AMIR ULLAH KHAN'S VIEWS ON GOING GLOBAL
– COMMUNICATING THE INDIA ADVANTAGE -

Why India is socially, culturally, politically and economically so modern and yet not so?

This presentation is about cultural issues as understood by an economist who has studied the new India as we see it today. I aim to highlight changes and dimensions of India relevant to PR professionals, who not only have the task of projecting an image of their company in the local market but also have to keep their headquarters' interest alive in India. These professionals have to simultaneously convince a huge lobby of internal and external audiences who ask very obvious questions about what is it that is so typical about this country, what is its cultural context, why is there so much uncertainty and ambivalence about India, both within India and in the rest of the world?

Cultural issues are important and cannot be ignored by any corporate…

There are innumerable examples of cultural issues impacting businesses, all pointing to the importance of corporations being aware and understanding cultural issues. Some interesting ones include a toothpaste brand launched in Thailand. Typically a good line for a toothpaste is "for the whitest teeth", "makes your teeth dazzling white", and that's what the toothpaste brand chose to use in its advertisements. However, much to the toothpaste company's surprise and bafflement, such slogans did not help promote the brand. The sales of the new toothpaste brand were dismal. The company had failed to recognise the tradition of chewing tobacco in Thailand, which considered brown teeth a mark of respectability.

Similarly, when ceiling fans were first introduced in Japan, international companies were offering the standard 19 inches and 17 inches blade fans, which failed to sell. Companies failed to recognise that Japanese homes are small and have low ceilings and therefore need smaller blade fans.

In India too, when Reebok chose to introduce a 'signature' edition of trainers endorsed by the former Indian cricket team captain Mohammed Azharuddin, there was a great furore among the Muslim community. The community considered the presence of the holy name Mohammed in the signature logo on the shoes highly disrespectful. The company had to eventually withdraw the campaign.

A new culture emerges in India…

In my opinion, the critical era for businesses in India started with the commencement of economic reforms in 1985. Though most people believe that economic reforms began in 1991 during P V Narasimha Rao's tenure as Prime Minister of India, they actually began quietly in 1985 when Rajiv Gandhi, the then Prime Minister of India, welcomed Suzuki Motors to set up a joint venture to manufacture motorcars in India. Victor Hugo's famous statement that "nothing can stop an idea whose time has come" was later paraphrased by former Finance Minister Manmohan Singh to explain the need for economic reforms in India. It is imperative for PR professionals to understand how economic reforms have changed the corporate culture in the country. There is a clear transformation between the corporate culture as it existed before

1980's and as it exists today.

The years 1989-90 marked the return of several MNC's to India, who returned to face a new work culture along with a political situation that was chaotic and a social situation that was dangerous. While some economic reforms were beginning to carve out opportunities for corporate India, a lot of socio-political disturbances in the form of the Mandal Commission and its resultant mayhem, followed soon thereafter by the uncertainties caused by the Babri Masjid issue resulted in tremendous corporate losses too. Adding further complexity to this scenario was the Balance of Payment (BoP) crisis in 1991, when India's foreign exchange reserves were down to a billion Dollars only.

Respectability for business….

One of the biggest cultural changes is the respectability accorded to businessmen, in contrast to the mindset that prevailed in early 1980's, when businessmen were viewed with a decided level of distrust.

Today, we understand and believe that large scale offers economies of scale and that small is not necessarily beautiful. However, the thinking that existed earlier encouraged small enterprise. The Government of India reserved sectors for the small-scale sector. For e.g. big companies could not make ice creams, most of the agri-inputs were reserved for the small-scale sector and that resulted in very high pricing.

Big is beautiful…

There were legal and political restrictions too on becoming big and people at large disliked anything that was big. Today, all understand that as a company becomes bigger, goods become cheaper and the company becomes more efficient.

Meanwhile, India junked import substitution. The earlier argument that if Indians were allowed to import, they would import only elitist goods like costly refrigerators, big cars, etc was reversed. In early 1990's when a big detergent company trying to sell its washing powder, conducted a survey to find out the geographical concentration of washing machines, they were surprised to learn that Punjab had the highest density of washing machines on a per capita basis. That set everyone thinking and further research revealed that many Punjabi's were using the washing machine to churn their favourite drink- buttermilk!

While redistribution is fine and it is good to take from the rich and give to the poor, Indians realised that rather than making smaller pieces of the pie, they should make the pie bigger. This set about the emphasis on growth and the mergence of the new *mantra:* Create wealth first, distribution will happen.

India witnessed a great technological revolution too. Today, the country produces half a million engineers every year, which is more than the rest of the world put together.

Technical resource power…

India has an independent, though very slow legal system. Infact, the oldest case that is still being heard was filed in 1896 in a Calcutta court. Four generations of landlords, tenants and lawyers have died in this duration! However, despite its many flaws, the

Indian judiciary is an independent one and in comparison to many other judiciaries in the world, it stands out as a big and important institution. Therefore one cannot deny its importance to the corporate sector.

The Indian entrepreneurship is also very remarkable and so is the strength of its strong financial sector comprising of banks and stock exchanges.

Economic populism….

Another radical transformation witnessed by India has been the Electoral populism in India's political economy. Infact this has been witnessed this year itself. In the month of February 2004, before the General Elections were announced, there was a flurry of activity in the Ministry of Finance. The Finance Minister, Jaswant Singh travelled to all the key economic destinations in the country and announced an increase in Foreign Direct Investment (FDI). Three to five years ago, this was something no Finance Minister would do in an Election year, as the public sentiments would be hurt by the entry of foreign players. However, today, electoral compulsion that made the Finance Minister take such a step.

Thinking local…

The MNCs that left India in 1974 and came back in 1989-90 recognised the cultural changes taking place. Therefore, this time around they were thinking differently. An analysis of the advertisements through the last 50 years reveals that till the late 1960s, the central model of most advertising campaigns was a white, Caucasian male. However, when the MNCs re-entered India, they used popular Indians in their advertisements to woo the masses. Therefore, the Pepsi advertisement featured Amir Khan. Advertisements were clearly carrying a new message and the medium itself had changed, the language itself had changed. The customer profile too had changed and a new middle class had emerged - one that was 250 million strong.

For the first time it was acknowledged that India has a very strong motorcycle economy. Companies realised that when they had to sell TVs and refrigerators, they could no longer target car owners only and ignore the motorcycle owners.

Local flavour …

Various kinds of products entered to cater to the local markets – from potato chips to encyclopaedias – from one end of the spectrum to the other. However, companies like KFC and McDonald's acknowledged local sensibilities, with the latter entering the market with the realisation and acceptance that it could not sell its signature product, the beef burger.

There was respect for popular culture and a clear admission that what wins in India is Bollywood and cricket. As a result, almost every company used brand ambassadors from one of the two fields.

Most importantly, the urban roadside bias went away. On examination of demographic profiles used 20 years ago and today, one finds that there is a clear focus on the non-urban markets, the small towns and rural India. This is clearly evident from the shift towards rural communication.

There are approximately 6,38,691 villages in India with a rural population comprising of 742 million. The approximate figures for the rural market (in value terms) are as follows:

- FMCG : Rs 500,000 million
- Agri Inputs : Rs 450,000 million
- Automobiles : Rs 8,000 million
- Durables : Rs 5,000 million

The point to be noted is that in terms of the political economy of India, market definitions and market demographics, one can see a very strong change.

To our great advantage, India is a young country. Population in the 15-39 years age group, which spends the maximum amount of money, is rising. In comparison, Europe is witnessing the rise of the 65 years and above age group and therefore the existence of a large dependent population. India is the youngest country in the world and in 2013 it will surpass China in the 15-39 years age group.

This young population is a very important new class of consumers who is without the old baggage of import substitutions, small scale, self-reliant mindset and consumer phobic attitude.

The market growth rate between 1987 and 1999 has been nearly 200 per cent. This is but a reflection of the fundamental change in the way people have started to think as discussed above. There is a sheer growth in market size in volume terms and the entry of new consumers in the form of the new rising middle class. Consumption patterns by themselves have changed. Between 1987 and 1999 the increase in expenditure were

Personal Care	196 per cent
Toiletries	117 per cent
Durables	146 per cent

Real Growth

Non-essentials	Rs. 156 million
Durables	Rs. 217 million

There is a clear pattern emerging for the macro demand in the economy, which reflects that people no longer continue to buy the same products. People are eager to buy new products and are willing to pay more for quality leading to quality upgradation across products. There is willingness to even sample new product categories.

Breaking the barrier of the Hindu rate of growth….

India's economic growth rate from 1950 to 1985 was consistent at 3.5 per cent (referred popularly as the Hindu rate of growth). When measured realistically against the 2.1 per cent growth rate of the population, the effective growth rate was very little. If India continued with the 3.5 per cent growth rate, it would have taken it 57 years to double its per capita growth. Today, at six per cent, it will take India just 18 years. If India grows at 10 per cent, which is what it aims to, then it will have an 8.5 per cent per capita growth.

The Indian market has demonstrated a remarkable resilience in the face of several predicaments faced by the country in the last two decades including:

- Financial crisis in 1991 (the BoP crisis)
- Asian crisis which affected the entire world (1997)
- Worst drought in four decades (1997-98)
- Largest cyclone in recorded history (1999)
- Two major earthquakes (1999 & 2001)

Over five per cent growth for the last 15 years…

Despite these, India's average GDP growth rate has been 5.7 per cent, which is next only to China. There is no other country in the world, which has been growing consistently over five per cent for the last 15 years.

The country today has very stable fundamentals:

- Foreign exchange reserves – US $104 bn
- External debt - US$105 bn
- Short-term debt at less than four percent of reserves
- Current account surplus for the last two years
- Inflation rate around five percent, which is the most balanced and controlled in the world
- Falling interest rates

Some of the important macro level reforms to take note of:

There is a big change in our political culture too; as for the first time we have a consensus among all parties.

Marked improvement in the Indian labour issues. The perception about the Indian labour laws has been very poor and one often heard cribs about it internationally. True, India has had a bad labour system, in fact in 1982, there were 1,714 disputes and 31,259,000 man-days were lost in the process, which was a huge loss for the corporate sector. Ten years later, in 1992 there were only 413 disputes with a loss of 15,697,000 man-days. This change was despite any alteration in the labour laws and inaction on part of the government. One can only therefore attribute it to the transformation in the corporate culture or employee culture.

There is also a more positive attitude to compliance on taxes reflected by the comparison of composition of taxes between 1992 and 2002.

- Direct : 1992: 19 per cent; 2001: 36 per cent
- Indirect : 1992: 78 per cent; 2001: 61 per cent

Even the average tariff has dropped from 53 per cent in 1988 to 18 percent in 2002.

The automobile sector best demonstrates how Indian companies have not only been thinking locally and acting locally but also thinking globally and acting globally. Some examples:

India a global force to reckon with…

- Passenger car exports trebled in four years
- Hyundai nominates India as its global sourcing base for small cars
- Indica (100 per cent indigenous) is being exported as Rover City to Europe
- Hero Honda is world's largest producer of motorcycles

Even the quality of auto-components is acclaimed worldwide

- Sundaram Fasteners is a regular winner of annual "Best Supplier Awards" from General Motors
- June 2003: Cooper Tire & Rubber Company was awarded the "Gold World Excellence Award" by Ford Motor Company, its highest supplier honour
- May 2003: Rane Engine Valves received the "Best Supplier" award from Deutz AG, a leading engine manufacturer in Germany
- Five companies have won the Deming award and one the Japan quality medal

Then why is it that India is compared unfavourably to China? If one were to take cognisance of the fact that Indian reforms began much later, India clearly has had a jumpstart in comparison to China. The answer lies in the figures below:

China vs. India

- The Chinese reform process began in 1977, while Indian reforms formally began in 1991
- Five years since the reform process began in 1982 (from 1977 to 1982 China's figures are not available, therefore the starting point is taken as 1982) China got USD 4,508 mn of foreign investment. Five years since the reform process began in 1991 in India, it got USD 4,488 mn of foreign investment
- 10 years since 1982 China's FDI stood at USD 13,791 mn while that of India is actually more favourable at USD 15,483 mn.
- After 15 years, China jumped to USD 23 bn USD in 1993.
- India is in its 14th year now and it expects to do better and is already recognised as a major destination of the world economy today.

However, there are some disturbing aspects of the Indian local culture that concern investors even today.

- Sectarian conflicts cannot be wished away – the voter still votes for his caste.
- Infrastructure is far from satisfactory. It is estimated that it will take 226 years for Bihar to get electrified at the current rate of progress.
- Per capita incomes still very low at USD 500. India ranks 162, sandwiched between Haiti and Nicaragua (Source: World Bank)
- Rampant poverty. 34.7 per cent of the population earns less than a $ a day (Source: UNDP)
- Human development index ranks India – 127 of 175

Comment From Participants

ICICI Prudential on cultural issues faced by it in selling its insurance products in India

When the insurance industry was deregulated three years ago, the penetration of insurance was an abysmal 20 per cent, that too after 50 years of the existence of the industry. The ratio of premium to GDP was approximately 1.3 per cent, whereas in countries in south-east Asia it is around 5-6 percent and in developed countries like UK or US it is around 10-11 per cent.

The biggest challenge encountered by the company was that unlike in other countries where insurance is perceived as a hedge or a protection tool, in India it is nothing but a tax saving option. The company has come a long way, though it has not been an overnight change, and the awareness levels are on the rise. The next five odd years will see a significant change in the industry.

Amway on the local cultural issues it faced on entering India with a completely unknown brand in a unknown industry

Amway was not a success initially and it realised that the challenge it faced was that Indians want quality but are not willing to pay for it. The company took off its global hat and thought locally. It decided to maintain quality but introduced different price points, by introducing smaller packs to suit local consumption and spending patterns. Last six years Amway's performance speaks for its success. The bottom line is that without compromising on their USP, MNC's should manage the local realities and work around them, rather than change them.

Hutch on the cultural change - everybody owns a cell phone today as compared to a few years ago when a landline telephone was rare at home

Hutch has been successful in making inroads into the market due to a lot of factors. The handset prices have gone down, the call rates have dropped drastically with different tariff options being offered. The industry offers value added services that has grown the market exponentially and of course the technological advancement has helped create this revolution.

Amir Ullah Khan's comment the cellphone revolution…

A study done tracked the cell phone usage among the Kerala fishermen over a period of seven years. A Kerala fisherman used to have a high wastage rate of his catch, almost 7.5 days in a month. This was because he had to negotiate rates with the traders on his return from fishing in the evening. However, with the drop in handset prices and reduced tariff rates, almost every fisherman has a phone and can negotiate a better price for his catch while still at sea. The wastage rate has dropped to only two days a month.

Xerox on the dramatic changes witnessed by it during the course of its business in India

Xerox has seen changes, which relates to distribution. The company has traditionally been a direct selling company, with large accounts and a huge direct selling sales force. However, that has changed now, as there is a lot more indirect selling with the introduction of simpler and cheaper products to reach out and cater to B and C class audiences.

(Excerpted from the presentation made by Amir Ullah Khan, Research Fellow, India Development Foundation, at PR Pundit's workshop, held in Delhi on March 23, 2004)