NRI Papers No. 169 January 1, 2012

A New Phase in India's Consumer Market and Japanese Companies' Strategies for Emerging Markets

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After China, India is recognized as being a rapidly growing emerging market. However, when we look at the efforts of Japanese companies, we find that many are struggling without being able to achieve expected levels of revenue growth.

While many Japanese companies have adopted a strategy of selling high-end products to the affluent segments in major cities, the customer base, the regions and product positioning that they target may not necessarily match the reality of the markets in India.

Among wealthy Indian consumers, some have traditional values while others have values that are more modern. From the perspective of geographical distribution of wealth, it is necessary to consider the improved purchasing power of people in rural areas and farming villages.

Even in the face of intense competition involving Indian, European, U.S., South Korean and Chinese enterprises, it remains possible to find business opportunities by drawing up and steadily implementing strategies targeting precisely selected consumers.

The emerging markets that are expected to achieve remarkable growth in the future are geographically far from Japan and are generally unfamiliar or unknown to Japanese companies. These markets are expected to be the places of all-out competition among market participants. Whether achieving success in the Indian market will be an important step as a touchstone for setting strategies for other emerging markets in the future.

I Japanese Companies Face a Wall Hindering Their Growth in India

1 Japanese companies are unable to increase their earnings in India

India is a large country with a population second only to China, and continues to grow steadily. Given the sense of stagnation that is prevalent in European, the U.S. and Japanese economies, the number of Japanese companies moving into the Indian market is increasing. In the same way as in China, India will become the world's largest market. As such, India is a vital market in future global strategy.

Despite the fact that India's market as a whole is expanding, many Japanese companies simply have not been able to increase their earnings in the way they originally expected. These companies have failed to invest in (1) developing sales channels, (2) setting up after-sales service networks, (3) establishing local production facilities, (4) developing products designed for the local market and (5) advertising to increase brand awareness.

As a result, there are many companies that import products originally intended for the Japan, Southeast Asia and China markets, and sell them in India at high prices[1]. The general stance taken by the head office in Japan behind these moves is: "Because it is assumed that the wealthy population in major cities is on the increase, providing them with somewhat high-priced products will give us a sufficiently large market."

However, because the Indian market is different from those of China and Southeast Asia, it is difficult to attain success in India with the above-mentioned attitude taken by the head office in Japan. In major cities in India, the affluent segment of the population is relatively small, and competition is intense. Discussions with local companies and Japanese companies that have long been operating in the Indian market such as Sony and Honda reveal that high market growth is currently occurring in the rural areas.

As companies' business operations become increasingly globalized, the amount of business resources that can be expended on the Indian market is limited, making it necessary to adopt a strategy of narrowing down the target. In addition, the head office in Japan must be involved in and provide support to the implementation of such strategy.

Based on a wide variety of information that the author obtained in the past five years through discussions with companies' management executives, people who are actively working on the front lines in their respective fields, consumer market researchers, university professors, senior government officials, general consumers and so on, this paper proposes responses and directions that Japanese companies (in particular, consumer goods manufacturers) should pursue. This proposal is made in view of the characteristics of the Indian market, which are not necessarily widely known to Japanese companies, including the consumer market that has begun to expand into the rural areas.

2 Japanese latecomers are faced with a difficult fight

The strategic stance taken by many struggling Japanese companies is based on the policy of "start small and grow large from there." These companies tend to share the following strategies:

- The main target is wealthy consumers in major cities.
- The company is a relative latecomer to the market (there are other companies that had already established themselves).
- The company specializes in high-end products.
- Products are mostly imported (not particularly price competitive).
- Advertising is kept to a bare minimum.
- The development of sales channels is handled by a local distributor.
- Development of an after-sales service system is planned in line with an increase in sales.

When the products of these companies appear on the store shelves, the consumer has no way of knowing their level of quality, and often dismisses them, saying "I've no interest in spending that much money for that."

(1) After-sales service is one part of quality

One wealthy family living in Delhi has in the past lived in Japan, so wanted to buy a refrigerator that was manufactured by a Japanese company. They appreciate the features of products that are manufactured by Japanese companies such as a very high-quality surface finish, and are willing to pay a high price to buy them. They gave up on the idea, however, when told by a sales clerk that the after-sales service is poor.

In many areas of India, the power supply is substandard, with power outages and voltage variations commonplace. In addition, in the capital, Delhi, winter temperatures can fall to as low as 5°C, while the summer can be very oppressive with temperatures in excess of 40°C. In major cities where space in homes is at a premium, washing machines tend to be placed either on the roof or on balconies where they are exposed to the elements.

Given such harsh conditions, the general feeling that local consumers have is "electrical appliances are bound to fail, making the availability of speedy after-sales service even more important." While the quality of Japanese products themselves is highly evaluated in India, many Japanese products are, unfortunately, poorly supported because of underdeveloped service networks that, for example, are slow in providing repair parts.

(2) Need to thoroughly explain the reasons for high prices

In the field of daily necessities, Hindustan Lever (a subsidiary of Unilever), Procter & Gamble (P&G) and Johnson & Johnson (J&J) have already established themselves in the market. Among these companies, J&J has its forte in the area of toiletries aimed at infants. If mothers with infants are asked "which brand of toiletry products do you trust the most," nine out of ten, or even ten out of ten, will answer "J&J." The company has earned this trust through many years in the market, establishing a wide-reaching sales network throughout the country, and by undertaking aggressive promotions.

In the face of this consumer sentiment regarding J&J and its grip on the market, the UK's Mothercare, Italy's Chicco and Japan's Pigeon have recently entered the market, positioning themselves as luxury brands. The products introduced under these brands have been priced at around the same level as or even higher than J&J products. However, their store turnover appears to be relatively slow as compared to that of J&J.

When making a purchase, many consumers seem to be looking at these products and wondering "the quality of these foreign products may be good, but why are they more expensive than the J&J products that we know and trust?" Such feeling often leads to consumers not buying the products.

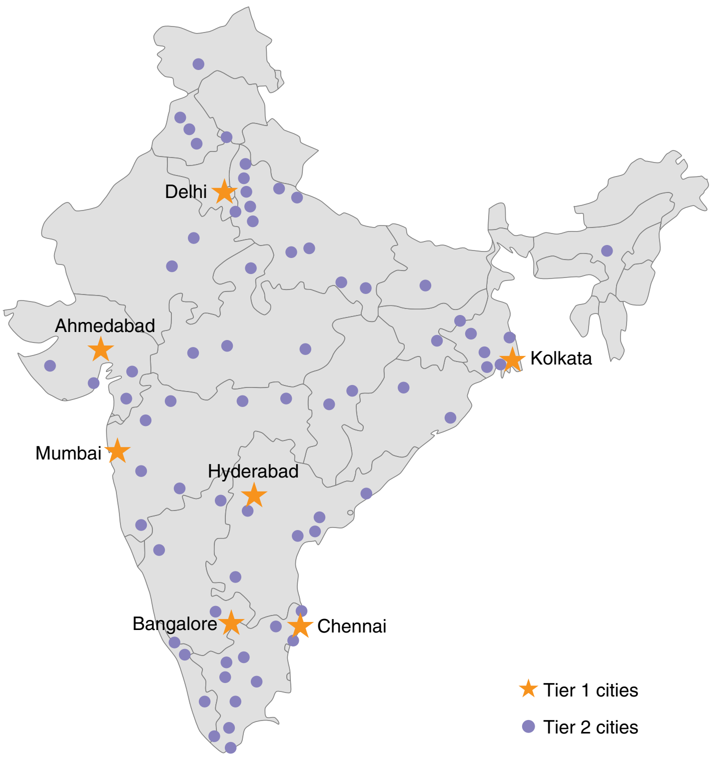
When faced with a situation where the quality of a product and the appropriateness of the price must be explained, the problem is that the average sales clerk is neither sufficiently persuasive nor knowledgeable. Therefore, it will be necessary to help consumers understand why these products are more expensive, through sales clerk training, advertising and sample distribution.

3 Decisions for prior investments are difficult

India has a vast land area with major cities scattered throughout the country (Figure 1). As such, merely creating nationwide sales and service networks will require major investment.

If a company is a latecomer to the market, it will face a situation in which the companies that entered the market much earlier have already created a sense of value regarding a balance between quality and price. In addition, many of the companies that entered the market first are now producing products locally, making them extremely cost-competitive. If a newcomer to the market intends to pitch its products at prices that are higher than those of the high-end products of the well-established companies, it will have to convince consumers that the

Figure 1. Map of major cities in India



Note: Tier 1 cities are those having an urban population of 4 million or more (see Note 2 at the end of the paper); Tier 2 cities are those having an urban population of 1 million or more and fewer than 4 million.
Source: Compiled based on the Census of India and other materials.

products offer levels of value that justify the higher prices.

Among the mass media, TV advertising is most influential, but unfortunately the most expensive. Some companies that entered the market early and subsequently met with success spend as much as 5 to 7 billion yen every year on nationwide advertising. A company that takes a "start small and grow large from there" approach will find it difficult to make such a massive advertising investment.

Without aggressive advertising, customers will not ask for products by name, and therefore distributors will not want to carry them. As a result, companies will be faced with a vicious circle in that if distributors won't carry their products, the products won't appear on store shelves, and customers' brand awareness will not improve.

Things become even more difficult if a local distributor is entrusted to develop sales channels. Distributors often ask to "cut prices to increase sales" or "invest in advertising." However, such proposals do not mesh with the plans of the head office in Japan that wants to sell high value-added products at high prices, and that does not have the budget for either an advertising campaign or establishing local production. Therefore, the representatives and employees of local offices in India find themselves trapped between the head office in Japan and the realities of the Indian market, making them unable to take any effective action. If a company cannot undertake proactive efforts such as establishing sales channels and service networks, undertaking aggressive advertising campaigns, and moving into local production to increase its cost competitiveness, it is unlikely to increase its earnings.

South Korea's LG Electronics is said to be very successful in the Indian market, with local sales in excess of 200 billion yen. The company has more than 40 branches and several hundred area offices across the country. The subsidiary of Japan's Suzuki Motor Corporation, Maruti Suzuki India, has 700 dealers and more than 2,700 authorized service centers throughout the country.

The creation of such a sales system incurs a huge investment, and latecomers to the market will find it difficult to catch up. In group interviews with Indian consumers, it is common to hear phrases such as "this brand can be trusted because it has been in the Indian market for a long time." As time passes, the difference between newcomers and companies that are well established in the market will only increase.

II Reviewing Strategies—White Space in the Market

Based on the present situation, what approach should a company hoping to enter India's market, or one that is already there and hoping to expand, take? If there are companies in the same line of business that have already entered the market, an ideal approach is to quickly set up a system by investing aggressively to catch up with them and to achieve the same level as that of those companies in terms of sales channels, products, service, pricing and promotions. If such an approach is difficult, it becomes necessary to develop a more targeted strategy and concretely implement that strategy based on the prevailing market conditions.

1 Rethinking the approach of focusing on metropolitan areas

Many Japanese companies have made their first move into India by starting with the so-called "Tier 1[2]" major cities such as Delhi, Mumbai, Chennai and Bangalore. Because of the limited amount of available resources, these companies took the approach of first seeking to deploy activities within major cities.

The reasoning behind these moves is that Japanese companies, especially their head offices in Japan, have an impression that "in the major cities, the infrastructure is well developed and the lifestyle has become more westernized, while in the rural areas, incomes are lower and thus earnings will be limited."

In China, certainly, growth began in the coastal cities and is now spreading to the markets in the inland areas of the country. For this reason, companies entering the Chinese market generally take an approach whereby they first take on the first tier cities on the coast, then the second tier cities and, only after these cities, move into the inland markets.

In the case of India, however, when we think of urban structure, each state having its own unique features and differences in culture, we should carefully reconsider whether the approach that works in China is actually appropriate for India.

The strategy of entering the market by first focusing on major cities is not, in itself, wrong. For purposes such as increasing brand awareness, it is important for a company to increase its presence in the major cities where there is a large flow of traffic.

However, in major cities, there is much to be dealt with. From high-end to low-end products, all types of players have already entered the market. Because many of these companies are manufacturing products locally, they are equipped with hard-to-beat cost competitiveness.

In India, wealth is found not only in major cities, but is also found extensively in lower tier cities and rural areas. Furthermore, the market of the affluent segments in major cities is rather shallow (see Chapter III for details).

As such, rather than giving up after fighting a losing battle with many other companies in the market of major cities, an alternative strategy is to concentrate on a single major city, its suburbs and surrounding towns.

2 Using the strength of local distributors to develop sales channels

There have been many cases where a company asked a local distributor to develop sales channels, but faced difficulties in creating a nationwide sales network.

We often find cases in which a company has partnered with a distributor that is influential in the field of the company's products. Although this distributor is well known among secondary agents and wholesalers throughout the country, sales nevertheless fail to take off outside the city in which the company was first established.

When India gained independence from Britain, the country was divided into states based on language and culture. For many years, the merchant caste, called the Bania, has had a closed relationship within the same caste community in each area. Because of this, an agency that is recognized as being a leader in one state may well be unable to develop sales channels in another state.

Furthermore, a company may have to assess the degree to which an agency is willing to develop the market. In the case of consumer goods, in particular, there are many retailers who only stock the goods that consumers say they want, while distributors and wholesalers only handle the products that are demanded by the retailers.

Among many distributors, there is an attitude that it is better to handle only the top three brands rather than handling a greater variety of products, which increases transaction costs and might result in handling some low turnover products.

In such a situation, unless the products enjoy a high level of brand recognition, it is difficult to wholly rely on a local distributor to develop a market. The best that can be expected is for a distributor to establish a market in the state in which its head office is located. Success in other states where the culture and language are different will be difficult.

From this point of view, it may not always be a good idea to attempt to expand a market starting from major cities that are scattered throughout the country. Rather, it might be better to work together with a distributor to establish a company's firm presence in the area where the distributor has a strong foothold. A company's own employees should also be assigned to this area. After achieving this first step, the company can then expand its market to the next area.

3 Product positioning and cost competitiveness

The Indian market is very sensitive to price. The former vice president of P&G India, who was involved in moving into the Indian market and establishing local production facilities for manufacturing laundry detergents and other products, said "we decided on our prices before we set up our production and sales systems." Around 2004, P&G dropped the price of its laundry detergents by up to 40 percent at a single stroke so as to expand its market share ahead of its competitors.

One Japanese office equipment manufacturer, which was a latecomer to the market, strategically priced its products below those of companies that were already well established in the market. As a result, the company was able to quickly increase its market share, and ultimately is in a position of taking price leadership.

On store shelves in India, Nissin Foods' brand of instant ramen noodles, "Top Ramen," is priced at around one rupee less than that of Nestlé's "Maggi" brand, which has the largest share of the instant noodle market in India. The instant noodle market is growing in India. Spurred on by this trend, Nissin has greatly increased its sales in India.

For a company that is a latecomer to a market, setting prices higher than those of the products that are already available in the market means that it will take some time before consumers become aware of the brand, its quality and value. Therefore, considerable ingenuity is required for product positioning and pricing such as (1) reducing the price through local production, (2) reducing the amount that the consumer must spend per purchase by making the individual packages smaller or (3) increasing the quantity of products sold by offering a wider product lineup, i.e., selling high-end products together with middle-end products that are cost competitive.

III A Fragmented "Affluent" Market

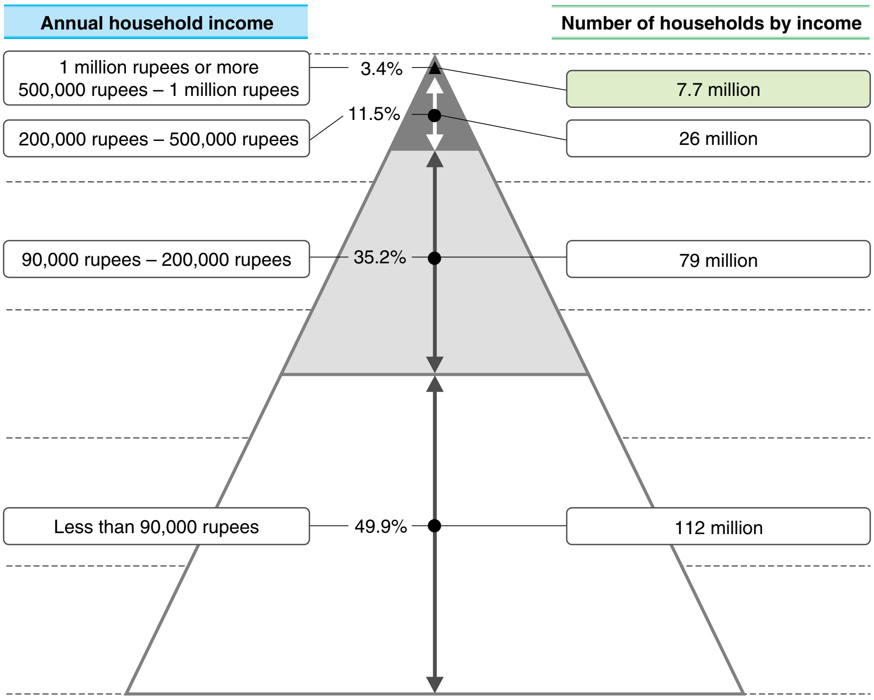
1 Wealthy segments are scattered throughout the country

Many Japanese companies fail to fully comprehend the reality of India's "affluent segments."

At the stage where a company is considering entering the Indian market, it would be sufficient if a company could understand the overall scale of the affluent segment in the country. However, once the company enters the market, in order to increase its revenue, it must formulate a targeted strategy.

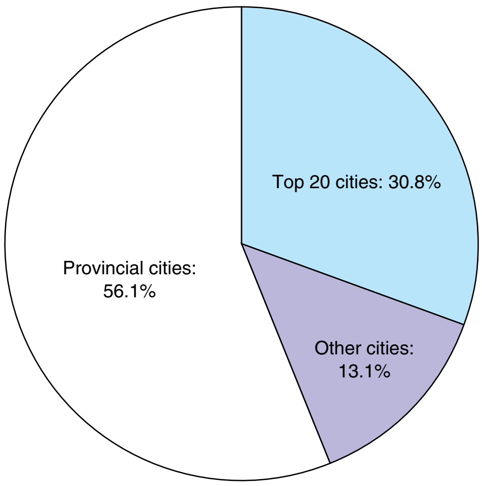
If affluent households are defined as those with an annual income of at least 500,000 rupees, such households constitute only about 3.4 percent of all households (Figure 2). Nevertheless, given that India has a population of 1.2 billion, if we assume a constant number of people per household, merely that top 3.4 percent constitutes a market of no less than 40 million people. If we incorporate a part of the next-ranked "Indian middle rich" segment, the size of the market is actually considerable. Many Japanese companies plan to target up to such middle rich segment as their potential customers.

Figure 2. Household income distribution in India



Source: NRI's estimate based on data published by the National Council of Applied Economic Research (NCAER).

Figure 3. Geographical income distribution



Source: Rajesh Shukla, "How India Earns, Spends and Saves: Unmasking the Real India," New Delhi: SAGE and NCAER-CMCR, 2010.

However, the reality is not that simple. Those Japanese companies that have concentrated their efforts on major cities have tended to assume that the market of 40 million people would be found in those urban areas, and have based their strategies on such an assumption. However, this is not actually the case in India.

The country of India was formed from many individual kingdoms, with both wealthy and poor people populating each kingdom. Unlike China, there are no specific cities or regions where the wealthy population is concentrated. If we look at the national distribution of income, we find that the top 20 cities account for 30.8 percent and other cities account for 13.1 percent, meaning that 56.1 percent of India's wealth can be found in the rural areas (Figure 3). Therefore, a company wishing to target the top 3.4 percent of the affluent segment must apply its efforts not only to the urban areas but also to the rural areas as targeted markets.

2 Considering three types of affluent segments from a geographic perspective

India's affluent segments can be broadly divided into the following three types according to the type of area in which they live.

(1) Long-term residents of the centers of major cities
(2) Newly wealthy residents who live in satellite cities in the suburbs of major cities
(3) Residents of provincial cities

One of the biggest reasons why the author believes that companies should not stick to major cities alone in India is that wealthy people living in the centers of major cities, who belong to Type (1) above, often have a traditional sense of values.

When we look at the centers of major cities in India, we find that only Mumbai, which was built on reclaimed land, has a relatively large number of high-rise buildings, while other cities such as Delhi, Chennai and Bangalore all have very few such buildings. A Japanese developer, who, in the fall of 2010, revisited Delhi after an absence of 25 years, noted "this place is exactly the same as I remember it."

In these regions, not only are there many places where regulations are imposed on development in order to conserve nature and historic sites, but also existing owners are unwilling to part with their land[3]. Under the country's democratic system, it is difficult to evict residents from land with compulsory orders. As such, there is little development, and people tend to live in the same locations for decades.

Because of the above, the centers of major cities are home to relatively few sunrise industries such as information technology (IT) and communications, which have been developed in India over the last 10 to 20 years. Instead, many wealthy owners operate businesses including small- and medium-scale companies and live there for many, many years.

On the other hand, because newly wealthy people (Type (2) above) most often work in the suburbs and satellite cities of major cities, they also tend to make their homes in the same areas. People in this segment often work for a foreign-affiliated company or are engaged in modern industries having many transactions with foreign countries such as IT and communications including mobile phones. They have the chance to deal with different cultures in their daily routine, while their incomes have increased steadily by more than 10 percent every year.

Their lifestyles have also been westernized. People in this segment are very knowledgeable of the international reputation of overseas brands, and are themselves able to select brands that they trust. They travel overseas, and are receptive to foreign cuisines such as Chinese, pasta and pizza.

Finally, people falling in Type (3) who live in rural areas including farming communities have seen their net worth increase mainly as a result of a rise in the value of their land, and are now active consumers. Many have ordered the latest electrical appliances and automobiles.

The following sections provide a more detailed look at the differences between these types.

3 Traditional affluent segment with conservative sense of value

Since India became independent from Britain, the country had socialistic closed economic systems for a long time. Therefore, most fields of industry have adopted a structure that is centered on domestic capital. Without exposure to international competition, many products were of inferior quality.

It is said that Indian consumers tend to avoid buying products that have not yet established a good reputation in the Indian market. This trait is particularly strong among conservative consumers. I would like to present an interesting case that I observed when visiting an Indian family.

The family lives in Punjabi Bagh, in the western part of Delhi, an area where well-to-do families have traditionally lived. They live in a splendid large detached house that even has its own elevator and an indoor waterfall. Although the house has everything that you would expect, the family was still using a tube (CRT) TV. Daily necessities and food are delivered daily by a nearby general merchant. Therefore, there are not many things for which the family itself has to go out and buy. The family gathers for a meal, and they eat Indian food that has been prepared according to recipes that have been handed down through the generations living in the house. Whenever the family takes a trip, it is to somewhere within India; the family does not travel overseas. They fit the image of a typical, conventional Indian family.

Since the era of Prime Minister Nehru, Indian businesses have been characterized by many sole proprietors with the aim of achieving an industrial structure that is not controlled by foreign companies or large enterprises. Among the traditional well-to-do population living in the centers of big cities, the classic example is a sole proprietor with anything between ten and several hundred employees.

Although the city centers are also home to wealthy people with a progressive attitude, there are far more with conservative values, like the family mentioned above.

4 Newly wealthy people living in satellite cities

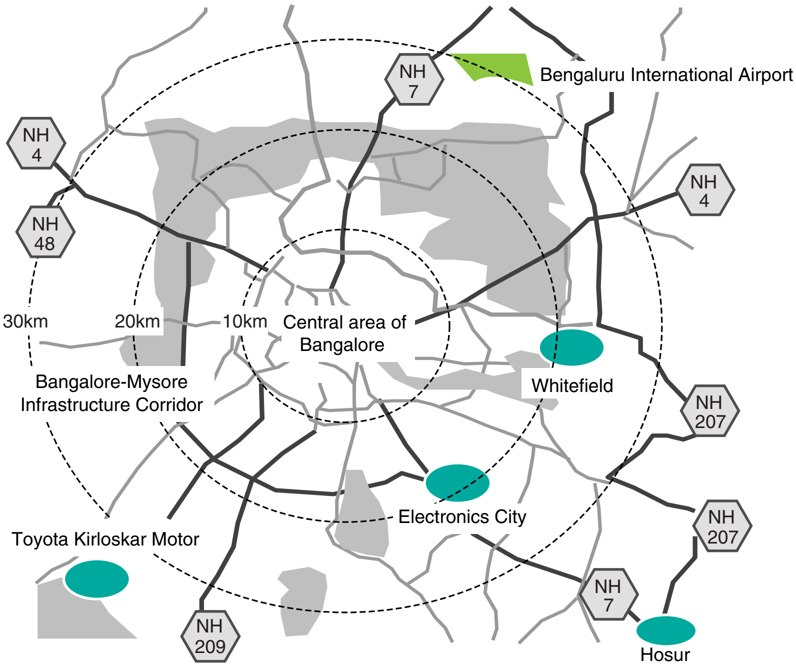
Providing a contrast to the affluent people inhabiting the centers of major cities are India's newly wealthy households living in the suburbs of Bangalore, where many IT companies have clustered.

One example of these households is that of a married couple in their late 30s, both of whom work in foreign affiliated IT companies. The wife is vice president of corporate finance at IBM India. The couple lives in an apartment designed for medium- and high-income families, together with one child and the wife's parents. The apartment is not particularly spacious at around 70 m^2, but they have the latest in electronic appliances including a Sony LCD TV. The wife and husband each have a car. They do all their shopping in a supermarket once a week. In addition to Indian food, they also enjoy other cuisines such as pasta. When they have a long vacation, they travel overseas. They are a typical example of an Indian family with a western lifestyle.

About 20 km from the center of Bangalore is Whitefield and Electronics City, which are new industrial areas where IT companies cluster. In a suburb around 30 km from the city center are both Toyota Motor's local base and Bengaluru International Airport. This is the kind of city where newly wealthy people live (Figure 4).

Over the last 10 years, the IT and communications industries have supported India's economic growth. However, these industries were unable to establish themselves in the center of major cities due to difficulties in securing suitable space given high costs and strict planning regulations. Instead, they moved to the outskirts of

Figure 4. Map of IT industrial parks in Bangalore



Note: NH = national highway.

cities and then to the suburbs. As a result, the areas of major cities have expanded and satellite cities have started to appear one after another.

In Delhi, for example, about 30 km southwest from the city center, along National Highway 8, is the satellite city of Gurgaon, with large, modern office buildings that are home to many emerging industries such as IT, communications and business services. In Chennai, many newly wealthy people live in the suburban area known as the IT Corridor.

As described above, newly wealthy segments are appearing one after another in the outer metropolitan areas and satellite cities of major cities.

5 India's wealthy rural markets

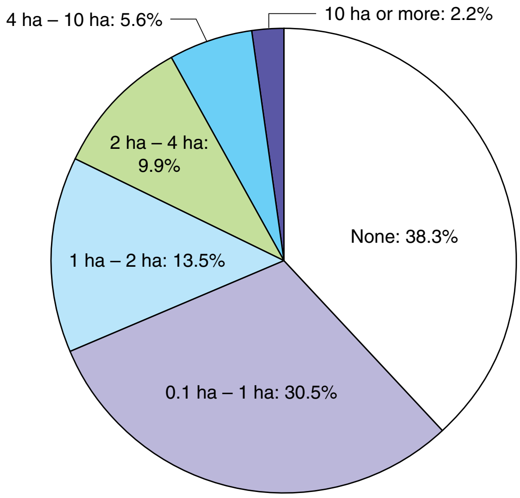
Another feature that we need to note is India's rural markets.

India's rural markets, characterized by their "high buying power," have been targeted by South Korean companies for several years, and have recently seen the entry of Japanese companies. When talking with representatives of companies that have deployed extensive sales networks in India, I often heard that the highest rates of growth had been attained in Tier 3 cities.

About 350 km inland and northeast of Mumbai is the provincial city of Aurangabad, which gained fame for being the source of a single order for 150 Mercedes-Benz cars. Even more noteworthy, of these, more than half were top-of-the-line "S Class" and "E Class" models.

The provincial and rural markets in India are never the "base of the pyramid" (BOP) market that is characterized by massive poverty. As we saw in Figure 3, more than 50 percent of India's income is earned outside the

Figure 5. Quantum of land owned by rural households in India



Source: Rajesh Shukla, "How India Earns, Spends and Saves: Unmasking the Real India," New Delhi: SAGE and NCAER-CMCR, 2010.

cities, while around 60 percent of rural households are landowners (Figure 5). These households, which are already affluent, are seeing the value of their assets increase as the value of real estate increases, and thus are increasing their level of consumption.

There are no reliable real estate statistics in India. This is because of many negotiated transactions, and the fact that there is no standardized method of setting prices. Interviews with local real estate developers revealed many cases in which land development rights were acquired on the condition that a certain proportion of profits accrued from development in the future would be given to current landowners. In such cases, it is unclear whether the transfer of ownership of the land actually occurred, and thus it is not possible to accurately track current land prices.

However, it is said that alongside main roads and around small towns where IT companies have built their offices, land prices are generally rising even if the land is nothing but wilderness.

In 2006, the Embassy of Japan in India set out to secure land for an industrial park for Japanese companies. However, despite looking all along National Highway 8 from Delhi, the embassy found that most land was in the hands of either local real estate developers or individual investors. In fact, the only site they found that was suitable for industrial development was in Nimurana in Rajasthan, almost 120 km from Delhi—the same distance as that from Tokyo to Mishima on the bullet train line.

As this anecdote illustrates, land prices have been increasing principally along the main roads of the cities including provincial cities and farming villages. As a result of this trend, the ensuing wealth has led to an increase in consumption in rural areas.

During interviews with representatives of South Korean and Indian electrical appliance manufacturers, they noted that large-size American-style side-by-side refrigerators (a freezer on the left and a refrigerator section on the right), the latest mobile phones and 32-inch LCD televisions all sell well in the rural markets.

These consumers have high motivation and a positive attitude toward consumption, have access to information about the latest products through cable TV and other means, and have high purchasing power. Because it is said that they tend to select brands with a relatively solid reputation, manufacturers of new products would have to increase brand awareness through advertising, etc. Nevertheless, these markets offer great potential.

IV Strategic Options Available to Japanese Companies and the Roles of Their Head Offices

As described in Chapters I to III, in the Indian market, setting up a rough target such as targeting only the "affluent segment in metropolitan areas" would lead to excessive competition, which would most likely cause a war of attrition among market participants.

In the final chapter of this paper, a proposal is made as to the regions that Japanese companies should target, how they should deploy their activities and the roles that their head offices should assume.

1 Activities targeting emerging cities

The satellite cities around the metropolitan areas are home to many newly wealthy people, and their lifestyles are becoming increasingly westernized. They are considered to be much more receptive to new foreign products than traditionally wealthy people.

Then, can these satellite cities pop up anywhere? There appear to be three types of such cities based on how they are formed.

The first type has appeared because of the expansion of major city areas. The suburbs around major cities have been newly developed, where all the functions of a city become available.

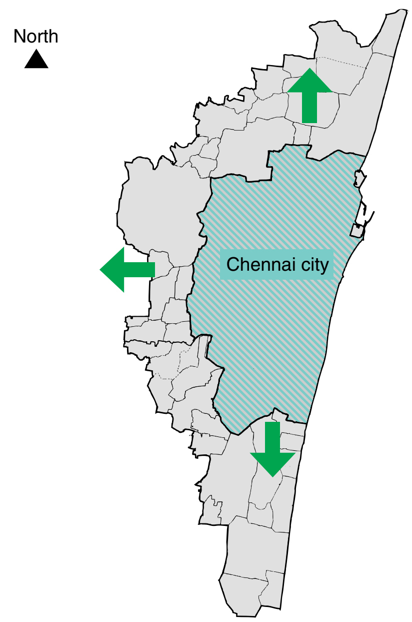
The second type has tended to appear around 30 to 50 km from the center areas of major cities, and is much like Japan's core business cities (Yokohama, Hachioji, etc.).

The third type is built around 50 to 100 km from existing large cities, and is constructed as a standalone city with no economic ties to existing cities.

Development of the first-type cities, which arise from the expansion of major city areas, is planned, for example, in Mumbai, Chennai and Hyderabad. Within the existing city areas, the government of each city had developed its own urban infrastructure. However, in the surrounding areas, development lagged behind. It is very likely that the development of new cities will continue in such surrounding areas (Figure 6).

Development of the second-type satellite cities, which are set up 30 to 50 km from the central areas of major cities, depends on whether they can attract the IT industry. The growth of India's IT industry has relied heavily on outsourcing from the U.S. and European companies, which has necessitated the hiring of skilled personnel while maintaining cost competitiveness. Therefore, although the IT industry first appeared in the suburbs of the southern cities such as Bangalore, Chennai and Hyderabad, IT companies subsequently began

Figure 6. City area expansion plan in Chennai



Note: The above map is based on the map at the following URL. http://www.chennaicorporation.gov.in/images/COC_City_Map.pdf
Source: Compiled based on various materials.

to establish their bases in towns in the vicinity and build their offices in Tier 2 and Tier 3 cities. As a result, the streets will be lined with the buildings of IT and other company offices, while the support industries needed by the IT sector will also set up their facilities, all of which will lead to an increase in the regional income.

Table 1 lists the cities in which the Wipro Group, a leading IT company group in India, has set up offices.

Table 1. Locations of Wipro and Wipro Infotech facilities and number of such facilities

State	City	Number of facilities
Karnataka	Bangalore	17
	Mysore	1
	Mangalore	1
	Belgaum	1
	Hubli	1
	Raichur	1
Tamil Nadu	Chennai	6
	Coimbatore	1
Kerala	Kochi	2
	Thiruvananthapuram	1
Andhra Pradesh	Hyderabad	2
	Secunderabad	3
	Vijayawada	1
Maharashtra	Mumbai	5
	Navi Mumbai	1
	Panvel	1
	Pune	4

State	City	Number of facilities
Rajasthan	Jaipur	1
Gujarat	Ahmedabad	1
	Baroda	1
Goa	Goa	1
Delhi	Delhi	5
Haryana	Gurgaon	2
Madhya Pradesh	Bhopal	1
Uttar Pradesh	Lucknow	1
Uttarakhand	Kotdwar	1
Chhattisgarh	Rajipur	1
West Bengal	Kolkata	5
Assam	Guwahati	1
Orissa	Bhubaneshwar	1
Bihar	Patna	1
Union territories	Pondicherry	3
	Chandigarh	1

Note: Shaded cities are Tier 1 cities.
Source: Compiled based on information published on the website of Wipro.

Figure 7. Mahindra World City

Housing complex for office workers

BMW plant

Commercial facility

International school

Needless to say, this company has facilities in seven Tier 1 cities. It also has facilities in satellite cities around these seven cities (Secunderabad, Navi Mumbai, Panvel, etc.) and in Tier 2 cities (Kochi, Coimbatore, etc.), as well as in smaller rural towns (Hubli, Raichur, etc.).

With the third type of city, that is, the standalone type, because there is little or no connection to existing cities, they must be built from scratch. In other words, everything that is necessary to make life in a city must be constructed including offices, houses, schools, hospitals and leisure facilities. There are many construction projects of a scale similar to that involving the area of Tokyo's Shinagawa ward.

The examples of the third-type cities include Gujarat International Financial Tech City in Gujarat state, which looks like the skyscraper-lined streets of Dubai in the UAE and Mahindra World City in the suburbs of Chennai, Tamil Nadu state (Figure 7), where automobile design and development facilities and BMW's car assembly plant are located. Many such cities are being created.

These standalone cities are being constructed in areas where the urban functions were somewhat substandard in the past. In such areas, modern cities are now being created. Development in these areas will not involve lifestyles that are based on traditional individual stores and a conventional sense of value, which are bound by the caste system. Rather, development will produce living spaces for people in the middle- or higher-income segments who adopt a modern western lifestyle much like that seen around the world.

Newly participating companies should narrow their focus down to these new cities in developing sales channels, and should establish a system whereby they can attain a high market share.

The companies that entered the Indian market early have many branches throughout India. These branches are usually located in cities that have already grown to a certain scale. However, it is pointed out that their sales networks are not necessarily well established in the above-mentioned new cities.

While these new cities might present the risk of facing intense competition sometime in the future, there is no denying that they provide one of the last opportunities for late entrants to the market.

2 Rural shopper-gathering cities as markets

In Chapter III, I described how wealthy India's rural areas are. However, not all provinces or farming villages have yet reached the stage of being major consumers. The areas where asset values are rising considerably are along the national highways linking major cities, as well as along the roads that branch off from such highways and that connect large cities in each area. Not only are private-sector developers investing in these assets, but the Indian government is also buying land for road construction projects.

Despite this newly created wealth, however, retail businesses in very small towns and remote farming villages have not shown much progress. The people living in these areas buy what they need from stores along the main road nearest their home or journey into an adjacent town or a Tier 3 city. According to Rama Bijapurkar, who is famous in the field of Indian consumer research, these people even travel to towns as far away as 80 km to make purchases.

In rural areas, there are such cities that bring in people from the surrounding areas, which could be called "shopper-gathering cities."

Therefore, when entering the market, it is important to select areas where development is particularly remarkable such as the Delhi-Mumbai Industrial Corridor and the southern corridor from Mumbai to Chennai through Pune and Bangalore.

3 Strategy of becoming dominant in the selected area

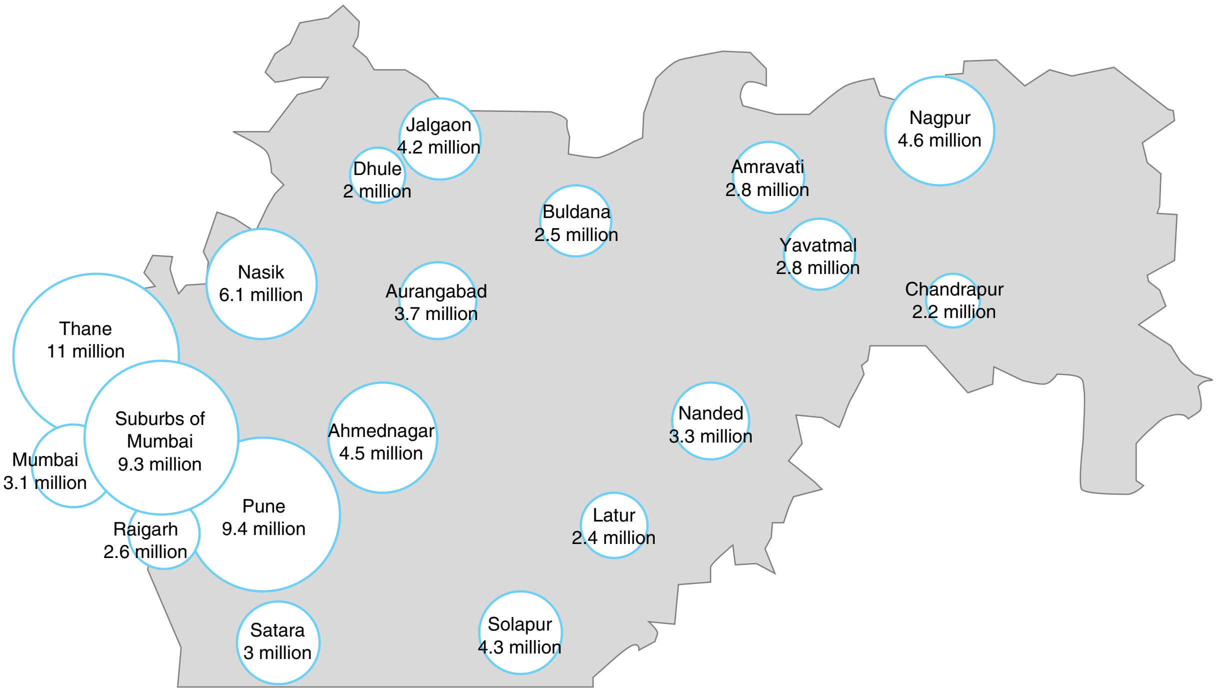
In order to catch up with early entrants in the market such as LG Electronics and Maruti Suzuki India, it would be necessary to build nationwide sales and service networks within a few years, for which these companies have spent 10 to 20 years. Another option would be to take over a local company that has similar networks.

In fact, the Panasonic Group adopted both of these approaches. Specifically, it was able to rapidly expand its network of sales outlets. In the case of Panasonic Electric Works Co., Ltd. (then Matsushita Electric Works Co., Ltd.), the company purchased Anchor Electricals Pvt. Ltd. having a nationwide sales network at a price of 50 billion yen (the price is based on mass media news releases).

However, if it is difficult to make such a large, single investment, one possible approach is to adopt a regional deployment plan in a selected area where a company aims to become dominant. For example, Maharashtra is a huge state with a population of 100 million (Figure 8). Given that Mumbai, India's largest city, and the surrounding areas have a population of 23 million, the district that includes Pune (Tier 2 city) has a population of 9.4 million, and the district that includes Aurangabad, which ordered 150 Mercedes-Benz cars, has a population of 3.7 million, just these main areas in the northern part of the state could constitute a huge market.

A company would be able to improve its brand awareness within the state by constructing a sales network that covers all promising areas and by making concentrated marketing efforts such as advertising in the targeted areas. The areas where such a network should be established could include the central area of Mumbai (which is a highly competitive market), emerging cities

Figure 8. Population distribution in the northern part of Maharashtra State



Source: Census of India 2011.

in the suburbs, Tier 2 cities and rural shopper-gathering cities.

Because many natives of Gujarat State live in Mumbai, success in Maharashtra State could well lead to subsequent success in Gujarat.

In the case of Indian enterprises, there are many examples where concentration on one market has led to expansion into another state. Cavin Kare, which was established in 1983 and has its "Chik" brand of shampoo, originally started in Chennai in the southern part of the country, and went on to gain success in its local Tamil Nadu. After it increased its brand awareness in each of the southern states, the company moved on to expand its market to the entire country by taking over food and beverage companies in the northern part of the country. Now, its brand is well known throughout the country.

Wal-Mart Stores, the largest retailer in the U.S., opened its first store in Punjab State, where the competition is relatively lax. The Reliance Group's Reliance Digital (consumer electronics retail stores) adopted the strategy of first entering Tier 2 cities so as to avoid high costs and all-out competition in major cities, and subsequently entering Tier 1 cities gradually after it has gained some competitive strength.

To make the best use of limited business resources, it is effective to target a specific region in the manner described above. After gaining success in that area, a company can expand its business by moving into another region.

Being faced with intense competition, a company must precisely identity a product segment, customer segment and region segment.

4 Tying up with local companies to enhance cost competitiveness

To be cost competitive in the Indian market, a company will have to consider the option of local production. While it is necessary to carefully examine the imposed tariffs, which differ from product to product, if it is cheaper to import parts and materials than finished goods, it would be more efficient to have a local factory to assemble the final product from imported components. Although setting up a local production facility from scratch requires a large investment, alternative options could include outsourcing the assembly process to a local company or purchasing a local factory.

The factories of Anchor Electricals, which is a local company in India that Panasonic Electric Works purchased as described in Section 3, are located in areas far from the major cities such as in Kutch, Gujarat. While they are successful even if their facilities are located in such places, Japanese companies tend to choose locations to build their own factories that provide easier access from Japan, choices that often end up costing too much. To successfully manufacture highly cost-competitive products in emerging economies, it would be more realistic to establish partnerships with local companies.

5 The Indian market is the arena in which the abilities of Japan's head offices to formulate and implement global strategies are tested

Finally, I would like to clarify the roles of Japan's head offices.

Whether appropriate strategies for the Indian market can be created and whether such strategies can be successfully implemented will be a touchstone for succeeding in the markets of other emerging economies in the future.

This is because the Indian market has different characteristics from those of China or Southeast Asia, with which Japan has fairly deep affinities. Through its long history, India has been influenced by West Asia and the Middle East, as well as Europe, especially Britain. It is difficult for head offices in Japan to envisage markets that are physically distant from Japan. As such, rather than trying to interfere with local businesses, in many cases, it is better to leave the decision making up to the employees on the ground.

On the other hand, from the perspective of local offices in India, although they are working hard in a distant foreign land in the face of intense competition with giant multinational firms and local Indian companies, in many cases, they are unable to take bold action because the head offices in Japan have relatively low interest in and little understanding of the Indian market and business resources are replenished little by little, which in no way helps achieve any sizable development.

There are actually many examples of local offices knowing what they have to do to increase earnings, but being unable to do so because of the limited business resources allocated to them.

The emerging countries and regions that are expected to exhibit considerable growth in the future such as Brazil, Turkey, Central and Western Asia and Northern Africa are even further from Japan than India and are unfamiliar or unknown to Japanese companies.

To succeed in these emerging economies, it will be necessary to draw up mid- and long-term global strategies to lay down a road map defining what amounts of resources should be allocated to which regions and the timing at which such resources are injected by taking into account the characteristics of each market and the degree of competition there.

While leaving the day-to-day operations to the local offices, head offices should input necessary resources on a planned basis and steadily implement measures that will take time and effort such as training personnel, developing sales channels and increasing brand awareness.

6 The first action is to gain a foothold in the market by steadily implementing the chosen strategies

India's economic growth is often said to be seven or eight years behind that of China. Actually, India's economic deregulation started around ten years after that of China. When we look at the trend of the per capita GDP (gross domestic product), we do, in fact, find that it is similar to that of China seven to eight years ago.

However, the fact is that the characteristics of the two markets are very different, as is the status of competition. European, U.S., South Korean and Taiwanese companies have all already made considerable investments in India. They are working to develop sales networks covering this vast land and are striving to increase brand awareness. As part of these efforts, they are establishing partnerships with and/or purchasing influential local companies.

While the Indian market offers excellent prospects, the remaining pie is getting smaller. Even if a company adopts a "start small and grow large from there" strategy, it should first carefully determine where to focus its efforts and then establish a solid foothold in the selected areas. Only after gaining a firm position there, should the company prepare for the next step.

Notes:

1. Because the Indian rupee continues to depreciate, the prices of products denominated in foreign currency continue to increase when exchanged for rupees. In addition, despite the fact that India is a member country of the World Trade Organization (WTO), high tariffs are still imposed on especially finished products in many product fields.
2. This paper adopts the following definitions. Tier 1 cities are those having an urban population of 4 million or more; Tier 2 cities are those having an urban population of 1 million or more and fewer than 4 million; Tier 3 cities are those having an urban population of 500,000 or more and fewer than 1 million, and Tier 4 cities are those having an urban population of fewer than 500,000. Urban population refers to people living in the area where 75 percent or more of men of working age have regular jobs other than agriculture, the population density is 400 or more per square kilometer and the population per administrative unit is 5,000 or more.
3. Because no inheritance taxes are imposed in India, real estate is mostly inherited by a successor of a deceased person.

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