Indian Companies as Customers, Competitors & Collaborators

Nirmalya Kumar

Indians are very good at adopting a dual identity. The fluency in English combined with the familiarity with Western concepts can lull the Westerner into believing that Indians are quite like them. But Indians do have some distinct tendencies in how they approach business. Given the rise of India as a market and the Indian global companies, non-Indians will increasingly face Indians as customers, competitors, and collaborators. This article examines how Indian companies play each of these roles. While the traits presented here are the general Indian tendencies, the answers are complex, with many differences in a country inhabited by more than a billion people.

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Indians as Customers

Indians have a long tradition as buyers and sellers with foreign countries, having traded for centuries with their neighbours in the Middle East and Southeast Asia. Since the fifteenth century, this trade also included Europe, though trade with the Romans has been documented as early as the first century. This has led Indians engaged in business to have a "trader" mentality, with both its positive and negative connotations. Positively, this makes them highly entrepreneurial, always looking for opportunities to do business. Perhaps negatively, especially from the supplier's perspective, this makes them inordinately price sensitive in their purchasing. In other words, Indians are tough negotiators and love bargaining. Any foreigner desiring to sell to an Indian firm should be prepared for this.

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Indian procurement officers like to be knowledgeable buyers and drive a hard bargain. For example, R. C. Bhar-

gava, former purchase director of Suzuki India, used his knowledge of costs almost cold-bloodedly in purchase negotiations. Car tires have always been sold as proprietary products. Nowhere in the world was their price negotiated on a cost-plus basis. Yet, Bhargava stunned the tire industry in India by declaring: "You show me your cost structure and I will give you a remunerative margin." Indians use their knowledge of zero-based costing remarkably well in buying situations.

Indians are not shy of using their relationships in business. For example, Shiv Shivram, a veteran buyer of forty years with Imperial Tobacco and Dunlop, is friendly with salespersons at all levels. When the general sales manager of a vendor comes to negotiate a contract, one of the vendor's salesmen he is friendly with will whisper the bottom price in Shivram's ear. Thus when Shivram negotiates, he knows the price below which he cannot go as it would hurt the seller. The strategy is to use long-standing relationships to get the best deal while giving a fair return, but not to squeeze the last dollar out of the seller.

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When major purchases, big-ticket items, or capital equipment are at stake, the negotiations can be frustrating to non-Indians. Westerners are often heard complaining that the discussions take forever and the specifications keep changing. Consider, for example, the current rush by foreign vendors to sell arms to India. Reflecting on the experience, Rear Admiral Rees Ward, head of the United Kingdom's defence manufacturers' trade association, said: "It is a rapidly growing market of a potential superpower . . . however, the procurement processes often cause delays and cancellations and therefore overseas companies need to understand that they have to commit to the long haul if they are going to win contracts" (Sylvia Pfeifer & Amy Yee 2008: 9).

After months of tough negotiations have brought a handshake agreement and the deal is ready to be signed the next morning, be prepared for a surprise. It is too soon to start celebrating. At the eleventh hour, after the lowest price has been negotiated, it will be length of credit that will determine who gets the order. There will be a new negotiation about the payment terms because Indian companies, usually strapped for cash, like long credit cycles.

The negotiations are conducted by the professional managers in the company. However, with any significant purchase, the promoter or owner will be brought in to bless the deal at the final stage. The professional managers of family-owned companies are usually unwilling to stick their necks out and complete the transaction without involving the promoter. Doing so may leave the professional manager open to the accusation of having received a kickback from the supplier.

Peter Smith, senior executive of General Electric, who for thirty years sold power plants to many Indian companies, remarked: "After the negotiations are over and the draft purchase order has been seen by the seller, the real decision maker arrives. Usually the promoter stands in the background till the end. Then the final negotiations begin!" The seller must remember to hold something back because the promoter, to "keep face," must be able to demonstrate to his managers that he managed to negotiate a little bit more.

With liberalization, the supplier practice of giving bribes to the managers of private companies has mostly died out. However, the vendor may still give the promoter something he or she likes as a gift. Usually, one of the customer's professional managers will let the vendor know that the boss has a particular soft spot for, say, a watch, which is then dutifully presented to the promoter at this final meeting. However, these gifts are not always one way, as Indian buyers will also give gifts to their foreign suppliers. They will invest in building relationships with the suppliers' key executives because they understand that in future deals, these executives have the power to reduce prices or extend credit terms.

In meeting the demanding price of Indian companies, foreign companies should bear a few things in mind. First, the price consciousness of Indians is often about the "fair" price rather than the lowest price. Indians hate to hear that someone else managed to purchase the same item for less, and price information is transmitted remarkably efficiently in India. Thus, when dealing with multiple Indian firms, it is best to maintain price integrity.

Second, while quality is important for Indian companies, it is not the most important factor when placing an order. Often to obtain a better price from the vendor, Indian firms are willing to compromise on quality and specifications. Rarely do they need, and are willing to pay for, all the bells and whistles.

Third, with major capital equipment purchases, vendor financing is often important to Indian companies. They will frequently be willing to make concessions on price in order to obtain financing for the deal. For example, Bharti, India's leading telecom operator, built its entire network using vendor financing from the likes of Ericsson and IBM. There was no way the company could have funded the massive network expansion from its own pockets.

Sometimes, Indian companies may even ask for vendor financing of the promoter's equity. For example, the vendor agrees to take a stake of, say, $50 million in equity, which will later be sold back to the promoter for a predetermined price. This gives the promoter the funds to operate the business as well as place the orders for the capital equipment needed. To some extent this is changing in India, as capital markets are developing and financing is available. As a result, Indian companies do not need to rely as much on their traditional sources of funding, like family and their

own resources. Still, even today, their ambition is frequently beyond the financial resources available.

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Indians as Competitors

Most Indian companies, with some notable exceptions, do not have a well-thought-out strategy for global markets. Therefore, they are forced into relying on price as their single biggest competitive tool. They are fierce price competitors, displaying a high propensity to use an entry pricing strategy in global markets, at times pricing even below marginal costs. Beyond the lack of a clear non-price competitive strategy, there are some good reasons why Indian companies rely heavily on price to compete in global markets.

The lack of an upscale country image means that brands from India desiring to go global, like their Asian predecessors from Japan, Korea, and China, have little option but to use price as the dominant lever. For example, when Mahindra & Mahindra introduced its sports utility vehicle in the United Kingdom, it was by far the cheapest seven-seater 4x4 in the U.K. market. Selling at £13,000, it was cheaper by about £8,000 compared to the next-lowest-priced vehicle. Pawan Goenka, president of Mahindra's automotive sector, explained: "The price is our USP [unique selling point] . . . we have the lowest-priced comparable vehicle in all the markets we're in, and hopefully we give good value to the customer" (Emma Smith 2007: 6-7).

India is fortunate to have one of the lower-cost economies, which means that Indian companies are willing and able to survive using price as a competitive lever. Furthermore, because the Indian domestic market is highly price conscious, Indian firms are comfortable playing the price game. As Ratan Tata remarked: "Being in this market, contrary to what everyone believes, you always need to be more competitive than what you have to be outside, because the buying power in this country is so low. So you're always thinking of how to address that segment of the market." (Joe Leahy 2007: 13).

What makes Indians rather aggressive, and some would say not very disciplined, price competitors is that they hate to lose. Often they are too eager to get the business. Pradip Kamat, chief executive of Indus International, a U.S.-based business that facilitates supply links between the two countries, observed about Indian companies: "[They] are reluctant to say no . . Some [potential partners from India] are not sufficiently assertive in pushing back against what the U.S. companies are asking them to do" (Peter Marsh 2007:13).

Indian firms are not as flexible as the Chinese, but this desire to "win" at any cost not surprisingly results in some detrimental follow-on effects.

To obtain the orders, salespeople routinely over commit the firm, and at times forget to inform the delivery team. Sometimes they agree to delivery schedules that the company cannot meet (*Ibid*). At other times, the vendor realizes that the order was secured at an unreasonably low price. To be able to turn a profit, the Indian supplier may be forced to retrofit (lower) the specifications. Furthermore, small Indian exporters have limited working capital resources to execute large global orders. As one U.S. executive who had experience with Indian suppliers was quoted in the *Financial Times*: "The easiest way to kill some of them off is to give them a large order which they find difficult to fulfil" (*Ibid*.). All of this causes considerable customer dissatisfaction—and Indian suppliers tend to be sales rather than marketing oriented.

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The lack of a sound competitive strategy also leads many Indian companies to over rely on the quality of their salespeople. The fact that they are competing on price combined with their lack of experience in global markets leads them to favour having an Indian sales force. Unfortunately, this rarely works, especially in countries where English is not the language of business. Indian companies are only now learning that customer-facing units must reflect the culture of the customer. The more successful Indian global companies have had a steep learning curve on this dimension.

Indian companies in global markets do not seem to have patience for long hauls. The customer lifetime value concept is less developed in Indian firms. As Allan Scott, vice president of business development in the United States for an Indian Tier 2 IT services company, remarked: "If the lead time to an order is anything more than six months, my Indian bosses want my time redeployed to other prospects."

Indian business executives and owners are very effective at getting information from competitors using their personal relationships. Given the strong heritage of the family business culture in India, they do not hesitate to leverage friendships and family relationships to help their business. Unlike many Western executives, who would see it as inappropriate to pressure one's friends for business purposes, Narayana Murthy, chief mentor of Infosys Technologies and India's best-known professional entrepreneur, observed that to compete successfully one needs to use one's personal and professional relationships equally and not avoid doing so.

Indians as Collaborators

Indians as collaborators play two roles vis-à-vis foreign companies. In the past, given the strict restrictions on foreign ownership, a joint venture with an Indian partner was mandatory for any foreign company seeking to do business in India. Thus there is a long history and rich experience on which to draw conclusions about how Indian companies behave with their foreign joint

venture partners. The more recent collaborative phenomenon is how Indians behave when they acquire foreign companies. In the next two sections we distinguish between these two roles.

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Indians as Joint Venture Partners

While international companies from Wal-Mart Stores to Fiat are rushing to India through joint ventures with Indian firms, India can safely be regarded as the joint venture graveyard of the world based on evidence of the past two decades. One of the largest business houses of India, who at one time boasted about managing fifteen joint ventures with *Fortune* 1000 companies, now has no surviving joint venture. A McKinsey study found that of the twenty-five major joint ventures between foreign and Indian companies established from 1993 to 2003, only three still survived in 2005. For example, consider Modicorp, which during the 1990s had lined up alliances with Motorola, Walt Disney, and Xerox (Peter Wonacott & Eric Bellman 2007:18). As a result, Modicorp's chairman, B. K. Modi, was popularly referred to as "Mr. JV." Since then about a dozen of his joint ventures, including those with the three American companies, have dissolved.

Why have Indians failed as collaborators in joint ventures with foreign partners in India? The problem was that before 1991, joint ventures were mandatory for foreign companies seeking to enter India. Even today, after liberalization, many of the large and fast-growing sectors of the economy, such as retailing, consumer banking, tele-communications, and media, require an Indian partner *(Ibid).* Thus the foreign partners enter into these joint ventures without really desiring an Indian partner, but are forced to have one for market access. Often the Indian partner has few industry-specific competencies to contribute beyond local knowledge, as was the case with Tesco's and Wal-Mart's retailing alliances with the Tata Group and Bharti, respectively. In contrast, the Indian partners believe they have substantive contributions to make to the joint ventures, high expectations of contributions from the foreign partners, and disproportionate power in the relationship because the local laws have tipped the scales in their favour. The result is a significant mismatch in expectations between the two partners, and as would be anticipated, a subsequent falling out between the partners.

Unlike in neighbouring regions like the Middle East or Southeast Asia, Indian partners are not interested to playing passive roles as portfolio investors in their joint ventures. They prefer to have at least 50 percent holding and in most cases controlling interest. In addition, their expectations of the major multinational corporations that are usually their foreign partners are high. Specifically, foreign partners should:

- Be relatively non-interfering.
- Freely share their distinctive and superior expertise with respect to processes, systems, and technology.
- Be willing to train the Indian joint venture executives, and accept that sometimes after this training, these executives may be transferred to other companies that are wholly owned by the Indian partner.
- Provide a strong reference if and when the Indian partner may need to raise funds for other ventures.
- Direct business to the joint venture company from their operations in other countries and, if possible, from their customers as well.

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While one can argue about how reasonable these expectations are, the problem is usually not in these expectations. The McKinsey study referred to earlier argued that most of the joint ventures ran into trouble because the Indian partners were unable to invest enough to expand the business quickly and match the ambitions of the foreign companies. This is not a uniquely Indian problem, as it occurs frequently in the developing world in joint ventures between large multinational corporations and relatively small local investors. One solution may be to allow the foreign partner to increase its stake in the joint venture in return for disproportionately funding the growth. Yet this is often a problem because the Indian investor is either unable to dilute its share for legal reasons (it may be required by law to maintain a minimum equity participation) or unwilling to do so.

Since the economic liberalization of the early 1990s, the Indian government has gradually allowed foreign companies to operate alone or increase their stake in many industries. As a result, a large number of the Indian joint ventures have lost their reason to exist from the foreign partners' perspective. They either wish to buy out the Indian partner or set up an independent unit separate from the existing joint venture. This part of the joint venture story in India has been rather unpleasant. Almost always, the foreign partner is in a hurry to exit, and the Indian partner finds itself with an exceptionally good negotiating hand. Valuation of exit pricing on a scale of 1:5 is not unusual, depending upon whether the foreign partner desires to sell (receives twenty cents on the dollar) or buy (pays several times market value).

For example, when the Indian government eased restrictions for foreign companies in investment banking, both Goldman Sachs and Merrill Lynch looked to exit their existing joint ventures with Indian partners. Goldman Sachs sold its stake in its successful joint venture with Kotak Mahindra Bank Ltd. for about $75 million, while Merrill Lynch bought most of its stake in DSP Merrill Lynch for about $500 million *(Ibid).*

If instead of exiting, the foreign firm wants to set up an independent unit in the same business as the joint venture, the Indian government requires the foreign company to first obtain a "no-objection" certificate from its local partner. As one can imagine, "same business" is open to multiple interpretations and often leads to considerable conflict between partners. For example, in 2006, Danone faced resistance from the Wadia Group, its Indian joint venture partner in the cookie maker Britannia Industries Ltd. Britannia is 25 percent owned by the Wadia family and 25 percent owned by the Danone Group, with the rest publicly held. Danone wanted to exit the joint venture and set up its own wholly owned operations in order to pursue larger dairy and water opportunities. The Wadia Group took Danone to court in order to stop Danone from investing in another Indian company. Although Danone had a no-objection certificate from the Wadias in 1996, the government felt that it was too old and asked Danone to obtain a new one. After acrimonious negotiations and lawsuits between the two parties, in 2008 Danone agreed to sell its stake to the Wadias. (Iris News Digest 2008).

Given the poor track record of partnerships, some foreign companies are reluctant to invest in India.

Given the poor track record of partnerships, some foreign companies are reluctant to invest in India. One India-based financial consultant was quoted in the *Wall Street Journal*: "Anyone who gets into a joint venture in India should assume it will fail and be comfortable with the terms of what happens when it does fail." (Wonacott & Bellman 2007). As a result, the recent foreign entrants, who because of restrictive government policies still have to pursue India through joint ventures, realize that these marriages are not made in heaven. Detailed separation clauses are now part of the joint venture agreement.

Overall, India is rapidly moving away from the era of joint ventures. Bayer, Gillette, Goodyear, Datacraft, EMI, Sprint, Suzuki, Merrill Lynch, Xerox, Vodafone, and many more have exited their Indian joint ventures with the sole purpose of reappearing with 100 percent owned companies. While the days of joint ventures in India may be mostly over, the era of Indian companies forming joint ventures outside India is just starting. However, it is still too early to draw any conclusions about Indians as collaborators on this front.

Indians as Acquirers

There are two major differences in the storyline for Indians as acquirers of foreign companies compared to Indians as joint venture partners. First, foreign acquisitions by Indian firms are still a relatively recent phenomenon. Indian companies have been doing deals outside their borders in any significant manner only since 2000. In contrast, Indians have been playing the role of joint

venture partners of multinational companies since India's independence in 1947. Thus the conclusions drawn here about Indians as acquirers will be more tentative.

Indians have been rather skilful with their acquisitions.

Second, despite the short history, our research indicates that Indians as acquirers is a very positive story overall. Unlike their record as joint venture partners, Indians have been rather skilful with their acquisitions. Despite some Western fears (especially prominent in the Arcelor takeover and Tata's battle with Orient-Express Hotels) about Indians as the "barbarians at the gate," Indian companies for the most part have not sought to destabilize acquired companies unnecessarily, in both the acquisition process and the integration process.

Perhaps one reason for the success of Indian firms in acquisitions is that Indian executives and companies learn to operate in a challenging business environment as well as to negotiate within a diverse, democratic society. Managing a business in Maharashtra, with its relatively business-friendly state government, is rather different from managing a business in West Bengal, with the Communist Party of India Marxist (CPIM) in power, versus managing a business in Bihar, India's most lawless state with a relatively greater proportion of convicted criminals represented in the state legislature. Every large Indian company conducts business in all of these states, so executives become masters at managing the context. The lessons learned in India hold them in good stead when acquiring foreign companies.

Given that laws in India are not sympathetic to hostile takeovers, Indian firms until now have sought to make global acquisitions in a soft manner, after obtaining the buy-in of the potential target firm's management. Whether this will continue as Indian companies grow more ambitious is hard to speculate, but the Arcelor-Mittal deal indicates that some hostile takeovers will be necessary despite Indian firms' predisposition to eschew aggressive takeover tactics. However, probably to smooth over the ruffled feathers, the company is now called Arcelor-Mittal.

One very visible change in Indian firms is their transformation from low-price bidders for distressed assets to buyers that pay competitive global market prices for top-quality, strategically complementary foreign assets. Indian companies, relative to their size, are willing and able to make large acquisitions. Consider Tata Tea's acquisition of Tetley, a company three times its size; Tata Steel's takeover of the larger Corus; or Hindalco's purchase of Novelis after taking on significant debt. Indians are very entrepreneurial and demonstrate enormous risk appetite. Furthermore, the conglomerate model of the large Indian business houses allows them to use the assets of the entire family of companies within the group rather

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than be restricted to the resources or leverage of any individual company.

Some clear patterns are visible with respect to the types of acquisitions that Indian firms seem to gravitate to in foreign markets. With the significant exception of Mittal Steel's emerging market strategy, most Indian companies are seeking foreign acquisitions that bring complementary competencies. The foreign acquisitions help obtain brands that resonate with Western consumers (e.g., Carlton luggage by VIP or Tetley by Tata Tea), obtain access to foreign distribution networks or customers (e.g., Dana's U.K. operation by Bharat Forge, or various European acquisitions by Ranbaxy), extend the product portfolio to higher-priced and more sophisticated products (e.g., Arcelor by Mittal or Novelis by Hindalco), or add significant R&D capabilities (e.g., Hansen and REpower by Suzlon).

In terms of the integration process, Indian companies know from their domestic operations about the importance of other stakeholders, especially the government and trade unions. India has strong unions as well as influential politicians and bureaucrats. While wailing against them may be a particular sport among Indian executives, they do realize that these stakeholders play a crucial role in the success of any business. Thus Indian companies tend to have a non-confrontational approach toward local governments and trade unions.

Indians often complain that the foreign companies in India sometimes use expatriates who do not understand the local context. We saw repeatedly in our case studies that when Indian firms make acquisitions, they are aware of the superior local knowledge of the management talent and tend to retain them in the acquired venture. Only with Mittal Steel acquisitions in emerging markets of previously state-owned plants do we see a significant ferrying of technical staff and top management from India to their newly acquired steel companies. Mittal did so to address the significant competence gaps in these countries with respect to the management of steel plants. But Mittal did not follow this practice in its Arcelor acquisition.

Some observers, such as S. Mahalingham, CFO of TCS, believe that because Indian companies lack significant experience with global acquisitions, they have taken a rather "tentative view" on how to deal with the acquired organization. (Interview with the Author, Dec. 18, 2006). The philosophy seems to be, "Don't rock the boat till you are sure." TCS during the last three years has acquired some twenty small and midsize IT services and consulting companies in the United Kingdom, Continental Europe, United States, and Australia. TCS has apparently followed a strategy similar to that of most Indian companies in that they have

left the senior executives and management structure intact. They have used Indian managers with significant global exposure to work as an "organizational and cultural bridge" between TCS and the acquired companies.

Santrupt Misra, director of human resources at Aditya Birla Group, believes that the management of companies acquired by Indians have been left in place primarily for three reasons. (Interview with the Author, April 23, 2008). First is "unfamiliarity" with local regulatory environment, local politicians, and cultural nuances. Second, these foreign acquisitions have come at a time when India is booming, and getting top Indian executives to move to developed countries is difficult as they perceive their standard of living would decline with the expatriate assignment! Third, companies need to demonstrate cultural diversity. Since the top management in India is usually Indian, leaving the acquired foreign firm's top executives in place enhances the diversity ratio.

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In the future, the practice of leaving top management in place may change. One factor driving this is that Indian firms have paid dearly for their acquisitions in developed markets and need to recover this investment by imposing higher growth targets on the acquired firms. Unfortunately, managers whose experience is in the developed world are used to performing, and being satisfied with, annual growth targets of 2 to 5 percent. It is hard to convince them to accept more ambitious goals. In contrast, Indian executives have regularly responded with double-digit growth over the past decade, given the boom in the economy. As a result, as Santrupt Misra observed: "You start thinking, should I struggle to convince the local manager to accept the higher growth target, or send one of my Indian managers" *(Ibid).*

The preceding discussion highlights the challenges of making costly acquisitions at the top of the business cycle, which are funded primarily by debt. The acquirers can be tempted to set unrealistically high targets on the acquired firm. When the current liquidity crisis is added to this mix, it portends a challenging time ahead for Indian firms who have completed large acquisitions between 2005 and 2007.

Indian companies have been slower in incorporating top management from the acquired companies into their own structures in India. Tata is further ahead in this process than other Indian companies. Seven years after the Tetley acquisition, the head of Tetley sits on the board of Tata Tea, and Tata Tea's R&D centre head in India is a Tetley scientist. More than half of the boards of TCS and Tata Steel are non-Indians.

Conclusion

This article has outlined the different ways in which Indians behave as

customers, competitors, and collaborators. Most of the patterns are well developed with the exception of Indian companies as acquirers. The Indian experience here is recent and still evolving. Regardless of which role the Indian company is playing, the soft relationship factors and symbolic gestures are important to Indians, especially when negotiating with Westerners. As a former colonized power, Indians need to feel that they are getting adequate respect and being treated as equals. Indians are sometimes too quick to take offence in their dealings with foreigners, and Westerners are well advised to remember this. Indians have a thin skin.

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