

Business Support Program for Swiss SMEs

MISSP

MOMENTUM IN INDIA: SWISS SMEs PROGRAM (MISSP)

“Partnering / Joint Ventures Assessment: India Specific Insights”

Presented by
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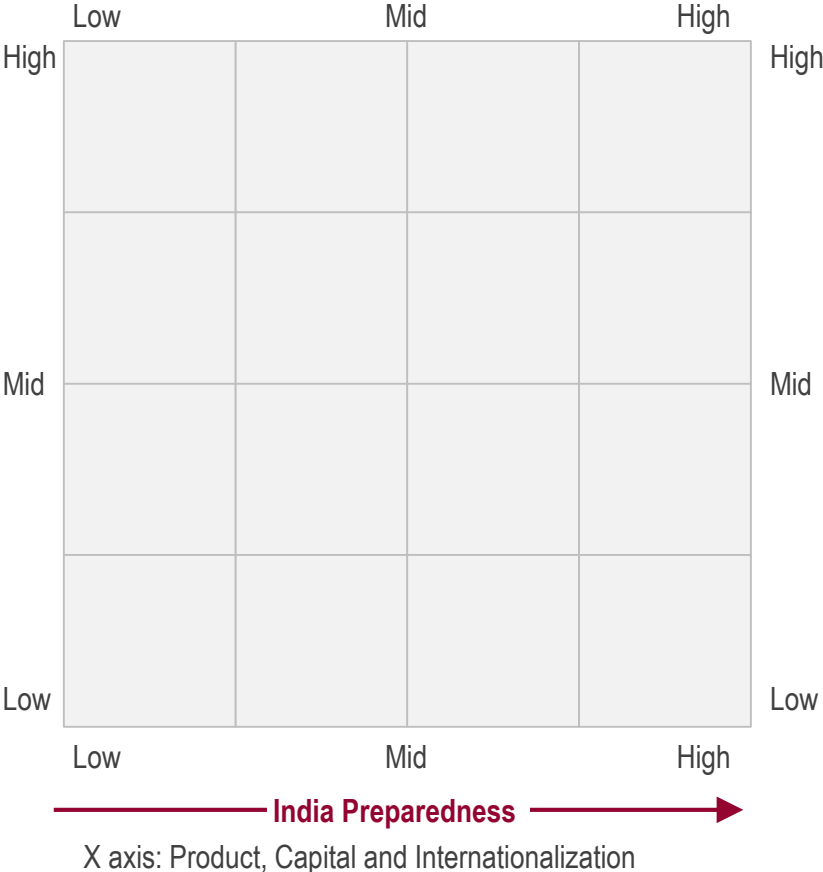
A network diagram with white nodes and lines on a blue background. The nodes are connected by a complex web of lines. Several nodes are highlighted with red text labels: RUSSIA, CEE, CHINA, MIDDLE EAST, JAPAN, WESTERN EUROPE, INDIA, KOREA, and SOUTH EAST ASIA.

INDEX

- A. STRATEGIC REFLECTION ON MODES OF INDIA ENTRY AND JV RATIONAL
- B. CASE STUDIES

WHAT SHOULD BE THE IDEAL MODE FOR INDIA ENTRY? (1/7)

Company entering Indian market requires assessment of product and technology fit, commitment for human and financial capital; extent of internationalization



PARAMETERS

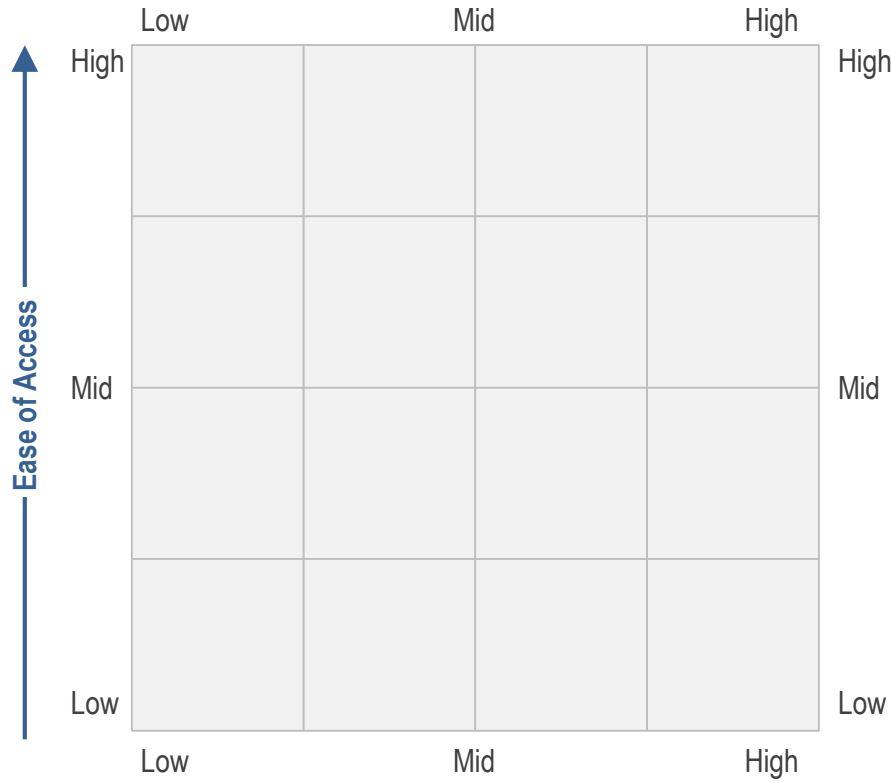
- Product**
- Product fit for Indian market
 - Technology levels (sophisticated v/s run of the mill)
 - Time required for local product development

- Capital**
- Financial capital (capex, working capital)
 - Human capital (management bandwidth)

- Internationalization**
- India prioritization
 - Global manufacturing presence
 - Asia manufacturing and sales presence

WHAT SHOULD BE THE IDEAL MODE FOR INDIA ENTRY? (2/7)

Companies need to be aware of customer - segmentation, Indian geographic spread and concentration along with suppliers - technology levels and time taken to develop them



India Preparedness →

X axis: Product, Capital and Internationalization

Y axis: Access to Local Customers and Suppliers

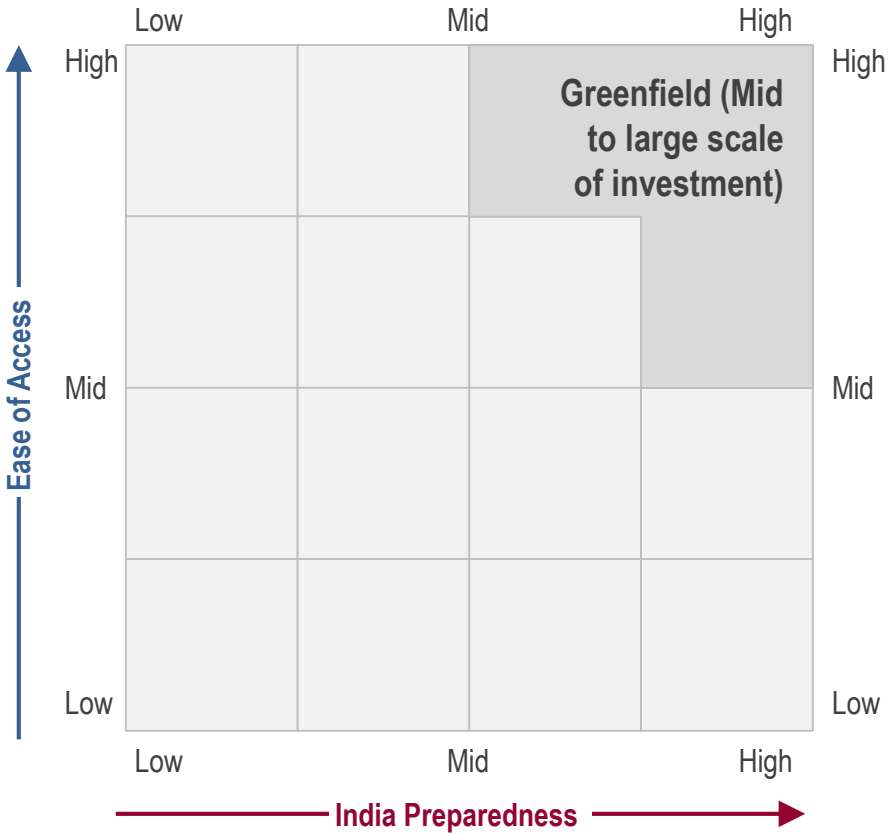
PARAMETERS

- Customers**
- Segmentation (B2B, B2C and B2G)
 - Spread (across applications and geographies)
 - Concentration (Top 5 customer share)

- Suppliers**
- Availability of global suppliers
 - Technology gaps with current Indian suppliers
 - Time taken to develop local suppliers

WHAT SHOULD BE THE IDEAL MODE FOR INDIA ENTRY? (3/7)

Companies with compatible products, management bandwidth, India as priority market, concentrated private customers and availability of competent suppliers should go via greenfield route for India entry



X axis: Product, Capital and Internationalization

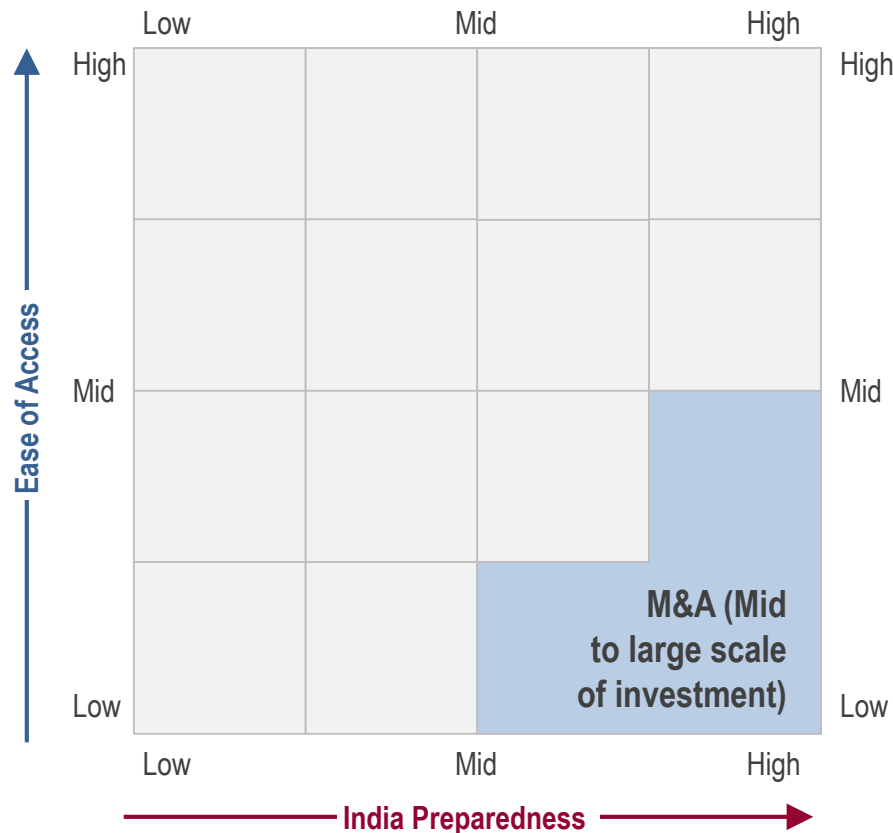
Y axis: Access to Local Customers and Suppliers

Parameter Ranking: ++ Very High; + High; +- Average; - Low; -- Very Low 5

- ### CHARACTERISTICS
- **Product:** Less time required for product development, strong understanding of Indian market ++
 - **Capital:** Management focus with sufficient capital for expansion needs ++
 - **Internationalization:** India as priority market, strong global and Asia presence ++
 - **Customers:** Concentrated customers largely belonging to private sector +
 - **Suppliers:** Availability of local suppliers with competent technology skill sets +

WHAT SHOULD BE THE IDEAL MODE FOR INDIA ENTRY? (4/7)

Companies with strong financial commitment, India focus, but difficulty in accessing customers should adopt acquisition route for India entry



X axis: Product, Capital and Internationalization

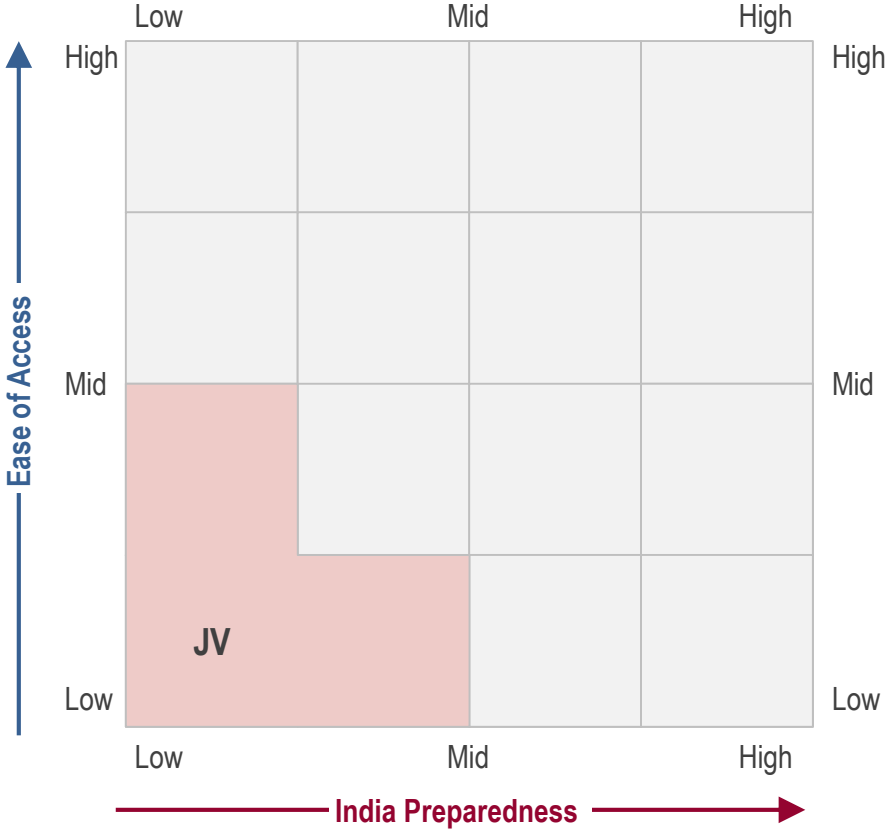
Y axis: Access to Local Customers and Suppliers

Parameter Ranking: ++ Very High; + High; +- Average; - Low; -- Very Low 6

CHARACTERISTICS	
<ul style="list-style-type: none"> Product: Reasonable time for local product development 	--
<ul style="list-style-type: none"> Capital: Availability of financial capital 	++
<ul style="list-style-type: none"> Internationalization: India as priority market, strong global and Asia presence 	++
<ul style="list-style-type: none"> Customers: Difficult accessing to customers, requires high time for liasoning/ product approval/ regulatory clearances 	--
<ul style="list-style-type: none"> Suppliers: Limited access to low cost production ecosystem 	-

WHAT SHOULD BE THE IDEAL MODE FOR INDIA ENTRY? (5/7)

Companies for which India is not priority market, products which requires high degree of customization with difficulty in accessing customers and suppliers should go via JV route for India entry



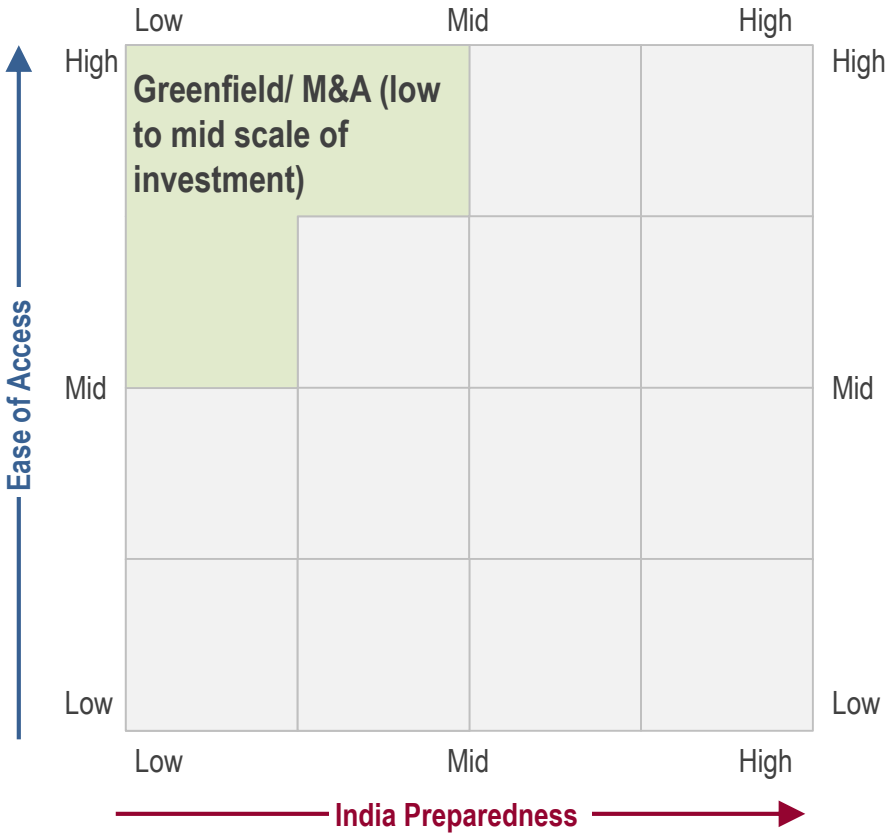
X axis: Product, Capital and Internationalization
Y axis: Access to Local Customers and Suppliers

Parameter Ranking: ++ Very High; + High; +- Average; - Low; -- Very Low 7

- | CHARACTERISTICS | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| <ul style="list-style-type: none"> Product: High degree of indigenization, more time required for local product development | + - |
| <ul style="list-style-type: none"> Capital: Limited management focus and capital for expansion | + |
| <ul style="list-style-type: none"> Internationalization: Low to medium India focus, concentrated regional presence and low Asia presence | - |
| <ul style="list-style-type: none"> Customers: More time require for customer access (requires liasoning/ product approval)) | -- |
| <ul style="list-style-type: none"> Suppliers: More time required to develop local supplier base | - |

WHAT SHOULD BE THE IDEAL MODE FOR INDIA ENTRY? (6/7)

Companies having limited understanding of Indian market, does not want to share IPR but consider India as a priority; ease of access to customers and suppliers should adopt greenfield/ M&A route for entry



X axis: Product, Capital and Internationalization

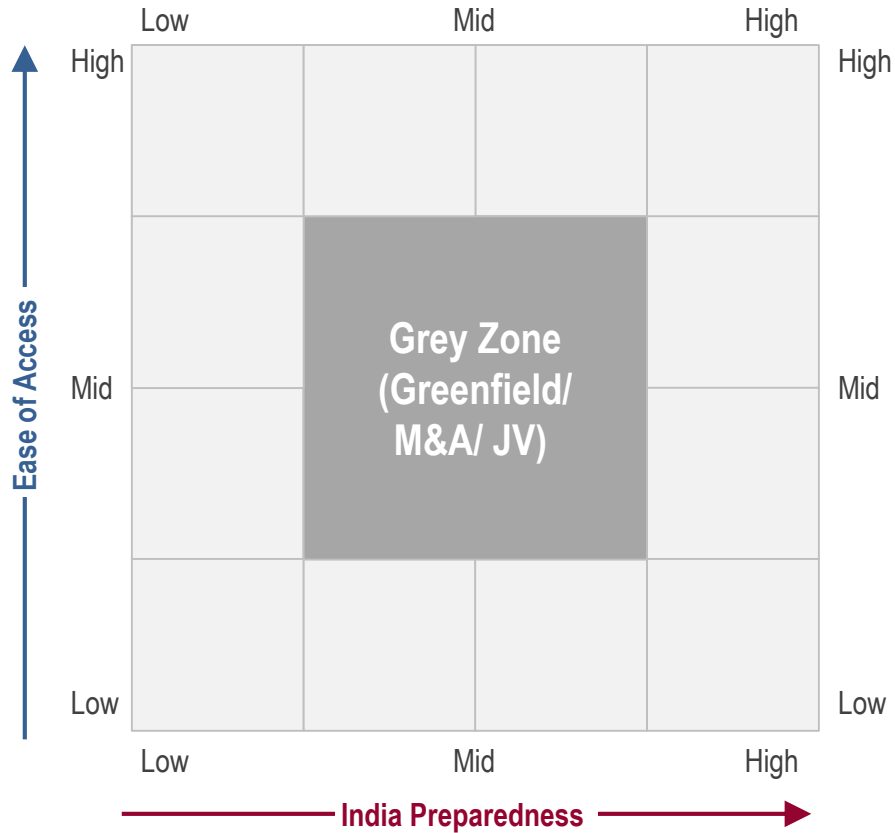
Y axis: Access to Local Customers and Suppliers

Parameter Ranking: ++ Very High; + High; +- Average; - Low; -- Very Low 8

- ### CHARACTERISTICS
- **Product:** Limited understanding of Indian market, company does not want to share IPR
 - + -
Capital: Low levels of capital investment but high attention by management
 - +
Internationalization: India as priority market with concentrated regional presence
 - +
Customers: Private sector concentrated customers
 - + -
Suppliers: Availability of local suppliers with competent technology skill sets

WHAT SHOULD BE THE IDEAL MODE FOR INDIA ENTRY? (7/7)

Detailed evaluation required for selection of greenfield/ JV/ M&A scenario; clear understanding of companies goal and India preparedness with respect to Indian markets



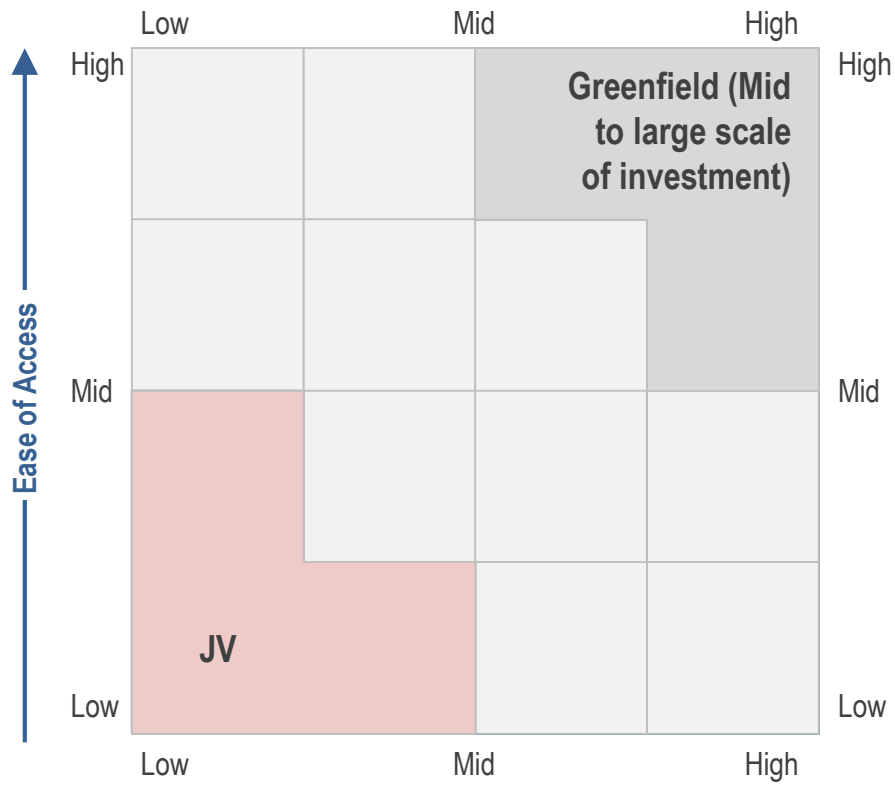
X axis: Product, Capital and Internationalization
Y axis: Access to Local Customers and Suppliers

Parameter Ranking: ++ Very High; + High; +- Average; - Low; -- Very Low 9

CHARACTERISTICS	
<ul style="list-style-type: none"> ■ Product: Compatible products but requires indigenization 	+
<ul style="list-style-type: none"> ■ Capital: Cautious approach (Own/ shared resources) 	+ -
<ul style="list-style-type: none"> ■ Internationalization: Low to mid India focus, concentrated in local regions, reasonable Asian presence 	-
<ul style="list-style-type: none"> ■ Customers: More time require for customer access (requires liasoning/ product approval/ regulatory clearances) 	-
<ul style="list-style-type: none"> ■ Suppliers: Reasonable period for supplier development 	+

WHAT COULD HAPPEN IF YOU LAND UP IN JV IRRESPECTIVE? (1/3)

Cautious management approach leads to JV mode with consequences of profit and technology sharing, hence careful assessment required for developing strong local team v/s partnering is required



FORMATION OF JV WHEN GREENFIELD (MID TO LARGE SCALE INVESTMENT) WAS BEST OPTION

- Sharing of technology and profits
- Decision to partner rather than developing strong local team
- Limited control on local management and strategy to be aligned with partner

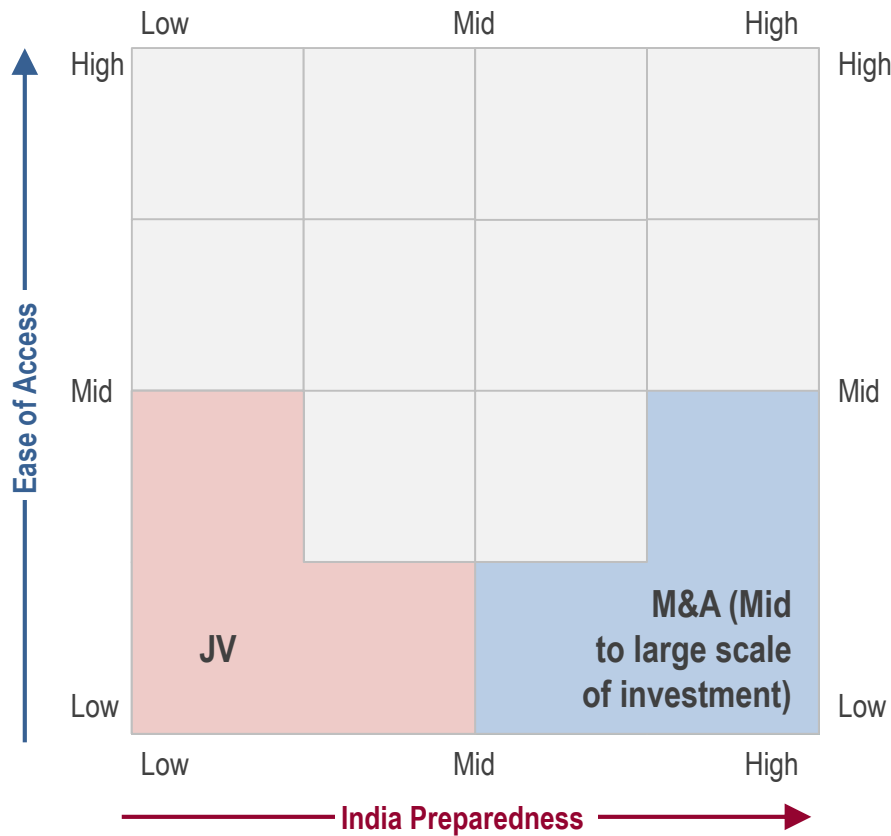
India Preparedness →

X axis: Product, Capital and Internationalization

Y axis: Access to Local Customers and Suppliers

WHAT COULD HAPPEN IF YOU LAND UP IN JV IRRESPECTIVE? (2/3)

Foreign partner have to eventually ramp up stake in JV which can be an expensive affair when M&A was ideal mode for India entry strategy



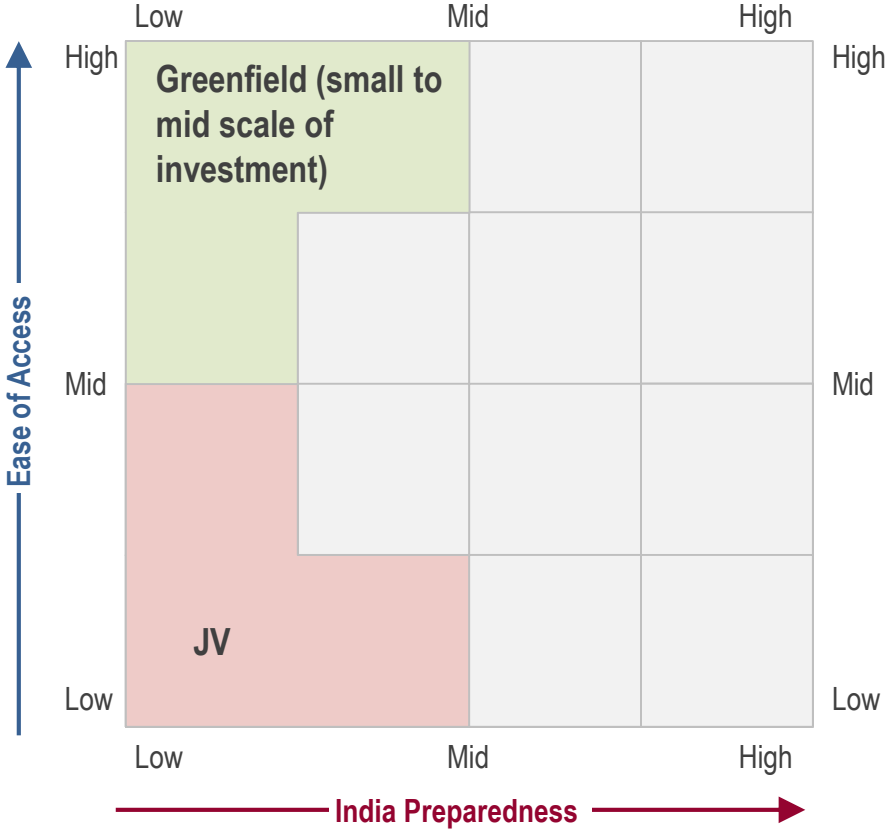
X axis: Product, Capital and Internationalization
 Y axis: Access to Local Customers and Suppliers

FORMATION OF JV WHEN M&A (MID TO LARGE SCALE INVESTMENT) WAS BEST OPTION

- Sharing of technology and profits
- Ramping up stake in the JV after few years
- Buying local partner stake – an expensive affair

WHAT COULD HAPPEN IF YOU LAND UP IN JV IRRESPECTIVE? (3/3)

Synergies lowers after initial phase as well foreign partner have to share technology and profits for JV formed when low to mid scale of greenfield or M&A was an ideal route for India



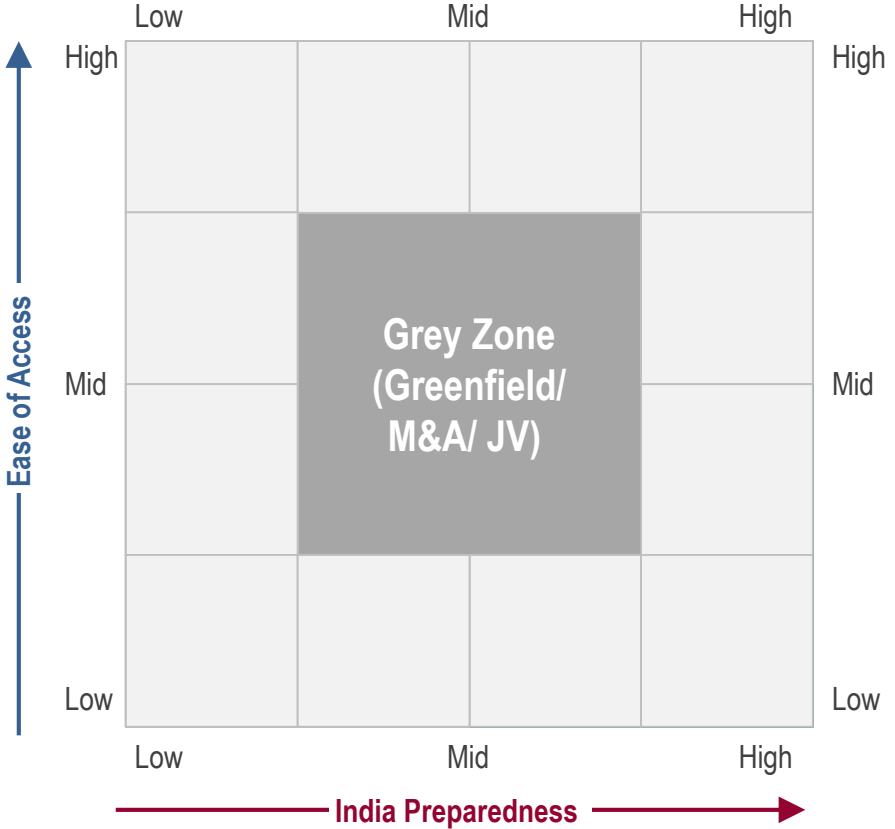
X axis: Product, Capital and Internationalization
 Y axis: Access to Local Customers and Suppliers

FORMATION OF JV WHEN G/F AND M&A (LOW TO MID SCALE INVESTMENT) WAS BEST OPTION

- Sharing of technology and profits
- Low synergies after initial JV Phase
- Limited control on local management and strategy to be aligned with partner

SHOULD YOU FORM JV IN GREY ZONE?

Critical evaluation of parameters related to product, customers, capital, infrastructure, localization and management bandwidth required for formation of JV in grey zone



FORMATION OF JV IN GREY ZONE

- Critical evaluation of parameters related to product, customers, capital, infrastructure, localization and management bandwidth (Check list parameters)

X axis: Product, Capital and Internationalization
Y axis: Access to Local Customers and Suppliers

PARAMETER CHECK LIST – JOINT VENTURE (1/2)

Product indigenization, customer access, distribution network are important parameters for success of JV in Indian market, hence foreign JV partner requires detailed evaluation...

Product	<div style="border: 1px solid #ccc; padding: 5px; margin-bottom: 10px;">Product fit for Indian market</div>	<i>As is</i> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <i>Indianized</i>	<ul style="list-style-type: none"> European products normally are looked as “over-featured” and needs alignment to suit the Indian market
Customer Structure		<i>B2B</i> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <i>B2C</i> <i>Private</i> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <i>Govt</i>	<ul style="list-style-type: none"> For getting customer access to Govt. or PSUs, one needs lobbying and networking and that is where local partner is needed B2C customer requires deep pockets and investment to access customers
Complexity for Customer Access		<i>Low</i> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <i>High</i>	
Importance of Distribution	<div style="border: 1px solid #ccc; padding: 5px; margin-bottom: 10px;">Sales (Customer Type, Concentrated vs Scattered)</div> <div style="border: 1px solid #ccc; padding: 5px;">Service (Product Life, Warranty)</div>	<i>Direct</i> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <i>Distributor</i> <i>Limited</i> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <i>High Intensity</i>	<ul style="list-style-type: none"> For distribution intense business, India being diverse and geographically wide spread, access to deep pockets requires support of local partners
Demand for local brand assurance (Trust, Reliability)		<i>Low</i> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <i>High</i>	<ul style="list-style-type: none"> Need to leverage the image of local player to establish business

PARAMETER CHECK LIST – JOINT VENTURE (2/2)

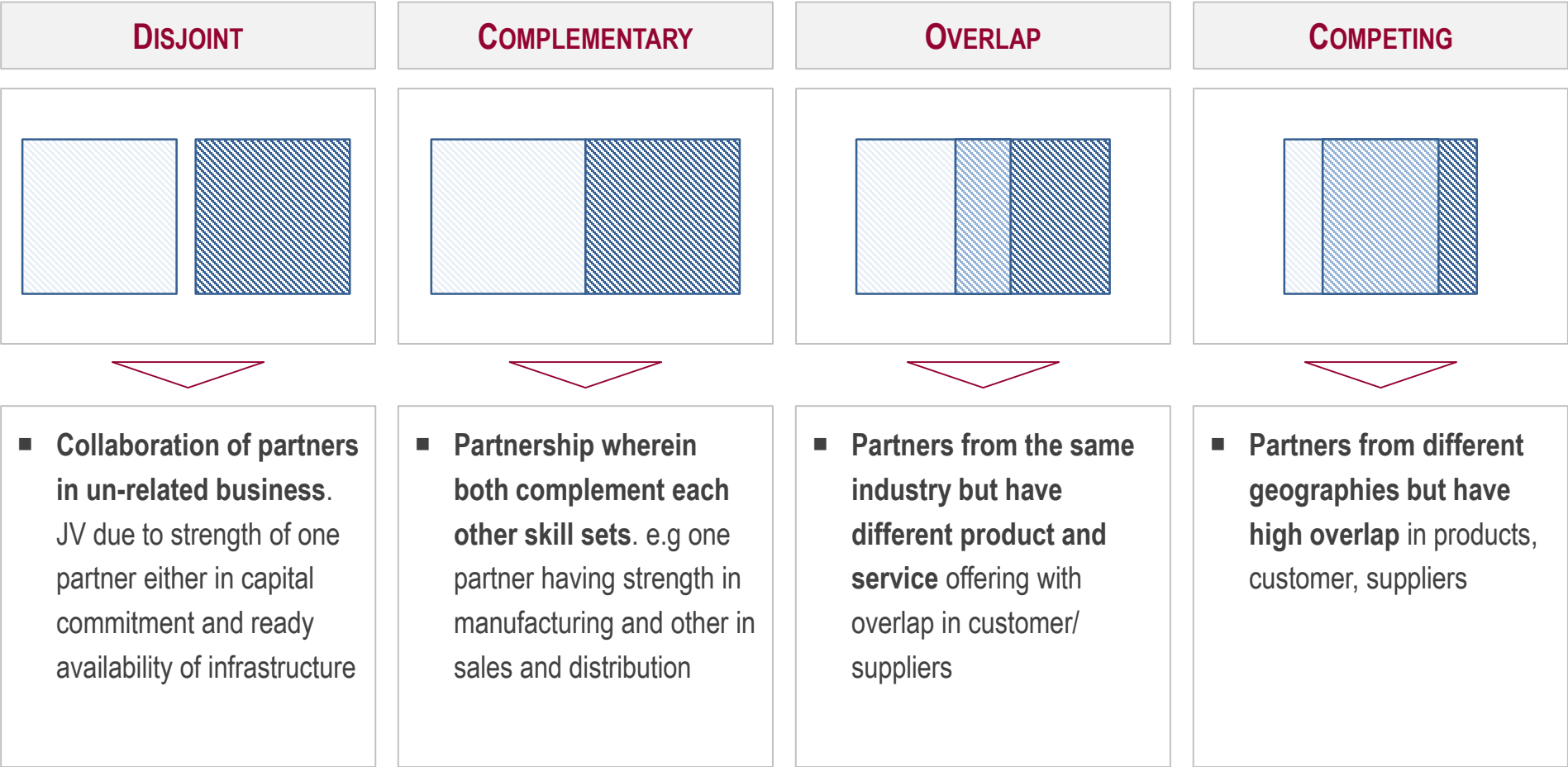
... with other parameter like capital, management bandwidth and supporting parameters like infrastructure, localization levels and time required to develop local suppliers

Capital Requirement	Low	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	Intensive	<ul style="list-style-type: none"> Investment required depends on the set-up planned – sales organisation, assembly workshop, mfg. plant etc
Financial Strength	Weak	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Strong	
Management Bandwidth (foreign partner)	Low	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	High	<ul style="list-style-type: none"> Local partner can bridge the gap if management bandwidth is a limitation
Infrastructure				
Real Estate (Size, Region, Utilities)	Non-critical	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	Critical	<ul style="list-style-type: none"> Sharing the cost and lowering the financial risks by utilising partner's land/ plant and machinery
Plant and Machinery	Build from scratch	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	Ready to use	<ul style="list-style-type: none"> Exceptional situation - Issues in land acquisition e.g. agricultural land
Trained Man-power	Non-critical	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	Critical	<ul style="list-style-type: none"> Case where approvals and clearance are cumbersome e.g. effluent/ environmental
Regulatory Approvals/ Legal	Straight-forward	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	Lobbying/liasoning	
Localization				
Level of Localisation	Low	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	High	<ul style="list-style-type: none"> Supplier needs to be developed and product needs to be localised to compete with local products.
Supplier Landscape	Limited know-how	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	Established know-how	<ul style="list-style-type: none"> If time-to-market is not critical, suppliers can be developed without a partner over the time
Supplier Development (Technology, Approvals, Gestation)	Low	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	High	

Low relevance for local JV High relevance for local JV

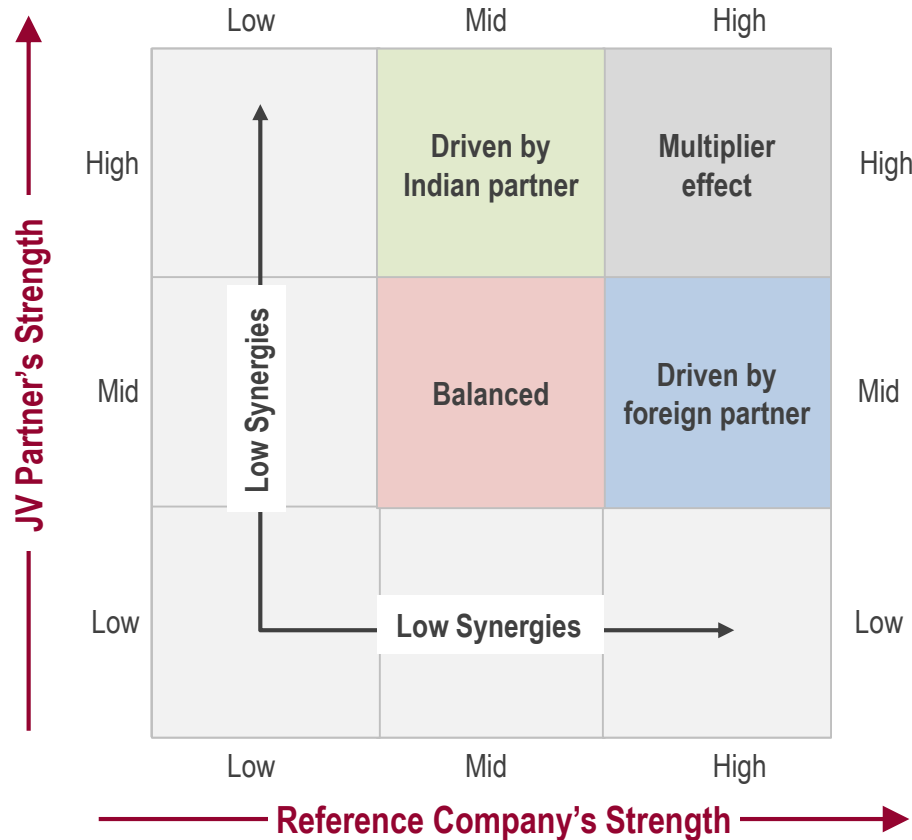
PARTNER DEFINITION – BASED ON BUSINESS SCOPE SYNERGIES

Based on the essentials in establishing business in Indian market, partner definition should be clearly spelled-out based on business scope synergies required to maximize collaboration and minimize conflict



PARTNER SELECTION AND SYNERGIES ASSESSMENT

Partner selection should have synergistic strength for access to customers, distribution network, local infrastructure of Indian JV partner; high strength to result in value of JV greater than sum of the parts



“Comparable partners (size, brand) with strong synergies however roles and responsibilities to be defined clearly to avoid conflict”

“Foreign partner driving the JV with product, technology and capital and Indian partner responsible for customer access and local management”

“Indian partner with established brand, infrastructure and strong network (distribution, customer and suppliers); whereas foreign partner focuses on product and technology”

“Both partners require each other as they cannot survive without each other” (one partner in manufacturing and other in sales)

X axis: Products & technology, Capital, Management bandwidth, Brand, Global customers, Global suppliers

Y axis: Local customers, Distribution network, Management bandwidth, Capital, Infrastructure, Brand

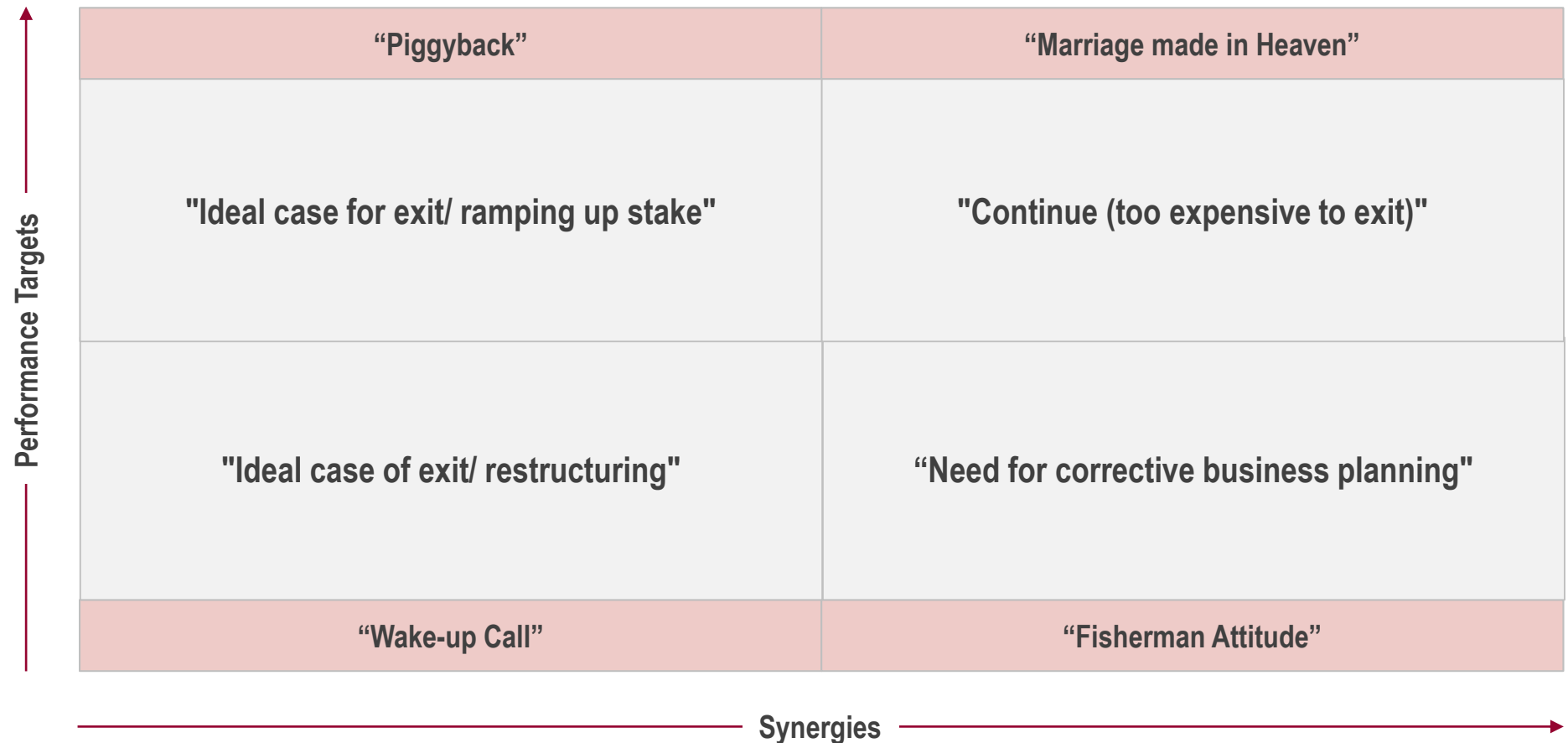
ASSESSMENT OF JV (1/2)

JV performance depends on partners contributions in accordance to agreed terms in the contract; high synergies can lead to improved performance, limited synergies can result in conflict or termination of JV

↑ Performance Targets ↓	“Piggyback”	“Marriage made in Heaven”
	<ul style="list-style-type: none"> ■ Disproportionate contribution by JV partners (management time, resources, capital) ■ Unclear roles and responsibilities in JV contract ■ Control issues (decision making, transparency) 	<ul style="list-style-type: none"> ■ New products/ new markets/ product innovation ■ Adherence to roles and responsibilities ■ Maturity of the partner to deal with conflict situation
	<ul style="list-style-type: none"> ■ Lack of proper due diligence ■ Misalignment on venture strategy ■ Cultural issues and different mindset ■ Unrealistic profit expectations ■ Competing partners 	<ul style="list-style-type: none"> ■ Misalignment on venture strategy ■ Optimistic business planning ■ External factors - Competition, government policies, gestation period
	“Wake-up Call”	“Fisherman Attitude”
	← Synergies →	

ASSESSMENT OF JV (2/2)

JV performance depends on partners contributions in accordance to agreed terms in the contract; high synergies can lead to improved performance, limited synergies can result in conflict or termination of JV



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CEE
MIDDLE EAST
WESTERN EUROPE
INDIA
SOUTH EAST ASIA
CHINA
JAPAN
KOREA

INDEX

- A. STRATEGIC REFLECTION ON MODES OF INDIA ENTRY AND JV RATIONAL
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JV CASE 1 – GERMAN HCV & INDIAN LCV MANUFACTURER (1/2)

Germany headquartered company, active in the manufacturing of CVs got into JV with a leading LCV manufacturer in India to access market and suppliers

JV OVERVIEW

- Formation of 30:70 JV in 2006 resulted in the establishment of a new entity for the manufacturing of 24 thsd heavy trucks per annum for domestic and exports markets

COMPANY OVERVIEW

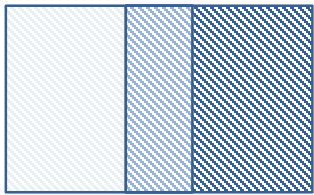
German HCV manufacturer

- Established:** 1915
- Revenue:** 14.4 bln EUR (2016)
- Scope:** Commercial vehicles (3tons to 350 tons)
- Ownership:** Listed
- Plants:** Europe, Russia, South Africa, India & Turkey

Indian LCV manufacturer

- Established:** 1958
- Revenue:** 453 mio EUR (2017)
- Scope:** Light commercial vehicles, Multi-utility vehicles and Agricultural tractors
- Ownership:** Listed
- Plants :** West, central & south India

Overlap¹⁾



JV CONTRIBUTION

- Manufacturing heavy trucks ranging from 16 to 32 tonnes vehicles for domestic & export markets
- Management: Chief Technology Officer (CTO) and 3 of 9 members of the board

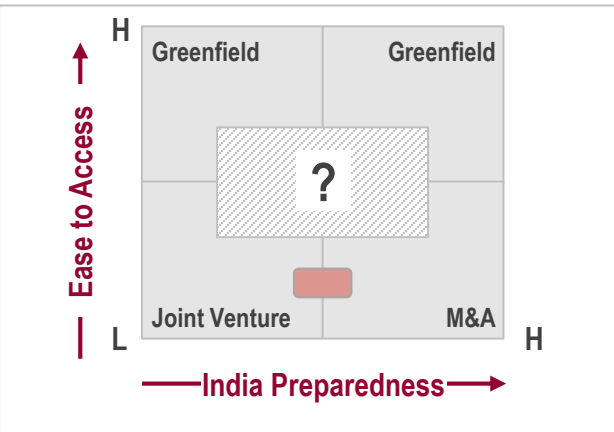
- Company's plant in central India for manufacturing of heavy trucks
- Manufacturing of components like axles and engines for joint venture

1) Overlap in terms of products

JV CASE 1 – GERMAN HCV & INDIAN LCV MANUFACTURER (2/2)

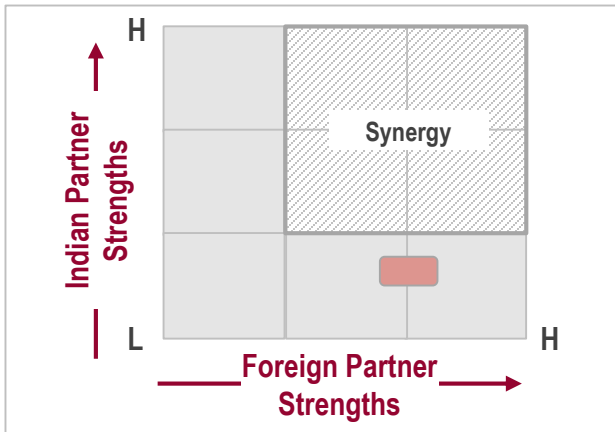
JV lasted for 6 years until 2011 when Indian partner announced to exit the JV selling stake to German partner; exports were primary reasons for the dissolution of JV

INITIAL SITUATION



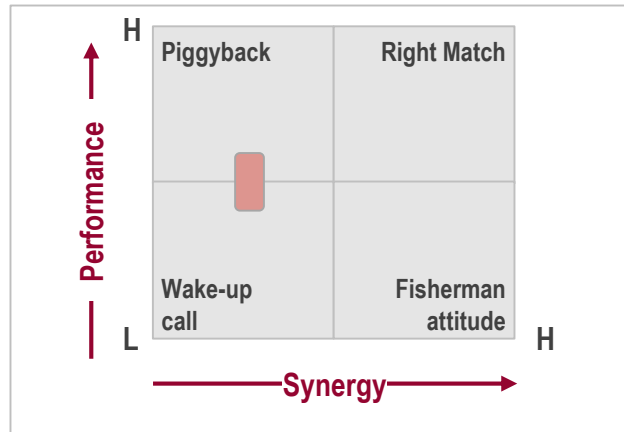
- Brought in superior product, technology and financial strength
- Well known global brand in commercial vehicle industry
- Due to lack of access to India customers and supplier base, selected JV route to enter India in 2006

PARTNER SELECTION



- Indian partner was good in select light commercial vehicle segment in India
- No presence in heavy commercial vehicle segment

JV PERFORMANCE



- Indian partner had 70% stake, which later got reduced to 50%
- Due to lack of exports, Indian partner terminated JV in 2011

JV CASE 2 – SWISS & INDIAN CHEMICAL COMPANY (1/2)

Swiss partner acquired majority stake in Indian company for complimenting product portfolio and exports

JV OVERVIEW

- A joint venture between which is leading manufacturer of Catalyst (Base metal and Noble metals based) primarily for India and exports.
- Swiss partner with majority stake in 2016-17 from 50% in 2011

COMPANY OVERVIEW

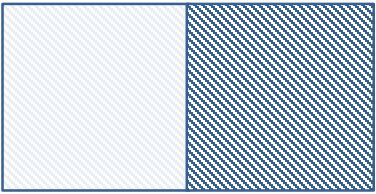
Swiss Specialty Chemical manufacturer

- **Established:** 1995
- **Revenue:** 5.45 bln EUR
- **Scope:** Specialty chemicals (Care chemicals, Natural resources, Catalysts and plastic & coatings)
- **Ownership type:** Private listed

Indian family owned company

- Minority stake holder since foundation in 1969
- Family owns key position like Managing Director and Director

Complimenting



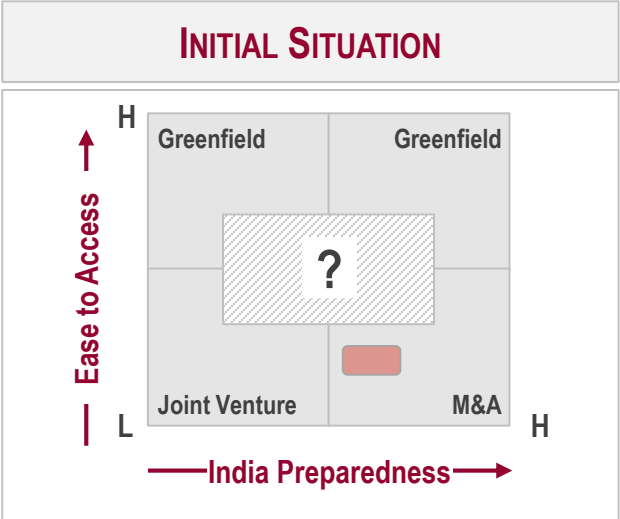
JV CONTRIBUTION

- Technology and access to global markets for exports

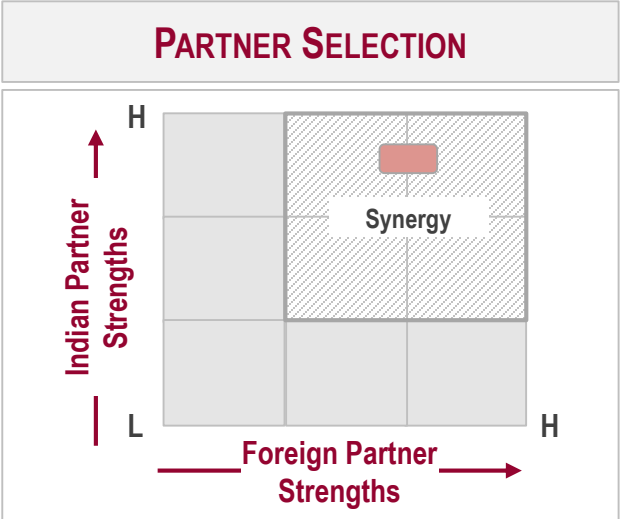
- Local low cost manufacturing

JV CASE 2 – SWISS & INDIAN CHEMICAL COMPANY (2/2)

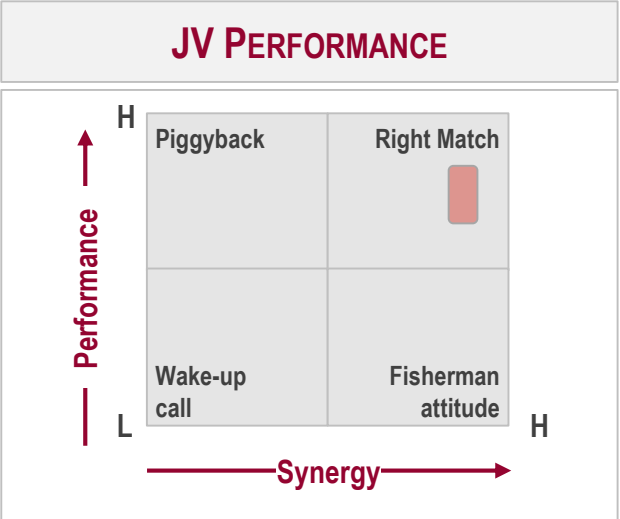
JV doing very well as both the partners have good synergies



- A global leader in speciality chemicals
- Catalyst business being new company entered though JV route



- Founder partner in the company since 1969
- They have good product knowledge
- Good manufacturing base, established supplier and customer base in India



- Being founder partner has very good business understanding
- Swiss partner is able to help in exports business
- Complimenting partners

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