



The manufacturing sector of India has the potential to reach \$1T by 2025 and India is expected to rank amongst the top three growth economies and manufacturing destination of the world by the year 2020.

Growth and opportunity in service sector is a key driver of India's growth

- The sector has contributed 57.12% of India's Gross Value Added at current price in H1 2018-19.



Source: export.gov
ibef.gov

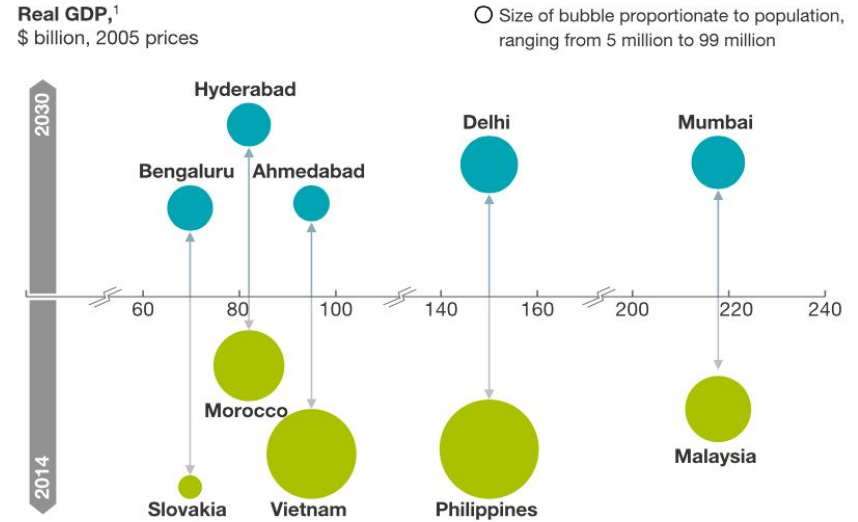




India Economy

Potential for GDP growth

- By 2030, the economies of 5 Indian cities will be comparable to those of middle-income countries today
- India's GDP is expected to grow at 7.3% in 2018-19, and 7.5% in the following two years
- This growth is mainly attributed to an upswing in consumption and investment



¹Top 5 cities, based on 2030 GDP values.

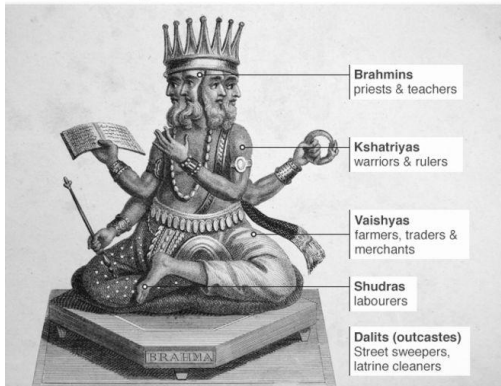
McKinsey&Company | Source: World Bank; McKinsey Global Institute analysis



Key word is "Diversity"

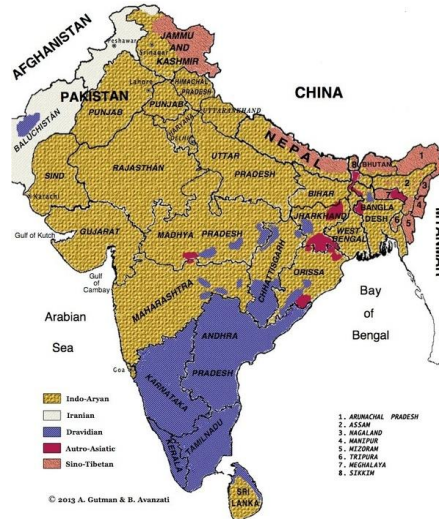
Population divided into castes, not as important as before but still significant. Different castes have quotas that need to be met in a number of jobs.

Brahma and the origins of caste



Source: Alamy

BBC



A lot of different ethnicities are present in the country.

22 official languages are spoken throughout the country, as well as close to 2,000 dialects.



Background

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Business Strategies

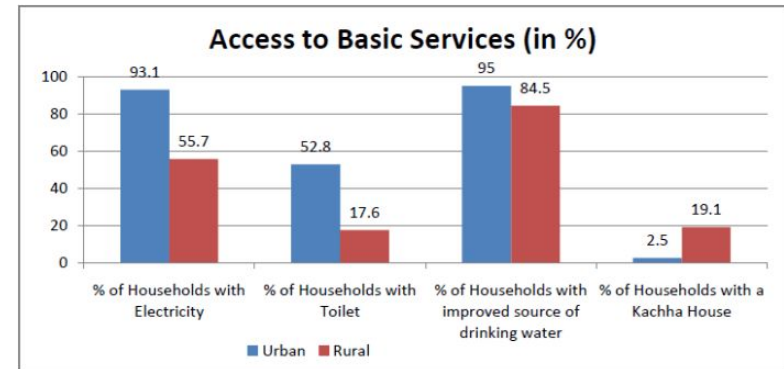
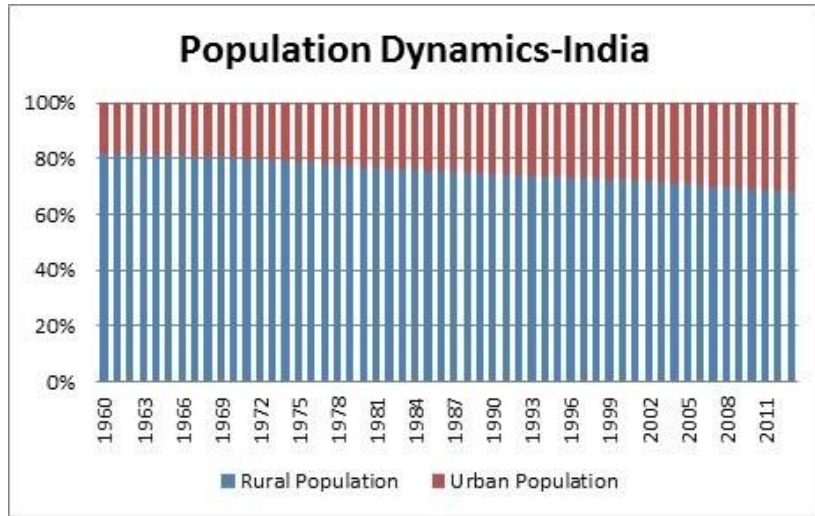


Rural India is falling behind urban India

70% of India's population live in rural areas, but the number is decreasing rapidly.

Rural areas are doing worse than urban areas in every possible indicator:

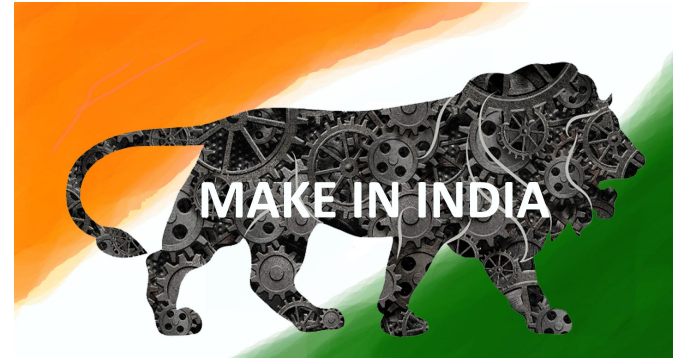
- Infant mortality rate: 54% vs 34%
- Poverty ratio: 25% vs 13%
- Underweight children: 45% VS 30%



Government has taken strides to increase FDI



Prime Minister
Narendra Modi



After the launch, India received investment commitments worth ₹16.40 lakh crore (US\$230 billion) and investment inquiries worth ₹1.5 lakh crore (US\$21 billion) between September 2014 to February 2016.

India emerged as the top destination globally in 2015 for foreign direct investment (FDI), surpassing the USA and China, with US\$60.1 billion FDI.



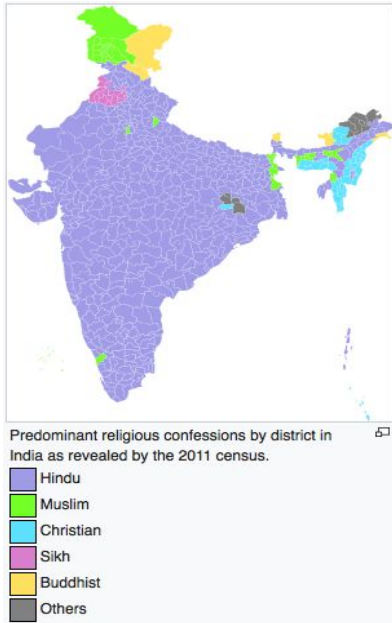
Uncertainty about Election results

- Elections will be held in April and they will last several weeks (900 million Indians can vote).
- Modi runs for the Bharatiya Janata Party (BJP)
- His main rival is Rahul Gandhi, who runs for Congress, scion of India's most influential political dynasty

- The opposition accuses Modi of favoring Hindus and discriminating other religions.
- Whatever the election outcome may be, it is unlikely to affect the "Make In India" program



A majority of the population practices Hinduism



How does Hinduism affect business?

- It's the world's oldest religion
- Hindus are valued by their spiritual rather than material achievements
- Promotion and new responsibilities may not be the goal of an employee, or may be impossible because of the employee's former caste
- Watch out for religious holidays! (Holi was last week)



Background

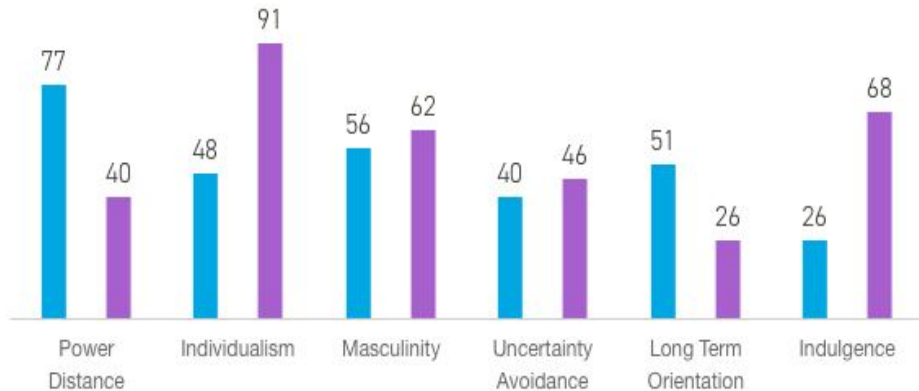
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Respect of hierarchy & openness to innovation define India



- Indians respect their seniors and accept that power is not distributed equally.
- Show a mixture of individualism (Hinduism says that reincarnation depends on the individual) and collectivism (desire to form part of something larger).
- Ostentation as a symbol of wealth is not frowned upon.
- There is acceptance of imperfection.
- They control their desires and don't invest as much in their leisure time.





Major Industries



Indian Exports play a huge role in the Economy

India's Top 5 Exports:

- Mineral fuels including oil: 14.9%
- Gems, precious metals: 12.4%
- Machinery including computers: 6.3%
- Vehicles: 5.6%
- Organic chemicals: 5.5%
- Pharmaceuticals: 4.4%

G7 and Asian countries account for the majority of Indian exports

Top Economic Partners¹

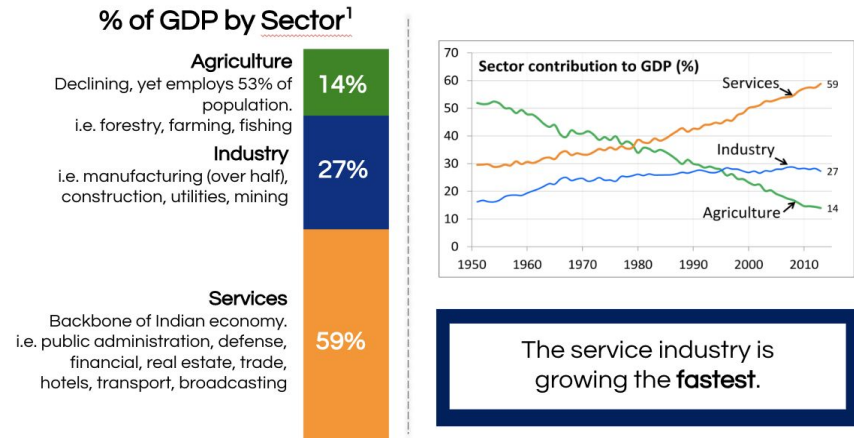
- 1 USA – 15.6% of Indian Exports
- 2 UAE – 10.1% of Indian Exports
- 3 Hong Kong – 5.1% of Indian Exports
- 4 China – 4.2% of Indian Exports
- 5 Singapore – 3.9% of Indian Exports
- 6 UK – 3.0% of Indian Exports
- 7 Germany – 2.8% of Indian Exports



Service Industry in India

- The sector has contributed 57.12 % of India's Gross Value Added at current price in H1 2018-19
- Developments and major investments by companies in the services sector in the recent past have contributed to this growth
- The Government of India has played a huge role in the growth of this industry by providing several incentives in wide variety of sectors such as health care, tourism, education, engineering, communications, transportation, information technology, banking, finance, management, among others.

The service industry is growing and dominates India's GDP



¹<https://www.jagranjosh.com/general-knowledge/what-is-the-sectorwise-contribution-in-gdp-of-india-1519797705-1>



Major industries and economic sectors

Retail and Wholesale



Conforms 23% of the country's GDP.

Foreign companies can purchase and own chains of supermarkets and retail stores.

IT and ITES



Conforms 9% of the country's GDP.

Has been key in making the services sector 60% of Indian GDP

Banking and insurance



Conforms 10% of the country's GDP.

Has been growing at 15-20% over recent years.

Helps development by financing long-term infrastructure projects.

Background

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Plenty of attractive industries in the country

PROS

CONS

Energy:

India's energy consumption is expected to grow 4.2 percent per year for the next two decades, overtaking China as the world's largest energy growth market before 2030.

Exporters must often engage with a slow, often bureaucratic regulatory system that includes highly regulated electricity prices and inefficient state-owned distribution companies

ICT:

India is the fastest growing telecom market in the world with 350 million internet connections, and 300 million smartphone users.

A lack of regulation in the sector makes business uncertain for companies.

Tourism:

India is now one of the fastest growing outbound tourism markets in the world, second only to China. Sector has been growing at rates of over 12%.

Over 70 National Tourism Organizations have set up in the country, so competition in the sector is fierce.



Business Environment



Strong E-commerce sector

- India is #1 nation in growing ecommerce markets
 - 224 million Indians made an online purchase in 2018
 - Online purchases up 60% percent from the previous year.
- Foreign companies can enter India via e-commerce with much lower risk and investment than by setting up a physical presence.
- India had 326 million social media users as of 2018, up 40% from previous year

2015 → 2025
200M → **800M**
Smartphone users with
Internet Access

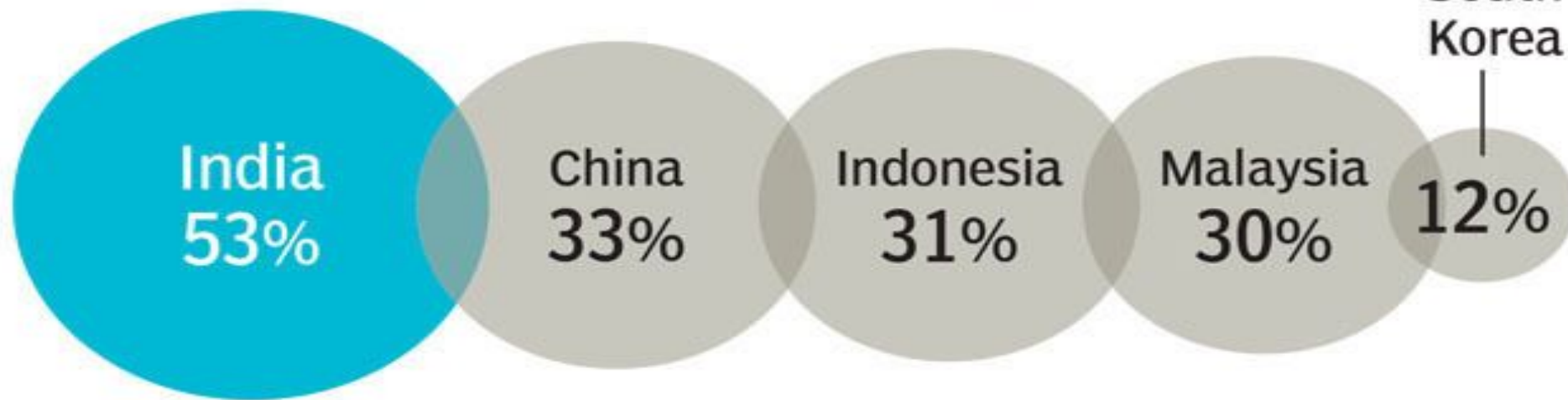
2015 → 2025
1B → **12B**
Digital Transactions

2015 → 2025
1% → **100%**
Transactions linked to
verifiable digital identity



LEADING THE CHARTS

ONLINE RETAIL GROWTH (CAGR IN 2013-17)

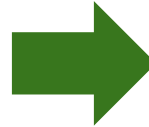
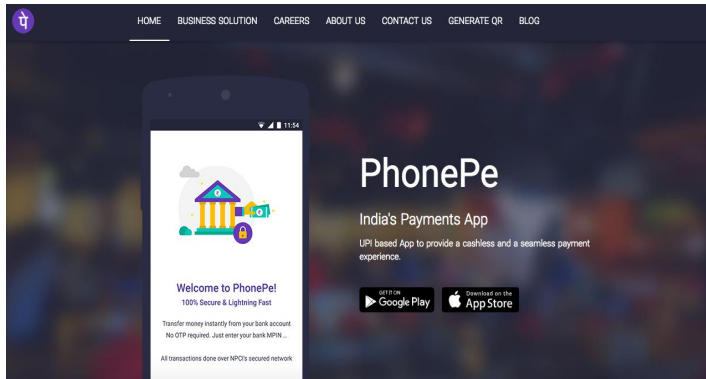


Discount-driven online marketplaces, advances in infrastructure and rise in smartphone penetration and data usage have fuelled rapid growth

Source: Bain & Company

Mobile Payments as an Opportunity

Mobile Payments



Will give 300M+ people access to banking credit, further stimulating the economy

Brick-and-mortar banking transition to technology-first mindset

SMBs have adopted digital and mobile payments in a big way, and will soon be the preferred method of payment

The growing purchasing power and rising influence of the social media have enabled Indian consumers to splurge on good things. Import of electronic goods reached US\$ 53 billion in FY18.

- Several mobile phone, luxury and automobile brands, among others, have set up or are looking to establish their manufacturing bases in the country.

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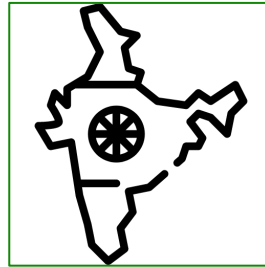
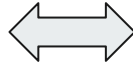
Source:

<https://www.mckinsey.com/~media/mckinsey/featured%20insights/employment%20and%20growth/indias%20ascent%20ofive%20opportunities%20for%20growth%20and%20transformation/indias-ascent-executive-briefing.ashx>

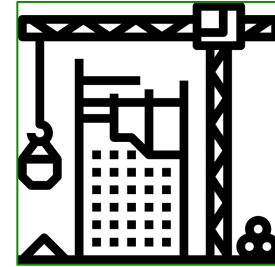
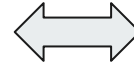
Current Issues - Low World Bank ranking



Cost of Business start-up is rather costly at 14.4% of Income per Capita, which ranks 72 in the world. Investors take a risk when entering this market without local knowledge.



There are vast culture differences between India and other nations. India itself has 4 regions with 4 different business practices.



The legal processes involved in setting up and running a business take time. Starting a business takes 60 days, while enforcing a contract takes on average 1,445 days.



Historical Low World Bank ranking, but Improving...

- The ease of doing business in India has, however, vastly improved from 2018 to 2019.
- It became easier for firms to acquire construction permits, pay taxes and trade across borders
- Most notably, India was also among the top 10 most improved economies.
- In 2017 it took 200 days to start a business in the country.



Source:
cnbc.com
economictimes.com



Current Issues in the Business Environment

Tough market for luxury brands

- Indian government has imposed a 28% tax on luxury goods – the highest rate available.
- The high import duty – averaging 30% to 40%, sharp contrast to the rates in other Asian countries
 - High import duty and high-end prices are dampening the enthusiasm of luxury brands eyeing India as a business destination.
- Lack of quality retail space
- Brand owners worry that a high number of fakes of a specific brand can lead to brand dilution and whittle away selling power and dent the brand's image.



Source: export.gov
ibef.gov



Current Issues in the Business Environment

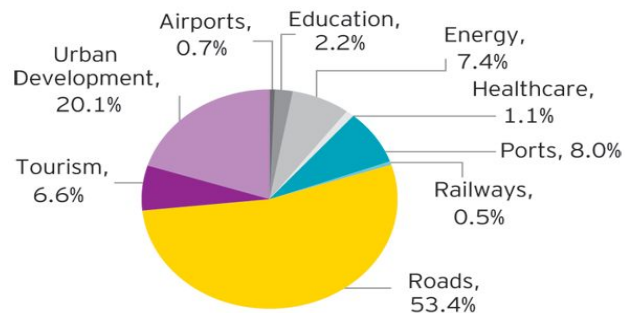
Poor Infrastructure delays progress

Problems with the country's roads, railroads, ports, airports, education, power grids, and telecommunications infrastructure are significant obstacles as the nation strives to achieve its full economic potential.

India has devoted significant portions of its recent annual budgets towards infrastructure development and plans to execute this infrastructure enhancement largely through its home-grown Public-Private Partnership (PPP) model.

U.S. companies have been successful in certain areas of India's infrastructure development, but competition from other countries remains stiff.

PPP projects in India by sector
(Total number of projects: 758)*



Source: PPP India database, *As of July 31, 2011



Knowing the business etiquette is a must



Not prone to physical contact but a pat in the back is not uncommon.



A handshake is the way to greet everyone, regardless of gender or seniority.



Business cards are always exchanged, and they should be written in English.



Gifts are always exchanged, and they should always be wrapped.



Don't get angry if a meeting is interrupted, it's a normal occurrence in India.



Meetings may initially center around non-business related topics.



Foreign businessmen should wear a lightweight suit when visiting, although ties are not compulsory.



Conservative trousers or trouser suits. Clothing should not reveal too much skin.

Importance of Body language



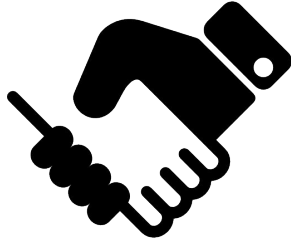
Indians tend to value their personal space and are generally not prone to making much physical contact. However, it is not uncommon for Indian men to engage in friendly back patting. This is a sign of friendship and a positive signal for your working relationship. Indians are generally expressive and use body language to convey messages that are not always verbal.

Showing the soles of your feet or your shoes, or pointing your feet towards anyone, is considered highly disrespectful and insulting in India, as is stepping on or over papers, books, religious offerings on the ground – and especially people.

It is rude to touch anyone's head. Pointing with fingers is also disrespectful; if you must point, use your thumb, with the rest of your fingers curled into a fist, palm facing upward.

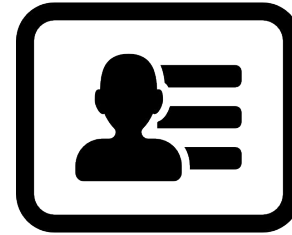


A handshake and a business card go a long way



A handshake is the standard way to greet men and women in a business setting, whatever their age or seniority.

Often people will slightly nod or bow their heads when shaking hands, particularly with senior figures. The left hand is considered unclean and as such, should never be used alone to offer or accept a handshake, drink, food, money, gifts or business cards.



Business cards are essential when conducting business in India and must be handled with respect. Make sure your card includes your name, company name, position and email address, all in English.

When presenting your card, do so with both hands holding the card at the top in between your thumb and index finger with the writing facing the recipient.

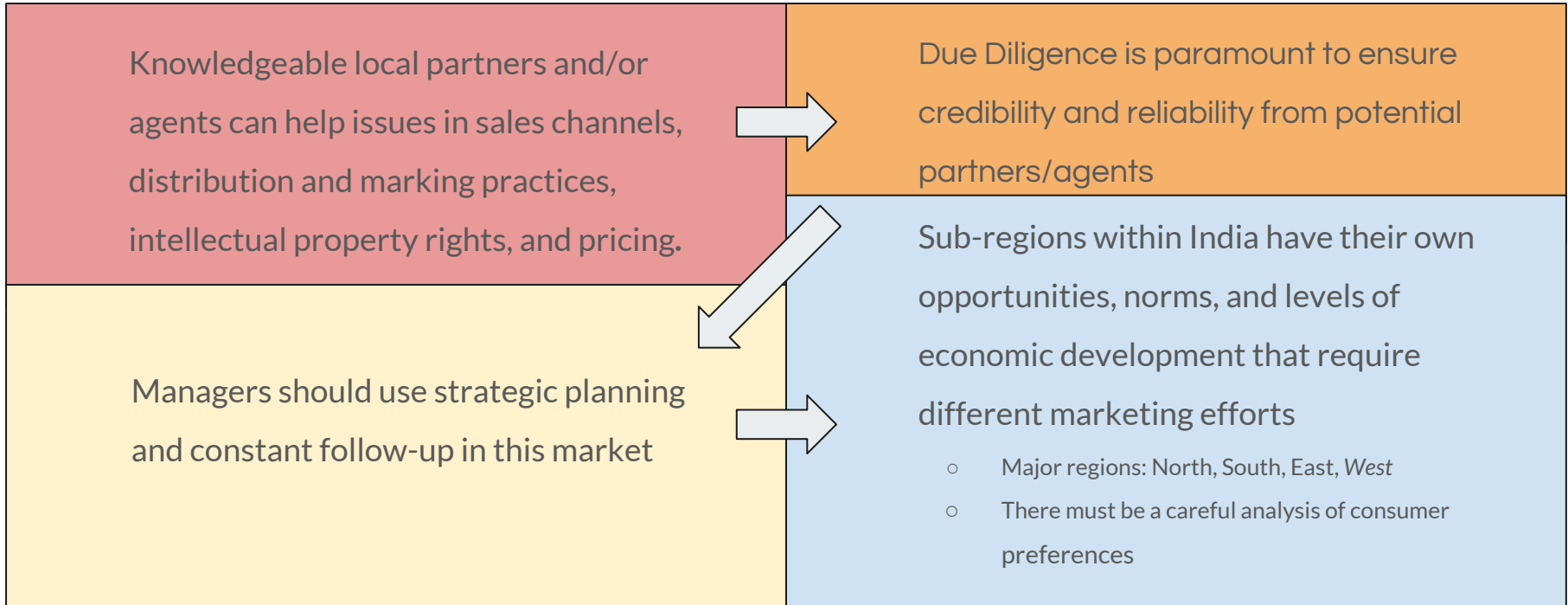




How to enter the Indian market successfully



Finding a knowledgeable local partner is key



Source: export.gov
mapsofindia.com



Identifying Target Market is Key to entry

- Understand the diverse market and strategies towards specific regions and income groups (i.e. target segments)
- Crafting offerings according to the target group in order to gain early acceptance
- Considering the large informal sector into your planning
- Approaching the market consistently
- Obtain mandatory licenses and approvals
- Understanding that import procedures are one of the key issues for first-time exports to India.
- Proper documentation and understanding of the Indian import procedures will help to ensure smooth entry of products into the Indian market.



Source: export.gov





Manufacturing in India > Importing

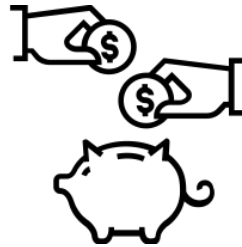
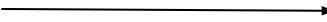
Import duties, taxes, transportation costs, and slow supply chains makes importing unattractive.

One way to mitigate these costs and appeal to a larger customer base is to manufacture in India.

Indian Prime Minister Narendra Modi's government has launched a concerted effort to encourage companies from all over the world to "Make in India."



Third party contract
manufacturers
(CMOs)



Maximize market reach with minimum
investment.



There are plenty of resources for companies to look at before entering the country

Make In India: program by the Indian government whose purpose is to boost FDI. Contains all the information a potential entrant would look at before entering the market.

<http://www.makeinindia.com/policy/foreign-direct-investment>

Invest India: another resource provided by the Indian government.

[FDI in India: Foreign Direct Investment Policy of India | Invest India](https://www.investindia.gov.in/foreign-direct-investment)
<https://www.investindia.gov.in/foreign-direct-investment>

Taxation and Investment report by Deloitte:

<https://www2.deloitte.com/content/dam/Deloitte/in/Documents/tax/thoughtpapers/in-tax-indiaguide-2018-noexp.pdf>



Fashion Lanka
Importers & Dealers in Cosmetics Items Etc.
Maza, Colombo-11. Tel: 2441936 Email: fashionlanka@gmail.com

PITAL WATCH
Street, Colombo - 11. Tel : 2386725, 2386932, 4855812 Fax : 2390999

M A H E
F. S. MOBILE CENTER
NO. 156/15, Siddique Plaza, 2nd Cross Street, Colombo 11.

Cellular

FASHION HOUSE
Wholesale & Retail Dealers In Textile
G 135, 2nd Cross Street, Colombo-01, Tel: 001 2321132

HBL

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Brand New & Re-Co
Mumbai
151/5, 151/6, Mumbai P
2nd Cross Street, Colombo
Tel : 011-2472645
Mob : 0773-281692
E-mail : y25cell@gmail.com

Market Opportunities

Richsonic
SUCCESS TRADERS

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Key sectors - E-commerce



Growing demand

India is the fastest growing market for the e-commerce sector. Revenue from the sector is expected to increase from US\$ 39 bn in 2017 to US\$ 120 bn in 2020, growing at an annual rate of 51 per cent, the highest in the world.

Policy support

100 per cent FDI allowed in B2B e-commerce, 100 per cent FDI under automatic route is permitted in marketplace model of e-commerce.

Attractive opportunities

A lot of India's blue-chip PE firms are looking for opportunities in the sector

Increasing investments

E-commerce industry in India witnessed 21 private equity and venture capital deals worth US\$ 2.1 bn in 2017 and 40 deals worth US\$ 1.129 m in the first half of 2018.

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Three companies control the e-commerce market

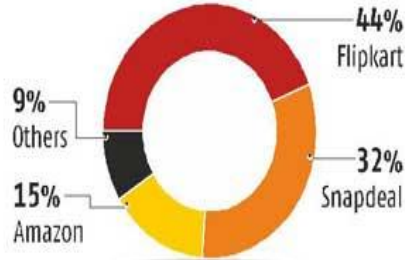
The market is divided among the top three companies, who are all spending huge amounts of money on advertising their respective platforms.



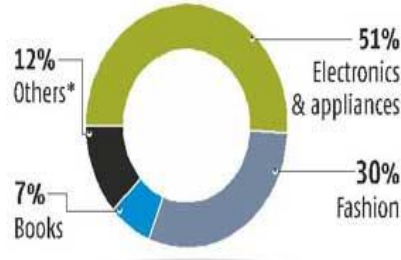
E-COMMERCE PECKING ORDER

A Morgan Stanley report reveals market shares for the first time

MARKET SHARE



BREAK-UP OF INDIAN E-COMMERCE



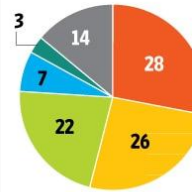
* Others includes baby care, food & grocery, health & personal care, jewellery, furniture & home decor

MAKING THE CONNECT

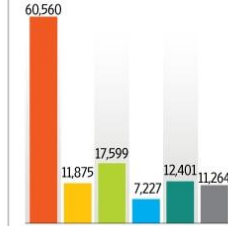
Data shared by ad tech firm SilverPush measures the real time effectiveness of TV advertisement campaigns by the top six spenders between 12 and 18 October. The data shows surge in traffic and social media engagement the companies saw minutes after the ads were aired.

Legend: Flipkart (Red), Snapdeal (Yellow), Amazon India (Green), Paytm (Blue), Shopclues (Teal), AskMe (Grey)

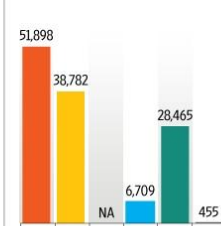
Number of ad spots (TV)
(in %)



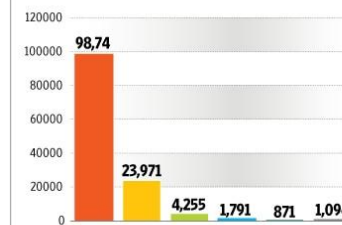
Facebook likes



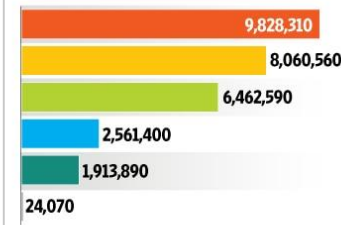
Twitter mentions



Youtube views



Google search



Source: SilverPush



Key sectors - Renewable energy

Robust Demand

As the Indian economy grows, the electricity consumption is projected to reach 15,280 TWh in 2040. Considered the fourth most attractive energy market in the world.

Increasing Investments

With government's ambitious green energy targets, the sector has become quite attractive for both foreign and domestic investors. It is expected to attract investments of up to US\$ 80 bn in the next four years.

Policy Support

Government has ramped up its previous target to achieve 225 GW of renewable energy capacity by 2022. Tax and duty benefits to rooftop solar panels.

Competitive Advantage

India has sunlight available throughout the year and has a large hydro power potential. India was also ranked fourth in EY Renewable Energy Country Attractive index 2018.

Background

Major Industries

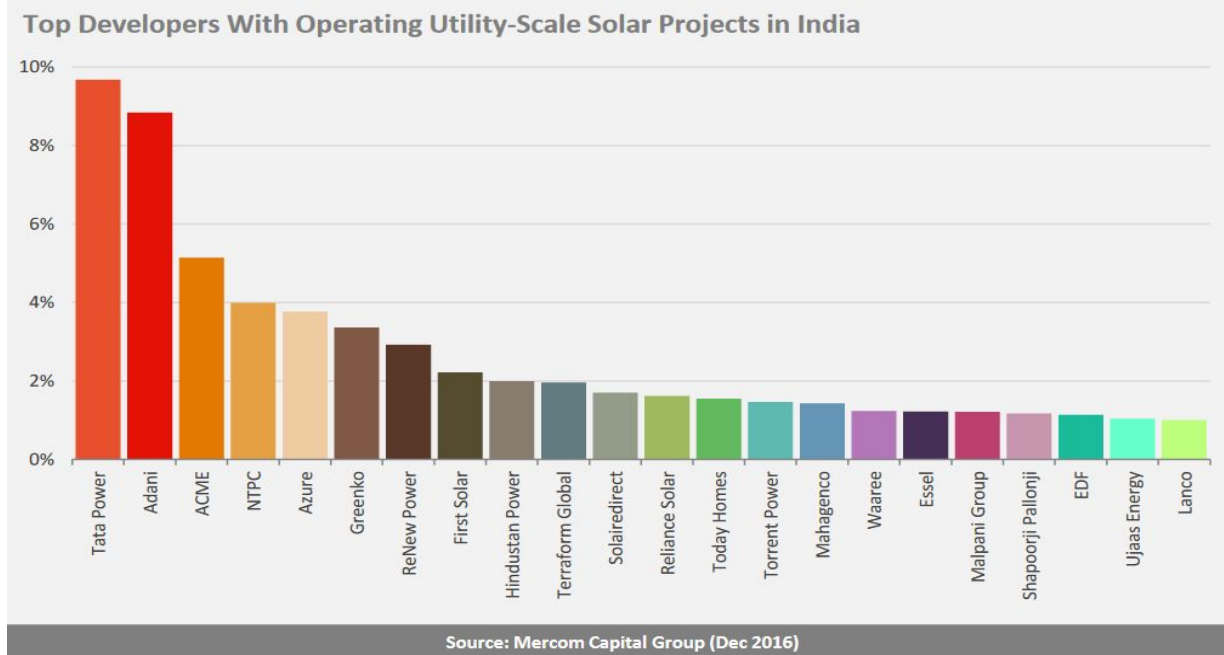
Business Environment

Business Strategies





20 companies control 60% of market



Product, Price, Place, Promotion

The marketing mix is a crucial tool In India to help understand what the product or service can offer and how to plan for a successful product offering





Product

- Foreign products need to be adapted to the Indian market and to Indian patterns of consumption.
- Help companies outsource their help centers
- Mumbai (West) is a hub for global banks
- Bangalore (South) is the “silicon valley of India”
- Facilitate credit to the customer



Source: ibef.gov

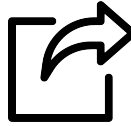


Pricing Strategies Used



- Prices remain relatively low, making the market attractive to foreign firms
- Bargaining for the best price is a routine process for the buyer and seller in India.
- Indian import tariffs are high for consumer products
- Diverse consumer consumption patterns
- The middle class is growing exponentially, providing a fertile market for moderately priced items, but the prohibitive import tariffs may serve to move some items out of the reach of the Indian middle-class consumer.





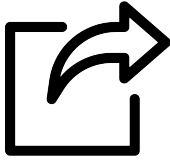
Place Strategies Used

Most Indian manufacturers use a three-tier distribution structure



- The three-tier system: most Indian manufacturers use a three-tier selling and distribution structure that has evolved over the years. This structure involves redistribution stockists, wholesalers, and retailers. As an example, an FMCG company operating on an all-India basis could have between 40 and 80 redistribution stockists (RS). The RS will sell the product to between 100 and 450 wholesalers.
- Finally, both the RS and wholesalers will service between 250,000-750,000 retailers throughout the country. The RS will sell to both large and small retailers in the cities as well as interior parts of India.





Place Distribution

Channels improving by the year

Free Trade & Warehousing Zones:

Trade-related infrastructure to facilitate the import and export of goods and services with greater flexibility. These zones are established in areas close to seaports, airports, or dry ports. Foreign Direct Investment (FDI) up to 100 percent is allowed in the development and establishment of the zones and in their infrastructure facilities. The program allows duty free import of all goods for warehousing.

New Roads:

- India has the second largest road network in the world
- Public spending on highways will reach \$15 bn in 2018
- Prime Minister Narendra Modi intends to spend \$100 bn on 84,000 km of road efforts in 2019



Promotion Strategies Used



Key Takeaways: Make sure to show brand and watch prices

- Brand Awareness: Indian middle-class consumers place strong importance on brands, especially luxury brands.
- Research and implement specific strategy focusing on brand localisation for different regions
- Telemarketing is common when selling
- Price consciousness: Price is an important consideration for Indian consumers, particularly at the lower-middle class and lower- income levels. As opposed to status items on which wealthier Indian consumers are willing to spend more, non-status items are likely to be chosen based on price.
- Word of mouth is very important

NOKIA



Takeaways



I. Wisely choose an India country manager



- HQ needs to hire according to their vision of their role in India over the next 2-5 years.
 - Don't choose a manager used to big operations if you don't plan on expanding across the market.
 - Don't choose the "equivalent of a regional sales manager" if you have ambitious plans for the Indian market.
- The chosen regional manager must be able to deal with government officials and local companies.
- While India is complex, it is an open society and an expatriate sent to India can learn to be effective in India, provided they have an open mind, a sense of humility, and the tenacity to manage the Indian operation for four years or more.





II. Prepare to adapt

- Muhtar Kent, former CEO of the Coca-Cola Company: "... In India, appearances can be deceiving, for outsiders there is always a hint of mystery. Even if you live and work there, you can never be entirely sure you understand. It is best to assume that you do not. If you come to India with some grand, pre-determined strategy or master plan, prepare to be distracted, deterred, even demoralized."
- Companies that are not willing to adapt to the Indian way of doing business have a bleak future in the Indian market.





III. Value, not price

- The common misconception is that Indian customer are willing to compromise quality for a lower price.
- In reality, usage assumptions of American products are not attuned to the Indian market:
 - Some products could be stripped of some features that are of no interest to Indian customers and that add cost to the supplier.
 - Credit is hard to come by in India, so if you convince customers that the product will improve their cash flow they will be more likely to buy it.





IV. Don't ignore governments as customers

- American companies have traditionally hesitated in partnering with local Indian government, fearing corruption, long sale cycles and the pressure of a low-bid process
- Plenty of local governments now have a huge budget that they are willing to spend on infrastructure, medical services, tech and more



ARE THERE ANY QUESTIONS?

