

India Fellows: Day Two (Mumbai)

On our second day of the Wharton Fellows Master Class in Mumbai, we visited Tata Motors and Hindustan Lever for intensive live case studies on their very different businesses. At Tata Motors, we discovered that India's largest carmaker is also one of its largest charitable organizations. Among other issues, we discussed its dramatic turnaround in the past few years and its plans for a \$2,000 car.

At Hindustan Lever, we saw how they have built creative campaigns to address the distinctive challenges of the Indian market in areas such as water scarcity and health and hygiene. We also heard about their remarkable Project Shakti initiative to reach consumers in more than 600,000 villages while promoting the economic development of women.

Finally, as we prepare to fly to Bangalore to look at outsourcing, we had the opportunity to hear from the "father of Indian IT," who is credited with starting Indian IT outsourcing. We also heard from some of the leaders of the company he helped to launch, Tata Consultancy Services (TCS).

Tata Motors

Ravi Kant, Executive Director, Tata Motors Company

Tata Motors has "provided the wheels for Indian growth." Since it began making commercial vehicles in partnership with Daimler Benz in the 1950s, it has grown to become India's largest carmaker. It is also the fifth largest maker in the world of medium and high capacity commercial vehicles, with more than 130 models of buses, trucks and other vehicles.

Tata Group

Tata Motors is part of The Tata Group, one of Asia's largest conglomerates, which single-handedly accounts for 2.6 percent of India's GDP and 5.6 percent the nation's exports. This group of 80 companies in seven sectors is "a loose confederation," Kant said. "Not like GE." While the Tata Group has 2 million shareholders, it is controlled by two charitable trusts. "Tata has been very progressive in its thinking," Kant said. "There is not a concept of ownership; there is a concept of trusteeship." With this purpose at the top, the group has been known for its high ethical standards and good governance, which has been an asset in attracting new partners in Korea and other parts of the world. Kant also refers to the employees of the company as "family."

As Vijay Mahajan later pointed out, the Tata family and the company are highly respected in Mumbai and throughout India. The family patriarch was a Parsi who came from Iran and sought refuge in India 700 years ago. The Indian ruler said the country was already too full, picking up a brimming cup of coffee and stating that if he added more it would overflow. In the well known story, Tata picked up sugar cubes and put them into the cup, noting that their addition

sweetened the drink. The king relented. “They were accepted into this community and they have not forgotten, even after 700 years,” said Mahajan. The family has invested in local schools and other projects. They supported Gandhi during the fight for independence from British rule. They are known for their humility, charity, hard work – and ubiquity. It is hard to turn anywhere in this city without seeing something related to Tata, from cars on the streets to the hotel where we are staying to the famous “Gateway to India,” archway along the coast of Mumbai, which the family built.

A Turnaround

Five years ago, to balance the cyclicity of the commercial vehicles market, Tata Motors entered the passenger car market. But the company made its investments in this new area just as the commercial vehicle market entered a cyclical downturn. The result was that the firm suffered a loss of 500 crore rupees (5 billion rupees or about \$100 million). This was the largest loss of any company in India. But two years later, its new line of passenger cars was phenomenally successful. Its Indica car, an inexpensive model priced at roughly US\$6,000, was the first one designed indigenously for the Indian market and “captured the imagination of the country.” The goal was to create a car with “the roominess of an Ambassador, the price of a Maruti, and very durable car to take care of rough usages of the country. We fulfilled all three promises,” Kant said. In just two years, Tata Motors went from a loss of 500 crore to a gain of 500 crore. “This was the biggest turnaround in Indian corporate history,” he said.

Now the company has announced plans for its boldest project yet – a car priced at about \$2,000. One way to shave costs will be to use new materials. What about safety issues for such a car? Kant noted that the vehicle is seen as a replacement for two- and three-wheelers. It is common to a whole family of five to travel down the road on a single scooter. “How safe is this?” he asked. “Each country has to decide which kind of vehicles to allow.”

They are expanding their ability to offer solutions to their commercial customers. For example, a project in the cement industry is looking at improving logistics, which account for 30 percent of the cost of the trucks. They have targeted the top two cement companies with pilot projects focused on giving customers “solutions.” They are targeting the logistics of the steel industry as well. While they have been exploring a telematics solution, such as the system Mexican cement maker Cemex used to greatly increase its efficiency, the company has not offered a telematics solution yet.

International Expansion, But Not “Globalization”

In addition to passenger cars, the company has also worked to offset the cyclicity of the commercial vehicle industry through global expansion. Tata recently took a stake in a leading Spanish bus maker (with the option acquire full ownership) and also acquired South Korean Daewoo’s commercial vehicle business. Although Tata has been exporting vehicles for more than 30 years, it has stepped up the volume and breadth of its exports two years ago. Its international business has grown by five times in the past two years and the company is already number 2 in South Africa in light commercial vehicles after

its launch just a year ago. Tata is also working on plans for a World Truck to be launched first in Korea in 2008. Exports, however, introduce new risks from competitors as well as exchange rates that can wipe out the entire margin for the business.

“The international business is strategically important,” Kant said, although he emphasized that they do not use the word “globalization.” “We are not seen as global firm,” he said. Instead of targeting the entire world, they are taking a segmented approach to areas and geographies where they can be competitive.

Competing with Railways and Pipelines

While it watches other vehicle makers closely, Kant said two of the major “competitors” for its business are not in manufacturing at all. First, there are oil pipelines. The creation of these pipelines means that oil is no longer carried by road and demand for trucks declines. Second, there is competition from the construction or improvement of railways, which also offer an alternative to transport by road. Of course, these projects are often slow to develop.

On the other hand, one of the largest road projects ever undertaken in India could improve conditions for commercial vehicles. The US\$24 billion project would create a perimeter road around India and a road across the country. “This will be a major change as far as movement,” Kant said.

Other Challenges

The cost of steel is also a significant concern. The voracious growth of China has driven prices through the roof. While there are opportunities to recycle steel, most recyclables have already been snatched up.

Environmental regulations also affect the company’s business, and these restrictions are not uniform across India. Some 13 cities have stricter emissions standards than others, and the situation is more complex as the company moves into global markets. “There is a need for more uniform standards on a worldwide basis,” Kant said. Although studies show that the auto industry contributes only 15 percent of the pollution, they are an easy target.

Taxes are another burden for Indian manufacturers. The tax burden accounts for 44 percent of the cost of a car. China is about 22 to 23 percent more cost competitive than India due to interest rates and the cascading impact of taxation.

Tata Motors’ stock, listed on the NYSE, has been well rewarded. The company has been very disciplined after its turnaround. It has significantly reduced its sales on credit, which accounted for 80 percent of its business five years ago. “Today, we are a far more efficient and disciplined company than five years ago,” Kant said. They are rigorously benchmarking themselves against global competitors. “We are benchmarking the best and being the benchmark for the rest,” he said.

Hindustan Lever

The next company visit was to Hindustan Lever, India's largest frequently marketed consumer good (FMCG) company, about four times larger than its nearest competitor. The company has managed to achieve market leadership in almost all its product lines. "We need to build on this position and not let it erode, despite all the multinationals playing here," said Arun Adhikari, Managing Director of the Home and Personal Products division.

The company recently refocused its attention on a small set of "power brands," consolidating 110 brands into 35 brands in 14 key categories. "What we did in the 70s and '80s was appropriate for the time but we needed to build the company that would be successful in the future," Adhikari said. India, even in rural areas, has begun to embrace consumption. "People have moved from guilt about consumption to an aspiration for consumption," Adhikari said.

Understanding the Market

Hindustan Lever talks to 700,000 to 800,000 consumers every year to learn about their tastes and needs. Among the trends they have identified in this rapidly changing society are:

- Health and wellness in body and mind
- Give me a break: entertainment
- Giving kids more
- Fusion of Indian and Western tradition remixed
- Increasing out-of-home consumption
- Increasing experimentation with food
- Increasing comfort with adoption of technology
- What's right for me – Need for customized products and solutions
- Make life easy – at no or low premium
- Extracting the most from the buck – the best quality at the lowest price or more for the same price
- Rising aspirations for a Visibly Better Quality of Life
- Indulgence is good.

The Urban/Rural Divide

One of the challenges of the Indian market is the divide between urban and rural consumers. While two-thirds of urban dwellers are white collar workers or traders, the majority of the rural segment is made up of farmers and farm labor.

The rural population is remarkably dispersed and the lack of infrastructure for connecting to these consumers makes logistics difficult and expensive. There are 3,800 cities and 627,000 villages. There are 6.9 million stores in India, roughly one shop for every 1,000 people.

Ownership of consumer durables is up across the board. There are now more than 30 million mobile phone subscribers in India and consumer credit is increasingly available. Some 43 percent of urban households in India's top 30 cities have taken housing loans.

Urban populations are highly concentrated. The top 1 percent of cities accounts for about one-third of urban population and the top 10 percent accounts for 65 percent of the urban population. While the urban areas are home to 28 percent of the population, they hold 41 percent of stores and consume 69 percent of frequently purchased consumer goods. “The action right now is urban areas, but one of the challenges is how to manage the rural/urban divide,” said BV Pradeep from Hindustan Lever.

Meeting Diverse Needs

The distinctive needs and challenge of rural areas create opportunities. Gopal Vittal, regional brand director of the company’s Asian laundry business, discussed four major challenges that Hindustan Lever has addressed with its products and marketing:

1. ***Resource scarcity:*** India is ranked 132 of 180 nations for its water availability. About 25 percent of domestic water consumption is due to laundry. Hindustan Lever developed a low-water detergent, Surf Excel, to conserve resources. The marketing emphasized that the detergent saves two buckets of water on every wash. The company also had to educate consumers not to be concerned about the low-suds of the detergent (since sudsing is usually seen as a sign that the detergent is working). The product was launched in the Indian state of Tamil Nadu where there are serious water shortages. It was very successful and is now being rolled out to the rest of the country. The company is also launching a water purification system that will turn “near sewage” into drinkable water for about 1/20th the cost of bottled water without the need for electricity or running water.
2. ***Health and hygiene:*** In marketing and relaunching its Lifebuoy soap three years ago, the company focused on the importance of hygiene to health. Advertising spots emphasized the range of benefits from staying clean and healthy to avoiding serious diseases such as diarrhea, which kills 3 million children in India each year. Lifebuoy, the advertising says, “can change lives” and “save lives.” The company has also seen Lifebuoy as a “teaching brand.” It has provided fluorescent powder and black lights to rural health workers. When the villages put the powder on their hands and wash with water alone, the powder shows up under the black light. They then repeat the exercise with soap, making the importance of washing away germs visible.
3. ***Child development:*** Another key concern is child development. “Children are pure and innocent,” said Vittal. “People will protect them almost at the exclusion of personal needs.” Among the initiatives in this area is a campaign to promote Kissan iodized salt to improve the mental development of children.
4. ***Women:*** The empowerment of women is also an important theme. In promoting its whitening cream Fair & Lovely, Hindustan Lever emphasized empowerment. “Transforming my face lets me take my future into my own hands,” an ad said. Advertising spots featured a women cricket match announcer who had broken into the traditionally male profession. The company also created the Fair & Lovely Foundation to promote the empowerment of women. These campaigns more than doubled top line growth and bottom lines for the brand.

Project Shakti

As media penetrates the rural areas, the aspirations of rural consumers are rising. But there are significant challenges, including a highly dispersed population, lack of infrastructure, and that large parts of rural India are untouched by media. How can the company hope to connect with 724 million people in 627,000 villages – especially when many of the purchases are single-serving sachets of shampoos, detergents and other products?

Two years ago the company created Project Shakti to increase the penetration of its products in these rural areas while promoting the economic development of rural women. The initiative was built around a very different business model designed to:

- reach markets that were not accessible
- allow the company to communicate in “media dark” places
- influence through one-to-one local communications

The system is organized around self-help groups that are common in rural villages (70 percent of rural women belong to such groups). Hindustan Lever, in conjunction with some 400 NGOs and microfinance lenders, has tapped into these networks of women. Women in the villages become “Shakti Entrepreneurs” who sell Hindustan Lever products person-to-person in their own village and surrounding areas. There are now 13,000 Shakti Entrepreneurs, each with average sales of Rs 10,000 per month.

While the process was complex and a lot of “hand holding” was required, the initiative has paid off for the women and the company. The project has doubled Hindustan Lever’s reach into rural markets, expected to reach 100,000 villages by the end of this year. “For years, we were trying conventional approaches that were not sustainable,” said Hindustan Lever’s Sharat Dhal who helped to found the project. “This benefits the company and the rural markets by creating livelihoods, and improving awareness of health and hygiene. It is a win-win project.”

Tata Consultancy Services: How Indian IT Outsourcing Was Invented

In preparation for our journey to Bangalore and Infosys, we had the unexpected pleasure of hearing from the “father of Indian IT” as well as from current leaders of the firm he helped to found, Tata Consultancy Services (TCS).

FC Kohli’s revolution in Indian technology began quietly enough. Trained at MIT, Kohli had returned to India to work for Tata Electric Company in Bombay. When the first mainframe was installed in 1964, they began using it for their analysis. As Tata moved into computing in 1968, Kohli was tapped for the job. One of his first projects was to use computers to reduce bank recancellation processing from 6 to 12 months down to 3 weeks. In another project, they created a digital version of the Bombay phone directory. As he deepened his knowledge of computing, Kohli traveled to the United States nine times between 1971 and 1973, building many contacts in academia and industry, including Burroughs Computers. Burroughs contacted Kohli in India to develop a program for a health care system. The only problem was that Kohli didn’t have a Burroughs computer in Bombay. Because of government sanctions on computing (the

socialist government was afraid computers would take jobs from workers), it could take 3 to 4 years to get approval to bring a computer into the country. So Kohli and colleagues designed the program on another machine and then created a program to migrate it across platforms. The health care system program helped Burroughs sell its computers to a number of new clients, and every time they brought Kohli in to help. “That was the start of world experiments,” Kohli said. “This was the first export of software from this country. That was how Tata Consultancy started. In some small way we may have contributed to creating the software industry in this country,” he said modestly.

While Kohli may have stumbled into IT outsourcing, he immediately saw its potential. In 1975, Kohli had given an address when he was president of the Computer Society of India. He said at the time that India had missed out on the industrial revolution. “We did not have the mechanical temperament,” he said. “Today the new revolution is information technology. It requires the ability to think clearly. This we have in abundance so we can work as equals. We have the opportunity to become leaders.”

From his many contacts with U.S. universities and businesses, they quickly found many other clients. The company has its own type of “Moore’s Law” for its business. Since its founding, TCS has doubled its business every two years. “Even with a larger base, we have been doubling every two years,” Kohli said. TCS now works with 39 of the Fortune 500, including 7 of the top 10 firms. Its market cap is about \$15 billion and it has 33 global delivery centers.

Its current goals are growth, globalization, integration, market leadership, customer value and enforcing values. As it grows rapidly reinforcing its core values is critical. The company hires 1,000 new employees every month. Since it offers jobs to only 1 in 6 candidates from the university and 1 in 20 from the broader market, this means it has to interview more than 70,000 candidates every year, using a thorough process that includes a set of tests.

As it brings in these many new staff members, the company needed to clearly define its culture and it spends a lot of time training new employees. It has a 52-day training program to help ensure that new employees understand the company’s mission, vision and values, as follows:

- **Mission:** *To help customers achieve their business objectives by providing innovative, best-in-class consulting, IT solutions and services. Make it a joy for all stakeholders to work with us.*
- **Vision:** *To be among the global top 10 by 2010.*
- **Values:**
 - *Integrity*
 - *Leading Change*
 - *Excellence*
 - *Respect for the Individual*
 - *Learning and Sharing*

This culture will be tested further as the company continues to expand. Two years ago, only 100 of TCS employees were non-Indians. Now that number has grown to 1,700 people and they are expected to represent 10 percent of the TCS workforce within two years.

(Thanks to Tata Consultancy Services Mr. S.Ramadorai, CEO/MD and other executives for sharing insights and hosting the dinner and reception.)

After a session with Bharat Forge Tuesday morning, we are off to Bangalore for the second leg of this program. We also were joined again by Professor Harbir Singh, whom some of you met at the New York City program.

PS: I'd like to acknowledge a few people that we neglected to mention in yesterday's report. The pre-program on Bollywood was the result of the unflagging efforts and enthusiasm of Fellow Joji George of Malaysia, who drew upon his old Mumbai contacts to gather an outstanding group of senior executives and take us onto sets that Bollywood film fans would die for . We also would like to thank Fellows Jai Saboo and Surjeet Singh for their hospitality in hosting a marvelous dinner at the Khyber following the art session. Our thanks to them and the many people who have helped to make these sessions a success.