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How multinationals can win in India

Companies should avoid simply imposing global business models and practices on the local market.

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Over the past 20 years, multinational companies have made considerable inroads into the Indian market. But many have failed to realize their potential: some have succeeded only in niches and not achieved large-scale market leadership, while others haven't maximized economies of scale or tapped into the country's breadth of talent. The experience of a leading multinational consumer goods company illustrates the challenge: its revenue in India has grown by 7 percent compounded annually in the past seven years—almost twice the rate of the parent company in the same period. Nevertheless, the company's growth rate in India is only about half that of the sector.

For multinationals, the key to reaching the next level will be learning to do business the Indian way, rather than simply imposing global business models and practices on the local market. It's a lesson many companies have already learned in China, which more multinationals are treating as a second home market.[1] In India, this trend has been slower to pick up steam, although best-practice examples are emerging:

- A leading beverage company entered India with a typical global business model—sole ownership of distribution, an approach that raised costs and dampened market penetration. The company's managers quickly identified two other big challenges: India's fragmented market demanded multiple-channel handoffs, and labor laws made organized distribution operations very expensive. In response, the company contracted out distribution to entrepreneurs, cutting costs and raising market penetration.

- A big global automobile company has become the one of the largest manufacturers in India, growing at a rate of more than 40 percent a year over the last decade, by building a local plant, setting up an R&D facility to help itself better understand what appeals to Indian customers, and hiring a well-known Indian figure as its brand ambassador.

To realize India's potential, multinationals must show a strong and visible commitment to the country, empower their local operations, and invest in local talent. They must pay closer attention to the needs of Indian consumers by offering the customization the local market requires. And multinational executives must think hard about the best way to enter the market. More and more, that will mean moving beyond the joint-venture approach that so many have adopted and learning to go it alone. (For a localization-assessment tool, see sidebar, "Winning in India: An illustrative scorecard.")

It's essential that multinationals raise their game in India: the country's economy is expected to grow by upward of 6 percent annually in the next few years, among the highest rates of any big emerging economy. In several product and market categories—mobile handsets, for example—India could account for more than 20 percent of global revenue growth in the next decade. In other words, the future of many multinationals depends on their ability to succeed in India.

[1] See Jeff Galvin, Jimmy Hexter, and Martin Hirt, "Building a second home in China," mckinseyquarterly.com, June 2010.

Winning in India: An illustrative scorecard

1. Ensure top-leadership support and commitment through cycles	☐ Set bold and explicit aspirations over next 5 years (eg, 3x–5x growth in India) ☐ Send global CEO and relevant senior executives to India 3–4 times a year; engage in regular dialogue with top Indian clients ☐ Maintain appropriate local investments even through business cycles
2. Customize offerings to suit Indian market and customer needs	☐ Gain deep understanding of 4–5 target client segments and the initiatives that will deliver against a 3x–5x growth goal (ie, beyond just niche markets) ☐ Set high market share goals (eg, 15% or more) for the targeted client segments ☐ Tailor product/service packages to client segments' needs and local market differences
3. Create innovative and localized business model	☐ Commit to products that have 30% less functionality and that cost 50–70% less without compromising quality ☐ Build distribution network that mirrors customer targets; plan to expand it by 20–30% ☐ Employ robust supply chain in India (eg, reliable vendors conforming to quality specifications)
4. Scale up via deals and partnerships	☐ Assign a business-development/M&A team to scout for opportunities in India periodically ☐ Develop strong local partners and joint ventures; manage results proactively every quarter (ie, no arms'-length relationships)
5. Leverage India for global products, services, and talent	☐ Make India team a key R&D hub with sufficient resources to deliver results ☐ Deploy business-model and technical innovations from India in other relevant markets ☐ Global operations benefit from India's cost advantage, scale, and talent pool
6. Manage perceptions and regulation	☐ Maintain strong relationships with top 10 external stakeholders (government and regulators); don't rely on external agencies for this ☐ Achieve premium positioning for brand in India over local competitors; ensure that brand has sufficient Indian attributes (ie, not just a foreign label)
7. Empower local organization; offer a compelling people proposition	☐ Make India head a senior officer and part of global executive committees ☐ Provide India-based CEO with own investment budget and autonomy for most day-to-day decisions ☐ Include top 5 India executives in the global top 200 executives; monitor their career development at a global level ☐ Recruit 10% of global top 500 leaders from operations in India ☐ Achieve reputation as preferred employer (eg, place among top 100 employers in India)

Empowering the Indian organization

Many multinationals in India are stuck in a profitability trap characterized by a lack of commitment to build country-specific operations and management systems. When expatriate company heads are brought in, their efforts often fall victim to short rotation cycles that inhibit the execution of long-term strategy.

One important differentiator is the ability to demonstrate a commitment to India through the economy's inevitable cycles and volatility. Policy makers and local entrepreneurs have long memories, and "state visits" by global CEOs and chairmen are not sufficient if a company doesn't follow through on its commitments.

One global electronics manufacturer offers a successful example of the benefits of a leadership commitment in India. After the company's efforts to set up a joint venture ran aground, it decided to do business on a stand-alone basis. The company launched an aggressive marketing campaign, but rather than raise product prices in India to pay for the effort, global headquarters financed it. Headquarters also helped the Indian subsidiary to source inexpensive components until it could take command of its own operations. The support and commitment of the global office in those early years made this company one of India's leading electronics manufacturers.

But a multinational power and automation technology company learned the hard way what happens when senior executives lack commitment to India. In the late 1990s, the parent company paid marginal attention to local operations there and was unwilling to adapt to changing market conditions. The performance of the Indian unit declined—it lacked autonomy and faced hierarchical and bureaucratic roadblocks in its dealings with global headquarters. Finally, in early 2000, headquarters gave the Indian operations a high level of autonomy, and in response revenues rose by 30 percent (compounded annually) between 2001 and 2005.

Empowering local management is also critical for attracting and retaining talented staff. Many multinationals are moving toward the creation of a strong Indian business unit and, in the process, moving away from functions or global products as the primary axis of governance. These companies are investing in top talent: the head of the Indian unit is experienced and knowledgeable about the market and has a direct line of communication with the global company's CEO. This direct connection to global management—combined with the ability to make decisions on capital spending, products, and pricing—holds a local leader more accountable and facilitates the sharper development and execution of strategy.

Likewise, a global conglomerate faced with declining sales in India recently consolidated all its business units there under one country head, who has direct profit-and-loss responsibilities. This top executive makes all major decisions, including headcounts, pricing, and product customization. All local business unit heads in India now report to him rather than to their global business unit leaders, as they had in the past. This change has helped concentrate resources and enabled faster decision making, allowing the company to better serve local customers and, ultimately, to grow more quickly.

Local empowerment should extend beyond the country head to lower levels of management, which can help drive innovation and entrepreneurialism on the ground and decrease times to market for new products. But structure is not enough. Multinationals need the right people—especially in middle management, a group critical to the successful execution of a growth strategy. Given the vast array of opportunities available in India and its relative shortage of management talent, multinationals have had to revise their models significantly. With the continuing professionalization of Indian companies, the country's stronger managers have less incentive to work for a branch of the multinationals, which must look beyond short-term tactical measures to attract high-quality people.

The most progressive global companies are moving in three directions. First, they create more globally visible local roles, which may include representation on executive committees. Such positions emphasize entrepreneurialism and greater authority and offer higher compensation. Second, these companies promote a meritocratic culture: accelerated career tracks, fair and transparent advancement processes, the absence of a "glass ceiling" for locals, a performance-based system that motivates self-starters, and differentiated incentives for high performers. Third, progressive global companies offer mobility and tailored leadership programs. Structured global rotations for strong performers and leadership-development courses (especially with some form of certification) are proving to be effective recruiting and retention tools.

Innovating for India

Multinationals are learning that many different Indias exist within the subcontinent. The big differences—the haves and have-nots, languages, literacy, and geography (including the urban–rural divide)—make it difficult for a global brand to satisfy all of the country's consumers. Multinationals also face the challenge of low-cost local competitors.

Indian consumers demand sophisticated products and services found in the West, but at lower prices. A one-minute call from a mobile phone, for instance, costs one to two cents in India, much less than it does in the United States. This aspect of competition in India means that innovation is occurring not only through localized products and services but also in business models and processes.

To strike a balance between global brands and local positioning, multinationals can introduce sub-brands or models with features suited to Indian needs. They could also work with local suppliers to reduce costs, which would allow them to offer cheaper prices to the end consumer. Although many of these ideas are not new, multinationals have been slow to implement them in India. The key is that customization has to be a game-changing strategy rather than an incremental one: multinationals must aim to cut costs by 60 to 80 percent, with just a 30 percent reduction in features.

One of the classic examples of customization is the success of a Western farm equipment maker that builds and sells relatively low-cost, no-frills tractors in India. These are far less elaborate than most of the machines the company sells in the United States. As a side benefit, it started marketing a version of a lightweight tractor in the US market to farmers and others who wanted a less expensive yet sophisticated product.

Televisions offer another example. Marketing a consumer durable as straightforward as a TV poses a lot of challenges in India's rural market. Some consumers who don't speak or read English can afford to buy a TV but use it primarily to listen to music, so they want high-quality sound. A leading global electronics manufacturer has met this demand by offering television sets with menus in Hindi and five other important regional languages. It has also adapted some models by enhancing their sound systems to provide a better listening experience.

Similarly, a leading car manufacturer has set up a team of people to understand customer requirements and redesign the features of its products. Its design-to-value approach is becoming increasingly common: in India, multinationals devote more than 10 percent of their product-development resources to such efforts. We also find that best-practice international companies take talented employees from India and rotate them through the product-development organization globally. In this way, "frugal engineering" becomes an embedded capability—and frugal can mean both inexpensive and innovative.

Choosing the right entry strategy

One of the first and most important issues for a multinational considering doing business in India is ownership structure. Multinationals that enter the country on a stand-alone basis, our experience shows, generally fare better than those that use Indian partners to create joint ventures. Most global companies that opted for them have exited the Indian market, while some have purchased the stakes of their partners or established majority shareholdings. One global consumer goods company, for example, bought out its Indian partner because of differences over product marketing and brand positioning. The multinational is now doing well in all the segments where it competes.

Multinationals that choose joint ventures as their entry vehicle into India think that a local partner can better navigate the market's complexities and manage regulatory issues. There is some truth to that idea, but in practice, joint ventures often tend to emphasize short-term performance over long-term goals, long-term commitment, and an alignment between the interests of the global and local partner. Without management control and a clear path to ownership, global companies may have no alternative but to exit the market. Joint ventures can be beneficial in some cases, but they are not essential if a multinational regards India as a priority market and regulations allow the company to have majority or complete. When joint ventures are necessary, multinationals should ensure that they have real management control and a clear path to ownership should that become necessary.

Partnerships with Indian companies need not be limited to joint ventures— multinationals should also consider strategic alliances with local players. An international technology manufacturer and an Indian company, for example, set up a local manufacturing plant that went on to double its production volumes every 18 months. This achievement set it on the path to becoming the largest of the multinationals' plants in India, with the world's lowest costs and high profit margins. From the multinational's point of view, the success of this strategic alliance moved India from the “nice to have” category into an essential part of its international operations.

A global pharmaceutical company established itself as a stand-alone entity but developed strategic alliances with a local manufacturer in licensing and supplies for the generic and off-patent segments. These agreements helped the multinational to enter India’s fast-growing market for low-cost, easily accessible branded generics and off-patent medicines.

Winning in India requires an intense and concerted effort. The multinationals need top leaders willing to make a commitment to the Indian operation and to localize and empower it. They must adapt to the Indian consumer’s demand for innovative, low-cost delivery systems and high value for money products, as well as identify and implement an appropriate ownership model. Finally, senior executives of these companies should not neglect the management of local stakeholders, such as regulators and activists. The best efforts to localize an Indian business model will come to naught if these influential groups are overlooked.

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