Riding the elephant

How to seize opportunity in India's vital economy **Interviewed by Matt McClellan**

When speaking about his recent trip to India, President Obama said, "India is not an emerging economy…but has emerged." In this emerged economy, there are many opportunities for U.S. businesses.

"The main sectors of opportunity for U.S. business are higher education, defense, retail and manufacturing," says Vinita Bahri-Mehra, chair of Kegler, Brown, Hill & Ritter's Asia-Pacific practice.

But, there are many challenges as well. Vast legal and cultural differences can make an Indian expansion daunting for any business.

Smart Business spoke with Bahri-Mehra about how U.S. businesses can avoid the pitfalls and succeed in India.

What kinds of opportunities exist for domestic businesses in India?

India's higher education sector has recently witnessed a paradigm shift. Once viewed as a charitable or philanthropic activity, it has morphed into an industry in its own right. Due to a rapidly globalizing competitive marketplace coupled with the increasing need to expand quality education at the grassroots level, policy makers in India have slowly but surely set the Indian education sector on the track towards reform.

Analysts estimate the current private education market in India to be worth approximately $40 billion and expect it to grow by 70 percent in the next three years. A large growing population of youth and an inadequacy of existing educational facilities to cater to such a population means India is one of the world's largest markets for education and training. We are working with several U.S. universities on projects with educational institutions in India, including establishing R&D centers, providing education support services, twinning arrangements and the franchise model.

The second sector filled with opportunity is defense. India's new defense procurement policy includes a change long sought by U.S. and European defense contractors, making it less complicated for them to pursue big-ticket deals in India. The new policy gives foreign firms more flexibility in meeting 'offsets' — the requirement that they invest a portion of proceeds back into India to promote indigenous industries. However, there is a strong demand by U.S. firms to see India increase its limit in foreign direct investment in defense from its current cap of 26 percent, which discourages joint ventures because U.S. firms are not willing to transfer sensitive technology with such a small stake.

Vinita Bahri-Mehra
Chair, Asia-Pacific practice
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What opportunities are available in retail and manufacturing?

India has a growing middle-class market with higher purchase power parity, which is making them hungry for branded world-class goods. Presently there is a limit of 51 percent in foreign direct investment in retail; however, there is strong likelihood that India will open up its retail market. Companies like Wal-Mart and Costco — and their suppliers and service providers — are already positioning themselves for when the market opens up.

India's growing automobile market and other industries are in need of components, tools and supplies that can be used in domestic products and/or sold at the domestic markets. There are opportunities for U.S. Small and Medium Enterprises (SMEs) to export/manufacture their products for the Indian market in industries such as infrastructure, automobiles and consumer goods.

How can businesses determine whether these opportunities are right for them?

Businesses must have a strategy in place, which must involve thorough study and analysis of the Indian market to ascertain if there is a potential for their products. That should help determine if they should focus their efforts, time and money in establishing a presence in India. Due diligence is the key to creating a profitable operation.

An opportunity from a potential customer or a potential partner seeking a joint venture is generally the triggering point to evaluate whether it is the right opportunity. It depends on whether a business can really devote the necessary resources to make an opportunity a successful venture.

What challenges could prevent domestic businesses from succeeding in India?

Companies need to understand that the legal regime in India can be quite different from the U.S. The courts in India are backlogged with cases, and the judicial system works very slowly. Enforcing a judgment in India can take up to 10 years. So an arbitration clause in a contract is sometimes necessary to avoid lengthy civil procedures. Companies may also face cultural differences as the work style could become slow and negotiations could drag on, as sometimes Indians have trouble saying 'no' outright in negotiations.

Other challenges companies may face are protecting their intellectual property — U.S. intellectual property regulations won't protect you in India — analyzing the tax exposure the business will have for the type operations in India, and using a realistic timeline, and budget for the project will be useful.

What steps can be taken to overcome those challenges?

India is fondly known as an 'Asian Tiger.' However, I believe its comparison to an elephant is more appropriate, because an elephant is slow in its approach but strong and formidable in its growth. In order to be successful in India, companies need to remember that analogy: things may take time to get done in India, but once they are done, the sky is the limit for growth in that market.

Indians believe in relationships, so it is important to build trust with your customers, partners and counterparts. If a company wants to do a joint venture, it is important that the project leader spends significant time in India. That sends a strong signal to the Indian partner that the company is committed. It is important not to take the human element out of business. Indian companies like to do the handshake first, and then the deal, unlike in the U.S. where the deal comes first. <<

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