



# Book Winning Strategies for the Indian Market

Anuradha Dayal-Gulati and Dipak Jain  
Kogan Page, 2010

---

## Recommendation

India has 1.1 billion people, about one of every six human beings on Earth. Until recently, most of these people were desperately poor. But while abject poverty remains an extremely daunting problem, many Indians are moving quickly into the middle class, a shift that offers the foundation for sustained growth and development. Editors Anuradha Dayal-Gulati and Dipak Jain – working with numerous informed contributors – provide an intriguing road map to the Indian marketplace, with insights about the prospects and challenges in several pivotal industrial sectors. This statistics-heavy compendium is thorough, though the style and quality of each chapter varies from one author’s contribution to the next. Nevertheless, *BooksInShort* recommends this fine book to anyone interested in India’s industrial growth, opportunities, challenges and mysteries and to corporate executives with an interest in India as a market.

## Take-Aways

- India is a huge, expanding market with vast promise. Its “potential consumer base” of almost 700 million is twice the size of the US market.
- India’s impoverished rural population offers a potentially attractive aggregate market for both indigenous firms and multinational corporations.
- However, India also faces difficult challenges, such as its underdeveloped infrastructure.
- To market in India, adapt your products and advertising to the country’s customs, traditions and sensibilities.
- Supermarkets and chain stores are moving into India, but pushcart vendors and local stores still make up 96% of the market.
- Despite astonishing growth in credit cards, fewer than 2% of Indians have one.
- The Indian mobile telephone market is growing impressively: Soon, half a billion people will own mobile devices.
- As domestic airfares fall, more people will switch from train travel to air travel.
- India once ignored tourism, but now it is aggressively expanding its hospitality industry.
- Tata’s compact Nano car offers a truly radical approach to automobile design.

## Summary

### India’s Potential as a Venue for *Foreign Investors*: Pros and Cons

India is going through an era of vast change. Its vibrant, dynamic economy is now the 12th largest in the world. Its gross domestic product has expanded more than 8% annually since 2003. These changes have generated increasing prosperity. In the 1970s, some 50% of Indians subsisted below the poverty line; today, that’s down to 26%, and approximately 67% of Indians can routinely afford to purchase consumer items.

“Several Indias coexist; the India we see depends on the parameters we use in segmenting and aggregating the target population.”

The nation’s “potential consumer base” – already more than double the US market – is growing rapidly. India’s young people – some 70% of the population is not yet 36 years old – are earning and saving more than previous generations and can afford to spend more of their incomes.

Rapid economic growth means that even the rural population – currently 790 million people, many still impoverished – is developing purchasing power. Most rural Indians live in tiny villages with poor infrastructure and inferior roads, so marketing and distribution are challenging. These individuals have little or no money, but they form a powerful collective market. Already responsible for “more than \$100 billion in consumer spending,” the rural market is expanding three times faster than the urban market. High tech advances, especially mobile phones, are enabling rural people to tap into services like “banking, distance education and health care.”

“The vast rural market, long considered impoverished and logistically challenging, has become the new frontier in the battle to capture the hearts, minds and wallets of the Indian consumer.”

India’s 1997 entry into the World Trade Organization (WTO) was an important indication of its strong commitment to foreign investment and open markets. Yet, despite its great promise, India also presents international firms with significant challenges, such as underdeveloped infrastructure, inefficient government and pervasive red tape. India’s highly fragmented retail base makes product distribution difficult. Moreover, demanding Indian consumers always insist on top value for their money. Nevertheless, multinational corporations (MNCs) are now moving into India as they boldly try to tap its vast market.

“A fundamental lesson of a growing market is that companies can grow largely without direct competition with each other: a rising tide lifts all ships.”

To be successful, the leaders of MNCs must adapt their business models to accommodate the huge, extremely varied Indian marketplace. Managers must learn about and cater to Indians’ highly individualized cultural characteristics, which often differ substantially from those of Western consumers. Brand messages that work well in the West may be meaningless in India. Additionally, merchandisers often must educate consumers about the use and value of products that are new to them. For example, toothpaste remains relatively exotic in rural India.

## **The Neighborhood Store versus Modern Retail**

India’s 12 million shopping outlets make up the world’s largest retail density. India’s traditional small *kirana* stores account for 96% of the nation’s retailing. Indians feel a strong sense of loyalty toward their local kiranas, most of which are unorganized individual- or family-run businesses.

“Price has always been one of the most critical factors in determining success in developing markets.

However, those loyalties may change. The Indian retail sector is becoming inundated with giant malls, “convenience stores, supermarkets, hypermarkets and department stores.” Since Indians are pre-eminently value shoppers, they are certain to respond favorably to the “lower prices, better quality and wider selection” that large retailers can offer. Thus, numerous giant Indian retailers, such as Subhiksha Trading Services and Bharti Retail, are now opening large stores to compete with the kirana stores. Some international firms, including Walmart, are also moving into the Indian cash-and-carry market. Domestic giants often form retail partnerships with MNCs. While problematic product sourcing and weak infrastructure challenge retailers, Indian commercial giants are signaling the dawn of a new era of “modern, organized retail.”

## **“Toward a Credit-Driven Consumer Culture”**

Traditionally “credit averse,” Indians save their money and loath debt. Because India’s underground cash economy is pervasive, many people can do without credit cards. Evasion is rampant – only 2%-5% of citizens pay taxes – so many people and businesses avoid having their names on electronic fiscal records.

“Pricing for Indian consumers is a particularly tricky task.”

Yet, since many people now have better earnings, more financial power and a bigger appetite for purchasing, a fresh opportunity has opened for financial institutions to provide credit cards. As firms exploit this opportunity, credit card issuance is soaring. Only 2% of the population now holds credit cards, but “the shifting demographics in India, with seven million people entering the age 20 to 34 bracket every year, present a huge opportunity for the credit card industry.” To succeed, financial firms must change local retailers’ attitudes about credit. Most Indians settle their card balances before any interest accrues, so to make money, card issuers must use innovative strategies. For example, Citibank now cross-sells cards to its mortgage customers.

## **“The Challenge of India’s Mobile Telecom Market”**

India’s mobile telecom industry has grown at an astounding pace in recent years, from around 5.5 million users in 2001 to some 290 million in 2008. India is the second-largest mobile marketplace (after China) in the Asia-Pacific region and is likely to grow to more than 500 million users in the coming years. Rural India will account for a substantial portion of this growth. Already, mobile communications firms are developing rural telecommunication infrastructures and investing in acquiring customers. To win subscribers, they must keep prices low, especially for handsets, since cost is the primary barrier to the adoption of mobile services in expanding markets.

“The enormous potential of mobile telecommunications is often illustrated by the story of a fisherman calling ahead from boat to shore to ascertain the likely price of his catch and to establish where he can maximize value.”

Faulty infrastructure is a major problem. Today, big telecom operators such as Bharti Infratel are building towers nationwide. Many firms share facilities to cut costs for themselves and their users. Blackouts are common, and many villages have no electrical power at all. Thus, extended battery life is vital to selling cellphones in the rural market. “Value-added services” (VAS) – like access to cricket score updates, movie previews and stock market data – will help mobile telephone companies acquire and retain customers who constantly search for lower prices.

## **“India’s Airline Industry: Fair Skies Ahead?”**

As India’s middle class grows, more people will travel by air. So far, only about 2% of India’s people use the airlines, so low-fare domestic carriers have excellent growth potential. Many Indians will opt for air travel instead of rail once air service improves. Currently, at least 16 million Indians take trains daily. Approximately 20% of rail passengers travel in first or second class. If domestic airlines can charge fares that compete with train tickets, many people will make the switch, because Indian train travel is unreliable and uncomfortable.

“The Indian government will not be able to address the needs of its poor on its own; it must partner with and create incentives for social entrepreneurship to...be part of the solution.”

With an eye toward this potential demand, Boeing and Airbus are increasing their investments in fleet expansion, training more Indian pilots, and developing engineering and maintenance units. John Leahy, chief commercial officer at Airbus, believes, “India is one of the world’s most promising markets.” Boeing anticipates a \$72 billion Indian demand for new commercial aircraft during the next two decades. Yet, while India’s airline industry may have a bright future, most domestic carriers have been losing money. Moreover, India’s underdeveloped airports remain a major issue. Fewer than 100 of its 454 airports have “more than one daily” flight. Government red tape – an endemic problem in India – also impedes further progress.

## “India’s Changing Hospitality Industry”

Despite its numerous attractions, India historically hasn’t pursued tourism. The government shifted its stance and began supporting the tourism industry in 2002, when it launched the “Incredible India” marketing campaign, spotlighting ayurveda (ancient healing techniques). Later, India promoted the *Atithi Devo Bhava* (“Guest is God”) program, which stresses traditional Indian hospitality. The World Travel and Tourism Council expects India to become “the third-fastest-growing tourist destination over the next decade.” With that potential as a lure, India’s government has completely opened the hotel and tourism industry to foreign investment.

“A major challenge of introducing new product categories into India is consumer education, especially in rural markets.”

The increase in international business travelers and the growth in domestic demand have created a serious shortage of hotel rooms, so room prices are going up 18%-22% each year, as occupancy rates hover around 75%. To meet India’s demand for 150,000 to 200,000 new rooms, the national government gave the green light for the construction of 300 new hotels. High-end travel represents much of India’s hospitality business. It is now a prime global competitor in luxury accommodations, and a substantial portion of its growth is in “five-star and heritage hotels.”

## “India’s Pharmaceutical Industry: A Shift in Strategy”

In the 1970s, India stopped honoring product patents. As a result, its pharmaceutical firms began to “reverse engineer” drugs that other companies manufacture. Thus, India became a prime generic drugs supplier domestically and worldwide.

“India’s historical propensity to shy away from tourism has impeded the growth of its hospitality industry.”

Then, in 2005, India had to tighten its intellectual property laws to comply with the WTO’s protection of patents, which applies in particular to pharmaceuticals. India’s pharmaceutical firms had to adjust, so they embarked on ambitious R&D to discover and test new drugs. In 2006, pharmaceutical giant Ranbaxy Laboratories spent \$100 million on R&D in India. Piramal Healthcare built a new \$20 million R&D center in Mumbai. Because developing a single drug can take 10 to 12 years and cost \$800 million to \$1.2 billion, many multinationals work with Indian firms to save money and time on creating new medications. Due to its relatively low development costs (40% less than in the United States), India has become a world hub for “contract research.”

## “Social Entrepreneurship: Empowering India’s Poor”

Despite the rapid expansion of the nation’s middle class, many Indians remain desperately poor. One-third of the world’s poor live in India – 260 million of the nation’s people subsist on less than a dollar a day. Half of India’s children don’t have enough to eat, and half of its homes lack electricity. The scarcity of tap water remains a problem. The ever-changing government (plagued by a rabid “anti-incumbency” attitude so deep that Indians have not elected the same political party for two consecutive terms in 40 years) does little to help the poor. Only five other nations provide less money for public health than India.

“Long reserved for the wealthy, air travel in India is becoming common among the growing middle class, resulting in an astonishing overall market potential.”

Microfinance, which provides small amounts of credit to entrepreneurial poor people, has huge potential to reduce Indian poverty, despite innate credit aversion. Some Asian banks champion microfinance, including the Grameen Bank of Bangladesh. This “pioneer of the new microenterprise lending movement” believes as a matter of policy that “credit is a human right.” India’s impoverished people really need \$30 billion a year in microcredit, but only \$4.5 billion is available. The chief recipients of microcredit are Indian self-help groups (SHGs), mostly collectives of 20 or fewer women. Indian banks love these SHGs because they pay approximately 25% interest, and their loan repayment rates top 95%.

## “The Tata Nano: Innovating from the Ground Up”

In 2009, India’s Tata Group introduced the world’s cheapest automobile, the \$2,500 Tata Nano. This “people’s car” embodies the “launch of a million possibilities” for Indian innovation. It demonstrates that “Made in India” means far more than just cheap outsourcing. Tata, India’s primary automaker, used a new business plan when it developed the Nano. It sought the least expensive option for every component of the car, and it outsourced its design. Its primary guideline was, “Make it simpler; make it light.”

“The appeal of India to hospitality companies is obvious: India is fast growing yet underserved; it boasts wide topographical diversity; and it has a large population.”

Such R&D outsourcing is a radical departure from standard automobile design, but the bold endeavor worked. The Nano is “the world’s most frill-free car.” The price is low because “97% of its parts are sourced locally.” The car costs less than 25% of America’s cheapest car, the Chevrolet Aveo. Tata can sell the Nano in kits that local entrepreneurs can assemble, a revolutionary manufacturing concept that may launch the “McDonaldisation of the car industry.” The Nano illustrates the nation’s burgeoning engineering prowess and abundant entrepreneurial spirit. The car has “brought pride to India.”

## About the Authors

**Anuradha Dayal-Gulati**, a business consultant, is co-editor of *Kellogg on China* and *Global Corporate Citizenship*. **Dipak Jain** is a professor of entrepreneurial

