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Strategic Innovators

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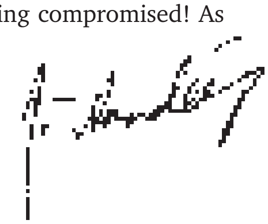
Competing to death!

Well, that's the heading for one of the benchmark research papers written in this issue of Strategic Innovators. As quoted in even other papers in this journal, the world is viewing a dramatic shift in competitive dynamics from straightforward competition to rampant co-opetition! The term co-opetition refers to a situation where diehard competitors start collaborating, legally of course, to maximise shareholders' value, profits, revenues etc, and to minimise consequent costs and expenses by optimal utilization of joint operations, products, services *et al*.

One of the most compelling reasons for competitors to turn co-opetitors is the focus on maximizing returns from core competencies. When two competitors realize that they are stuck in a "prisoner's dilemma" situation, where competing against each other actually ends up giving them lesser returns, a logical methodology of operating becomes co-opetition. Examples are in abundance. Instead of competing, Disney and Pixar Animation went the co-opetition way, where Pixar provided the graphics content for movies like Finding Nemo, Toy Story, Monsters Inc, The Incredibles, Bug's Life etc, while Disney went ahead and distributed these hugely successful films all over the globe. Or where companies like Hindustan Motors and Mahindra & Mahindra have supplied engines and other auto components to companies like General Motors and Ford (and now to Renault too). Where HLL still distributes the *Dalda* brand – that it sold off to top competitor Bunge – through its own channels. Where Honda of Japan would continue selling various automobiles through its joint venture with the Hero group in India, and at the same time, continue selling scooters through another arm unrelated to Hero, and generators through another.

Co-opetition, and not straightforward competition, is becoming the rule, especially in industries that have typically high competitive pressures, and – if one can mention – intelligent competitors. Perhaps the biggest, the most successful, and one of the oldest of all co-opetition examples can be found in OPEC, a cartel legally formed by oil producing countries ostensibly to ensure that there is no over supply of oil, as that would – again ostensibly – result in crashing of prices, consequently placing all oil producing countries in losses. Though the OPEC was initially unsuccessful, with time, countries accepted quotas for production, which contributed to the huge success of OPEC and its member countries; a fact that can be seen from the high and rising per capita incomes of the OPEC nations.

Truly so, infrastructure industries are perfect spaces for co-opetition to flourish. Steel is one such example. In recent news has been the ongoing hostile takeover bid by Mittal Steel (the world's largest steel producer) for Arcelor (the world's largest steel corporation in terms of revenues and profits). Whether the takeover bid goes through or not completely depends on the European Commission's approval; especially given the fact that the CEO of Arcelor, Guy Dolle, and the French & Luxembourg governments, have illogically shouted their throats hoarse about national security (and employment) being at stake! In the end, Mittal might have to churn out a price that is higher than the actual worth of Arcelor, just to cash in on the distribution channels, and high production quality of Arcelor steel. Could the answer to Mittal optimising his company's returns have been in co-opetition with Arcelor? Well, one just might actually see that happening in this takeover bid, if Mittal finally refuses to pay the higher price, or if the European Commission bends to fears of national security being compromised! As I mentioned, competing to death never was recommended; or was it?



The **Phoenix**

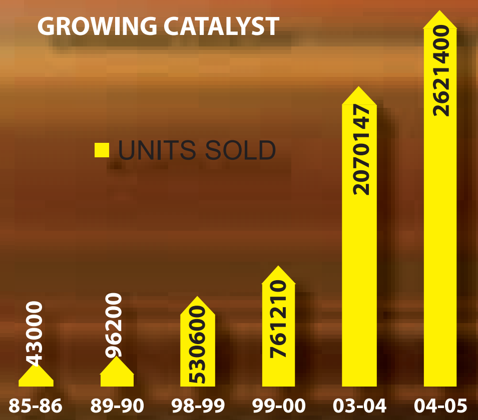
A case on how Splendour single-handedly catapulted Hero Honda to be No.1

When Hero Honda (HH) launched the Splendour in 1994, it was certainly not one of those companies, management consultants look at for giving examples. With about 200,000 units a year HH did not enjoy a very positive market perception. But Splendour changed all that for its alma mater. The bike's name proved to be more than just a name, as the soldier showcasing his complete armoury pulled out a company out of oblivion single-handedly. Splendour's engineering was very similar to the CD100 platform & was essentially a bike for the fuel conscious. Though, the bike was in line to its 'fill–it-shut-it-forget-it' add campaign, which gave a greater emphasis to fuel economy & helped establish Hero Honda as a credible brand; the bike offered something which was not very synonymous with the HH-style. After the launch of the CD100 & other sleek models Hero Honda understood the market realities in India.

India at that time had just started its reorganisation exercise after liberalisation in 1991. This new phase was characterised by high consumer aspiration coupled with increased real incomes. Through close market study and analysis, Hero Honda understood consumer requirements and perfected its already fuel efficient 100cc engine to offer more torque & power and fitted it into a contemporarily designed Splendour. The motorcycle was good looking, highly fuel efficient & offered decent power – all ingredients targeting prevalent commuter requirements. Instant success of Splendour meant that Hero Honda grew at a phenomenal 450% over a span of ten years, from 1989 to 1999. Today, the company controls a 52% market share of the Indian two wheeler market and is the single largest two wheeler company in the world. And splendidly, all because of one product – Splendour!

Concept: Law of Diminishing Returns

Escorts Yamaha was the *tour de force* in the 1980s, as the company almost succeeded in mesmerising the young Indian. The small, yet peppy RX100 was a motorcycle with a difference, as it was a lighter and superior alternative to the pre-historic Yezdi 250. The product instantaneously hit a chord with the most progressive age group of 18-25 and decisively became the market leader. The Yamaha was a product which not only commanded a cult status in the market, but was used as a virtual yardstick to measure any new product launched. But despite the iconic status, the bike had one inherent flaw. The RX100 was a two stroke motorcycle, which was fast all right, but failed miserably at the fuel average front. Factors like the unacceptable fuel consumption and pollution figures were eventually killing the product and this was creating a lacuna in the market. The 18-25 age group was slowly becoming a deciding factor in zeroing in on a product's design and specification in the 1990s, as this group started its movement into the 'sustainer' population. The computer education boom, and the ITES/BPO era, increased individual income levels in that particular age group to unthought-of levels. As 18-25 age group was no longer much of a liability for basic sustenance by family members, individual disposable incomes started to find their way not only into the consumer products market, but also in the capital markets, giving a much needed impetus to investment and return scenario. A better understanding of the money issue at a young age imprinted the importance of the fuel factor in the young consumer's

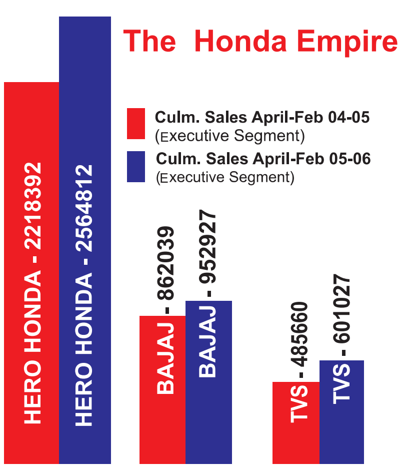


Many have aspired to be the world's largest, many less have just dreamt... Hero Honda has done one better. The corporation has gone beyond simply being the world's largest motorcycle manufacturer, to creating benchmarks on innovation that are followed to the 't' now by global behemoths

mind. This smarter consumer was now feeling the heat of rising fuel bills, and it was then that the two stroke appeal started diminishing. The consumer now wanted a motorcycle that offered decent power delivery, but most importantly, had the inherent quality of saving some greenback. Hero Honda, as a product of casualism, had already established itself as a manufacturer of fuel efficient bikes and hence had a very important factor in its favour – perception.

Concept: Marginal Utility

For normal products, the law of diminishing marginal utility applies; that is, with increasing usage, a consumer perceives lower and lower additional utility from the product. Hero Honda, due to multiple innovations in Splendour, succeeded in reducing the normal diminishing marginal utility curve to lower levels than those of competitors, thus ensuring that competing products ran out of business faster than Splendour did; in other words, they ensured that the PLC of Splendour was more elongated than that of competing products. The Hero Honda Splendour, right from the day of its inception, has been a super seller and enabled the parent company to explore never before levels of production dynamics. Though the Splendour motorcycle was not able to achieve as high a cult status as that enjoyed by the erstwhile leader Yamaha RX 100, it eventually did become the largest selling motorcycle in the entire globe. Right from the fresh designed facia of the motorcycle to the ergonomically fitted tank merging with the side profile, the bike was as classy and contemporary as 100 cc bikes could be. The Japanese connection gave Hero Honda access to varied Honda technologies, indigenization of which gave a very balanced single tube frame mated to a dependable and efficient motor. The whole Indian bike commuter fraternity was hooked; Splendour was selling like hot cakes. The utility of the product was much higher then the money spent on it (*the cost of the bike, its maintenance and fuel*). High fuel average meant more savings and this stuck a chord with the consumer. It was exactly what the consumer wanted.



Concept: Market Perception

And the surprising part was, those were not only the 18-25 age groups which were spreading Splendour sales in the country, but also significant segments that were formerly 'scooter' customers. The diminishing utility of side engined scooters predominantly from the Bajaj stable was an important cause as well. The middle class Indian too started losing interest in the scooter; as the product was plagued by 'too long in the tooth' dilemma along with poor image. Commuters started seeing a well rounded commute means in the Hero Honda Splendour as the bike not only offered a higher image but offered higher fuel average helping in savings-pivotal for a middle class Indian family man. A need to move further up the value chain enticed more and more two wheeled commuters to seriously take a look at the Splendour. The no nonsense bike was seriously turning positive market perception towards itself, as it was the only well rounded product on offer. With growing sales numbers the Splendour started making a brand for itself, with a bonus feather in their cap being the good resale value – a factor important for the middle income & youth segments. By 1995, Splendour was seen as the smartest proposition in terms of 'investment'.

> With increasing income levels, a need to move up the value chain enticed 'scooter' owners to take a serious look at the Splendour

Concept: Old is not Gold

But one product does not a company make. And even though the PLC was elongated, Hero Honda was never in a malignant dream that the PLC would continue till eternity. Expectably, now that the great Splendour is getting old and looks dated in light of fresher competition, the market is slowly moving towards higher segments, especially in the premium (*125-250cc*) segment. According to SIAM, this particular segment grew by about 34% in 2004-05.

Not to be left behind, Hero Honda has already launched an upgraded 125cc version of its old work horse; while still continuing to sell the older 100cc – a classic PLC extension strategy. Clearly, what Hero Honda has achieved through the Splendour, has benchmarked strategic learning in the automobile industry as competitors now understand that it is not enough to appreciate what consumers want today, but most necessarily what consumers might want in the near future. With upgrades entering the industry at the speed of light (*figuratively*), it won't be long before 1000cc bikes are more a regularity than an exception. But then, that is another case...

Karan Mehrishi is on the editorial desk of Business & Economy, India's most influential magazine

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Who we are..

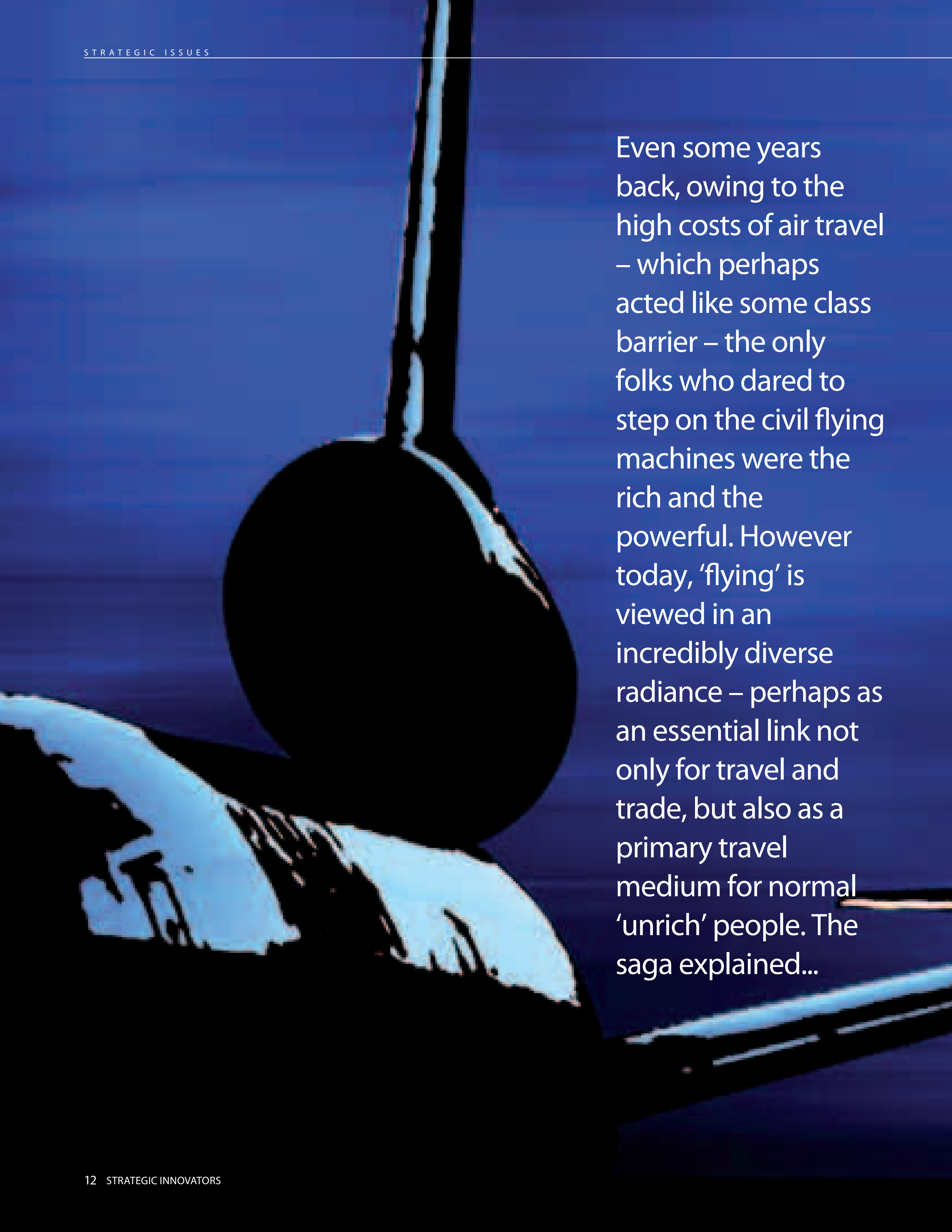
The **IIPM Think Tank**, an independent, India-centric research body, is inspired by **Dr. M.K. Chaudhuri's** vision of India as an economic powerhouse in the 21st century; a modern nation state where poverty becomes history and the underprivileged are not consigned to the dustbin of amnesia. The national presence (across seven nodes, News Delhi, Mumbai, Chennai, Pune, Banglore, Hyderabad and Ahemdabad), makes our understanding of the economy superior, where is many research fellows, senior research associates, research assistants, program coordinators, visiting fellows and etc embark on research assignments and network with global intelligentsia.

Who we believe..

The **IIPM Think Tank** is wholly free of ideology and looks at the Indian Development Paradigms, Purely modeled upon the basis of 'Objective Reality'. We passionately believe in the credo that we constantly seek to follow: rethink, edify and delineate. This enduring commitment has helped us foster and broaden the parameters of public policy debate and alternatives. Toward that goal, it strives to archive greater involvement of the intelligent, concerned change agents (reform minded politicians, public servants, media, socially responsible firms and citizens) in questions of policy and the ideation, furthermore, we ardently believe that the managers of tomorrow that are being groomed at IIPM today will play a decisive role in India's renewed tryst with destiny.

What we do..

As a premier 'ideas organization' in Asia The **IIPM Think Tank** is committed to enhance public awareness of policy issues an economics and management and to engineer solutions that will fulfill the 'Great India Dream'. By publishing the finding of its research, and though the active participation of its senior researchers in the media and policy, it aims to bring new knowledge to the attention of policy makers. Every year, The IIPM Think Tank commissions and publishes three quarterlys reviews and an annual review, on a wide range of policy issues including education, health, poverty, unemployment, agriculture, industry, services, FDI, external trade, infrastructure and environment. All these outputs meet the highest standards of scholarship, are accessible to a broad readership, and explore policy alternatives consistent with the philosophy of ours. The central theme of our issues are devoted to assess where the critical predicaments are, analyzing what needs to be done to annul the element of development deterrents in the economy and offer concrete proposals on how to accelerate welfare everywhere towards achieving inclusive development. The India Economy Review is a small manifestation of that vision. More than 1,000 students (seven nodes of IIPM0 have---and continue to-spent endless hours conducting primary and secondary research on contemporary issues that confront the Indian Economy. This research is then analyzed threadbare by at least 50 knowledge workers across the seven campuses. Brand new insights and policy recommendations that are provided by this core team are then crafted, honed and polished by 20 members Economy Research Group (ERG). This massive effort is spearheaded and led by the renowned economist and management guru, **Professor. Arindam Chaudhuri.**



Even some years back, owing to the high costs of air travel – which perhaps acted like some class barrier – the only folks who dared to step on the civil flying machines were the rich and the powerful. However today, 'flying' is viewed in an incredibly diverse radiance – perhaps as an essential link not only for travel and trade, but also as a primary travel medium for normal 'unrich' people. The saga explained...

Demand Analysis & Investments in the global Aviation Industry

FACTS ASSUMED WHILE DEVELOPING THE PAPER

Assumption 1

The degree of change in per-capita income (*in terms of Purchasing Power Parity, PPP*) is directly proportional to the degree of change in Gross Domestic Product (*GDP*), i.e if GDP increases by x%, the per capita income (*PPP*) will also increase proportionately, i.e. x%

Assumption 2

The frequency of air travel is directly proportional to the dispensable income and is thus directly related to PPP

Assumption 3

The pressure created by a rise in passenger traffic will be offset by a substantial upgradation in airport infrastructure and other facilities, thus acting as no limitation on the rise

Road to Privatisation...

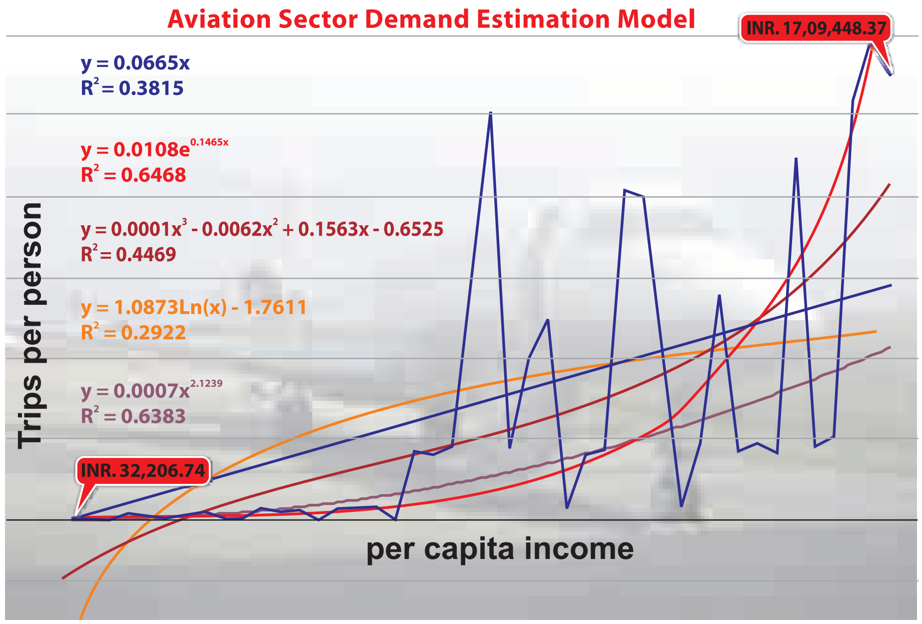
The Wright Brothers invented it way back in 1903; and more than 100 years later, we get the strong impression that Indians – more for reasons of optional deficiency – have actually acknowledged their invention! Not surprisingly, just half-a-decade back, air travel in India suffered from the "*Maharaja* syndrome" and hence was professed to be an elitist undertaking.

Even some years back, owing to the high and prohibitive costs of air travel – which perhaps acted well as a class-barrier – the only folks who dared to step on the civil flying machines were the rich and the powerful. However today, this is viewed in an incredibly diverse radiance – perhaps as an essential vehicle not only for travel and trade connoisseurs, but also as a primary medium for the non-rich middle class traveller, providing a hook-up to different parts of India. There is absolutely no doubt that the aviation industry forms a significant part of any country's infrastructure and possesses vital ramifications indispensable for the development of tourism and trade, opening up inaccessible zones in the country and providing stimulus to business activity and economic growth.

Thanks to privatization and liberalization, today we can actually look upon aviation as a sector where boundless amendments can be expected with rising competition and elevation of the purchasing power of the general masses. In the early 1950s, all aviation activities in the country were amalgamated into either Indian Airlines (*now Indian*) or Air India; and with the enactment of the Air Corporations Act in 1953, this monopoly was perpetuated till 1993 with the Directorate General of Civil Aviation controlling every

Country	Real Per Capita Income	Trip per capita
Ethopia	INR 32,206.74	0.011
Congo	INR 43,712.38	0.001
Nigeria	INR 47,562.69	0.007
Vietnam	INR 112,791.52	0.08
India	INR 131,001.24	0.0125
Indonesia	INR 152,245.91	0.017
Philippines	INR 195,731.79	0.06
China	INR 226,624.89	0.09
Ukraine	INR 248,730.22	0.0125
Ukraine	INR 248,730.22	0.014
Columbia	INR 303,585.86	0.14
Turkey	INR 306,756.70	0.1
Turkey	INR 306,756.70	0.115
Dominican Rep	INR 309,066.89	0.0012
Thailand	INR 344,036.79	0.145
Mexico	INR 415,290.23	0.13
Chile	INR 465,389.60	0.16
Poland	INR 515,443.67	0.017
Portugal	INR 520,924.70	0.84
Saudi Arabia	INR 599,108.70	0.8
Oman	INR 615,325.32	0.9
Bahrain	INR 791,760.25	3
Brunei	INR 792,711.50	5.1
South Korea	INR 814,046.76	0.82
Qatar	INR 815,360.40	2
Cyprus	INR 850,511.49	2.5
Slovenia	INR 867,452.87	0.15
Greece	INR 903,872.30	0.8
Israel	INR 907,450.83	0.86
UAE	INR 928,604.90	4.1
New Zealand	INR 1,022,914.92	4
Sweden	INR 1,211,716.15	2.1
Italy	INR 1,228,431.04	0.17
UK	INR 1,229,699.38	0.95
Hong Kong	INR 1,231,148.91	2.8
Germany	INR 1,257,285.74	0.85
Japan	INR 1,266,843.57	0.96
Austria	INR 1,363,191.99	0.82
Switzerland	INR 1,383,938.39	4.5
Canada	INR 1,389,600.61	0.9
Denmark	INR 1,425,295.28	1.04
USA	INR 1,701,475.96	5.2
Norway	INR 1,706,368.13	6
Ireland	INR 1,709,448.38	5.5

Source : UNDP & Company reports



aspect of flying. But with the opening up of the Indian economy in the early nineties, certain modifications were witnessed in the commercial aviation space. Most important of them all was that the Air Corporation Act was repealed to end the monopoly of the public sector and private airlines saw the light of the Indian skies. With this, began a new morning for the Indian aviation industry – one that promised a bagful of good tidings – for the operators and customers alike in the Indian sub-continent.

And of course, the rest is history. Today, with air travel becoming increasingly popular at the cost of railways and roads (*owing to the fall in prices of air tickets, despite fuel price increase*), policy-makers too seem to have understood that much needs to be done before world-class standards are reached. What is most interesting about the current state of affairs is the fact that these national leaders seem to have fully understood the magical spill-over benefits

Trend Line	Equation	R^2 Value
Linear	y=0.0665x	0.3815
Logarithmic	y= 1.0873ln(x) – 1.7611	0.2922
Trinomial	$y=0.0001x^3-0.0062x^2$ $+0.1563x+0.6525$	0.4469
Power	$y=0.0007x^{2.1239}$	0.6383
Exponential	$y=0.0108e^{0.1465x}$	0.6468

to other sectors that privatization in the aviation industry has caused and are today oriented towards improving the state of affairs in various domestic and international terminals across the country. The recent changes that have been made in the Airports Authority of India Act to permit the privatization of the two Metro airports of Delhi and Mumbai stand as strong evidence to that belief. To add to this, the Government has also taken an important step in setting-up an ambitious committee under the guidance of Naresh Chandra, with the prime task of examining the irregularities in the aviation sector and make suggestions for its rapid and effective up-gradation.

Estimation of Demand

With the Indian economy all set to grow with ever-increasing vigour and swell in GDP value expected, the purchasing power of Indians is also expected to rise proportionately. With Assocham's prediction of the Indian GDP doubling by the year 2010, we can prudently postulate that the disposable income (*and therefore the purchasing power*) of Indians will also double by the year 2010, hence an effective surge in the frequency of travel, which will infallibly be accompanied by an augmentation in number of air passengers.

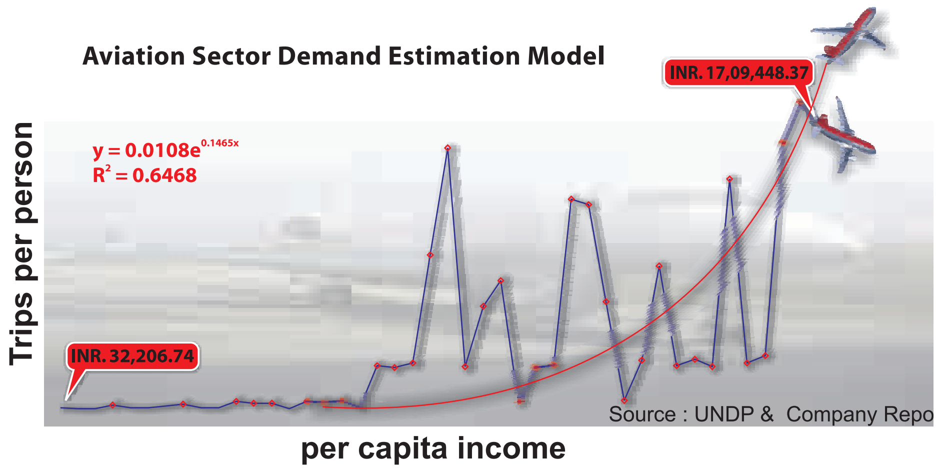
It has also been empirically observed that when the per capita income of any country is taken during certain time-intervals, the per capita income in that country shows a discrete growth. Conclusively speaking, there is lack of continuity in the data collected. As a proof, example, the Indian Per Capita Income (*in terms of Purchsing Power Parity*) in 1999 was \$2,149 (INR 99,778). The same value when measured after four years (in 2003) stood at \$2,892 (INR 1,34,275). The change witnessed as a result of this time-interval amounts to INR 34,497 (*at the current conversion rate of \$1=INR 46.43*). This demonstrates that if the standard time-interval during the study is taken as four years, then the data for per capita income collected is discrete with non-continuity prevalent. Now considering that the same data for the year 2005 is \$3,300 (INR 1,53,219), which essentially proves that even if the standard time-interval is altered to two years, the difference from the data collected in 2003 would be INR 18,944. In simpler words, there inevitably exists discontinuity in per capita purchasing power when evaluated over regular intervals of time.

Procedure

The per capita income (*PPP*) and trip per capita of 44 countries were taken, with a requisite number of countries in all classified per capita income segments (*low per capita income, medium per capita income and high per capita income*). It is to be noted that for all analytical purposes, number of trips per capita was considered to be the dependent variable and the per capita income (*in terms of PPP*) was considered as the independent variable. This also runs well along the lines of our assumption (*assumption 2*), whereby we assume that with growth in per capita income, the dispensable income increases and hence the frequency of air travel (*number of trips per capita*) also increases. This would also sufficiently imply that a fall in per capita income would lower the number of trips per capita.

Also to be taken in consideration is the fact that the number of trips per capita (*which is the dependent variable*) may depend upon a lot of other variables besides per capita income – like changing demographics, infrastructure and airport facilities, regional factors which may be legal, political, social or cultural – yet we will assume that the economic factor has the single-largest dominant role to play in effecting the trip per capita and all other factors would hardly restrict such growth.

> There inevitably exists discontinuity in per capita purchasing power when evaluated over regular intervals of time



The countries were chosen for the data list following a random sampling method among those for which the required data were available. The full list of countries and data involved is given in Table I *(aside)*. From the graph, it can be easily understood that all attempts to paint a global demand scenario for the aviation industry, would yield a very haphazard pattern and therefore for conducting a REGRESSION ANALYSIS, we consider various trend lines that aid our process and therefore make the estimation model construction more accurate and precise.

Linear trend line

The linear trend line gives us an approximate equation of $y=0.0665x$ and the R^2 value for the trend line is just 0.3815, Hence we do not base our projections based on this simplistic model.

Logarithmic trend line

The logarithmic trend line is built with the equation $y=1.0873\ln(x)–1.7611$ with an R^2 value of just 0.2922. Hence we also do not base our projections based on this simplistic model.

Trinomial Trend line

The trinomial trend line gives a curve formation with the equation of $y=0.0001x^3-0.0062x^2+0.1563x+0.6525$ and R^2 value of just 0.4469 which we discard as this trend line gives an R^2 value of just 0.5.

Power Series

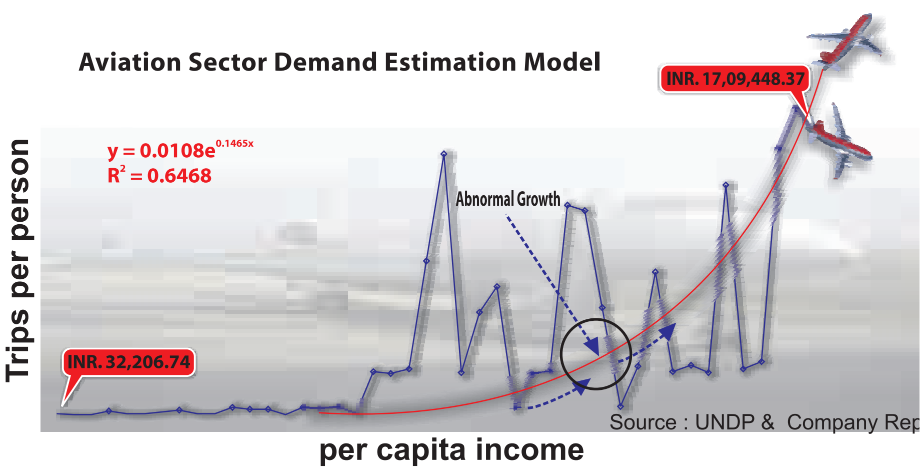
The power series trend line is constructed with the equation: $y=0.0007x^{2.1239}$ with an R^2 value of 0.6383. Therefore in comparison to all previous trend lines constructed, this is the most reliable as the R-squared value is greater than 0.5.

Exponential Series trend line

The exponential series trend line gives us the equation of $y=0.0108e^{0.1465x}$ and an R^2 value of 0.6468 which is the highest so far. Hence we can easily conclude that this exponential series with the highest R^2 value is thus the most reliable trend line that can be used for estimating the future demand generation in the sector. Therefore, we take the exponential series trend line as the most reliable demand curve to estimate future demand.

Dismissal of Linear, Logarithmic and Trinomial Trend lines

Besides the low values of R^2 obtained in terms of the linear, logarithmic and the



trinomial trend lines, we also have to take note of the fact that on moving from right to left (*decreasing order of the per capita income*) along the horizontal axis of the linear, logarithmic or the trinomial trend line, we come to a per capita income value of INR 131,001.24 beyond which, if we move in the decreasing order of per capita income, the per capita trips become negative – a practically impossible situation!

In all practicality, the possible values of trips per capita can be anywhere between 0 (*zero*) and ∞ (*infinity*) but never less than 0 (*zero*). Hence we can judiciously dismiss the three different trend lines represented by the linear, logarithmic and trinomial (*polynomial*) series on grounds of empirical invalidity and impracticality! Conclusively, we can vindicate that there are just the remaining two trend lines – power and exponential estimation trend lines – that can be taken under consideration for providing an estimation of the trips per capita. And even among these two, the exponential trend line is the most reliable one with a greater value of R^2.

Estimations and Recommendations for industry strategists (E&R)

Based on what we can infer from calculations made and the most appropriate trend development process followed, a couple of estimations can be made for the aviation industry and recommendations can be given to guide new ventures entering/planning to enter the aviation industry in any geographical region. We can use this model for the estimation of demand in the aviation sector in any country when its per capita income (*in terms of PPP*) is known. Therefore for countries like India, with its per capita income doubling by the year 2010 (*according to Assocham estimates*), if we look at the graph then we can infer that even when the per capita income doubles, which means an increase of 100%, the per capita trip will increase from 0.0125 to just 0.0145, which means a rise of just 16%! This basically means that though the per capita income is doubling, the trips per capita have not doubled. And the reason is very straight-forward. If explained on purely quantitative grounds, the logic behind the non-linear change can be attributed to the nature of the curve. Pragmatically explained, we can only expect it to happen if the entire raise in earning was to be spent totally in travel services – which of course stands false under any scope practicality and not true for any economy. This therefore explains sufficiently and gives us an analytical relationship between the Gross Domestic Product/Per Capita Income and the number of trips by an individual in a year's time-span and the relationship becomes, $\mathbf{y=0.0108e^{0.1465(x)}}$ -->Eqn. I

> Aviation industry in the United States made losses due to no other negative factor other than the existence of unhealthy competition

If the total GDP changes by 'n' times, then the value of per capita income 'x' also changes by 'n' times. For example, when the national GDP doubles, the per capita income 'x' also becomes '2x' and the number of trips per capita 'y' should therefore appreciate in accordance with equation I (*above*).

Al this therefore means that the new value of 'y' will be obtained by multiplying the Right Hand Side of equation I (*above*) by $e^{0.1465\,(n-1)x}$. Therefore, if the GDP changes by 'n' times in terms of absolute value, the altered value of per capita trips,

$$\mathbf{y^{//} = y * e^{0.1465\,(n-1)x}} \quad \text{-->Eqn. II}$$

Abnormal growth of per capita trips and 'Break-off Point'

And interesting disclosure observed from the study is that the growth of per capita trips with increase in GDP (*or per capita income in terms of PPP*) demonstrates an abnormal growth trajectory beyond a certain level of per capita income. This is primarily due to the inherent nature of the exponential curve which progressively diverges from the abscissa. Besides, an appreciation in the value of per capita income also causes some definite increase in the level of economic activity and hence a natural need to travel by air creeps in.

From empirical analysis, we can analytically conclude that this decisive per capita income level stands roughly around a per capita income of INR 1,00,000 and this critical value is called the 'Break-off point'. Beyond this value, there is a staggering growth in the trajectory representing the number of trips per capita and dependent on the per capita income (*PPP*). Conversely the limitation on the growth of trips per capita reduces as per capita income rises.

Recommendations to new ventures

According to IATA, the financial year 2005 witnessed airlines globally making losses worth $6 billion with North America leading the pack of losers with $9 billion in losses. The other minor loser was Africa with just $150 million in losses. Among the profit-makers were Asia raking-in $2.6 billion, Europe with $1.4 billion and Middle East with $100 million. Just looking at the figures provided, we would question why airlines in North America (*US & Canada*) which have such high per capita incomes (*and therefore according to our analysis, since their trips per capita being consequently high*) would run into losses? The trick here is not to isolate our empirical analysis and gather understanding from it but to view it harmonically with the four most important current external environmental factors – competition (*low-cost and normal fare carriers*), fluctuations in global aviation fuel price, population (*rise/fall*) and immigration/emigration volumes and finally, government regulations. The trick here lies in viewing our analysis while allowing the environmental factors to serve as foil.

Therefore when read in the sanest manner, we can well understand that capital expenditure in the aviation industry in US or Canada does not make entrepreneurial sense for the reason that though per capita income (*PPP*) in these regions are very high and demand for air travel equally encouraging, the number of competing players, i.e. especially competition from low-cost carriers (*which often operate on operating losses for many years*) serves as the major roadblock for a positive outlook. We have to understand that the aviation industry in US made losses due to no other negative factor other than unhealthy competition, whereby the industry suffered as a whole and many low-cost fliers continued luring customers even while they filed for Chapter 11 and continued running on huge operating losses in the face of rising jet-fuel prices. Hence indubitably there exists no business sense to enter such a geographical area of operation!

Ideally investment should be made in a region (*or country*) where the number of trips per capita is low (*ideally below 0.5*) so that we ideally get the first mover advantage and build a market share and brand in that region. Secondly, for an international airline setup, the country should be such that the passenger/human influx and outflux should not be desiccated. If any region can be traced that serves as an ideal trading hub, it could be the best choice among all. Besides, legal restrictions should also be kept in mind while deciding the location for the set-up. As a matter of fact, once the trips per capita crosses the 'abnormal growth' level, the level of competition also intensifies with umpteen and a variety of carriers in the arena. Therefore, ideally one should invest directly in the aviation industry much before the industry in that region (*or country*) reaches the 'abnormal growth stage'

Recommendations to the Indian aviation industry

In the face of the huge growth potential

> For an international airline setup, the country should be such that the passenger influx and outflux should not be desiccated

that stares at the aviation industry in the face, quite a few steps could actually be taken to ensure that the success dream run is not shattered by the fatal 'unhealthy' price-wars (*by 'unhealthy', we mean operating at prices lower than the actual operating costs*) which inevitably causes more damage to the sector than to the competitors.

The various recommendations for ensuring a secure future to the Indian aviation industry are:

1. India ought to adopt an 'Open Skies' policy: Strictly speaking, the concept of 'Open Skies' means unobstructed admittance of any carrier into the sovereign territory of a country without any (*legal*) agreement in black and white identifying capacity, ports of call or schedule of services. In other words it would permit the airline belonging to any country or ownership to land at any port on any number of occasions and with unlimited seat capacity. There would be no restriction whatsoever, on the variety of aircraft, no requirement for certification, no mandatory frequency of service and no call whatsoever for specifying the airports at which they would land. Time and again, an argument arises that the current policy limits the access of foreign airlines thereby giving a pseudo-protection to the Indian aviation players. This would therefore work dually as a medium of earning foreign exchange for the country coupled with acting as a stimulator to the foreign carriers of India to work better. While the 180 bilateral aviation agreements have done their bit to improve the herd of international air carriers, even today, both domestically and internationally, there are immense pressures on seats, particularly during peak hours Whilst this does improve their profitability in the short run, it has a long-term adverse effect in that it deprives the country of much needed air bridges to bring in tourists and carry trade. Thus there is a substantial outgo of foreign exchange and loss of business to our own nationals on account of the non-utilization of designated rights which are also not very healthy for the GDP health of the country.

2. A strong focus should also be given to strengthening and promoting short haul tourism for the overall well-being of the sector and business development.

3. Encouraging the pro active involvement of overseas investors and technical managers in the sector would definitely improve the state of affairs.

4. Privatization of the airports should happen freely despite the opposition from various bodies.

5. Encouraging commercial activities within airports such as hotels, restaurants, duty free, etc. that serve as a means to earn monetary benefits.

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MNC Brands

21st Century survival strategies in Asia Pacific

Multinational companies have realised that increasingly larger percentages of their sales and profits will start coming from the Asia Pacific region

Naresh Gupta,
National Head-Planning, Grey Worldwide

The dynamics of a global economy are prone to two distinct kinds of changes. The first kind of change can be a story of unintended consequences when powerful developments affect the growth trajectory of a nation or a corporation. The 1997 currency crisis of South East Asia is a case in point. The crisis triggered a deep pause in South Korea's powerful engine of growth and eventually also led to the collapse of the conglomerate Daewoo. For marketing, brand and advertising strategists, such stories of unintended consequences cannot usually be anticipated and there is nothing much that can be done about their impact on sales and brand performance.

Globalization also produces another kind of change that is far more deep rooted and that cannot be ignored by marketing, advertising and branding strategists of any corporation that hopes to survive in the 21st century. This change is the shifting centre of economic gravity from Western Europe and North America to the Asia Pacific region in the 21st century. A company and a strategist that persists with the belief that the global economy will be dominated by the so called G-7 countries (*USA, Japan, UK, France, Germany, Canada and Italy*) will surely face extinction after a few years or decades.

As the Asia Pacific region becomes increasingly important in the global economic scheme of things, multinational companies have realized that increasingly larger percentages of their sales and profits will start coming from the Asia Pacific region. In that context, it is becoming increasingly important for the corporations to understand the behavior of the Asian consumer. Some fundamental questions need to be answered before large global corporations can be assured of success in the newly emerging markets. In what ways are the Asian consumers similar to Western consumers? More importantly, in what ways are Asian consumers different from their Western counterparts? The right answers to these questions will mean immense success for a company while the wrong answers will doom the same company to failure.

Grey Worldwide and research firm Millward Brown conducted an exhaustive pan-Asian survey called *Eye on Asia* of consumer behavior, attitudes, aspirations and associations to be able to answer the two fundamental questions raised above. A vast cross section of Asian consumers in many countries was surveyed before arriving at some preliminary results. In the survey, 4,400 Asian adults, age 18+ across 12 countries using both quantitative and qualitative research, including in-depth ethnographic interviews and extensive secondary research. Even a cursory reading of the survey and its conclusions leads us to some strategies that should not surprise anybody with insights into marketing and strategy. The three basic lessons that are drawn are:

- Think global, but act local
- Value for money matters a lot to consumers, even those with 'money to burn'.
- An emotional connect with the consumer's aspirations is the key to a brand's enduring success in Asian markets.

Reading these lessons, a strategy student might well be prompted to remark: the more things change, the more they remain the same? For aren't these what management pundits have been proclaiming for decades while advising corporations on how to build enduring brands and ensuring long term consumer loyalty? This article will attempt to answer this question and analyze the validity of the lessons raised above in subsequent paragraphs. But first, it would be instructive to understand why Asia Pacific is becoming such a magnet not just for investors, but also companies and brands that survive into the 21st century.

> Asia Pacific is fast becoming such a magnet not just for investors, but also companies and brands that survive into the 21st century

In 2004, around the time international columnist Thomas Freidman wrote the best seller *The World is Flat*, Goldman Sachs published a now famous report called the BRICS Report that did two things. The first was that it virtually overnight transformed a relatively young and obscure Indian Economist Rupa Narashiman working in Goldman Sachs into a virtual celebrity as an economic pundit (subsequently, Narashiman left the gold standard and gold plated confines of Goldman Sachs to join Pantaloon, the retail major of India. That itself speaks a lot for the lure of Asia Pacific!). The second impact went far beyond an individual and had more far reaching implications.

For years, academicians had been writing brilliantly analysed scholarly papers on how MNCs must pay more attention to the Asia Pacific. Coming from the ivory towers, these papers were largely ignored by strategists and marketing mavens. But the imprint of a global powerhouse like Goldman Sachs on similar conclusions meant that no MNC worth its salt would be able to ignore the inevitable – that the Asia Pacific region would be the hub of economic activity in the 21st century. This article need not go into deep details of the BRICS Report, for virtually all students of strategy have already poured over it. Suffice to say that if you believe the report, China will be the largest economy in the world by 2050, followed by the United States and India.

In 2006, Price Waterhouse Coopers published the E-7 Report that further reinforces the projections made by the BRICS Report. The E-7 Report states that the size of the Chinese economy will be far bigger than that of the US in terms of purchasing power parity while the size of the Indian economy will be almost the same as the United States. More importantly, the E-7 Report projects that the combined GDP of the E-7 countries (*China, India, Russia, Brazil, Turkey, Indonesia and Argentina*) will be far more than the combined GDP of the so called G-7 countries. There is much more that is interesting, insightful and even ironical in the E-7 Report. Yet, to be able to understand why Grey Worldwide and research firm Millward Brown had to conduct such a survey, it is sufficient to broadly agree with the conclusions of the Report that the centre of gravity of the global economy is shifting decisively and irrevocably to the Asia Pacific region.

Now that legendary global brand names like Goldman Sachs & Price Waterhouse Coopers have given their stamp of approval, along with many others, the Asia Pacific region has become the hunting ground for many MNCs. And the Asian consumer has become a new animal that needs to be studied very closely.

The Eye on Asia survey needs to be examined in this context; more so the alleged lessons for strategists and brand managers thrown up by the survey. Let us try and examine the three lessons mentioned above in the Indian context and see how valid they are.

The first lesson that needs to be examined is the almost clichéd maxim 'Think Global, Act Local'. Two iconic multinational American companies and their contrasting performances in the Indian market illuminate the validity of the lesson extremely strong. The two companies are McDonalds and Kellogg, both giants in their own right and highly successful across the world. In fact, along with Hollywood and a few other brands like Pepsi, Coke, Levis and Nike, McDonalds and Kellogg are acknowledged to have projected 'soft' American power across the globe in the later half of the 20th century. Yet, one company is an outstanding and runaway success in India while the other is still struggling reach anywhere near its global performance in the Indian markets.

MNCs cannot hope to be successful if they fail to act local and deliver products & brands that will 'culturally' fit

When McDonalds entered the Indian market in the late 1990s, strategists were clear about one thing: the mainstay of the company's global sales-the beef burger-will find no place in the McDonald menu in India, as eating beef is strictly taboo with the Hindus, who constitute more than 80% of the country's population. So the first smart thing that McDonalds did was heavily publicize the fact that beef will never be sold in any outlet in India. And half the battle was won. Subsequently, the mcDonalds unleashed a slew of new products, exclusive to the Indian market-catering to the vegetarian tastes of many Indian consumers. The Aloo Tikki burger is a typical example of how McDonalds has been acting local. No wonder, the fast food chain is a runaway success in India.

The other American giant Kellogg entered the Indian market well before McDonalds and has been a heavy advertiser in India for almost a decade and a half. In the early days of Kellogg in India, missionary style managers of the company were convinced that an informative and educative advertising campaign will convince Indian consumers to switch from their traditional breakfast routines to eating a cold, wet and sweet breakfast. Some analysts would have called this almost missionary zeal to convert the food habits of Indians as both naïve and arrogant. And after almost 15 years of trying vainly to make Indians stop eating their oily, spicy and piping hot breakfasts, Kellogg seems to be realizing that acting local might be a better idea than trying to impose strange eating habits on Indians. To be sure, Kellogg is not a disaster like so many foreign brands have been in India and many upper middle class Indians have converted to the healthy breakfast of cornflakes with milk. Yet, the replication of its American success remains a chimera for Kellogg.

So, when MNCs increasingly eye the Asian markets and try to lure the Asian consumers, they cannot hope to be successful if they fail to act local-understand local cultures, sensitivities, spending habits and aspirations and deliver products and brands that will 'culturally' fit with the Asian consumer.

The second lesson thrown up by the Eye on Asia survey, is about how Asian consumers, perhaps like all consumers in the world-pay a lot of attention to what is known in marketing jargon as value for money. In fact, it is a marketing oxymoron that a brand will work only if consumers are convinced that it gives them value for money. Value for money as a proposition is not valid only in rare cases when the brands are so iconic & expensive (*Armani, Jaguar, Ferrari, Louis Vitton*) that Asian consumers who buy them, willingly pay a heavy premium for the social status that the brands provide in an aspirational society.

This behavior has been characterized by the famous social scientist and economist Thorsten Van Veblen as 'conspicuous consumption', explaining the seemingly irrational behavior of consumers who seem to demand more of a luxury product even as prices rise. Yet, for the vast majority of upwardly mobile Asian consumers that constitute the critical foundations of a mass market, Van Veblen's conspicuous consumption clearly gives way to the straightforward and traditional conflict between price and demand as laid out as gospel in economic theory.

And it is here that many multinationals have failed to read the Asian consumer. The Indian market is replete with many such examples of foreign brands falling flat because brand managers and marketing pundits failed to pay attention to the value proposition. Way back in the 1980s, the largest selling soft drink concentrate brand Tang was launched with much fanfare in India. Local brand Rasna was the only effective competition. Tang managers were so cock sure of the power of the brand that it was priced at several times higher than Rasna per unit. The value conscious Indian urban consumer was not impressed and Tang was one of the first powerful global brands to bite the dust in India.

When the global giant Pizza Hut entered India, the prices were incredibly high by Indian standards. The fast food chain had to reduce prices on basic pizzas to Rs.50 before it found success. Nike launched in India with a minimum price in excess of Rs.2,000. The same story: It had to adjust to the demands of the value conscious Indian consumer before it tasted a modicum of success. Lacoste is another powerful global brand that has been on the fringes of the Indian ready made garments market for almost two decades because it sadly failed to pay attention to the most important value proposition.

In sharp contrast to these, the Italian multinational Perfetti seems to have well understood the extent to which value for money and price matters to the Indian consumer. Perfetti has launched a series of brands that peddle for either 50 paise or one rupee per unit. This value for money approach has been largely responsible for Perfetti's success in the Indian market where it is the undisputed leader. LG is yet another example of nurturing success by paying attention to the value for money penchant of the Indian consumer. Against its global strategy of positioning itself as a premium brand, LG has positioned itself in India as a price warrior. The strategy seems to clearly work because while LG trails comfortably behind fellow South Korean brand Samsung in global markets, it is equally comfortably ahead of Samsung in India and is the clear market leader.

Foreign brands fall flat because brand managers and marketing pundits fail to pay attention to the value proposition

The Indian examples could also be truly representative of most countries in the Asia Pacific region. So lesson number two for multinationals that want to do well in these markets: don't price your brands out of the market. That brings us to the third and most difficult lesson to define: how can one ensure that there is a strong emotional connect with the Asian consumer and that her loyalty is guaranteed for a long time as a result. The Eye on Asia survey clearly reveals how Asian consumers are significantly different from their Western counterparts when it comes to attitudes and social behavior and unlike Western consumers, an overwhelming majority of Asian consumers give extraordinary priority to family relationships and bonding. So, purchasing decisions are often not as highly individualistic as in the West.

An MNC that can tap into these cultural traits will deliver the most successful brands. In the Indian context, McDonalds and Nokia are two examples of how emotionally connecting with the consumer. McDonalds has consistently positioned itself in India not as a place where you go for a hurried bite, but as a cool hangout place for the entire family. Nokia, in turn, has used its marketing and advertising campaigns to tap into the inherent pride that Indians feel about their country.

For MNCs across the world, this third lesson is not as easy to learn as acting local and charging the right price. For each country in the Asia Pacific region has its own unique cultural heritage that needs to be understood and marketing communications suitably amended so that there is an emotional connect between the brand and the consumer.

Of course, there is much more that companies and brands need to implement in terms of strategy if they want to remain successful during the 21st century. But as the Eye on Asia survey indicates, the cardinal sin would be to forget the three fundamental-and maybe clichéd lessons that are thrown up by the survey. Yet, as the string of foreign brand failures in Asian markets indicate, maybe the three lessons are not so clichéd after all!

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B-School Learning

Strategic Planning a la BCG!!

Significance and ramifications

Mapping a firm on BCG Matrix

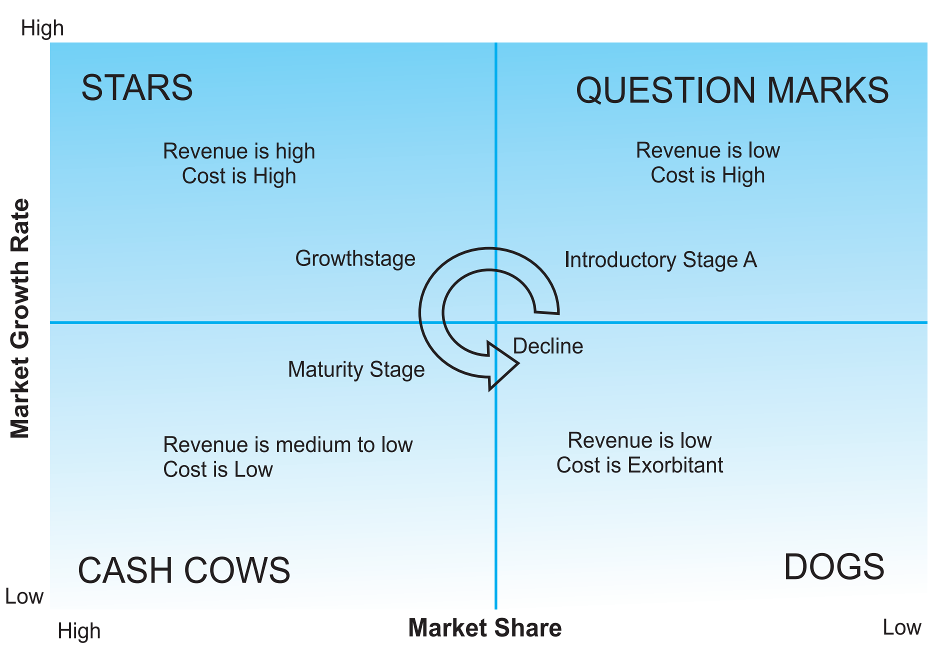
Strategic planning is a function of utmost importance, and researchers have produced many models for better analysis and forecast of business variables to enable entrepreneurs and mangers to make accurate analysis and take effective decisions. Bruce Henderson and Alan Zakon of Boston Consulting Group (*BCG*) had developed a portfolio planning model in the early 1970s, which gained acceptance and was called the Boston Box. Today, it is used in businesses, famously known as BCG/Growth-Share Matrix/Business Portfolio Matrix (*representative figure provided below*). The greatest advantage of this model is that it is a very simplistic method of analysis and enables managers to identify the competitive position of various businesses (*SBUs*) a corporate entity might have. A very important point to note here is that BCG Matrix is not used to map various companies in an industry but for a single entity to map its various SBUs' competitive position.

Despite the ease of use of BCG Matrix, many business school graduates still do not understand the actual application of the model (*as almost none of the strategic management books list the calculation in detail*). Let's understand the usage of this tool with the example of an imaginary Fast Moving Consumer Goods (*FMCG*) giant, say, Sindustan Lever Limited (*SLL*), of course a namesake of HLL, but used to develop the multi-business perspective.

What is the BCG Matrix?

The BCG Matrix establishes four cells (*a 2x2 matrix*), with the midpoint for the Relative Market Share (*as relative to largest competitor*) set at 1.0. The mid-point of the Market Growth Rate axis is set depending on that percentage that differentiates a "good" industry from a "bad" industry; a good industry is typically expected to at least perform better than the average growth of the company in question (*and in this case, the midpoint will be the average growth rate of the corporation's various SBUs*). The BCG Matrix primarily helps the strategic planner identify the competitive position of various strategic business units (*SBUs*) of a large corporation by establishing a linkage between the Market Growth Rate (*MGR*) and the Relative Market Share (*RMS*) of various SBUs. The BCG Matrix or the Growth-Share Matrix thus maps the business unit positions within these two important determinants of profitability. The matrix has four quadrants as can be seen in the diagram given.

- **Question Marks**: SBUs which are either at an introductory stage, or require more investment to gain a stronger market share
- **Stars**: This is a relatively stronger competitive position. Here, there is scope for both, growth and profits
- **Cash Cows**: SBUs in this quadrant are in a stronger competitive position, but the market is failing to grow.
- **Dogs**: This is the weakest competitive position where costs are high, and even the market growth is declining. This indicates towards SBUs that need to be done away with.



The BCG Matrix

Product	Market Share (in %)		Nearest Competitor's Market share (in %)	Last Year's Industry Sales (2000) (in Rs. Crore)	This Year's Industry Sales (2001)	Relative Market Share (RMS)	Market Growth Rate(in %)
	2000	2001					
Personal Wash	58.6	59.4	12.6	3203	3228.6	4.71	0.8
Washing Powder	37.7	38.8	23	2114	2137.25	1.68	1.1
Detergent	46	46.5	19	1433	1440	2.44	0.49
Toothpastes	36.6	36.1	47.8	2000	1990	0.76	-0.5
Shampoos	67.5	65.3	13	696	680.68	5.02	-2.2
Skin Creams	54.7	56.8	7.5	930	949.53	7.57	2.1
Packaged Atta	20.3	19.1	7.7	320	319.68	2.53	0.1
Packaged Tea	36.2	36.1	18.7	4200	4183.2	1.93	-0.4

Calculations

Relative Market Share (RMS): SBU Sales / Largest competitor's sales.

(*Note: If the SBU is the market leader, then the next best competitor in terms of sales becomes the 'largest competitor'; but of the SBU is a market follower, then the industry's largest player's sales are taken as largest competitor's sales.*)

Market Growth Rate (MGR): {Current Year's Industry Sales – Last Year's Industry Sales} x 100 / Last Year Industry Sales.

(*Note: The growth rate taken to plot the SBU on the matrix is of the industry's and not of the SBU's.*)

Analysis of the BCG Matrix

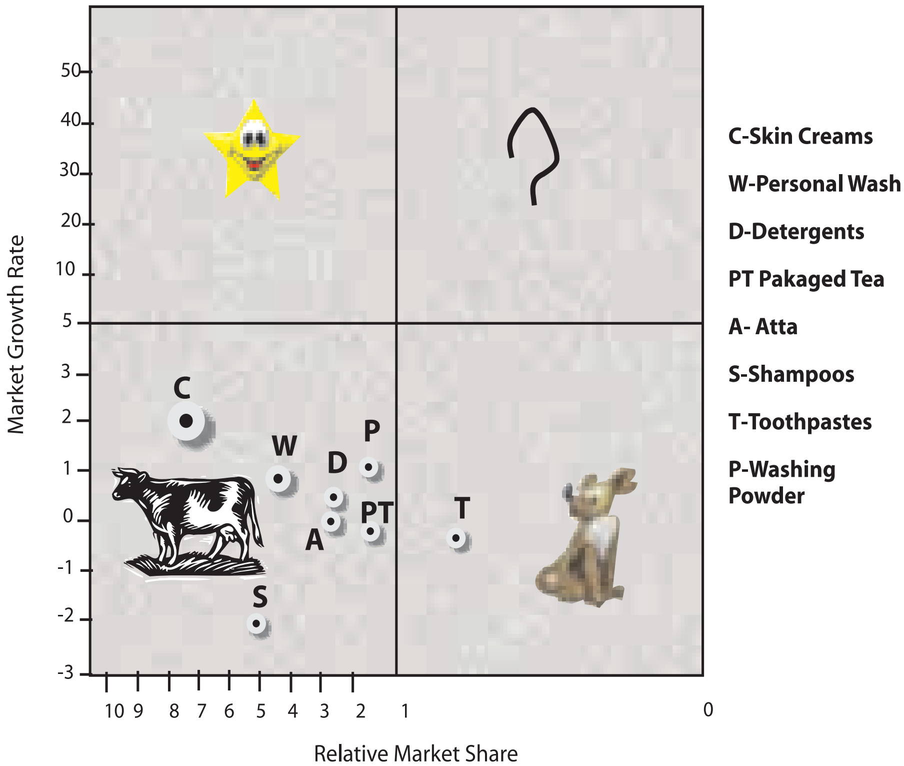
Once the various SBUs are mapped on the matrix, depending on what quadrants an SBU falls within, the following strategies are adopted:

- **Question Marks – Build**
  The strategy here is to invest more, build the SBU's market share and turn the Question mark into a Star.
- **Stars – Hold**
  This strategy indicates towards maintenance of current investments so that the SBU is at a constant and consistent progression, while the returns are still maximising. This is also an ideal strategy for strong Cash Cows.
- **Cash Cows – Harvest**
  The strategy here is to reap the benefits of the strong SBU, even through short-term investments. This strategy is particularly used for Cash Cows that are turning from 'Strong' to 'Weak'.
- **Dogs – Divest**
  The strategy here is to divest the SBU by phasing it out or selling it – in order to use the resources elsewhere (*e.g.* investing in the more promising "question marks").

Sindustan Lever Limited (SLL) Primary Analysis

At the back of sound financial results for the financial year 2006, SLL is ready to face a more protracted and gruelling marketing warfare to protect its market share. Let's take a hypothetical example of SLL's performance vis-à-vis competitors for the financial year 2001 in the various segments that it caters to (*Refer to the box for more information on calculation of values*).

Knowing that SLL operates in various markets as given in the product column, we try to understand the competitive positioning of these portfolios. Based on the representation that is drawn, the following primary analysis can be made:



Representation of products on the BCG Matrix

1. Most of the given SBUs are operating in mature markets and are yielding returns for SLL.

2. Toothpaste seems to be in the dog's quadrant, which can be attributed to a lower penetration in the market.

Advanced Analysis

Sindustan Lever Limited has focussed its efforts on creating strong brands that command a premium in the market and has also gained a leadership position in most of its segments. It has focussed on making its core brands as mega brands, and then started extending the line. For example, even in the case of the real HLL corporation, the Fair & Lovely Cream brand was extended to Fair & Lovely soaps, and other similar additions.

1. Therefore, for the SBUs of SLL which operate in mature markets, i.e., Cash Cow quadrant, the company must:

a. **Identify Gap**s – Identify any gaps in existing products in the market and fill in the space with a viable product offer.

b. **Innovate** – to develop new products to tap new segments and expand the market.

2. The Toothpaste business entering the dog quadrant can be attributed to the fact that the market has a very low penetration. Therefore, efforts should be made towards increasing the penetration and frequency of consumption and thereby increasing the market size. Otherwise, the typical strategy suggested by BCG would be, "Divest!"

In Reality...

Even as Sindustan Lever Limited guns for focused growth, a concern being voiced in industry circles could be whether it will continue to have people to aid the company in that endeavour. SLL's growth prospects depend on three factors – market growth, competitive issues, and the impact of Sindustan Lever's strategy in tackling competitive strategies. With the overall economy and businesses booming, of critical interest would obviously be the revival in rural economy and – as urban consumer continues on a spending spree – the movement of urban market variables.

> The BCG matrix helps the strategic planner identify the competitive position of various strategic business units (SBUs)

At the end of the day, even in such embattled times, Sindustan Lever could still remain a most valuable company on the share market. BCG Rankings can change, but market capitalization is a true indicator of the investor's faith on the company. On that score at least, if the company can ensure shareholders' wealth maximisation, Lever could stay among the leaders for time to come, even if its *atta* or ice-creams fail to go places as desired by the company. Critically speaking, in the same way as the BCG Matrix does not focus on market capitalisation figures, it also does not talk about actual SBU profitability or even cash flows or cost of capital. This puts a grave question mark on the worth of BCG Matrix in today's world that is driven primarily by the philosophy of shareholders' wealth maximisation, and not sales. And there lies the basic faultline of the BCG Matrix.

So is the matrix really useful? Of course yes, but not at all for developing strategies. Rather, the matrix is an extremely smart presentation tool that could be used in corporate seminars to show the sales positioning of various SBUs of any corporation with respect to its competitors. As the BCG Matrix is purely based on sales analysis, it provides a seat-of-the-pants snapshot image of the relative corporate positioning of the company within the industry. And that, dear analysts, is all that the BCG Matrix should be used for today. So has the matrix actually contributed to the image of the consulting firm (*Boston Consulting Group*) that founded it? Well, the firm is at least one of the most well known consulting firms in the world... and significantly because of the matrix. If you disbelieve, allow us the temerity to ask you, which one was the last BCG consulting project that you heard of? We solemnly rest our case...

Manohar G. Lazarus is the Deputy Editor of 4Ps Business & Marketing

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IIPM - Think Tank

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Who we are..

The **IIPM Think Tank**, an independent, India-centric research body, is inspired by **Dr. M.K. Chaudhuri's** vision of India as an economic powerhouse in the 21st century; a modern nation state where poverty becomes history and the underprivileged are not consigned to the dustbin of amnesia. The national presence (across seven nodes, News Delhi, Mumbai, Chennai, Pune, Banglore, Hyderabad and Ahemdabad), makes our understanding of the economy superior, where is many research fellows, senior research associates, research assistants, program coordinators, visiting fellows and etc embark on research assignments and network with global intelligentsia.

Who we believe..

The **IIPM Think Tank** is wholly free of ideology and looks at the Indian Development Paradigms, Purely modeled upon the basis of 'Objective Reality'. We passionately believe in the credo that we constantly seek to follow: rethink, edify and delineate. This enduring commitment has helped us foster and broaden the parameters of public policy debate and alternatives. Toward that goal, it strives to archive greater involvement of the intelligent, concerned change agents (reform minded politicians, public servants, media, socially responsible firms and citizens) in questions of policy and the ideation, furthermore, we ardently believe that the managers of tomorrow that are being groomed at IIPM today will play a decisive role in India's renewed tryst with destiny.

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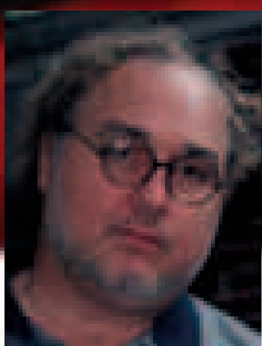
Operational Structures of Industrial Espionage

How it works, who does it and why it is a threat for multinational companies across the world!



Edward M. Roche

India is a country on the move. It is fast becoming one of the world's great centers for high technology innovation. Gone forever are the "copy cat" days. In virtually every advanced scientific field – atomic energy, information technology, bioinformatics, pharmaceutical research, wireless Internet, sophisticated service delivery, integrated steel production, and more – India is not importing technology but is exporting it.

But with high tech innovation, comes the need for protection against high tech thieves. Theft of trade secrets is no joke. Yearly, billions of dollars are lost from not only U.S. Enterprises, but from multinational corporations everywhere due to economic espionage, e.g., the theft of secrets. According to Ehrlich [6], the American Society of Industrial Security has reported losses in 1992 for the 32 largest companies [in the U.S. market] as being $1.8 billion, but he quotes the Director of the U.S. Federal Bureau of Investigation [the U.S. Equivalent of India's Central Bureau of Intelligence CBI] as saying: "Neither the U.S. Intelligence Community as a whole, nor the FBI, specifically has systematically evaluated the costs of economic espionage."

In 1999 more than $45 billion was lost *from Fortune 1000 companies.*[1] Other estimates put the figure much higher at more than *$100 billion.*[2] In the year 2000, U.S. businesses claim to have lost $100—$200 billion in sales due to trade secret theft.[3]

Many believe that the reported losses are only a fraction of the real loss. Why? Companies are reluctant publicly to announce a theft; not only is it embarrassing, but in many cases the share price will go down, or even worse, there may be shareholder lawsuits claiming incompetent man-

1 These estimates, based on survey, evidently do not take into consideration the large number of small and medium-sized companies that in many cases are first the sources of much innovation and second may be easier targets for determined espionage operations. Note: These estimates are quoted in Chan [2].

2 Although such large figures indicate the existence of a serious problem, it should be realized that they are based on an estimate derived from survey responses. There are two problems with this type of estimate: (1) it fails to detect industrial espionage that is not discovered, (2) it is difficult to place a reliable estimate on the value of future revenues that might come from any technology or process that is compromised.

3 Quoted by Effron [5].

gement unable to maintain security.

These estimates are substantial, but more than anything, they indicate two important facts:

1. Industrial espionage is a serious problem and by professionals is recognized as being such,
2. It is very difficult to determine what the actual damage is.

Who is responsible? In some cases these losses are the result of activities by governments, in other cases, the result of activities by competitors, or by state-sponsored organizations.

1. The World's Second Oldest Profession

Countries long have recognized the dangers of trade secrets escaping to other countries. Jeremy [10] reviews the history of 18th Century Britain where it was illegal for a skilled person to exit the country:

"In the early 1780s no skilled artisan or manufacturer was legally free to leave Britain or Ireland and enter any foreign country outside the Crown's dominions for the purpose of carrying on his trade. ... It became illegal to export or to prepare to export... any pre-industrial or industrial textile, metal-working, clock-making, leather-working, paper-making or glass manufacturing equipment."

It may well be that some of the earliest industrial espionage had its origins in the United States, during its earliest years after gaining independence from the British Crown. According to Cooke [4], Alexander Hamilton (1755-1804), a delegate to the U.S. Constitutional Convention, and the first Secretary of the Treasury, was an earlier supporter of activities to "encourage" manufacturing. "To Hamilton ... the encouragement of manufactures was a prerequisite of national security and defense."

Hamilton was the author of the famous Report on Manufactures that was submitted to Congress on December 5th, 1791.[4] The Report is an extensive analysis of the balance of power in manufacturing between the United States and Europe. Hamilton argued for a wide variety of measures to encourage business, including the acceleration of ways in which U.S. companies could acquire the technologies found overseas, and he argued that the U.S. Congress should work to provide incentives for development of industry across the U.S. landscape. Even though some of the earliest industrial espionage on record originated from the United States, the practice has by no means passed away. Instead, there appears to be today a regular stream of U.S. industrial espionage, some of which it is argued is supported by the U.S. government. These include: [5]

1. Supposedly U.S. intelligence agents were forced to leave France after stealing various "economic and political secrets".
2. At the U.S.-Japan automobile trade talks in Geneva in 1995, there was eavesdropping on the Japanese delegation.
3. It has been charged that the EU Parliament and Commission email has been hacked into [by U.S. operatives] in order to collect information during the GATT [trade] negotiations.

A review of how the U.S. Intelligence Community has helped in conducting economic espionage is found in Clark [3]. According to Wright & Roy [17],

"Industrial espionage has different names: corporate espionage, economic espionage, industrial intelligence."[6]

What is the difference between "espionage" and "industrial espionage"? According to Answers.com, they are quite different: "Espionage. The act of obtaining information clandestinely. The term applies particularly to the act of collecting military, industrial, and political data about one nation for the benefit of another. Industrial espionage—the theft of patents and processes from business firms—is not properly espionage at all."

Industrial espionage also leads to wide-scale counterfeiting of products, particularly related to ones in IT

1.1 What is its definition?

"Industrial espionage . Espionage conducted for commercial purposes instead of the usual national security purposes. It is conducted both by governments and by private organisations. At the most innocuous level, the term is applied to the legal and mundane methods of examining corporate publications, web sites, patent filings, and the like to determine the activities of a corporation (though this is normally referred to as business intelligence), through to bribery, blackmail, technological surveillance and even occasional violence. As well as spying on commercial organisations, governments can also be targets of commercial espionage— for example, to determine the terms of a tender for a government contract so that another tenderer can under-bid."

The critical difference appears to be the type of information that is being obtained and the type of organization that is obtaining it or is the ultimate consumer. Governments can commit industrial espionage against enterprises in other countries, and foreign corporations can do the same. Industrial espionage also leads to wide-scale counterfeiting of products, particularly information technology. According to Morrison [11], as much as $100bn is lost annually by IT companies due to fake products. [7]

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4 *For an analysis of the policies in Hamilton's report, see Irwin [9].*

5 *This information is reported by Van Arnam [16].*

6 *They quote the definition of Industrial Espionage given by the Canadian Security Intelligence service: [Economic Espionage is any action] ... "which can be described as illegal, clandestine or coercive ... by a foreign government in order to gain unauthorized access to economic intelligence, such as proprietary information or technology, for economic advantage."*

7 *The estimate was based on survey of 15 leading IT companies. The survey was conducted by KPMG.*

THE "CLASSICAL" MODEL OF INDUSTRIAL ESPIONAGE

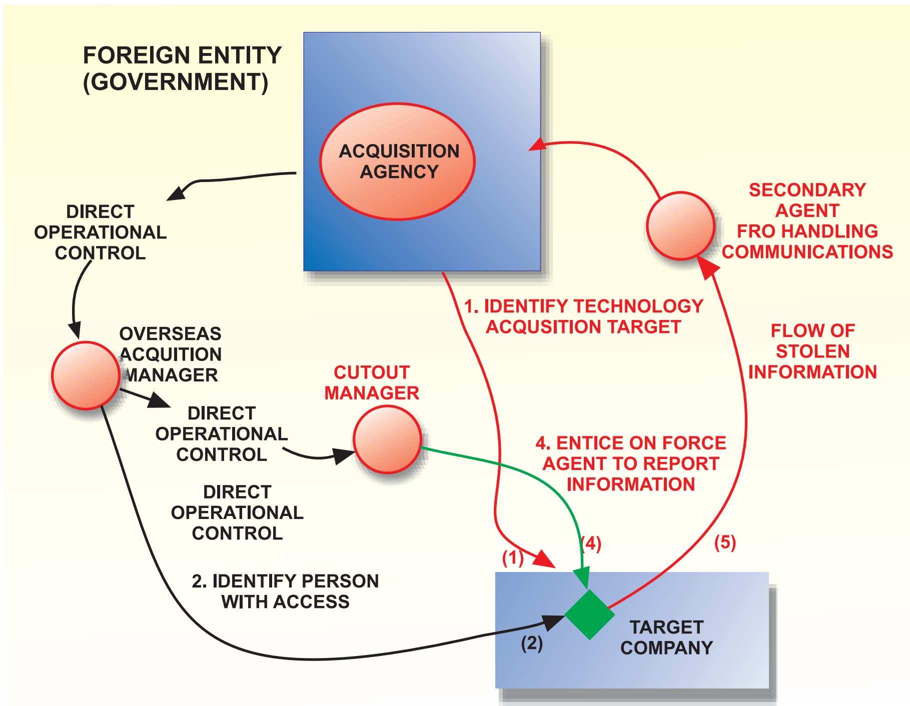

Figure 1 : The "Classical" Type of Industrial Espionage

2. Operational Structures

Although there is a great deal of variety, there are at least two fundamental structures of today's industrial espionage systems, and one modification using so-called "front" companies.

2.1 The "Classical" Model"

In the "classical" model, generally the "spy" is the person who actually is providing the information. "He" usually is not in direct contract with the operational agency in the foreign entity, usually a government body. In fact, it is quite common for the "spy" to either not know, or believe wrongly, the identity of the final consumer of their information. For example, if you worked in a government agency, and were approached by an intelligence organisation with instructions to provide confidential information, you easily might agree to help. However, in the classical model, you might find out later that it was not a government intelligence agency that you were working for, but rather someone else. That is, you might believe you are helping a "world peace" organization, but find out later that the information you are providing actually is being supplied directly to the military-industrial complex of a hostile country.

Generally, with the exception of long-term "moles" –impostors who are trained overseas and have taken on the identity of a national –so-called "spies" are citizens of the country being spied upon. The "spy" is managed by a person who is the "recruiter".

> In the "classical" model, generally the "spy" is the person who actually is providing the information

In many instances, their identity actually is different from what is revealed, and consequently, should the "spy" get exposed, then any information they give to authorities if false, and even under compulsion, it is impossible for them to provide accurate information because they simply do not know it. The "recruiter" many times is in a similar situation in that their manager, the "overseas acquisition manager" [see Figure] also is providing inaccurate identification information. Although often the "recruiter" or "cutout" manager is aware of a connection, however, faint, with the foreign entity. Several variations on the scheme can be used to increase security, including the following:

Extra Cutout : The overseas acquisition manager may be managed by another counterpart who serves as a buffer between them and the acquisition agency. This extra cutout can be located either

1. in the foreign country, or
2. in a third country. Since they also generally are using an alias, it becomes even more difficult to trace the steps back up the chain of control to determine the final destination of the stolen information.

Alternative Reporting: The "spy" [located inside the target company] might be instructed to report the stolen information through yet another cutout manager [not pictured]. In this case, control and requests for information come from one channel, and the reporting [of the information] is handled through a different channel. Should the cutout manager or overseas acquisition manager be nabbed, then they will have zero knowledge of what information has been compromised. Also, if the second cutout manager [who received the stolen information] is not noticed, then the spying can continue, and the chain of control simply changed, providing of course the actual "spy" is not compromised.

Mole: In some cases, a "mole", e.g., a person who is of the nationality of the foreign entity, but who has taken on the identity of the target company's country is inserted into the picture. In these cases, which evidently are rare, the operation works more or less the same, with the exception that

THE " FAMILY" MODEL FOR INDUSTRIAL ESPIONAGE

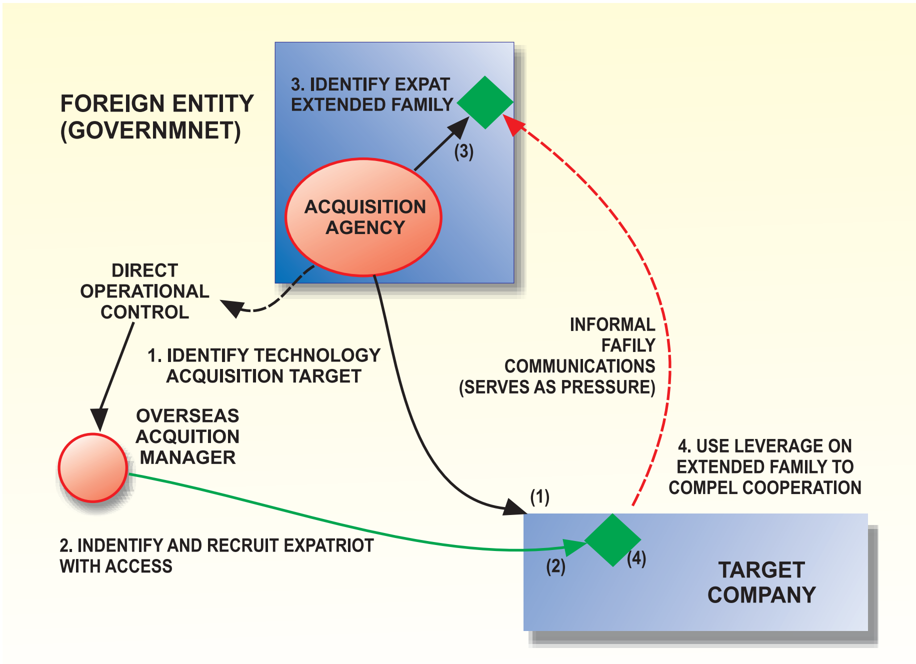

Figure 1 : The "Family" Type of Industrial Espionage

there is no coercion or enticements for the mole.

Consultants: Frequently a "consulting firm" is sub-contracted in the place of the cutout manager. The consulting firm then can either

1. Do the bulk of the recruitment and information themselves, or
2. Can hire yet another "consulting firm" to engage as a sub-sub-contractor in coercive or illegal activities.

This further insulates the involved parties from ever knowing the identity of the acquisition agency in the foreign entity.[8]

2.2 The "Family" Model

In this model, family ties are used as a method of blackmail. A potential source of secret information is identified inside the target organization. Research then is done to locate their extended family back in their "mother" country.[9] For example, an engineer working in a sensitive laboratory in the United States may have a mother or other family member located in Country X. Once the agents of Country X make this connection, then pressure is placed on the family member. In order to protect them, the source is forced to spy, giving up secret information from their company, even if they have given up their original citizenship and emigrated and taken on new citizenship.

According to one government source: "The largest spy operation in the United States is an Asian government spying on their own citizens and extended families. They use this information to find linkages into sensitive installations."

An example of the way this model works is found in this story, related to me by a counter-intelligence officer: "One engineer from this Asian country was approached by representatives of his government's secret service to supply sensitive technical information. Since the target was a U.S. citizen, and engaged in highly sensitive research, for which he had signed a number of confidentiality agreements, he declined to help, citing the possible legal implications, and in addition his citizenship. After that, there was no further contact. A few months later, his mother called. He had a brother in his country of origin who was retarded, and was being kept at a facility for the mentally ill 800 miles away from his mother. She told him excitedly that the retarded son, "for no known reason", had been transferred to a facility only a few blocks from her home, and so she could visit him every day. She was so very happy. A few months later, the engineer received another visit from the government representative asking again for cooperation in stealing sensitive information. This time, there was no need for detailed discussion. The engineer knew that if he did not cooperate, his brother would again be moved away from his mother and this would break her heart. So he cooperated."

The family model is distinguished from the classical model in several ways:

Type of Coercion: In the classical model, various means are used including blackmail, bribery, false loyalties and values. In the family model, generally the "coercion" comes in a "soft" way from the extended family network.

> "The largest spy operation in the United States is an Asian government spying on their own citizens and extended families"

[8] *According to Tucker [15], "These firms use specialized skills including "deception, infiltration, burglary, telephone, fax or data tapping, electronic eavesdropping, surveillance of key employees, blackmail and bribery of staff, computer hacking and theft of desktop and laptop computers."*

[9] *The "family" model is found to be particularly used by non-Anglo Saxon countries.*

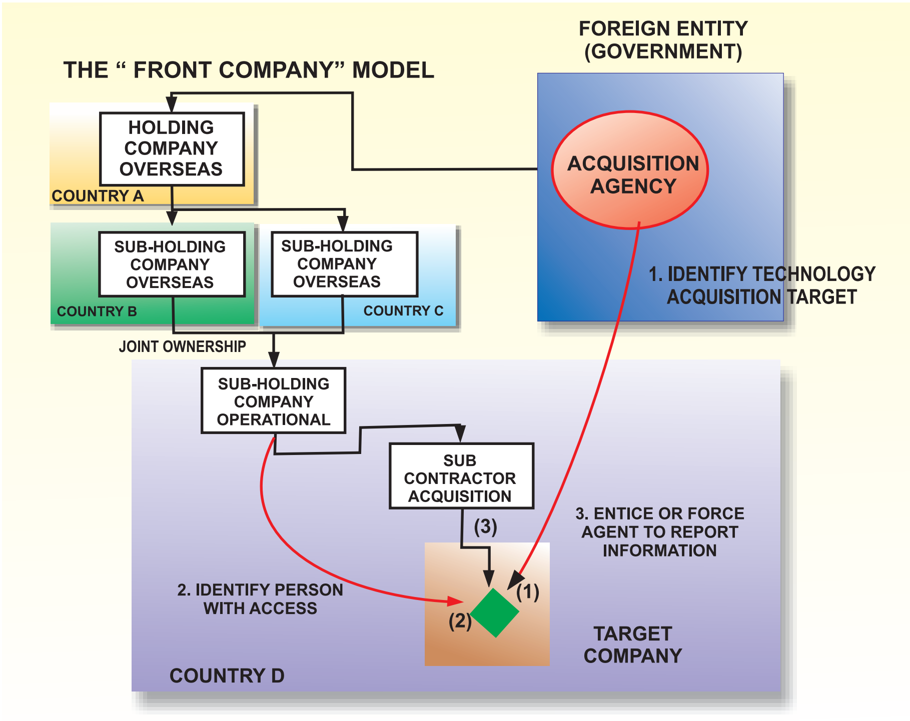

Figure 3 : The "Front Company" Model Industrial Espionage
NB : This model is repeated for dozens of front companies

Knowledge of Foreign Entity: In the family model, the "spy" almost certainly knows the nationality of the foreign entity, but not necessarily the actual identity of the final consumer of the information. In addition, there is no indication yet that the overseas acquisition manager is required to use a cutout manager.

Payments The record seems to indicate that in some cases, a significant amount of money is paid. In other cases, the "service" is redeemed for privileges given to the extended family in the home country.

2.3 Use of "Front" Companies & Organizations

In many cases, the overseas acquisition manager [or group] engages in setting up so-called "front" companies in order to provide a base of operations for their illicit activities. In many western countries, it is quite easy to set up a "company". It requires only payment of a small registration fee and a little bit of paperwork.

One famous Russian spy, Richard Sorge, set up a company in Japan that had imported technology from Germany capable of making copies of blueprints.[10] Not only was this operation highly profitable, but at the same time it allowed Sorge & Co. to make copies of thousands of technical engineering drawings brought in for copying. The stolen information subsequently was put on to microfilm, and through a network of couriers based in Shanghai found its way to Moscow.[11]

> Russian spy, Richard Sorge, set up a company that had technology capable of making copies of blueprints

Front companies provide a buffer between the overseas acquisition manager and the various recruited "spies" supplying the stolen information. Front companies have several advantages:

Legitimacy: Since these companies are incorporated in the same country as the target company, there is an aura of legitimacy in their business dealings.

Hidden Ownership: Although these companies are controlled from overseas, either

1. Directly from the acquisition agency, or
2. Through the overseas acquisition manager [who in turn is directly controlled from the home country], it is difficult for the target company to discover these relationships.

Hidden Control: In many cases, these front companies are set up in a way in which although they are in fact conducting legitimate and real business, the actual control of them is behind the scenes, exercised indirectly in a way so that their corporate leadership itself may not be aware of the true nature of the business. In this type of arrangement, the front company serves as a "shell" or "launching point" for conducting other operations.

Relationship Complexity: Different from "consulting companies", "market research firms" and other information cockroaches on the market, front companies are able to establish with the target company highly complex relationships and fake negotiations that are intended only to pump for information. Examples include:

1. Joint venture discussions.
2. Overseas "sales" relationships.
3. Outsourcing of manufacturing [to the

[10] *Blueprint: A blueprint is a plan or design documenting an architecture or an engineering design. The name comes from the photographic print, obtained through the cyanotype process, which is composed of white lines on a blue background commonly used in the past for copying architectural plans and engineering drawings. Source: Wikipedia.*

[11] *The Sorge network by any standard was one of the most successful operations ever. Not only highly effective, but clever. A somewhat similar operation was carried out by the Israelis in Switzerland. Technical drawings of the new French Mirage jet fighter aircraft were sent to Israel and used to create the Kfir fighter jet. Only the Israelis did it even better. They managed to take the originals of the engineering drawings and replace them with copies. There is coverage of this in the book Every Spy a Prince by Raviv and Melman [13].*

country of the acquisition agency].

4. Investment [so as to get access to understanding of the trade secrets].
5. Customer [so as to acquire samples of products and prototypes, as well as to learn about future development plans before they publicly are revealed].
6. Acquisition [outright purchase of the target company (particularly popular for highly innovative target companies that are in start up mode).

Cross Ownership: It is possible easily to hide the true ownership of a front company by making its ownership come from other front organizations who in turn are partially owned by other front organizations [in third countries], leading to a complex chain of ownership that is difficult to discover or understand without an extremely expensive and time-consuming investigation.

Ownership Ambiguity: Since the transfer of trade secrets or other confidential information may take place within the context of negotiations [or other relationships] between companies, it becomes more problematical clearly to establish that the information was "stolen"; a good counter-argument is that it was "given" within the context of the on-going [or purposefully terminated] business relationship.[12]

We have illustrated the "front company" model in Figure 3. Of course, the formation of front companies faces various barriers that might be imposed by the government of the country of the target company. In particular, it is necessary to get licensing and other approvals. These are some of the difficulties:

Incorporation: It is necessary to file incorporation papers and get them approved by the concerned regulatory authority.[13]

Staff Expense: Someone must be made available to be the staff of the company, and these persons must be highly trained enough to carry out the basic mission of theft of technology secrets.

Long-Term Investment: Front companies require offices, leases, bank accounts, local staff, and so on, e.g., all of the paraphernalia of an office and a company. The practical implications of this is that the office must, if only as a matter of economy, be prepared always to conduct multiple industrial intelligence gathering operations.

Liability: Should the operation be "blown", then it may be relatively easy for the investigating authorities to locate the responsible parties associated with the front organization.[14]

Visibility: Since the incorporation papers by nature are in the public record, it is considerably easier for investigating counter-intelligence groups to discover the nature of the ownership of the front organization. This problem can be overcome by means such as the systematic incorporation of such a large number of front organizations that it is impossible to keep track of, e.g., investigate, all of them. [The "massive front" approach.]

The U.S. counter-intelligence community has not been integrated to accomplish a national strategic mission

Easily it is possible to see the resemblance between the "classical" model and the "front company" model. In the former most of the key tasks are carried out by individuals whereas in the latter, the key tasks are carried out by organizations.

Systems of inter-locking corporate ownership structures, spanning many different banks, countries, types of companies, time zones, and relationships indeed is difficult to trace.

The possible implication of that is that it is extraordinarily difficult to determine at any time who owns technology, where knowledge ultimately is supporting, and the ownership legitimacy of any information that is stolen.

3. Prosecution

According to Michelle Van Cleave, [15] the first national counter-intelligence executive: "We will never have leak-proof technology controls, just as we will never have protection against all threats at all times. ... [We are threatened by] a diverse set of adversaries, many of whom have become highly skilled in using their intelligence services, especially their human collectors, to acquire U.S. national security secrets [including] technological and engineering secrets... The U.S. counter-intelligence community has not been organized or integrated to accomplish a national strategic mission."[14]

In the United States, the number of industrial espionage cases has been increasing, or at least the recognition of them. Ehrlich [6] notes that as early as 1994, the FBI was "investigating 800 cases involving 23 countries".[16]

One can conclude that the number of

[12] *This presents many legal problems in prosecuting a case.*

[13] *In the United States, this generally is the Secretary of Commerce for the state in which incorporation is filed.*

[14] *Assuming that the leadership of the organization itself is aware of the illicit activities [not always the case]*

[15] *Until recently, Ms. Van Cleave reported directly to the U.S. Director of National Intelligence, John Negroponte. According to David Ensor [7], a few of the most important countries that have organized industrial espionage operations in the United States include (1) Russia, (2) India, (3) Pakistan, (4) Iran, (5) Japan, (6) France, (7) Israel, "and above all by far", (8) China.*

[16] *Also cited by Mosier [12]. [17]The data is based on investigations of several different Federal laws governing transfer of technology. These include: (1) Arms Export Controls Act, (2) International Emergency Economic Powers Act, (3) Trading With the Enemy Act, (4) International Traffic in Arms Regulations, and (5) Export Administration Regulations. NB: In the first five years after passage of the Economic Espionage Act, only 23 cases were prosecuted. (See Carr & Gorman [1].)*

[18] *Because it is reported or (less likely) because it is otherwise detected. Note: Based on 2004 data from the Office of the National Counterintelligence Executive reported byGrammas & Goodale [8].*

Table 1 : How efficient is prosecution of industrial espionage?

Factor	Number	Percent
Number of governments organizing industrial espionage	100	
Number of investigations relating to illegal export of technology	2,500	
Number of arrests resulting from investigations	146	5.84%
Number of criminal indictiments	97	3.88%
Number of criminal convictions	79	3.16%

cases being investigated should have been considerably higher, since these were cases involving a foreign government or an organization or individual sponsored by a foreign government. As such, the number excludes espionage activities that are conducted by one corporation, foreign or otherwise, against another, without support or active collaboration with a foreign government. Table 1 shows 2004 data compiled by the Office of the National Counter-intelligence Executive on industrial espionage.[17] The data appears to indicate that if an industrial spy operation comes under investigation [18] there is a 97% chance that they will suffer no penalty.

Many observers report however that crime statistics of this sort tend to grossly underestimate criminal activity because of reluctance on the part of companies [or other organizations] that suffer to reveal they have been subject to an attack. A conservative estimate is that less than 15% of organizations report. Using the reported starting point of 2,500 investigations, and assuming a optimistic reporting rate of 20%, then more realistic number of attacks that match the reported data is 12,500, and this assumes that all reports of industrial espionage reported lead to an investigation [another optimistic assumption].

Consequently, it is a realistic estimate that if one engages in industrial espionage, the chance of getting convicted is 0.632%, e.g., there is less than one chance in a hundred of getting caught. Another way to say this is that there is a 99% chance of success!

4. Implications for India

It is clear that India is becoming a world leader in technology innovation. Consequently, it is reasonable to expect that more efforts will be made to steal Indian trade secrets. This raises several questions that might be addressed by Indian government and industry circles:

In the Sansad: Are the laws on the books adequate to protect trade secrets? For example, does the law clearly define trade secrets, and spell out adequate punishment?

In the Enterprise: What types of security measures might be taken in enterprises to protect against trade secret loss? Should company security awareness campaigns be energized so employees know what to look out for?

In the CBI: What new investigative skills are needed by Government to protect against this new threat? Are counterintelligence personnel receiving adequate training to track down agents engaged in industrial espionage?

In the Judicial Branch: Are the rules of evidence sufficiently clear to prosecute trade secret theft? Are prosecutors sufficiently trained to investigate and respond?

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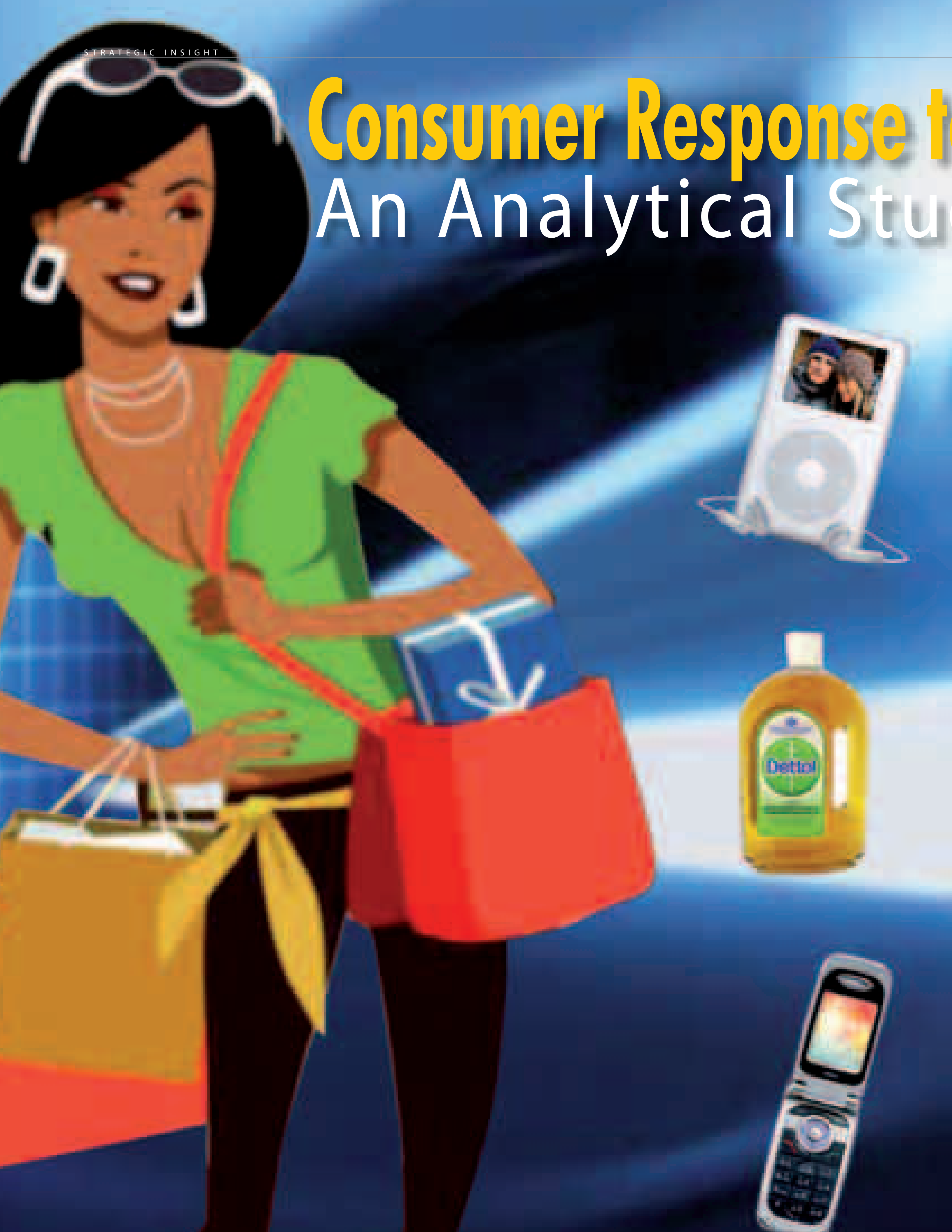

o Promotional Schemes:
dy

Dr. Sadia S. Ali, Aligarh Muslim University

The market has been flooded with promotional schemes that are essentially meant to keep the existing customers loyal or to entice the new ones. This article deals with consumer response to such promotional schemes. An analytical approach has been proposed to make a comparative study of the schemes as well as to study the consumer response to some well-known schemes. Data from a survey by Jamal (2002) has been used for illustration.

Introduction

What is this study about?
'Globalisation' and 'Open-market' are used in almost all the South-Asian countries. Earlier on, most of the countries in this region used to be 'traditional' in dealing with the customers at the lower levels, in the sense that the wholesalers had their set of retailers and each retailer had a set of 'loyal' customers. Brand switching was rare and trade flourished on 'faith' and 'counter-faith'. With the opening up of markets to 'imported goods', coming up of new ideas along with multinational firms and multi-cultural goods, was a must. Hitherto unknown commodities have become the 'article of faith', now so much so that one wonders as to how we were living without these 'essentials'. All this has not happened in a day nor is the transformation complete. The changes are gradual and on-going. The introduction of providing incentives either to 'lure the customers' or 'to keep them in the net' is a new phenomenon for the countries in this region. We present an analytical study of these 'customer-catching' techniques known as 'promotional schemes' and consumer response to the 'allurements'.

What are promotional schemes?
Sales of consumer items with some promotional scheme is a very common phenomenon now-a-days. This may be regarded as an extension to the advertising campaign. The basic idea is to increase the sales by attracting new customers or by increasing the number of items purchased by the existing customers. Studies corresponding to this aspect of advertising have been made earlier also. In a book published in 1987[4], titled 'Advertising', the authors discussed this aspect. Recently, some new books have appeared containing studies on advertising price-promotions. [3,2] The list of the possible promotional schemes is too large to be taken up in full. In section 2, the modus operandi, merits and limitations of a selected few of commonly used schemes, along with possible consumer reaction to each one, have been discussed. A statistical method for measuring the consumer response to various promotional schemes has been discussed in section 3. Finally, in section 4, a survey report has been presented and analysed. The data for this survey has been obtained from Aligarh and Delhi, in India, the choice is neither arbitrary nor just a matter of convenience. Aligarh is the city of Aligarh Muslim University, which is not only an institution of international repute; it has the cross-currents of the South-Asian population composition. Delhi is the capital city and its more than 10 million populations represent various forms of behaviour. Samples have been so drawn as to include various segments of the society. Thus, the conclusions drawn here are valid for any place in general and the entire South-Asian region in particular.

With the opening up of markets to 'imported goods', coming up of new ideas along with multi-cultural goods, was a must

1. Promotional Schemes:

As mentioned earlier, there are quite a large number of promotional schemes prevalent at the moment. We discuss here only a few that are very much 'visible' to the common man so much so that the consumer response towards the schemes is easily available.

i) Collect The Points And Win Prizes:

This is a sort of patronage reward. Customers get points for patronising some product or regularly using some services like airlines and hotels. The points collected are convertible to cash or other facilities. For example, some airlines offer free trips on accumulating a certain number of 'flying hours'. Recently, Indian Airlines have launched a '*free Bharat darshan*' scheme for those who buy air-tickets of a specified value within a specified period.

This type of promotional schemes are usually limited to small educated and elite class of individuals who are likely to increase their 'consumption' to avail of the opportunity. Apart from this, producers also offer such type of schemes to their stockiest and wholesale dealers where the points are replaced by either 'the amount' or 'the volume' of the sales during a year. In any case, the scheme has a limited scope. It helps in maintaining brand loyalty & increasing the number of customers.

ii) Discount Coupons:

This is a frequently used promotional tool. It is primarily designed to build repeat purchase and maintain brand loyalty. It offers specific reduction of price or saving on a purchase. The different methods of distribution of coupons to potential users are as defined below. Each has its own merits & limitations.

Through newspapers/ magazines/supplements:

Discount coupons are published in a newspaper or a magazine. Such a method is more successful in creating awareness about the product rather than in increasing its sales. For example, Pizza-Hut, India often advertise their famous Pizza brand for rebate offer like 'cut and bring this coupon and get a price off of Rs.10, offer valid till (a specified date) at their selected outlets in New Delhi'. These kinds of offers are designed mainly for the benefits of customers in a particular area, although, advertisements through newspapers helps in getting attention of various readers. This may result in long-term benefits. In the example cited above, nobody from outside Delhi will go there to avail the opportunity of a discount of Rs.10. However, it serves the purpose of increasing consumer awareness. Once an outlet is opened in a far-off place, it will have a lot of potential customers.

Companies are mailing coupons via direct mail to those known to be non-users or purchasing a competing product

Through In/On Pack:

There are two types of coupons in this category:

1. Enclosed in the package of a product. For example, a washing powder packet has discount coupons of varying amounts for the next purchase. This amounts to a sort of bonus for being brand loyal for the existing customers. For new customers it offers a competitive price.
2. Enclosed in the package of other goods. For example, coupons for a baby shampoo insude a diaper packet. This is primarily designed to attract new customers. The choice of the target is remarkable here, as almost all of the diaper users are likely customers for baby shampoo.

Direct Mail:

Companies are mailing coupons via direct mail to those known to be non-users or are purchasing the competing product. The discount coupons has the following advantages:

1. Product is never marked at a price lower than the established one. Psychologically, the coupons offer better opportunity than the special prices.
2. Many coupons have expiry date that provides a time frame to the consumer to react and, to the producer, it provides an opportunity to analyse the consumer response at the end of the time period.
3. It helps to maintain the market share of established products.
4. It promotes new items in their introductory stage.

The disadvantage about coupons is its possible under-redemption that may be intentional or accidental.

Consumers response to discount coupons distributed through newspapers etc. depends upon their product perception. Quality conscious consumer may fear a possible downslide in quality level, in view of the implied reduction in sales. The issuance of these coupons may be regarded as a consequence of downward slide of the sales because of falling quality level. Consumer perception, regarding discount coupons, made available through some other items is better than those distributed through newspaper/magazines etc. In general, it is believed that they are just trying to check the increasing influence of the competitors or what a unique way to catch attention or even sometimes there may be, 'thanks for the information, I was just looking for such a product. After all, I need such an item, so why not this particular brand'. People see nothing wrong in it, unless there is a marked decline in the quality level. In the former case, it is feared that there is a decline in quality level that has been noticed by others, so that there is a decline in the sales, whereas, in this case, people regard it as a scheme to 'prevent the possible decline in sales'. Coupons distributed through direct mail are more targetted than those distributed through print media as these appear to be more personalised. A person getting a discount coupon through direct mail feels that s/he is not just an ordinary person. They are being noticed so they must be out of the 'common man' crowd. Apart from wondering as to where from 'they' got the address, s/he feels favourably inclined towards the product, simply because s/he has been 'singled-out' for the privilege.

iii) Extra (Additional) Or Buy Some, Get Some For Free:

This type of scheme offers some extra quantities of the product or some extra service along with the usual product/service at the existing price. For example:

1. An instant coffee brand offers 25 gms extra for the price of 100 gms pack.
2. A famous soft drink supplier, recently offered 33% extra volume for the price of 1.5 litre.
3. A company dealing in cosmetics is giving away a free pack with the purchase of one pack of Prickly Heat Powder.
4. 'Buy 3 get one free' offer of a famous manufacturer of beauty soaps.

The extra volume is sometimes presented in a special container (such as glass carafe, plastic dispensing unit, useful pearlpet bottle) to add to the attraction.

It may be supportive of the brand's advertised image to offer 'extra' volume instead of lowering the price. The advantage is usually short-term as the companies adhere to their original price without 'extra-additional' scheme. However, the stock is cleared from the market earlier than it would have without extra offer.

Distributing small samples of the product to potential consumers is another important way of introducing a product

iv) Free Sample:

Distributing small samples of the product to potential consumers is another important way of introducing a product. The following methods are used to get an actual product into the consumer's hands:

Direct Mail:

A new product launch could include a small sample mass-mailed to a selected few. Care has to be taken in selecting the recipients. In some cases, they are wasted because the recipients are not interested in the product. Moreover, it requires a lot of groundwork and it is a very costly affair, so much so that mailing cost may exceed the actual product cost.

House-to-House Delivery:

This is a very common practice for launching a new product. We often open our doors for such promotional schemes & in many cases we find either free samples or trial packs at nominal price.

Point-of-Purchase Areas in Stores:

New and creative avenues for in-store sampling include children's product in toy shops, products aimed at teenagers made available in college canteen or bookstores, and so on. This method is less costly than free distribution and has an advantage of reaching the real potential customers.

Sample Included in Another Product:

Often sample of some product is attached with some other product. For example, a copy of a famous 'Film Magazine' usually carries a pack of some 'cosmetic' or a beauty-soap or even a new variety of a ball-pen. This helps create awareness about the product among those who happen to see the magazine, even if they do not buy it. Sometimes companies introduce their product in a way of joint-product. For example, a well-known company introduced their face wash under 'Introductory Offer' with its moisturiser. This additional product becomes real attractive when provided as an auxilliary to some product. For example, we find toothbrush free with toothpaste so that we do not pay extra and feel rewarded. If we find the toothbrush good enough, we may go for it next time after paying for it. A free comb with a bottle of hair oil will

Table 1 : Computation of viability measure of scheme

Factors	Factors Weight (FW)	Level						Expected Level Weight (ELW)	FW* ELW
		Excellent 5	Very Good 4	Good 3	Average 2	Poor 1	Very Poor 0		
(i)	20	0.6	0.3	0.1	0.0	0.0	0.0	4.5	90
(ii)	25	0.4	0.3	0.2	0.1	0.0	0.0	4.0	100
(iii)	25	0.0	0.5	0.3	0.1	0.1	0.0	3.2	80
(iv)	30	0.0	0.0	0.0	0.2	0.3	0.5	0.7	21
								Viability measure	**291**

promote both comb and the hair oil.

It is an excellent but expensive way. It is more effective after running an introductory advertisement campaign. It helps create awareness and favourable attitude towards the product. The advertisement to include free trial pack coupons increases effectiveness. Sampling program should be co-ordinated with advertising program for maximum effectiveness. If both sampling and advertising are in promotional mix, consumers should receive sample shortly after exposure to advertising messages about the product's benefits.

v) Scratch a Card, Win Prizes:
Customers are offered the chance to win cash prizes, luxury trips or merchandise as a result of some lucky draw. Some popular methods adopted for this purpose are discussed below:

Contests:
Consumers have to submit an entry on a form made available to the actual buyers. A slogan, along with answers to some very elementary questions, help in restricting the number of participants.

Games:
Consumers get something every time they buy, like missing letters, bingo numbers and other items, which might help them win prizes.

Sweepstakes:
Consumers are asked to submit their names and other details to participate in a draw. Such schemes are so designed as to gain good attention. Consumers go for multiple purchases in case of low priced items like cigarettes, soft drinks, toys, magazines etc. For high cost items like TV, computers, audio-video players

Sampling program should be co-ordinated with the advertising program for maximum effectiveness

etc., the instruction manual includes a card bearing the serial number of item. The card is to be scratched and prize to be won is visible after scratching it. The main aim of the scratching scheme is to make it as much tamper proof as possible. However, in spite of best efforts of the producers. the prizes visible only as a result of scratching, in most cases, either remain with retailers or are passed onto other persons known to the retailers. For example, a company dealing in mosquito repellent coils offered gift on pack as 'scratch it and get the surprise'. Company increased the number of coils from 10 to 12 in about 99% of its total production and offered the two extra coils as one of the prizes. Now it was easy to see that the packet contains 12 coils (without opening the packet), clearly so, that it contained no other prize. It was highly unlikely that any of the real big prizes reached the genuine customer, what with the wholesalers/stockists cornering all the packs not containing these two extra coils that may contain the 'real thing'.

vi) Test-ride/Test-drive:
Test rides or Test drives are offered free of charge to the prospective buyer of a certain type of a vehicle by a certain brand. This also falls in the category of free-samples. The problem with it is gross misuse of the opportunity of 'joy rides'. However, the 'word-of-mouth' of those taking a joy ride may affect the real customers. Moreover, it is very difficult to differentiate between a 'genuine' potential customer and a 'window-shopper'.

2. Measuring the Consumer response to Promotional Schemes
Given the long list of possible promotional schemes and considering their merits and limitations, a producer may select a few tentatively, the ultimate aim being to se-

Table 2 : Computation of viability measure of Scheme

Factors	Factors Weight (FW)	Level						Expected Level Weight (ELW)	FW* ELW
		Excellent 5	Very Good 4	Good 3	Average 2	Poor 1	Very Poor 0		
(i)	20	0.6	0.3	0.1	0.0	0.0	0.0	4.5	90
(ii)	25	0.4	0.3	0.2	0.1	0.0	0.0	4.0	100
(iii)	25	0.0	0.5	0.3	0.1	0.1	0.0	3.2	80
(iv)	30	0.0	0.0	0.0	0.2	0.3	0.5	0.7	21
								Viability measure	**321**

lect one or two as per the constraints of the budget or the present trend or some other considerations. However, in order to make final selection of one of the provisionally selected schemes, one requires some sort of reasonable criteria which may be defended for the principle on which it is based. We propose a method based on the following steps:

Step 1: Define the desirable characteristics of a good promotional scheme, like the ability of penetration to the target population, attractiveness, novelty factor, the cost factor etc.

Step 2: Each of the characteristics of Step 1 may be assigned a factor weight reflecting its relative importance with respect to the other characteristics. The total of these factor weighs may be a round figure, may be 10 or 100.

Step 3: Each characteristic may be evaluated on a 5 or 10 point scale, indicating its possible success. (0 indicating a total failure and 5 or 10 indicating a possible excellent performance of the scheme with respect to that particular characteristic.)

This evaluation may be done either by the experts using information about the existing schemes of other products or through sample surveys. The data so generated may be converted into a probability distribution. For Example: Regarding the novelty factor of the scheme, 100 randomly selected consumers are consulted and given below is the frequency distribution of scores:

Rank	0	1	2	3	4	5
Frequency	5	10	20	30	30	5

This may be translated into the corresponding probability distribution, as given below:

Scores	0	1	2	3	4	5
Probability Distribution	0.05	0.10	0.20	0.30	0.30	0.05

Step 4: Expected scores for each characteristic may be obtained by taking sum of products of scores and corresponding probabilities.

Step 5: The viability score of the scheme is computed by taking the sum of the products of the characteristic scores to the characteristic weights.

The various schemes may be compared with respect to their viability scores. In case of two or more schemes having close viability scores, it will be better to note their performance with respect to each characteristic under consideration. Any scheme having an over all good score but being weak with respect to one or two characteristics, may be reviewed for possible improvements.

3. Illustrative Example

Two schemes 'A' and 'B' are being considered for possible introduction. Due to budgetary constraints only one of the two is to be taken up. After a considerable amount of deliberations among the top management experts, it is decided that schemes be compared with respect to the following factors:

i) Ability to increase brand loyalty

ii) Ability to attract new consumers

iii) Ability to broad-base the existing market (making the non-users of the item interested in the product

iv) Ability to prolong the maturity period of the product.

Sample surveys among the buyers and non-buyers of the product are conducted after launching the schemes in a limited way in selected places, with all due precautions necessary for a statistical study. Following type of questions may be asked to collect the raw data, the questions being addressed to:

i) Those who have been buying this brand earlier:

a) How long have you been buying this brand?

Table3 : Consumer response at Aligarh

Rank	Discount/ Price Cut	Buy One Free Gift	Get One Free	Coupons	Prizes	Contest	Surprise Items	Total
1	64	28	24	16	0	8	0	140
2	16	32	28	8	32	8	16	140
3	16	36	24	8	28	8	20	140
4	16	24	28	12	12	4	44	140
5	12	12	20	36	32	20	8	140
6	16	8	4	44	24	24	20	140
7	0	0	12	16	12	68	32	140
Total	140	140	140	140	140	140	140	

Table 4 : Consumer response at Delhi

Rank	Discount/ Price Cut	Buy One Free Gift	Get One Free	Coupons	Prizes	Contest	Surprise Items	Total
1	90	20	20	10	5	5	0	150
2	30	60	35	10	10	5	0	150
3	10	50	45	10	15	5	15	150
4	10	15	15	40	20	5	45	150
5	5	5	15	30	65	0	30	150
6	0	0	5	40	30	65	10	150
7	5	0	15	10	5	65	50	150
Total	150	150	150	150	150	150	150	

Table 5 :Consumer response at Aligarh and Delhi taken together

Rank	Discount/ Price Cut	Buy One Free Gift	Get One Free	Coupons	Prizes	Contest	Surprise Items	Total
1	154	48	44	26	5	13	0	Total
2	46	92	63	18	42	13	16	290
3	26	86	69	18	43	13	35	290
4	26	39	43	52	32	9	89	290
5	17	17	35	66	97	20	38	290
6	16	8	9	84	54	89	30	290
7	5	0	27	26	17	133	82	290
Total	290	290	290	290	290	290	290	

b) Will you continue to buy this brand, even after this scheme is over?

c) Are you buying more than your usual quota?

d) Will you switch over to some other brand if it offered a better scheme?

Delhi being the center of power has an international gathering of consumers of varying tastes and preferences

ii) Those who are buying the brand for the first time, the first question may be rephrased as follows:

a) Are you buying this item because of this scheme only?

b) All other questions may be kept as they are for the brand loyals.

iii) Those who are buying some other brand:

a) What do you think of this offer?

b) Do you think schemes like this imply a compromise in quality level? Had you bought this brand if there was no scheme attached to it?

c) Have you gone for this brand if there was some other scheme in operation? Specify such a scheme, please.

iv) Those who are not buying that product at all:

a) What do you think of this offer?

b) Do you think schemes like this imply a compromise in quality level? Had you bought this brand if there was no scheme attached to it?

c) Will you switch over to some other brand if it offered a better scheme?

d) Can you suggest a better scheme?

Results of the surveys are converted into the required data by a committee of experts that include both marketing managers and statisticians.

Tables 1 & 2 show the computation of the viability measure of the two products under study:

Comparing the two tables, we note that scheme 'B' is low on all counts except the last one, that is, its possibility of prolonging the maturity period of the product, thereby, delaying the onslaught of the decline period of the product. Hence, if we can redesign scheme 'A' in such a way that it has a better potential with respect to factor (iv), it will be better to go for scheme 'A'.

4. Consumer Response: A Survey Report

Prof. Shamim Ahmad and Muzaffar Jamal (2002) conducted a comprehensive survey regarding consumer response to various aspects of marketing strategies. One of the items in the questionnaire is related to the consumer response to various promotional schemes. The survey was conducted in different cities. Given below are the findings for two cities: Aligarh and Delhi. (*See Exhibit 3, 4, and 5*). Delhi being the center of power and a large city, it has an international gathering of consumers of varying tastes and preferences. Aligarh, on the other hand, can be divided into two distinct sectors: 'The University Area' and 'the City'. Consumers in the two sectors taken together are likely to represent the broad spectrum of the society with respect to social and educational variations at the national level (Aligarh Muslim University, Aligarh has a large number of students and faculty from all over the country).

Consumers in the two cities were ran-

Table 6: Modified data for Aligarh

Rank Score	S1: Discount/ Price Cut	S2: Free Gift	S3: BuyOne	S4: Coupons
10	64	28	24	16
8	16	32	28	8
6	16	36	24	8
4	16	24	28	12
2	12	12	20	36
1	16	8	4	44
0	0	0	12	16
Mean Score	6.843	6.286	5.457	3.11
SD	3.54	2.741	3.18	3.19

Table 7: Modified data for Delhi

Rank Score	S1: Discount/ Price Cut	S2: Free Gift	S3: BuyOne GetOne Free	S4: Coupons
10	90	20	20	10
8	30	60	35	10
6	10	50	45	10
4	10	15	15	40
2	5	5	15	30
1	0	0	5	40
0	5	0	15	10
Mean Score	8.33	7.00	5.63	3.33
SD	7.011	3.667	3.061	2.748

domly selected with a 'loose stratification' so as to take care of the heterogeneity of the populations. Each selected person was asked to rank the seven promotional schemes. The ranking in the above tables is in decreasing order of magnitude i.e. 1 represents the top preference, 2 the next and 7 the least.

5. Analysis of the data

A look at the above tables leads to the following apparent conclusions:

i) There seems to be not much difference in the performance of various promotional schemes in the two cities.

ii) 'Discount/Price Cut' is way ahead of the other schemes.

iii) 'Free Gift' and 'Buy One Get One Free' are far behind the 'Discount/Price Cut' scheme, but it is difficult to choose between these two for the second spot.

iv) 'Coupons' is a distant third, and the last three schemes really do not matter.

In view of the above observations, we carry out the statistical analysis of somewhat modified tables; we drop the last three schemes. Also, instead of using the observed rankings, we replace them by the 'rank scores' on a 10 point scale as follows:

Rank	1	2	3	4	5	6	7
Rank Score	10	8	6	4	2	1	0

The assignment of 'rank-scores' is based on the observation that there is very little to choose between the two bottom spots.

The ' modified-data' is given in Tables 6 & 7 and then analysis of the same is given through Table 8.

Comparison of the popularity of the above scheme has been carried out using the usual t-statistics and p-values and have been obtained whenever the difference is significant. For p-values, we have used the tables provided by Owen (1962) and Fisher, Yates (1963).

Table 8: Comparing Schemes

Aligarh		
Schemes Compared	**t-value**	**p-value**
S1 compared to S2	1.46	NS
S1 compared to S3	3.435	< .001
S2 compared to S3	2.329	<.02
Delhi		
Schemes Compared	t-value	p-value
S1 compared to S2	4.9688	<. 001
S1 compared to S3	8.138	<. 001
S2 compared to S3	4.621	<. 001

NS: non-significant

6. Conclusions and Recommendations

The statistical analysis of the modified data leads to the following conclusions:

i) Comparative behaviour of the schemes is not the same in the two cities.

ii) Except for the non-significant difference between S1 (Discount/Price-Cut) and S2 (Free-Gift) at Aligarh, the top three schemes differ significantly. We, therefore, recommend that top priority should be given to 'Discount/ Price-Cut' as in this case the benefit decidedly reaches to the ultimate consumer and it is markedly visible. 'Free gifts' are, in effect, a subtle form of price cut.

However, we feel that free gift must be relevant to the product e.g. a comb with hair oil and a toothbrush with a toothpaste really looks like a bonus and may be regarded as the most tempting offer. 'Buy One Get One Free' should be resorted to only if the firm has a large stock to clear as it looks to be a sort of clearance sale.

(i) Regarded as most tempting offer.

(ii) 'Buy One-Get-One Free' should be resorted to only if the firm has a large stock to clear as it looks to be a sort of clearance sale.

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Does the Quality of a Mutual Fund Manager's Education Matter?

Though it might seem extreme, some mutual fund managers are clearly uneducated. An educated mutual fund manager can make all the difference in your portfolio

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The mutual fund industry in India is booming. According to a recent Wall Street Journal report, the industry has nearly doubled in size over the past three years, with approximately $48 billion US under management. With numerous firms in the Indian mutual fund industry, each offering different funds, the Indian investor has an unprecedented opportunity to grow their portfolios and reap the benefits of India's explosive economic growth. At the same time, however, mutual fund investors face a bewildering array of marketing claims and fund characteristics. Investors must navigate treacherous waters when deciding on which mutual funds to invest - and which to avoid.

Unfortunately, when selecting a mutual fund, some investors don't act very wisely. Instead of investigating their choices thoroughly, they rely on tips, rumors, news headlines, or marketing material provided by the mutual fund. The willingness of many to use this approach is likely driven by the confusion that investors experience when choosing a fund; with all of noise that the fund-industry creates, many find it difficult to differentiate between high- and low-quality funds, and rely on rumors and advertisements instead. This approach, admittedly, has the benefit of not requiring the investor to expend much effort. But it doesn't seem to be a particularly sophisticated investment approach.

What's the alternative? This is a question that academic finance researchers have explored for decades, through scrutinizing past mutual fund performance to determine the factors that make a mutual fund attractive. This research, which uses proven statistical methods and is published in reputable finance journals, typically identifies factors that are observable to investors at the beginning of a predefined time period, and examines if investments made on the basis of these factors are related to the subsequent return performance. For example, researchers have found that funds with lower expenses outperform funds with higher expenses; that passively managed index funds outperform actively managed funds; that funds with higher turnover outperform funds with low turnover; and that performance may be related to fund ratings, among other factors. While fund performance can never be predicted with certainty, these studies provide guidance that a serious investor would be foolish to ignore.

In this article, I will focus on one mutual fund performance factor that has only recently begun to receive attention by researchers: the quality of the mutual fund manager's education.

> Mutual fund managers face the daunting task of earning superior returns in a highly competitive environment

Does manager education make a mutual fund attractive?

Mutual fund managers face the daunting task of earning superior returns in a highly competitive environment. Their performance is closely scrutinized by investors, their superiors, other managers, and the press. Measures of mutual fund performance are adjusted for risk and are easily comparable; hence any failure relative to the selected benchmarks is quickly identified and critiqued. "Superstars" are celebrated, while those that fail to meet expectations find their careers wounded.

But what makes one manager a superstar and another a failure? Successful managers may have a natural talent for investing, while others benefit from working for a well run mutual fund company. Some would argue that luck plays an important role. But beyond natural talent and luck, another obvious factor to consider is whether the manager's education plays a role in performance. In other words, can one learn how to be a good mutual fund manager, or are these skills unteachable?

Many mutual fund managers are certainly highly educated, with more than half holding a Master of Business Administration (*MBA*) degree, approximately half holding the Chartered Financial Analyst (*CFA*) designation, and approximately one third holding other graduate degrees. Among managers holding MBAs, approximately 40% hold MBAs from top-tier business schools. Does all of this education make a difference?

I believe it does. In an academic paper that I coauthored with my colleague Matthew Morey (*accessible at http://dx.doi.org/10.1016/j.jempfin.2005.10.001*) we find evidence that some aspects of the manager's education matter while others do not. Forming a sample of 518 mutual fund managers that hold undergraduate degrees from U.S. schools, we find that mutual funds managed by those that hold MBAs from top business schools outperform other actively managed mutual funds. However, mutual fund performance is unrelated to whether the manager holds a CFA or a non-business graduate degree. Other researchers have found that performance is positively related to the quality of the manager's undergraduate school and whether the manager holds an MBA. While this issue has only recently begun to receive attention, these results clearly suggest that mutual fund performance is positively related to at least some measures of the quality of the fund manager's education.

Why should education matter?

Why is it that the quality of the fund manager's education influences their performance? One explanation is that top business schools provide a better education than lower quality schools. Because of their superior education, managers that received degrees from superior schools tend to have better investing skills, which results in them outperforming their rivals. Because investing requires significant skills, particularly technical skills, the quality of the education that managers receive may be crucial. Note, however, that we find no evidence that mutual fund performance is related to whether the manager holds a CFA, though CFAs require significant technical skills.

A second explanation is that managers that receive degrees from top business schools are more intelligent. After all, simply getting accepted into a top MBA program requires excellent scores on aptitude tests, and significant intelligence is required to complete the degree successfully. Their superior intelligence may allow them to make superior investment decisions, which leads them to outperform their rivals.

A third explanation is that managers from top B-Schools form important relationships with their peers that aid them while managing funds. These social connections may give managers access to superior investment opportunities that are unavailable to managers without such social connections.

A fourth explanation is unrelated to education, social connections, or intelligence. Instead, superior funds may tend to hire managers from superior schools; hence, managers from top business schools may do better because they are more likely to get jobs at better funds.

Of course, all of the above explanations may play a role in explaining why the quality of the business school from which the manager received his or her MBA matters. Regardless, it does appear that the quality of the fund manager's education provides some insight into the fund's potential performance.

Managers from top B-Schools form important relationships with their peers that aid them while managing funds

Conclusion

I've presented evidence which suggests that, on average, a mutual fund whose manager holds an MBA from a top business school will outperform other managers. These findings may be driven by the quality of the education, social connections, or job opportunities available to those completing a degree from top business schools, may be related to the intelligence of an individual that is accepted into, and completes, a top MBA program, or may be due to a combination of the above.

Some caveats are in order. First, other factors are equally, if not more important, hence basing decisions solely on the manager's education is not advisable. Second, the existing empirical research is primarily focused on US mutual funds; hence these findings may not be fully applicable to Indian mutual funds. Indeed, one should always be cautious when extrapolating across countries and market segments. Third, past results do not necessarily reflect the future; factors that influenced performance in the past do not automatically influence performance in the future. Clearly, however, the evidence of a relation between the quality of the mutual fund manager's education and performance represents a broad insight that a sophisticated investor would be unwise to ignore.

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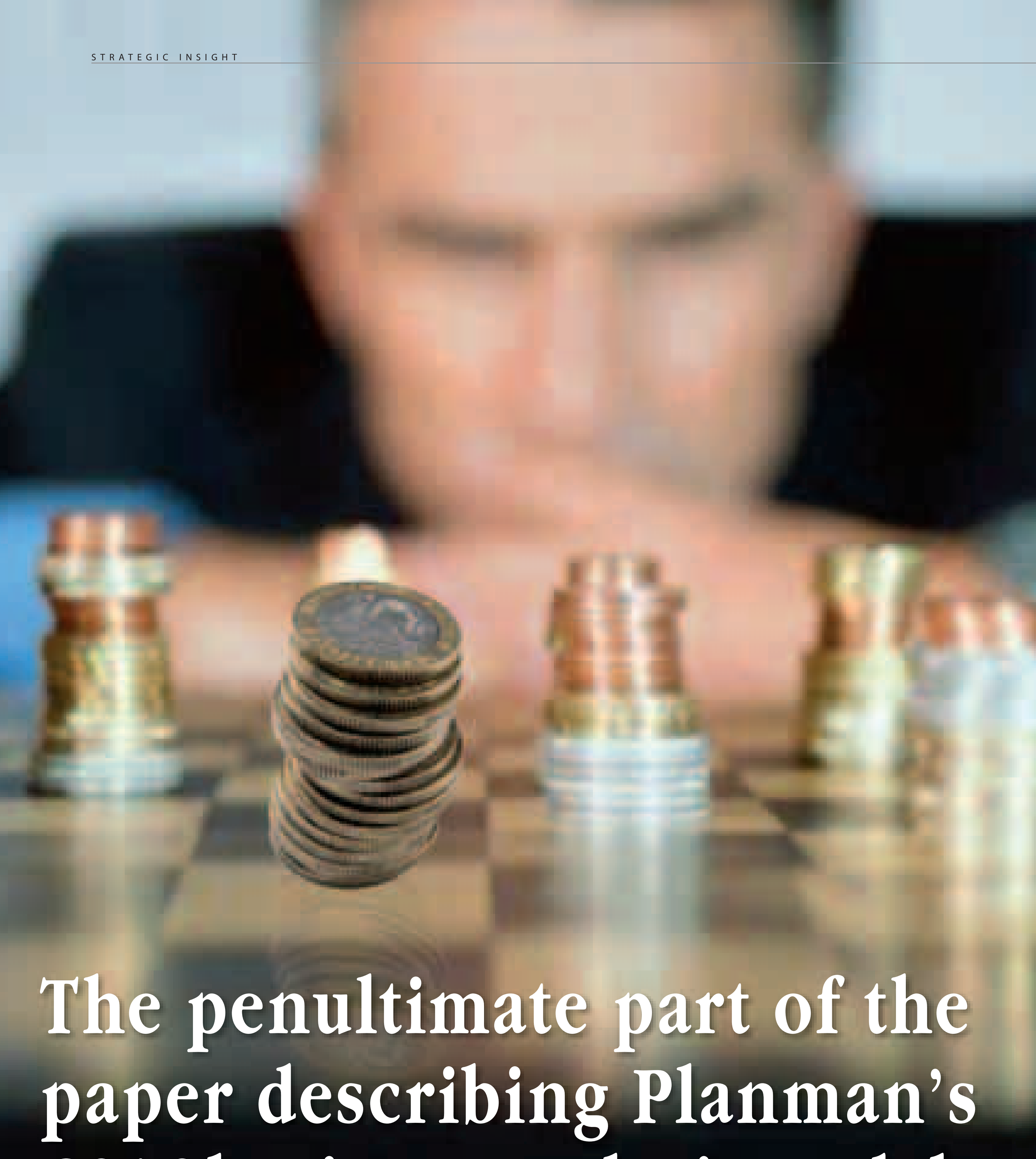
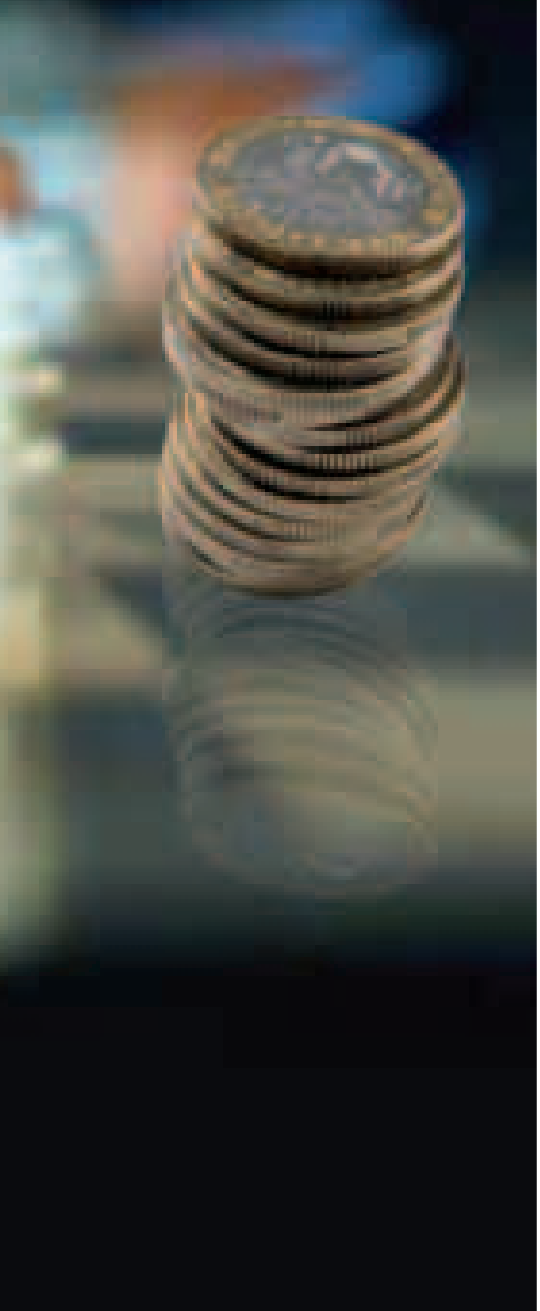


The penultimate part of the paper describing Planman's C2A2 business analysis model...

(Note: This paper should be read alongside the past parts published in previous issues of Strategic Innovator)



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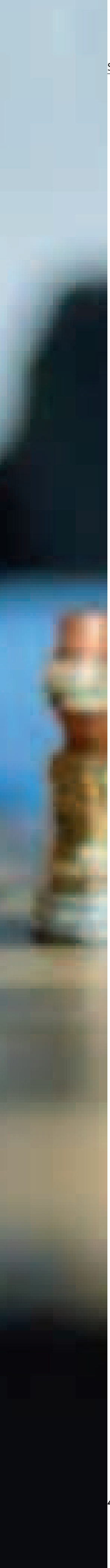
Meta SBU WTF & WTF Tally in Magnitude Narrative Body

Accumulating the WTF understanding, every MetaSBU can be appropriately assigned a Wealth Time Frontier that shows the number of periods that are still remaining for the MetaSBU to be a positive wealth MetaSBU. The WTF Tally in the case of the MetaSBU would show the aggregate of remaining positive or negative market-determined wealth value in the business unit if the business were to be closed down. Why is such a scenario of 'closing down' drawn out? Because the calculations of WTF Tally in this scenario ensure that the wealth of a business is not simply the cash & assets available to the business, but the conservative market determined value. The WTF Tally thus consolidates the value of the business's internal capabilities and competencies that the market has provided. Hence a supply chain channel of a business is not given simply the value of the warehouses and stores, but rather the value that the outside world attaches. How can soft assets like skills of employees be valued? The market determines the value that they would pay to purchase any kind of an internal wealth of the business. Not to disagree, this kind of a system becomes a valuation heavy exercise; but for the sake of correctness of understanding & calculation, this kind of an evaluation exercise has to be undertaken. The WTF Tally later on becomes one of the key factors that defines what are the internal and external competitive strategies being undertaken by the business.

But to calculate the WTF or WTF Tally for any MetaSBU requires an understanding of what would the Wealth Time Frontier actually mean in the case of a MetaSBU.

WTF in the case of a MetaSBU plays around with a scenario that if the MetaSBU's operations were stopped in a particular period, would the MetaSBU still be in wealth positive? This means that for every consequent period of the MetaSBU's operations, an assumptive scenario is visualized wherein the MetaSBU is assumed to be closed down in each particular period. Given this scenario, various Cluster Wealth Inflows and Cluster Wealth Outflows are found out through typical backward calculations for each period. For example, if a MetaSBU closes down in a particular period, all the loans that have been taken would have to be returned immediately; the MetaSBU would have to collect all accounts receivables; assets would have to be divested off; equity investors would have to be paid back; there would be no wealth additions or negations due to expected future operational sales and expenses; and so on so forth. Once these adjustments are made, the aggregate Cluster Wealth Flow position of the MetaSBU can be immediately calculated appropriately as on that particular period; in other words, the WTF Tally. Such calculation of the WTF Tally needs to be made for various periods of operations of the MetaSBU to correctly assign the Wealth Time Frontier. Obviously, present value figures have to be calculated using the Augment Interest Rate (defined later on) to correctly bring out the current value of the identified and adjusted past and future cluster wealth flows. Thus, WTF in the case of a MetaSBU signifies that if the MetaSBU were to be closed down in a particular period, would it have made an overall wealth loss, or would it have made an overall wealth profit. Therefore, if a MetaSBU is assigned a Wealth Time Frontier of WTF (-7), it means that it would take another seven periods for the MetaSBU to be considered 'safe'; in other words, if the MetaSBU were to close down before seven periods from the current period, the MetaSBU would end up incurring an overall wealth loss.

On the other hand, a MetaSBU with a WTF of (+5) would mean that the MetaSBU reached the 'safe' position five periods ago. However, this in no way signifies that the MetaSBU would



not go back into a negative WTF profile in the future. Investment decisions (especially capital assets decisions) might skew the WTF Tally curves of the MetaSBU from positive to negative, from time to time. This in no way should signify that the MetaSBU has again become a dangerous proposition. But prudent managers would generally not prefer becoming negative on the WTF profile, after having attained a positive Wealth Time Frontier. Instead, the management should focus on how to keep on increasing the WTF Tally of the MetaSBU and how to keep on reducing the WTF Tallies of the various shareholder groups. The Wealth Payback Sculpt annexures that the management develops should necessarily mention details of how the WTF Tally has been calculated and the negative or positive figures thereon of Net Cluster Wealth.

Therefore, whenever any intelligent investor has to invest in a business unit, the WTF & WTF Tally position of the business would be vital benchmarks. The Net Cluster Wealth Flow is what gets added or negated from the WTF Tally every year after all adjustments are attempted.

Any MetaSBU that has a negative Wealth Time Frontier associated with it in any period is consequently called a WTF Negative MetaSBU. The WTF box in the Magnitude Narrative Body of the WPS would be coloured in a combination of Red & Orange for all those periods when the MetaSBU is WTF Negative. Any MetaSBU with a positive Wealth Time Frontier is called a WTF Positive MetaSBU. The WTF box in the Magnitude Narrative Body of the WPS would be coloured in a combination of Black & Blue for all those periods that the MetaSBU remains WTF Positive. In those rare cases when the MetaSBU is WTF Neutral (wealth break-even period), the WTF box is coloured in a combination of Green & Yellow.

How long or short is a 'period'?

One period does not necessarily mean one year. With respect to these constructs, a period could be a day, a week, one fortnight, a month, a quarter, a year or any duration convenient for relevant analysis of MetaSBU performance. The longevity of a period depends totally on the industry dynamics. For example, the computers & fashion industries display faster dynamics than say the steel or cement industry; hence would have shorter periods to analyze. When day traders are attempting to use these constructs to analyze wealth scenarios of their various stock investment portfolios, each hour (or even shorter) becomes a period. Even though for simplicity sake we have only covered limited periods, in reality, the WPS and m-PIPE constructs have been known to be developed for as large as 50 periods and above.

In this model, if a group of shareholders has not been paid in any period, then they get increased returns later on

If management has to promise returns to even shareholders, then what is the difference between loan giving entities and shareholders?

The difference is historic. If the company is not making wealth, the management is not obliged to payback the equity shareholders. That is the risk being taken by shareholders. No shareholder can go to the courts to force management to release the sunken investment. But a creditor can take legal recourse to recovering loans provided to the corporation. These constructs also handle such unpaid equity shareholders extremely logically. In case one group of shareholders has not received dividends for some years; the WPS construct calculates the future value of dividends to be paid by management to this group by increasing the amount of payable dividends using the AIR (Augment Interest Rate) that in turn is the actual compounded return on investment that shareholders are expecting. Thus, if a group of shareholders has not been paid in any period, then the shareholder group gets increased returns in the subsequent periods. These returns are increased with the exact (or more) amount to take care of the unpaid periods.

What about those shareholder groups that have already reached the positive side of wealth payback, that is, whose wealth investments have already been returned with profit margins? Don't these shareholders get any more dividends?

Obviously they do continue to get more dividends. But their dividend payout ratio would depend upon the Augment Interest Rates & DWACC calculated on the basis of other shareholder groups and creditors whose investments have still not been paid back.

What if the management has succeeded in paying back all shareholder groups? Will the management stop looking at maximizing shareholders' wealth then?

Not at all! In corporations that have achieved this situation (and even otherwise in corporations that have still not paid back shareholders), management should use the m-PIPE Matrix to assess the worth of possible projects where disposable clusters of wealth could be invested. The m-PIPE Matrix assists the management in understanding whether it is more profitable to retain the wealth and invest the same in projects or to pay the disposable wealth back to the shareholder groups.

The reader is cautioned that financial concepts like WACC, DWACC & AIR being discussed out here are being analyzed in extremely simple terms, for the sake of non-complexity. The reader is again advised to refer to the Planman WPS & m-PIPE Construct Manuals for comprehensive descriptions of DWACC and related concepts.

1. Wealth Digress Body

This portion of the WPS is made up of three parts uniting three periods in the life of the business unit; past, present and future. In summary, the first part displays the present value of wealth targeted in the past and that should have been achieved as on the current period. The second part displays the present value of actual wealth situation in the current period after analyzing the performances of the current period and the present values of expected wealth flows of the future. The third part displays the targeted future value of wealth that should be achieved in the next period after considering environmental changes and augmenting the current wealth flows with AIR (Augment Interest Rate). These three parts (and data in the m-PIPE Matrix) together are used to mathematically calculate the strategies that should be undertaken for the particular business unit.

Cannot corporations easily increase wealth status under these constructs by rampantly taking loans, getting equity capital, selling asset equipment, or increasing the amount of credit sales? Further, cannot wealth status of corporations also be wrongly decreased due to increased capital asset purchases, equity buybacks or even by making dividend payments?

Critics have been silenced by the wonderful discounting and augmenting technique utilized in this model through the Wealth Time Frontier Tally, which is the true representation of how much wealth is in the organization. WPS takes care to discount in such methods by calculating the present value of taking loans or selling capital equipment or getting in equity money into the organization. Present value of credit sales where money would be received in the future, PV of future interest and principal being repaid on loans, PV of future dividends being promised by management to shareholders on equity

Most importantly, management should be innately motivated to pay relevant dividends back to the shareholders

investments, PV of future revenues being lost due to asset sale, PV of revenues gained due to asset purchases etc are examples of how the WPS and m-PIPE constructs ensure that the wealth figures are precisely displayed. As previously mentioned, 118 adjustments and critical environmental analysis is the reason these constructs are so successful in the corporate world. Thus, short term methods to increase or decrease WTF Tally are not possible as WPS ensures true present value display of WTF Tally, whether in past, present or future.

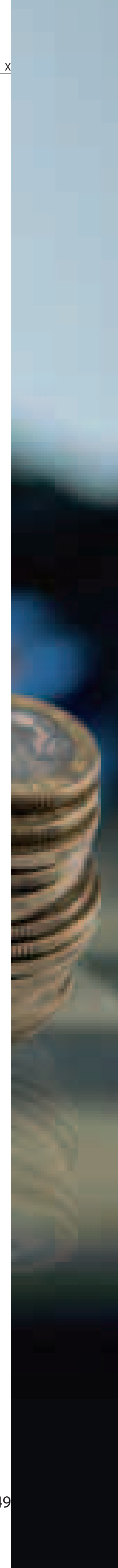
If dividend payments reduce wealth of the business unit, then wouldn't managers stop making dividend payments completely?

Well, the argument is applicable not just for these WPS and m-PIPE constructs but also for the complete management philosophy where management should be innately motivated to pay relevant dividends back to the shareholders. This particular issue of management psyche with respect to dividend payments is not a problem due to or within the gamut of these models.

In the WPS architecture, due to the fact that the Wealth Digress Body is positioned below the Magnitude Narrative Body (and more so due to the fact that the Wealth Digress Body provides reason and control over the movement of the organization), it is sometimes referred to as base legs of the Wealth Payback Sculpt. Not surprisingly, the Wealth Digress Body nomenclature also refers to such a usage.

The three parts of the Wealth Digress Body are described in detail below:

Part A (PAWS: Past Augmented Wealth Status): This part consolidates the past and gives the previous period's Operational Cluster Wealth Flow (OCWF) status for the business unit. This is different from the Net Cluster Wealth Flow as NCWF includes all wealth



Time value of money (Paws, Claws, Feet) In Wealth Digress Body

A wealth inflow of Rs.100 today is not equal to a wealth inflow of Rs.100 say in the next year. The amount of Rs.100 that we might receive after one year is actually equal to a lesser amount today; ‘how much lesser’ is found out by discounting the next year’s amount of Rs.100 with an interest rate that is equal to the required rate of return. If we use 10% as the discounting rate, then the amount of Rs.100 that we receive after one year is today actually equal only to Rs.100 divided by 110%. That is, equal to Rs.90.90 of today. In other words, if we had Rs.90.90 today and if we were to invest this amount in an activity (or say, bank deposits) that could get us 10% returns, then this amount of Rs.90.90 would have become Rs.100 after one year. If we discount tomorrow’s Rs.100 with a lesser interest rate (say 5%), then the same amount is equivalent today to an amount of Rs.100 divided by 105%; that is, Rs.95.23. In other words, lower the discounting rate, higher the present value of future wealth flows; higher the discounting rate, lower the present value of future wealth flows. This is the concept of time value of money with respect to the Wealth Digress Body

transactions (including capital inflows and outflows), while OCWF only includes operational wealth flows. The most analytical aspect of this part is that the aggregate of the past period’s OCWF is increased with a pre-decided rate of return and is called the Past Augmented Wealth Status (PAWS). PAWS is thus the past period’s operational wealth gain or loss, whose value has been increased (that is, augmented) by the Augment Interest Rate (AIR) to represent its true value as in the current period. Thus if Rs.100 was earned in operational wealth in the last period, its true current value for correct comparison with current figures would be Rs.120 in case AIR is 20% (100 + 20%). AIR has been explained later on in the discourse on DWACC.

Part B (CLAWS: CLuster Augmented Wealth Status): This part displays the actual operational wealth gain or loss in the current period after analyzing the performances of the current period. CLAWS thus displays the summation of actual current Operational Cluster Wealth Flows during the current period. Interestingly, due to the premise of dividends being an operational expense, payment of dividends would reduce CLAWS, but have to be necessarily made according to the promised schedules in the Wealth Time Frontier annexures. Positive CLAWS most often add to the WTF Tally of the MetaSBU and negative CLAWS generally reduce the WTF Tally.

Part C (FEET: Future Endeavours Expected Target): The third part is the most important part of the Wealth Digress Body and displays the present value of expected future operational flows of wealth that would be achieved in a definite number of future periods, after considering environmental changes and forecasting using advanced tools. It should be realized very clearly that FEET displays the expected (most probable) and most realistic future target that can be achieved by the management, given the strategies, competencies & environment that the MetaSBU is endowed with. FEET is not the vision, rather the target that should be achieved for giving profitable returns. The figure of future operational wealth flows is forecast utilizing technically efficient methodologies mentioned throughout (dynamic game theories, quantitative algorithm building measures, factor analysis models, market research exercises etc). This is not a figure that should be just management’s perception of business competitiveness and expected future sales. The question of how many periods in the future to consider totally depends on the industry dynamics. Shareholders would not be ready to wait for 15 years to see their present value dreams come true. Standard periods of forecasting for modern corporations actually range from four to six years; beyond which the discounting interest rates anyway ensure that present values fall down dramatically. The forecasting aspect is further described in one of the paragraphs below. However, this takes care that calculations are attempted not just based on handful of factors, but in some cases hundreds of importance units of data (including industry life

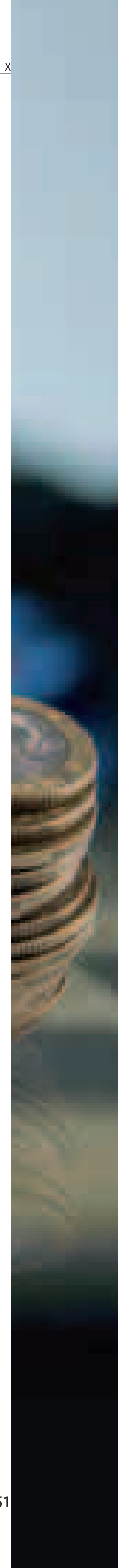
Standard periods of forecasting range from 4 to 6 years; beyond which interest rates ensure that present values fall

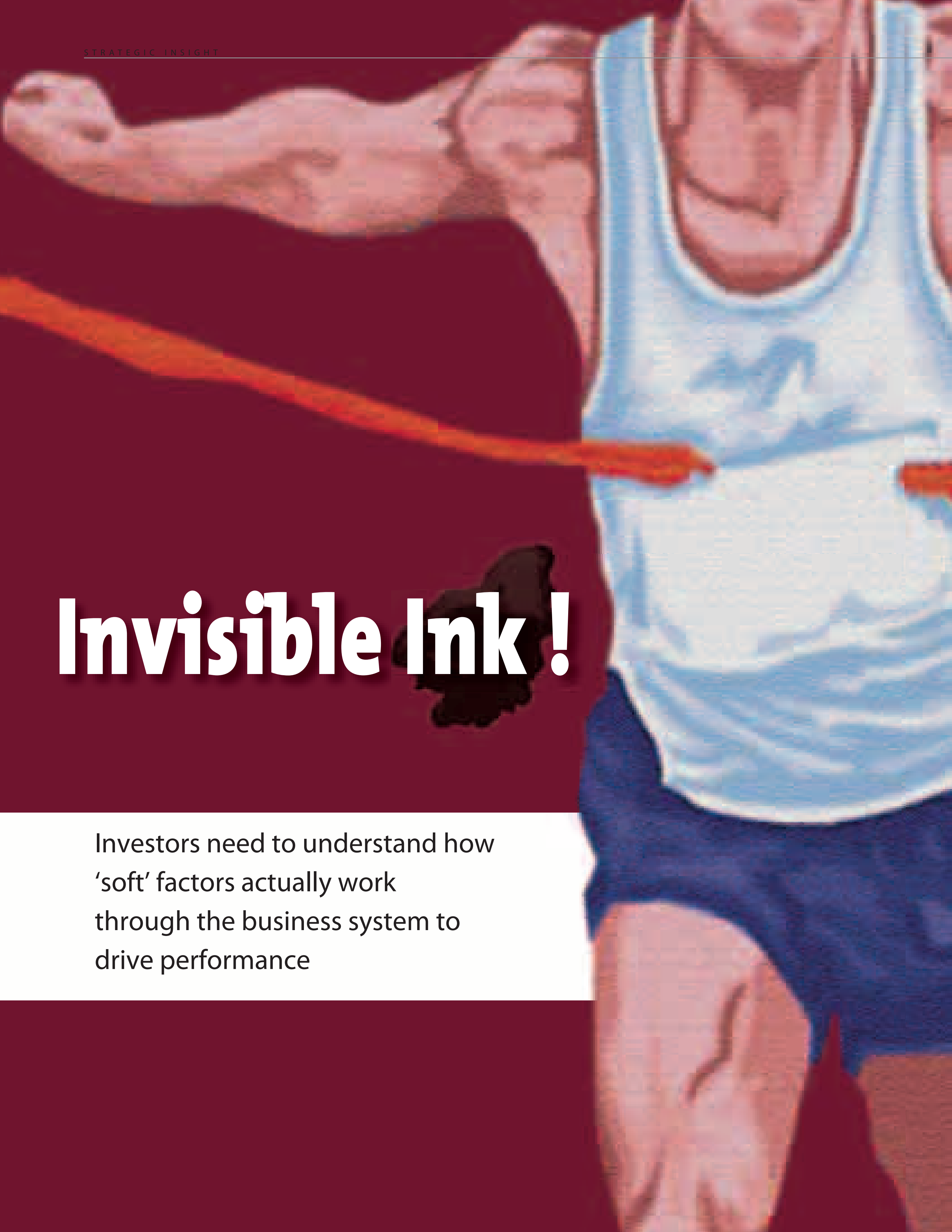
cycle, competitive position, business competencies & capabilities etc). Thus, while the WTF Tally provides the current position of wealth after evaluating the market determined value of the MetaSBU's capabilities & competencies, FEET provides the present value of all future returns expected due to these current capabilities and competencies. The persuasive combination of WTF Tally (showing present situation) & FEET (showing future situation) is utilized later on in the m-PIPE Matrix to provide the various strategic orientations for any MetaSBU.

The PAWS, CLAWS & FEET are principal to the basis of MetaSBU analysis. These three consolidate hundreds of factors that are analyzed to forecast future positions. As mentioned before, the FEET factor is reached after undertaking various factor analysis routines, game theory exercises and other industry-specific, company-specific and MetaSBU-specific research. Unlike other portfolio models where simple management feedback was enough in giving weights to factors like competitive position or business strengths etc, the forecasting system in these constructs uses highly technical tools to reach qualitative and quantitative conclusions that are consolidated and represented as the Wealth Digress Body. This kind of a system is miles ahead of techniques used in other models that are highly subjective to the inputs provided by external entities. The final values that are assigned to the three factors in the Wealth Digress Body are not representations of two or three simplistic factors like relative market share, market growth rate but weighted aggregates of sometimes hundreds of factors that influence business performance over many periods, and using system algorithms that cannot be attempted manually. There is obviously the well-known tradeoff between speed of strategic decision making and the amount of analysis that goes into the decision making. But then these constructs are not meant to be undertaken as slipshod decision support systems by overexcited managers attempting sub-primitive and illiterate strategies. These constructs are meant to be utilized as the most technically advanced management audit systems.

However, the Wealth Payback Sculpt alone cannot provide a comprehensive analysis. The problem hitting WPS below the belt is that when viewed in a standalone manner, the FEET of the Wealth Digress Body does not display what is the discounting rate being used (AIR), and whether this Augment Interest Rate has been consistent over the past relevant periods or has the same been correctly changed. What this means is that when one sees a MetaSBU with extremely positive FEET wealth potentials, one cannot really give details on whether the Augment Interest Rate being used by the model is the correct figure. TC Units (or management in some cases) might have used extremely low discounting rates to make the MetaSBU appear a highly profitable proposition. The m-PIPE Matrix is the model that utilizes WPS to analyze MetaSBUs over time periods in order to show the correctness of the discounting rates being used and effectiveness of past strategies. The next paper in this series, in the next issue of Strategic Innovators, analyzes not only the m-PIPE Matrix, but also various competitive strategies that can optimally affect any business industry space.

There is the well-known trade-off between speed of strategic decision making & the amount of analysis that goes into it





Invisible Ink !

Investors need to understand how 'soft' factors actually work through the business system to drive performance

Kim Warren
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There has been considerable interest in recent years in the role that intangible factors, such as reputation, staff skills, and business relationships, play in the strategy and performance of commercial organisations. Executives fully understand the importance of sustaining these vital factors, and academics have devoted much effort to understanding how they operate.

Lately, though, investors have also taken an increasing interest in intangibles, and regulators in both Europe and the US have also turned their attention to the issue. Underlying this interest is a concern that management, in an effort to deliver shareholder expectations, may inadvertently damage commercial fundamentals on which future prospects of the business rely.

The EU has published guidelines on the subject. And, in the UK, regulation is seemingly imminent after a consultation period. Us reporting requirements are heading in a similar direction.

The consultation document on the Operating and Financial Review and Directors' Report (OFR), published by the UK's Department of Trade and Industry, observes: "Company accounting and reporting remains essentially backward looking and based on financial indicators. There are few statutory requirements to report on the main qualitative factors which underlie past and future performance (or for future performance, even financial factors) – in particular on strategy, prospects, opportunities and risks; on intangible, and so-called 'soft', assets (which may contribute significantly to success but are not well captured in traditional financial statements); and on key business and wider relationships. As a result, the information provided is defective and directors do not have the discipline of accounting for stewardship on some key responsibilities."

Moves to regulate the reporting of intangibles raise a fundamental question – would investors know what to make of information about intangible factors if it were provided? Managers with considerable experience of actually runnng a business find it hard enough to understand how intangibles impact on future performance. It is difficult to see how outsiders will be able to make sense of them. It is perhaps not surprising, then, that responses to the draft UK regulations suggest that boards and their advisors are uncertain as to how exactly to comply with the requirements.

Intangible shopping

Consider the history of investor expectations and performance of the iconic British retailer Marks & Spencer (M&S). Few businesses are as open about intangible factors affecting their performance, or as studied by analysts and commentators. Yet the recent years have been a roller-coaster of overblown expectations, major disappointments, hoped-for recovery, and agonising progress.

Surely, if management and investors shared a good understanding of how M&S performance depended on well-known intangibles, little of this confusion and angst should have occurred?

In 1998 profits were £1.1 billion, with analysts expecting more of the same in 1999, in spite of well-known information that the company's reputation for quality, service, and value had been in steady decline since the early 1990s. Recovery was expected in both 2000 and 2001, even though the spotlight was firmly fixed on these continuing poor intangibles. So why were investors surprised when this recovery failed to materialise? More recent years have seen desperate efforts by M&S to keep delivering profitability, while at the same time trying to fix a system that has been badly, and to a large degree, irreparably damaged. There is simply no way to reconstruct the extraordinary loyalty of the huge core customer segment M&S once enjoyed, and replacement business will inevitably be more fragile and costly to sustain.

In spite of excellent information and scrutiny of intangibles, investors clearly had only a flimsy understanding of the implications for M&S's sustainable future earnings. What management and investors alike require, then, is a logical, rigorous, and reliable means of connecting information about intangible factors to the strategy

Extract from the DTI's draft regulations on the operating and financial review and directors' report

(schedule 7ZA, pp. 44-45) – emphasis added.

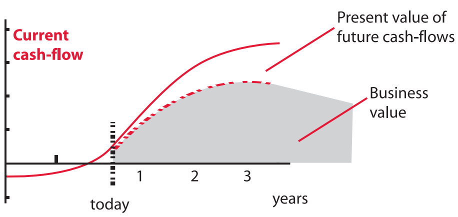
An operating and financial review shall be a balanced and comprehensive analysis of:

a. The development and performance of the business of the company and its subsidiary undertakings during the financial year.
b. The position of the company... at the end of the year.
c. The main trends and factors underlying the developing, performance and position of he business... during the financial year, and
d. The main trends and factors which are likely to affect their future development, performance and position, prepared so as to enable the members of the company to assess the strategies adopted by the company... and the potential for those strategies to succeed.

The review shall include:

a. A statement of the business, objectives and strategies of the company and its subsidiary undertakings;
b. A description of the resources available to the company...
c. A description of the principal risks and uncertainties; and
d. A description of the capital structure, treasury policies and objectives and liquidity of the company and its subsidiary undertakings.

Figure 1



formance. When this strategic architecture is assembled, it becomes clear that three other pieces of information are necessary to understand performance before worrying about intangibles – information on additional tangible factors, on the quality (not just quantity) of those factors, and on the rate at which they are changing.

If we carefully take apart a firm's business model, it is possible to trace back from performance, through the substantive resources of the business system and the processes by which these change, until the impact of true intangibles is revealed. This is also valuable for managers themselves as it gives them a stronger grip on their strategy and performance. Unfortunately, such information not only helps investors assess a firm's performance, but also makes crystal clear to competitors the sources of its competitive advantage. So, once we have laid out what would be most helpful to investors, we need to balance the advantages of disclosure against the risks.

Assets, performance, and value

We should start by sorting out some language issues.

There is a common belief that intangible factors largely account for the difference between the value of the business to its shareholders and the reported financial asset value. Indeed, valuation language virtually defines intangible assets in these terms. This creates some strange results.

Customers, for example, appear tangible to most people. Staff are pretty tangible, too, as are a product range, suppliers and distributors. Yet, the OFR, in common with much discussion about business performance, wraps them up in abstract terminology about "relationships" (*although total employee numbers, at least, are recorded*). It is clearly difficult, and of dubious validity, to put a financial value on these items, not least because they are not actually owned by the business. Even so, most reasonable businesses can reliably expect that staff who were with them last week will probably turn up on Monday morning, as will their customers.

> Strategy theory does not treat many of these tangible resources as strategic, because they are so transparent

If we are truly to understand the link from strategy to performance, we have no choice but to take account of these tangible, but impossible-to-value factors. At the same time, we have to avoid confusing people who are used to the normal terminology about intangible assets. So, from now on we will refer to these solid factors as *tangible resources*, along with other items, such as product range, production capacity, distributors and so on. They will be quantified, but in their own concrete terms (people, for example) not some financial alternative. They also exhibit the key characteristic of the tangible assets that do appear in the accounts – they must be built up and sustained through time.

Incidentally, strategy theory does not treat many of these tangible resources as strategic, either because they are so transparent (and, as a result, allegedly cannot give any competitive advantage), or because they are not owned by the firm.

For most businesses, though, having no customers equals having no business, so for practical purposes these items are resources, and important ones.

With this understanding of tangible resources, we can already see a vital gap in what the OFR suggests firms should be reporting, since it regrets the lack of statutory requirements to report on "the main *qualitative* factors which underlie past and future performance", but makes no mention of these other *quantitative* items. The idea that intangible factors alone account for the excess of business value over the disposal value of its physical assets has never been, even remotely, close to reality. It is as though we were trying to explain the value of a car by putting a price on the wheels, the engine, the seats, and so on, and if that doesn't add up, putting some extra value on its speed and road-holding. In reality, it is only when put together as an entire system that we have some recognisable whole that we can decide is worth the overall price we are prepared to pay.

Assessing value

When assessing a firm's value, shareholders consider expected future cash flows and decide what these are worth (*see Figure 1*). Rarely does this valuation correspond to the disposal value of its tangible assets, and for very good reason any real business relies on many other tangible resources that cannot, in any meaningful way, be valued. To take a simple example, you might decide that consumers in a particular locality would appreciate the opportunity to eat out, then buy and develop a suitable property in order to turn it into a restaurant. You still don't actually have a restaurant, merely a building that looks like one. You only have a functioning restaurant business – with prospective cash flows – when you have hired staff, offered a menu, and won customers. Staff, products, and customers are, in addition to the physical real estate, tangible resources of the business, but it makes no sense to try and ascribe a financial value to any of these items in isolation, only to the whole system. Consequently, those prospective cash flows need bear no relation whatever to the financial investment you put into the building and

When assessing a firm's value, shareholders consider expected future cash flows & decide what these are worth

equipment.

What role do intangibles play in this situation?

We have said nothing about staff skills, reputation, or brand – nor do we need to. Your restaurant may offer a quite ordinary menu, quite ordinary staff, and have no significant brand, yet still generate prospective earnings that are worth far more than the underlying assets. That excess value is due, not to intangible factors, but to the tangible resources that rarely receive proper attention, such as customers and staff (*see Figure 2*).

This notion of business performance and value reflecting a set of interdependent resources exposes a common fallacy – that total business value can be separately attributed to individual value drivers. If you remove any one of these assets, the business fails to generate earnings. It is the system that generates cash-flow and value, not the individual components.

So how much do investors get told about these tangible resources? Since capacity often consists of physical, inanimate assets that have to be bought or constructed for cash, it is not surprising to find these resources explicitly quantified in physical terms – infinitely more useful for understanding likely earnings than the financial value of capacity. We see good information about M&S stores, easyJet aircraft, BP oil reserves and refineries, and so on.

Capacity is not always so clear-cut. WPP, for example, one of the world's largest media services groups, relies on skilled professionals in advertising, PR, and branding. Yet simply knowing the number of such professionals that WPP employs tells us little of the organisation's capacity to win and serve clients, and hence generate revenue and earnings.

Companies in certain sectors report on customer numbers quite explicitly, e.g. subscribers to mobile phone operators or TV channels. M&S provides some information about the fraction of consumers who use its stores, and WPP provides good information about client numbers. However, in most cases, customer numbers are either not reported at all or are mis-reported

In the year ended March 2004, for example, easyJet reported that it carried 21.8 million passengers – except, of course, that it didn't. It flew 21.8 million passenger journeys, and we don't know if this was 21.8 million people who flew once, or 2.18 million who each flew 10 times.

Reporting customer numbers is not always straightforward. For example, many people have bank accounts they never use,

Figure 2

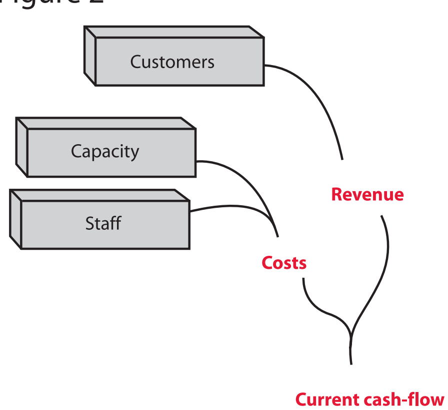
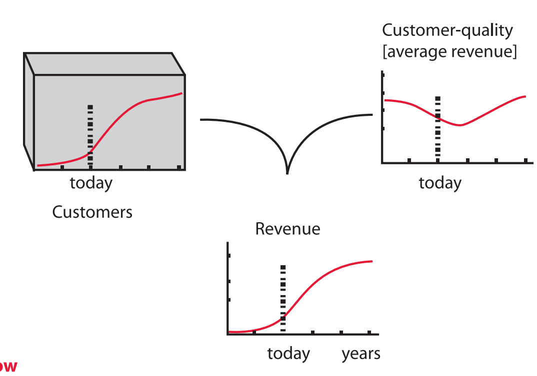


Figure 3



so should not strictly be regarded as active customers. Nevertheless, it is generally possible to specify what constitutes a real customer and report accordingly. Management should certainly undertake some such assessment when developing strategy, so the information should already be available to well-managed firms.

Company reports have long given information on total employee numbers, but rarely specify the number of staff associated specifically with revenue generation, customer retention and so on. A key factor in the decline in M&S was a deterioration in customer service caused by draconian controls on numbers of front-line staff. Indeed, so badly was this misunderstood that the company was praised for achieving high levels of productivity – i.e. sales per employee - while in reality this was damaging the business.

Capacity, customers, and staff are not the only tangible resources investors need to be informed about. Product range and distribution, for example, are essential to understanding likely sales and earnings in consumer goods, business consumables, and other sectors. Yet few companies report adequately on these items.

Feel the quality

Enjoying large numbers of customers, staff, products and other assets tells us little about performance, if we know nothing about the quality of these resources (*see Figure 3*).

The retailer WH Smith, like M&S, can claim to serve a large fraction of British consumers. However, the company constantly struggles to sustain sales and profitability, because of a low average value from each customer visit. In contrast, TV broadcaster Channel Four has long understood that a premium audience can capture more spend from advertisers than an audience that is simply large. As a result, it has one of the highest quality audience profiles of any large broadcaster in the world.

In spite of the importance of asset quality in determining revenue and earnings, company reports provide little more than indicative evidence about this crucial issue. The best exceptions demonstrate how little investors know about most organisations. Mobile phone operators have long reported on subscriber quality through the metrics of average revenue per user (ARPU), and clearly scrutinise this metric in detail in steering their strategy, not just on average, but as it varies among important customer segments. The broadcasting company, BSkyB, also provides some information about the value of its subscriber base.

Issues of quality apply to all categories of tangible resources, with critical implications for business performance

Table 1: Cash-flow and resource-flow statements

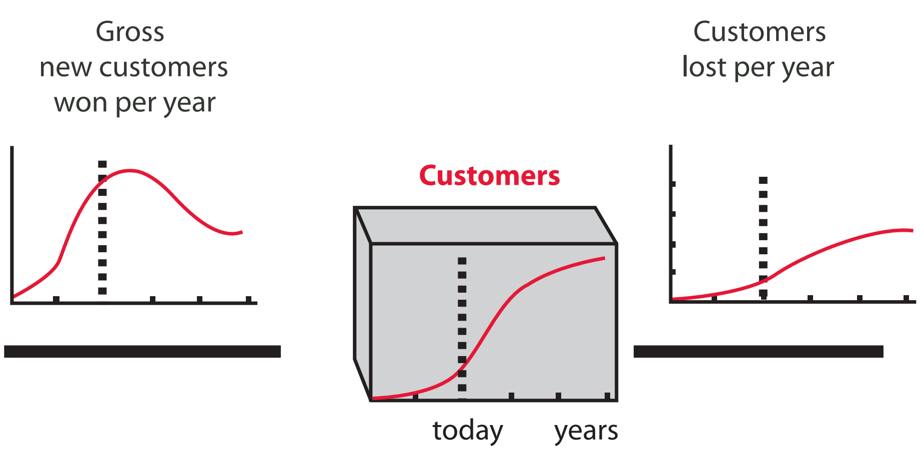
	Cash	Customers	Staff	Capacity	Products
Opening balance	Cash at start of year	Customers at start of year	Staff at start of year	Capacity at start of year	Products at start of year
Additions	Cash inflow	New customers won	New staff taken off	New capacity added	New products introduced
Losses	Cash outflow	Customers lost	Staff lost	Capacity closed	Products discontinued
Closing balance	Cash at year-end	Customers at year-end	Staff at year-end	Capacity at year-end	Products at year-end

Issues of quality apply to all categories of tangible resources, with critical implications for business performance. The experience of WPP's professionals is vital, as is the take-up of their services by clients. We have already wondered about the travel frequency of easyJet's passengers, and investors may have moderated recent expectations, had they understood changes in the quality of its route network. Consumer goods suppliers report proudly on their range of products, but are reticent about how their popularity among the public varies, or their penetration into retail distribution. Retailers report on store numbers & size, but give little indication of the number of consumers being reached.

Where are we going?

We have discussed only the role of tangible factors, and their quality, in determining current sales and earnings. But our original aim was to understand the likely *trajectory* of future earnings. Since today's assets explain today's revenues, costs and earnings, we need to know about likely *futur*e assets if we are to understand performance prospects. This requires information on the rate of change in those assets. This is both the most crucial – yet weakest – feature of business performance reporting.

Figure 4



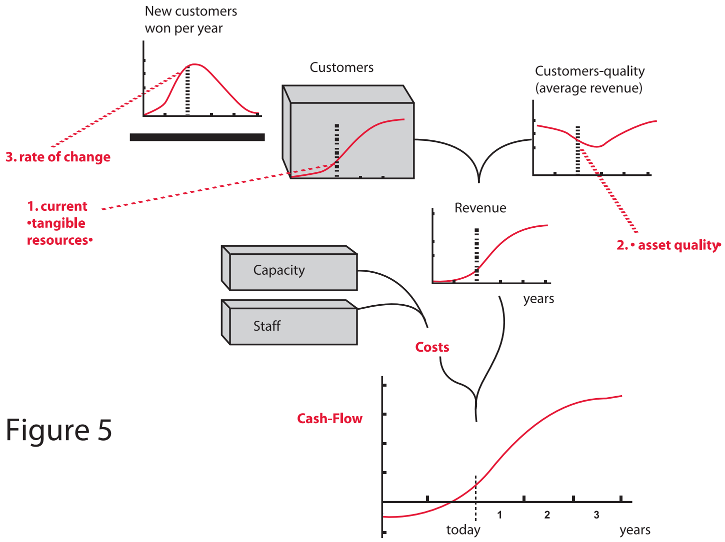


Figure 5

Once again, good examples expose how little investors are typically told about this issue BSkyB and telecoms firms report on subscriber churn rates, and Compass Group - the contract catering provider – reports on contract renewal rates. However, we are given little factual information about customer loyalty by firms in retailing, airlines, or many other sectors.

Rates of change are vital in regard to other tangible assets besides the customer base. Staff turnover is perhaps the clearest example. We might, for example, have anticipated falling service quality at M&S, had we known about attrition among demoralised store level staff. Professional firms, such as WPP, are particularly susceptible to staff turnover, but few provide information on this critical issue. Similarly, we need better information on product range changes in consumer goods, advertiser churn in media firms, and the rate at which retailers are refreshing their real estate by replacing poor units.

Knowing the net change in resources alone is not sufficient, however. If management are to understand likely future performance, they must understand gross additions and losses (*see Figure 4*). BSkyB, for example, added 510,000 subscribers in the year to June 2004 – except that it didn't – in fact, it added 1,160,000, but lost the rest to subscriber churn. This is an admirable, but rare example of open reporting about gross changes to resource levels, with important implications for future performance. BSkyB is aiming to reach 10 million subscribers by 2010, a goal that ill be considerably more difficult to attain if churn rates continue at about 10 per cent a year than if it slows substantially.

Reporting resources and their rates of change is not really so big a stretch, since it has an exact analogy in the balance sheet and cash flow statements. We expect to see cash-flow statements, but we need staff-flow, customer-flow, and capacity flow statements as well if we are to assess future performance (*see Table 1*).

Putting the picture together

Now we have the key pieces of the causal explanation for performance, we can return to our original purpose - explaining performance through time, and anticipating where that performance might be heading into the future. Figure 5 shows how the three key pieces of information – tangible resources, their quality, and rate of change – combine to determine performance prospects. Only the connection between customers and revenue is made explicit here; similar clarity about the quantity, quality, and rate of change for staff, products, distributors, and other tangible factors will be needed if investors are to have a clear sense of any firm's future performance.

This picture is further complicated by the interdependencies among these tangible resources. The customer win-rate will reflect, for example, the numbers and quality of staff available, and the capacity of the organisation to serve those customers. This further undermines efforts to ascribe value to any particular resource or policy – the impact on cash flow from hiring another person, adding a new product, marketing to a new customer, or increasing capacity depends on the current state of existing resources. Adding one more customer could even destroy value, for example, if it damages service to those we already have.

What about intangibles?

Although we have covered a wide range of factors on which management and investors alike need information if they are to understand business performance and value, we have not yet considered where intangibles are involved. They do not appear on the balance sheet (and it is futile to try to put them there), nor are they directly correlated with the tangible assets on which cash flow depends – knowing M&S' service quality or reputation does not tell us how many customers it has. This knowledge does, though, tell us about the likely rate of change in those customer numbers. Poor service today encourages customer losses, and a poor reputation will likely depress the customer *win-rate*. This influence is additional to the direct effect caused by tangible resources – customer win-rates reflect *both* the number of sales people a company has and its reputation for quality and service (*see Figure 6*).

Other intangibles also work by influ-

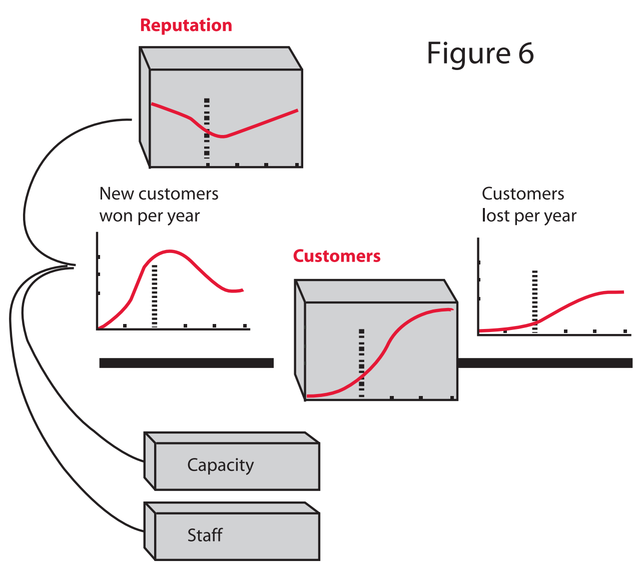


Figure 6

> **Investors are quite right to expect management to show a professional grasp of intangible factors**

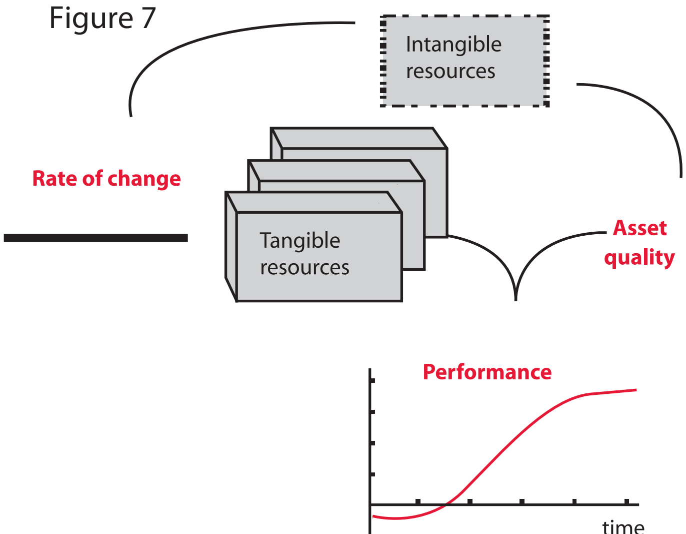
encing the gains and losses of tangible assets. Skilled technical staff increase the rate at which good new products can be launched, distributors are won to brands that are well-regarded, and staff turnover is faster when morale is poor.

Generically, we can lay out the causal logic connecting intangible resources, through changes to the tangible resources and their quality, through to performance (*see Figure 7*). Only if investors have *both* good information on these items and how they are changing, *and* a solid understanding of how the interdependencies work, will they be able to make a well-informed judgement about the growth potential and sustainability of the businesses. They should certainly expect that managers have such an understanding of the strategy of their organisations.

Certain firms have a strong grasp of these dependencies on intangible factors. Barclays Bank, for example, has excellent insight into the relationship between service quality, customer perceptions, and loyalty. Major pharmaceutical firms understand deeply how the support of key opinion leaders among medical specialists drives uptake of their products in the wider market. But confident, rigorous information and analysis of this kind is exceptional, and balanced scorecards used by firms are typically vague about the interdependencies involved.

Investors, then, are quite right to expect management to show a professional grasp of intangible factors. However, unless they also have information about the full range of tangible assets, the quality of those assets and the firm's ability to build, develop, and retain those assets, they stand little chance of estimating the strength of its strategy, its likely performance prospects, and hence its value.

Figure 7



To disclose or not?

While investors might welcome complete transparency about the resources and performance of the businesses they support, managers are naturally nervous about exposing the details of their strategic architecture to potential attack by competitors.

Yet, there may still be a persuasive case for greater openness. M&S declared outstanding operating profits from 1995 to 1998. Indeed, just about every financial fundamental was believed by analysts to be exemplary – margins, productivity, asset utilisation, etc. As we noted earlier, though, customer acquisition and retention were both in trouble and the intangibles were falling apart. How might analysts have reacted, had the company said in 1995 that it would be investing £200 million every year to enhance quality, service, and value, and back that up with evidence to show how essential that investment had become? Would management *really* have been criticised for such a stance? Would predators *really* have seen the company as a wounded animal, and had a credible case for taking it over?

It can even be competitively advantageous to be open about your strategic architecture and why it performs as it does. Sector after sector is bedevilled by companies with a limited grasp on strategic management, but which still think they can perform by pursuing simplistic policies. Unsustainable discounting with excessive marketing in many financial service markets is currently a case in point. Firms led by professional strategic management can show just what it takes to perform strongly, and thereby discourage foolish behaviour by less competent rivals and would-be newcomers.

There is a further reason why management might choose more openness. Shortly after the 1999 stock market collapse, which many of us should have seen coming, I asked an audience of investment analysts what it might have been worth to know, two ears ahead of time, that a company would be in trouble. Their view? They would have preferred the information to remain undisclosed, since it would have lost them four half-year opportunities to exploit the misunderstanding and push management into pursuing earnings increases, even though those increases were both unsustainable and certain to destroy the integrity of the firm's strategic architecture. A cynic might even wonder if they were looking forward to making yet more money as the share price collapsed, and perhaps more again when takeover speculation started. A greater degree of openness by management about the true state and prospects of their business could just give them, and their long-term investors, some protection against this kind of short-term manipulation.

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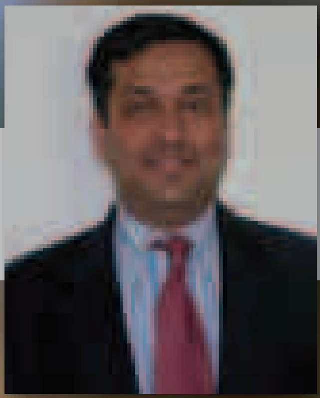
Extend the corporate hierarchy *in a* Marketing Database



Learn how you can leverage data to enable more targeted marketing to businesses

Sudip Chakraborty, Principal, Inductis

Designing a marketing database, especially for businesses, can be challenging. Compared to the consumer world, this is still a relatively new field with sparsely available expertise in data, rules and models. This provides an opportunity to sophisticated users to gain competitive advantage in marketing effectively to businesses.

In this article, we propose an extension to traditional corporate hierarchies used in many marketing databases & show how you can actually implement this by leveraging internal & external data, matching and data integration rules and technology. This article is intended for leaders in a marketing organization including managers of marketing databases, database designers, data modelers & database architects.

Companies have been deploying single view databases based on traditional corporate hierarchies provided by data vendors such as D&B and Experian for several years. These hierarchies typically indicate legal relationships between companies, e.g. branches and subsidiaries. This information can be very effective for marketing especially for cross-selling. Other data sources are also available such as DDM (*DUNS Decision Makers*), EHA (*Executive Home Address*) from D&B and BOL (*Business Owner List*) from Experian that provide information about decision makers. Our experience in designing marketing databases indicates that the traditional corporate hierarchy can be extended by integrating these data sources to enable more targeted marketing.

A traditional corporate hierarchy consists primarily of 3 levels of institutions :

- **Ultimate** – The Ultimate is the top most responsible entity within the global family tree. The Ultimate may have branches and/or subsidiaries reporting directly or indirectly to it. For multinational companies there will be a Domestic Ultimate as well as a Global Ultimate.
- **Subsidiary** – A subsidiary is a corporation that is more than 50% owned by another corporation and will have a different legal business name from its parent company. A subsidiary may have branches and/or subsidiaries of its own.
- **Branch** – A branch is a secondary location of its headquarters. It has no legal responsibility for its debts, even though bills may be paid from the branch location. It will have the same legal business name as its headquarters, although branches frequently operate under a different trade style than the headquarters establishment. A branch may be located at the same address as the headquarters if it has a unique trade style. This is traditionally the lowest level of granularity of a business (*business at a location*) and is the level at which a unique business identifier (*e.g. DUNS number from D&B*) is assigned.

Companies have been deploying single view databases based on traditional corporate hierarchies

This hierarchy was primarily developed from a risk management perspective and while it has been used by marketing organizations, it does not fit there very well. Marketing organizations are concerned with identifying as large a universe of decision makers as possible and identifying all possible contact points for each of them which this hierarchy does not provide. We propose an alternate or extended hierarchy that addresses these concerns.

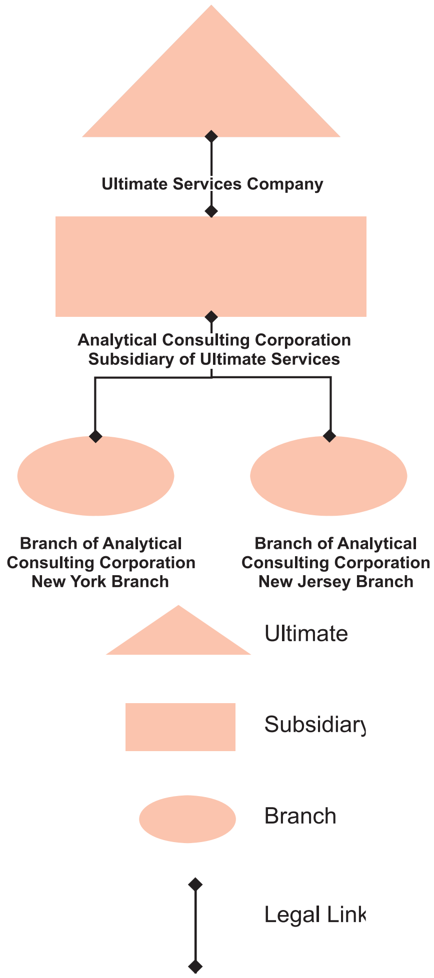
The extended hierarchy can be considered at the following 3 levels for each business at a location:

- Business Contact Points (B-CP)
- Business Decision Makers (BDM)
- BDM Contact Points (BDM-CP)

Some of this information, e.g. Business Contact Points, is traditionally available for businesses. However, due to the multiple types and numbers of contact points available for both businesses and people, the information may not be used optimally unless it is structured appropriately. Structuring the corporate hierarchy in this manner by integrating available information will enable marketers to make marketing decisions in a more targeted manner. For example, a marketing manager may decide to test response effectiveness at BDM contact points to understand which contact points (*e.g. home address or business address*) generate higher response rate.

Business Contact Points (B-CP)

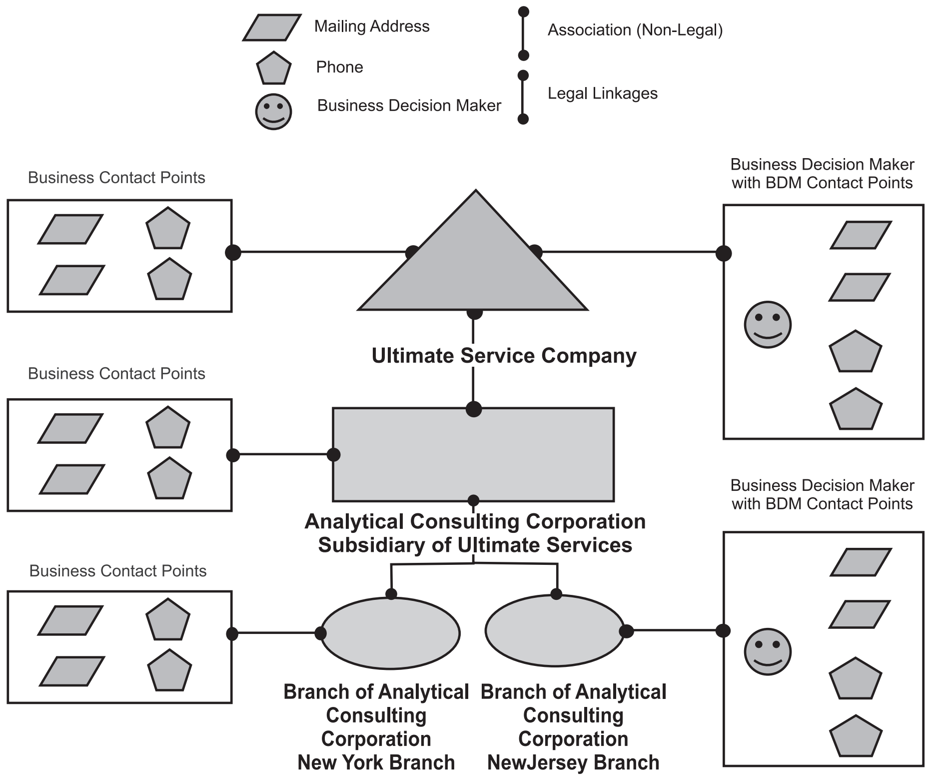
Each business can be contacted at multiple locations. Contact points include address, phone, fax & email. By far, the most com-



monly used by direct marketers is address. A business can have both physical as well as mailing address. Some businesses will have a delivery address which is different from the physical address. It is useful to separate these out so that you can measure whether specific contact points are more effective than others.

Business Decision Makers (BDM)

Each business can have multiple decision makers. From a marketing point of view, it is important that all of them are identi-



fied. Data is available from various sources that show for each business who the decision makers are. In many cases, titles are also provided. This is where the combined corporate hierarchy as well as the marketing hierarchy can be very effective. For maximum effectiveness, it is important to know where in the corporate hierarchy the BDM has decision-making authority. For example, a credit card company may want to target the CFO in the Ultimate Company for marketing a corporate card, while Principals in each branch may be targeted for a small business card.

BDM Contact Points (BDM-CP)

Each decision maker can be contacted at multiple locations. Contact point types include address, phone, fax and email. By far the most common is address. A person can be contacted at multiple points including his/her business address, primary residence address, vacation home address. Similarly, a person can be contacted by phone at his/her business, his primary or vacation residence or by his/her cell. It is important to be able to capture these so that you as a marketing manager can decide what contact points are most effective, and which are NOT effective.

Differences between corporate hierarchy and extended hierarchy

It is important to note that the extended hierarchy is applicable to the entire universe of businesses as opposed to the corporate hierarchy which is applicable to only about 10% of the businesses (*since nearly 90% of businesses in the US are stand-alone or have a single location*). Also, while the traditional corporate hierarchy contains legal relationships, the extended hierarchy contains both legal (*e.g. a BDM relationship to a company*) as well as non-legal (*e.g. a BDM-CP relationship to a BDM*).

Corporate Hierarchy Tree

In the extended hierarchy, in addition to ultimates, subsidiaries and branches, Business Decision Makers (*BDM*) Business Contact Points (*BCP*) and BDM Contact Points (*BDM-CP*) are also identified.

Extended Corporate Hierarchy Tree

In this article, we have shown how you can extend the traditional corporate hierarchy to for more effective marketing. In future articles we will show how you can implement this framework using a combination of data & logic.

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India's Mobile Revolution

What Next?

India's mobile revolution was initiated by the great reforms of the early 1990s, but really took off around 2001-2003.

Abstract

India's mobile revolution was initiated by the great reforms of the early 1990s, but really took off around 2001-2003. In order to understand India's true opportunities in the ongoing mobile revolution, it is vital to explore the nation's rapid growth in the context of globalization among the world's leading mobile operators, equipment manufacturers, IT enablers, value-added service providers – and in comparison to China.

For the right government policies and firm-level strategies, the impending mobile service revolution is important not just as a source of revenue, but as a key enabler of economic growth and competitiveness in India.

Industry Globalization

In 1998, there were some 200 million mobile subscribers worldwide. By 2008, industry leaders hope the subscriber base will be closer to 3 billion. Since the late 1990s, the industry has been characterized by increasing globalization and massive high-growth markets, particularly in China and India.

Migrating Fortunes

Starting in the early 1900s, the United States dominated the wireless business from wireless telegraphy to AM and FM communication, which provided a substantial military advantage to US defense forces during the Second World War. In the postwar era, the commercial potential of these technologies led to US pioneership in mobile industrial services and the first consumer test markets.[1]

The cellular concept was discovered in 1947 at Bell Labs, but commercialization followed only in the 1980s with analog cellular networks. In the US, Western European and Japanese lead markets, these first-generation (1G) analog services appealed primarily to automobile drivers and corporate markets. With a single standard (AMPS) and the world's greatest wireless operators, equipment manufacturers, products and services, the US dominated mobile evolution until the eclipse of the 1G era.

In the 1990s, the digital transition was driven by the European-based standard (GSM), made mandatory by the European Commission, and pioneered by rapidly-growing European operators, such as Vodafone, and bold Nordic equipment manufacturers, such as Nokia and Ericsson. These second generation (2G) digital networks targeted mass consumers. Initiated in prosperous European countries, they were quickly leveraged internationally.

At the dawn of the 21st century, service innovation migrated to Japan, where NTT DoCoMo pioneered user-friendly, high-speed services (i-mode, FOMA). Meanwhile, South Korea has engaged in broadband innovation. Today, the industry is transitioning to third generation (3G) multimedia services, which, over time, will be replaced by broadband services (4G).

During the past 10-15 years, mobile momentum has been in Western Europe and East Asia. Still, digital convergence has provided three powerful advantages to America's mobile and IT leaders.

> America can no longer dominate the mobile business. No single nation can.

- Since the late 1990s, Qualcomm's CDMA has served as the core technology for the 3G era.
- US-based IT enablers (including Microsoft, Intel, IBM, followed by Apple and RealNetworks) have entered the business and absorbed mobile capabilities worldwide.
- Around 2001-2002, US-based content providers (media and entertainment, music and record companies, publishers) followed in the footprints.

American companies will continue to play a critical role in the mobile business. However, the US can no longer dominate the mobile business. No single nation can.

Global Scale and the Role of India and China

Today, the world's most populous country markets in the key mobile regions include the following:

- North America: the United States and Canada
- Western Europe: Germany, Italy, UK, France and Spain
- Asia: China, India, Japan, Korea and Taiwan
- Eastern Europe: Russia and Poland
- Latin America: Brazil, Mexico
- Middle East: Saudi Arabia, Israel and Iran
- Africa: South Africa, Morocco and Egypt.

When the Finns made the first GSM call in 1991, economic reforms precipitated telecom liberalization in India. When SMS was adopted in northern Europe in 1995, there were barely 30,000 mobile subscribers in India. Despite the late start, India is destined to become a world-class player in the mobile industry.

Ideally, the next 'next big markets'

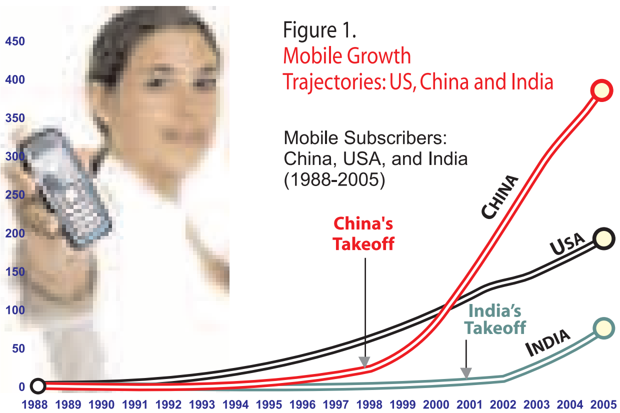


Figure 1.
Mobile Growth Trajectories: US, China and India

Growth Trajectories

	US	China	India
Degree of Penetration	65%	31%	6%
Evolutionary Phase	Mature	Growth	Emergence
Replacement Demand	80-90%	40%	10%

should have a large population, rising per capita income and relatively low penetration. Both India and China fulfill these requirements, by population size and growth rate. In 2004, China was the world's most populous nation with 1.3 billion inhabitants. India was second with 1.1 billion people, followed by the United States (293 million), Indonesia (218 million) and Brazil (179 million). While China's economic growth rate was 10.1 percent, India's amounted to 6.9 percent.[2]

The mobile growth trajectories of these two great nations, however, differ. At the end of 2005, there were 2.1 billion mobile subscribers worldwide. The number of mobile subscribers in China was estimated at 400 million; in the US, at 195 million; in India, at 60 million. The penetration figures were 31 percent, 66 percent and 6 percent, respectively (Figure 1). The US mobile market is rapidly maturing, whereas, in China and India, the volumes are growing explosively, by 5 million new subscribers on a monthly basis. In China, the growth rates will begin to stabilize in the next two to three years. In India, the mobile revolution has barely begun.

India's Mobile Marketplace

Though the road has not always been easy, Indian telecom sector is often perceived as the 'poster-boy' of the New Economic Policy (NEP). Market-oriented reforms have provided a powerful boost in the telecom sector, not least because of the influence of India's booming technology sector whose success depends on a sophisticated communications infrastructure.

In China, the mobile revolution was triggered by the great reforms of Deng Xiao Ping in the early 1980s. In India, the seeds of the transformation derive from Rajiv Gandhi's reforms in the 1980s. The new era was initiated by the great reforms of the Narasimha Rao Congress government in the early 1990s. Through these years, the macroeconomic policies of Dr. Manmohan Singh supported the change.

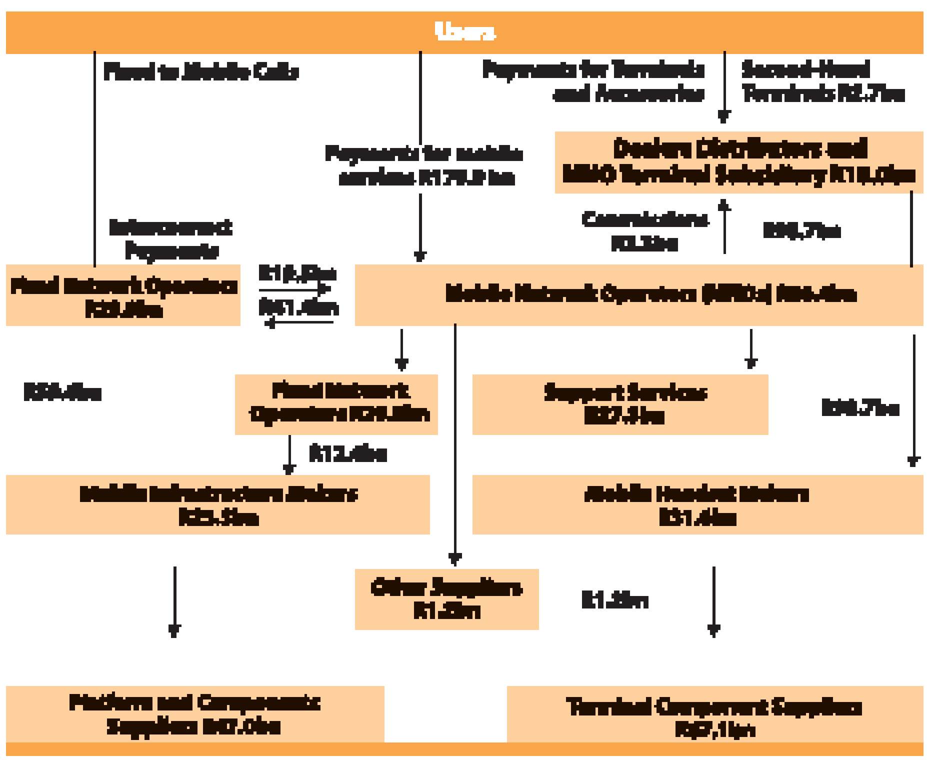
In China, the mobile industry took off in the early 1990s; in India, in the early 2000s. The first decade was sluggish in both nations, and the growth really took off in the second decade. Macroeconomic stabilization was necessary, but not sufficient for competition. Exponential growth in teledensity became possible only with adequate and persistent microeconomic reforms - deregulation, liberalization and privatization.

In the contemporary Indian mobile value system, the current key players comprise mobile operators, equipment manufacturers (handsets, infrastructure), as well as component suppliers (Figure 2). The long-term future of the industry depends on the success of value-added services, and the convergence of mobile communications, media and entertainment, as well as information technology.

Mobile Equipment Manufacturers: From Imports to Localized Production and R&D

Equipment manufacturers arrived in India in the mid-1990s, when the industry made a slow start. Initially, great expectations were followed by great disillusionment, due to government policies, high licensing fees and absence of regulatory clarity. With sluggish growth, mobile phones reached the 1 million milestones only in 1998.

Things changed a year later, when the government's 'New Telecommunications Policy' (NTP99) allowed unrestricted private entry into almost all mobile service



sectors, which, with additional changes, enabled private operators to break even faster. As regulations struggles and licensing disputes faded away, sales of mobile phones soared.[3]

1998: 1 million
2001: 5 million
2002: 10 million
2003: 19 million
2004: 24 million
2005: 32 million

In 2006, the sale of handsets is anticipated to rise to 60-65 millions per annum, up from about 34 million in 2005. Most maturing mobile markets are replacement markets: subscribers are no longer purchasing their first cellphone, but their second, third or fourth cell handset. In 2005, the sale of handsets in China amounted to 100 million units, but the replacement market is already 40 percent of the total. In India, the replacement market was still only 10 percent.[4]

Nokia dominates the GSM handsets, but Samsung and LG have secured a foothold via CDMA, whose importance the Finnish vendor initially miscalculated.[5] In India, Nokia has sought for both value and volume (Box 1). It has garnered higher volumes in larger cities, while pushing high-end handsets in smaller towns. "India will become the world's second biggest mobile device market when measured by volumes in year 2010," predicted Nokia's CEO/chairman Jorma Ollila in Chennai in March 2006.[6]

Since the early 2000s, Indian government has paid increasing attention to developments in China's mobile industry. In both nations, operators have played a key role, but in China equipment manufacturing (handsets, infrastructure) had given rise to indigenous producers. The question is, how could India develop indigenous manufacturing capabilities?

In 2004, South Korea's CDMA makers Samsung and LG Electronics had plants in India, whereas GSM giants did not need to manufacture locally. While the NTP 2005 document was being finalized, equipment makers anticipated mandatory requirements to set up manufacturing units in India, in order to supply equipment to government-owned telcos in the future.[7] The GSM vendors rushed to launch manufacturing facilities.

At the end of the 1990s, many still expected industry leadership to be determined by a rivalry between Nokia and Microsoft (read: between cellphones and smartphones). In reality, it is global scale and price erosion that drive the market.[8] In India, comparable trends will accelerate in coming years as the operators focus on rural areas.[9] Integrated digital camera, FM radio and speaker phones continue to remain the features, which are most likely to drive the upgrades of mobiles this year, along with multimedia messaging service (MMS). These trends emulate the in high-income mobile markets, which are now driven by a "more for less" proposition.

Mobile Operators: Growth in China's Footprints

In China, commercial mobile services were

Nokia: Globalization through Localization

In 2000, the US was Nokia's top market and China came second. India was not among its top-10 markets. With EUR 1.4 billion in net sales, India was Nokia's fifth major market in 2005, after Germany but ahead of Brazil and Russia. Just as has been the case with China, export-driven growth is giving way to increasing inward-driven foreign direct investment (FDI).

In China, Nokia's mobile operations go back to the mid-1980s; in India, to the mid-1990s when the first-ever mobile call was made using a Nokia phone on a Nokia-deployed cellular network. In China, Nokia's FDI-driven growth became possible in the early 1990s; in India, too, drastic expansion had to wait a decade for the eclipse of the regulatory regime.

What started with pagers and GSM networks in 1995 climaxed with India's 51st year of Independence and the special Indian edition of the Nokia 5110 phone, featuring the Saare Jahaan Se Achhaa ring tone, adapted by Pandit Ravi Shankar. The acceleration of Nokia's role in India — via R&D, exports, and foreign direct investment — started around 1999.

Deals with Leading Operators. By 2004, Nokia won four major infrastructure contracts in India and was supplying mobile infrastructure to five of the largest operators in India.

Chennai for Manufacturing. In April 2005, Nokia announced that it would set up a manufacturing facility for mobile devices at Chennai, where it would also establish a high-end base station controller manufacturing unit.

R&D Centers. Nokia already has three R&D centers apart from partnerships with technology companies, including Wipro, Satyam, Tata Consultancy Services and Flextronics Software Systems.

In India, Nokia expects strong penetration to be driven by growth in urban subscriber additions, the growth of replacement markets in Tier I and Tier II cities, network coverage and new subscribers in rural areas. As the market leader, Nokia considers the subcontinent a natural location to meet surging demand in the Asia-Pacific region.

The Finnish handset maker operates in some 130 countries. It is globalization through localization that has enabled Nokia, along with other dominant equipment manufacturers to build its industry positions in India.

The Indian Nokia is redefining Nokia itself.

Box 2. From Bidding Wars toward Consolidation

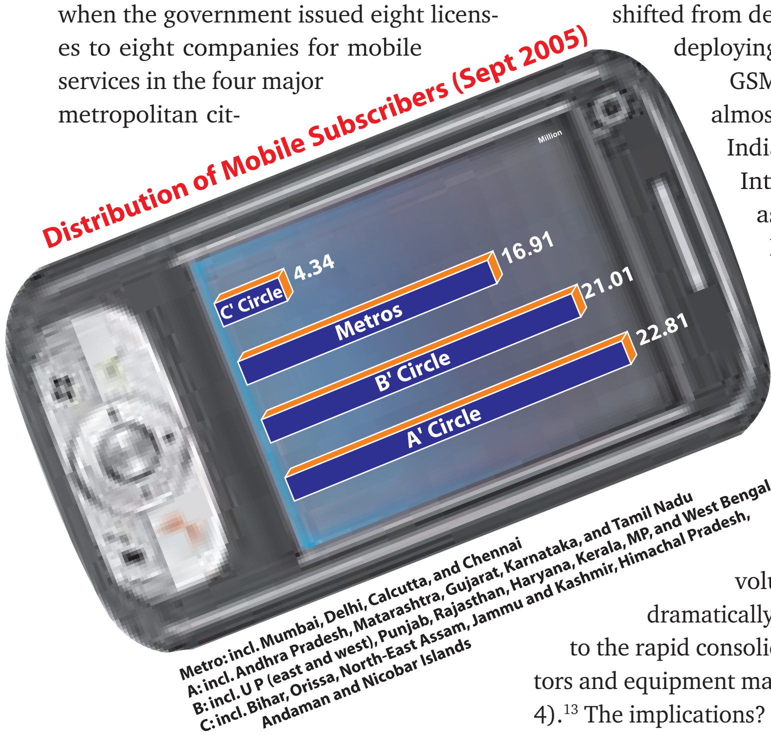
As bidding wars drove most operators to the edge of bankruptcy, the government, in 1999, announced a New National Telecom Policy (NTP-99). It replaced the fixed license fee regime with an entry fee plus revenue sharing concept, while replacing the duopoly regime with open competition.

In both China and India, mobile expansion initially took off in the great metropolitan areas, but with a difference. In China, the prosperous cities of the Special Economic Zones (SEZs) led the mobile revolution, but the objectives were national. In India, the licensing approach created a more fragmented market initially.

The licenses were provided for 'cellular circles' covering states or large cities. This initial approach differed drastically from Nordic policies, which first enabled high volumes, stressing the role of roaming. In contrast, the Indian operators were compelled to participate in many bidding processes to build larger networks, especially as each cellular circle has been restricted to four operators, with one of these licenses reserved for a state-owned telco.

The policy opened door for a great number of new entrants, while the incumbent operators managed to win multiple licenses.

launched in 1988. India followed in 1995, when the government issued eight licenses to eight companies for mobile services in the four major metropolitan cities of Mumbai, Delhi, Chennai and Kolkata. This was continued with 34 licenses for 18 territorial telecom circles to 14 companies. It took another two to three years for services to actually cover many of the cities in these circles – including bidding wars to overcome fragmentation (Box 2).



Today, India is divided into metro (including Mumbai, Delhi, Calcutta and Chennai), and three major cellular circles A, B, and C. In fall 2005, these had 25 percent, 36 percent, 32 percent and 7 percent of the market, respectively. Between 1996 and 2001, mobile service revenues grew tenfold in India, to US$980 million. The same recurred by 2005, when these revenues soared to US$9 billion. Between 1999 and 2005, Bharti's mobile subscriber base, for instance, grew from 122,000 to 12.8 million. As in China, growth has been driven by pre-paid cards, not by postpaid contracts (Figure 3).

In mid-2004, the Telecom Regulatory Authority of India (TRAI)[10] began to move from the service-specific licensing regime toward a fully 'unified licensing regime,' in order to ensure a technology-neutral proposition to subscribers, and a balance between technology and service.[11] Due to cost efficiencies, Indian operators have shifted from deploying landline to deploying mobile.[12]

GSM services dominated almost 80 percent of the Indian market in 2005. Introduced initially as a Wireless Local Loop (WLL) service, the role of CDMA has increased in India, as well. Price wars in mobile services and drastic falls in the price of handsets have boosted the growth rate and volume of penetration dramatically, while contributing to the rapid consolidation of the operators and equipment manufacturers (Figure 4).[13] The implications? During the past two years, the minimum effective charge in India has been halved, while mobile tariffs are said to be the lowest in the world.

By September 2005, four leading mobile operators – Bharti (14.1%), Reliance (20.0%), BSNL (19.0%) and Hutchison (14.9%) – dominated 68 percent of the Indian marketplace with their combined 65.1 million subscribers (GSM 50.9 million, CDMA 14.2 million). Add the shares of IDEA, BPL, Aircel and TTSL, and the top-8 operators had almost 84 percent of the entire marketplace (Figure 5). [14]

"India cannot truly move forward unless we carry with us 70 percent of our citizens who reside in rural areas," said Shri Dyanidhi Maran, Minister for Communications and Information Technology last February.[15] In the past, the mobile handset was the luxury of the wealthy; today, it is the utility of people. With saturation in the urban centers, operators can sustain their growth strategies only by extending penetration strategies into the vast rural market – which supports the efforts of policy authorities to overcome the digital divide (Figure 6).[16]

Competition for the Future: Mobile Value-added Services

Until the mid-1990s, mobile services were driven by voice communications and, to some extent, by text messaging (short message service, SMS). Today, multimedia cellular and wireless broadband enable vast new opportunities. "Global multimedia is the next big trend," says Dr. Paul E. Jacobs, Qualcomm's new CEO. [17]

The trend is rapidly moving toward mobile media, including mobile phone television.

From Texting to New Mobile Services

The new mobile services represent four groups of connectivity:

- rich voice and data
- the Internet (mobile Internet, mobile intranet/extranet)
- messaging (location-based services, people communications, such as SMS, MMS)
- personalized content (including information, entertainment, transactions, data bases) and, over time, mobile phone TV.

In the global mobile industry, it was the music business that first heralded the new mobile services. In India, the timing has differed, but not the logic. "The market for the mobile music downloads is growing at a scorching pace – over 50 percent a year, whereas growth of legal conventional music is stagnating," says

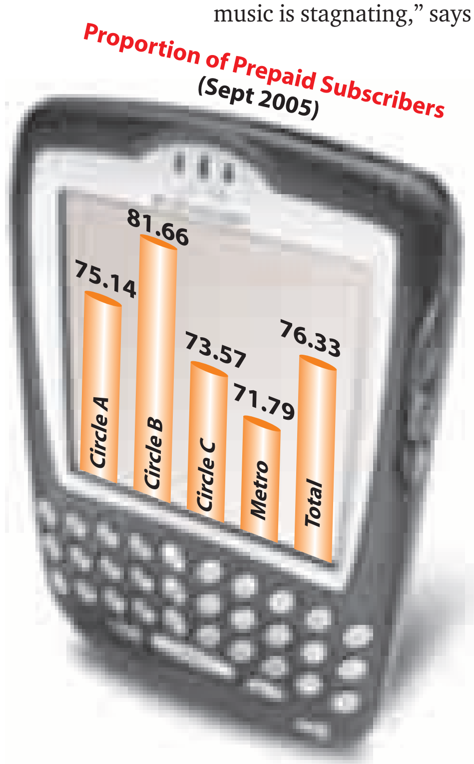
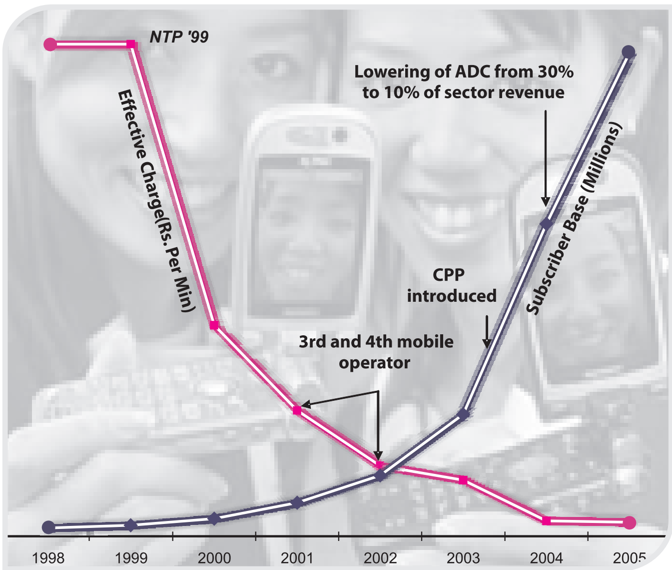


Figure 6.Falling Tariffs: Subscriber Growth



Source: Based on Ramachandran, T.V., Director General (2005), "Role of Mobile Telephony in Growth and Development of the Economy," COAI, Kolkata, August 22, 2005.

TV Ramachandran, secretary general of the Cellular Operators Association in India (COAI).

The past few years have seen the emergence of mobile music (e.g., ringtones, ringback tones, music clippings ring tones) as a major revenue stream for the music industry globally, running far ahead of revenues from the conventional music distribution channels. "I would never have expected the ringtones to capture a 10 percent market share in the worldwide music business," says Thomas Geitner, Vodafone's chief technologist.

Penetration of music-capable phones in Asia is the highest in the world, given consumers' willingness to pay more for their phones in Asia. Estimated at $115 million, the Indian mobile music industry is expected to soar to some $170 million by this year end. Interestingly enough, the revenues of the mobile business are expected to exceed by $5 million those of the conventional music industry, such as compact disks and audio cassettes. With 98 million mobile subscribers at the end of March 2006, many phones are still low-end, but industry leaders expect India to reach 250 million subscribers in another two years. Most will buy handsets capable of playing polyphonic music or actual music.

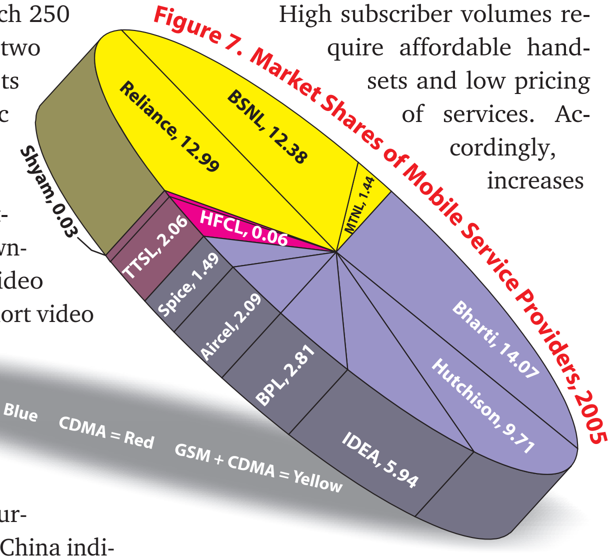
With greater bandwidth, more capable phones and networks, consumers can soon download larger files, including video games, sports highlights and short video clips.

Mobile gaming is another rising star in India's fast-growing wireless business. By 2005, a survey of Brazil, Russia, India and China indicated that India ranked as the top mobile game market. The rollout of new handsets and networks in India could allow the local mobile gaming market to expand by as much as 700 percent by the year 2010. Mobile games play a key role in operators' and content developers' strategies to develop new, high-value wireless revenue streams, beyond basic voice services and simple text messaging.

In 2004, the Indian mobile gaming market generated $26 million in revenue, and it was expected to increase to $336 million in annual revenue by 2009. For now, mobile gaming is evolving far faster in India than the online games market, which is expected to exceed $200 million in 2010.

Industry Push for Value-Added Services

Figure 7. Market Shares of Mobile Service Providers, 2005



High subscriber volumes require affordable handsets and low pricing of services. Accordingly, increases in penetration tend to go hand in hand with declines of the ARPU (average rate of revenue per user). Currently, the average ARPU is about $21 worldwide. While Australia has the highest ARPU ($33), India's corresponding figure is just $8 (about Rs350), significantly below that of China ($12). As the mobile growth rate is now escalating, India's ARPU may still decrease to $3-$5.

In high-income nations, the introduction of the VAS market has typically contributed to rising ARPU. In India, this is much more difficult, due to the lower GDP per capita. Currently, the VAS market contributes some 10-13 percent of the total mobile

As one of the early entrants, Bharti Cellular Ltd, a wholly-owned subsidiary of Bharti Tele-Ventures, initiated its GSM operations in 1995. Though a relatively small player in the GSM market, Reliance Infocomm is the dominant provider of mobile services, when its CDMA-based mobile WLL service is counted.

The two were followed by the state-run operator BSNL (Bharat Sanchar Nigam Ltd) and Hutchison Essar, a joint venture between Hong Kong's Hutchison Whampoa Ltd and India's Essar Group. Competition has intensified with the entry of two state-owned enterprises, BSNL and MTNL, along with the arrival of CDMA-WLL mobile service, Reliance's challenge to the GSM operators.

Through the past half a decade, India's mobile industry has been swept by mergers and acquisitions, which contributed to the consolidation of the Indian mobile market. Furthermore, the state-owned fixed-line telcos – Bharat Sanchar Nigam Limited (BSNL) and Mahanagar Telephone Nigam Limited (MTNL) – have also moved into the wireless sector. The government has been moving towards a restructure of the two state-owned telcos (BSNL/MTNL). With further liberalization, companies with substantial foreign investment are likely to benefit.

revenue, but it is expected to grow rapidly, at 30-40 percent annually. The challenge is to convert the simple SMS service to more sophisticated VAS services.

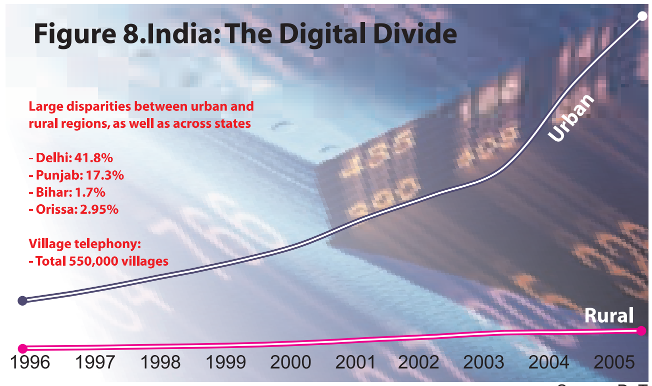
In India as in many other nations, voice still generates almost 90 percent of revenue, while value-added services (VAS) do not yet add significantly to the balance sheet. Market players must find ways to offer a wider range of value-added services, starting with cricket-related content, latest news, Bollywood soundtracks, and video clips. "The mobile media is probably the biggest media opportunity of this century," thinks Arun Gupta, CEO of Mauj Telecom.

Last April, the Confederation of Indian Industry (CII) formed a Mobile Value Added Services (VAS) task force bringing together not just content providers and media companies, but network operators, handset manufacturers, and technology providers. Chaired by Vishal Gondal, CEO of Indiagames, the Mobile VAS group comprises a slate of industry leaders and foreign multinationals. In the future, he believes, this emerging mobile value chain community "will transform consumption patterns of media and entertainment."

The appetite for mobile entertainment is driven by the youth demographics (15-30 years). "Worldwide this age group contributes 75 percent of the mobile downloads and India is set to play a major force in this segment," believes Bobby Bedi, Chairman of the CII National Entertainment Committee.

One of the most critical challenges is the revenue-sharing model between the operators and content providers. Currently, the operators get 50 percent, the VAS vendors 25 percent, and content providers around 12-25 percent (maximum 35 percent) of the revenue realization. New models must provide adequate incentives to content providers – as exemplified by successful service innovators, such as NTT DoCoMo in Japan, and emerging leaders, such as China Mobile (Figure 7).

India is well-positioned to launch such an effort - but it is an immense task.



Source: DoT

Teledensity: Phones per 1000 population, incl. fixed and
Urban: 5,000 towns in India, comprising 27 percent of the total population
Current teledensity at 9.7 with rural teledensity still low at 1.7

3G & Spectrum Issues in India

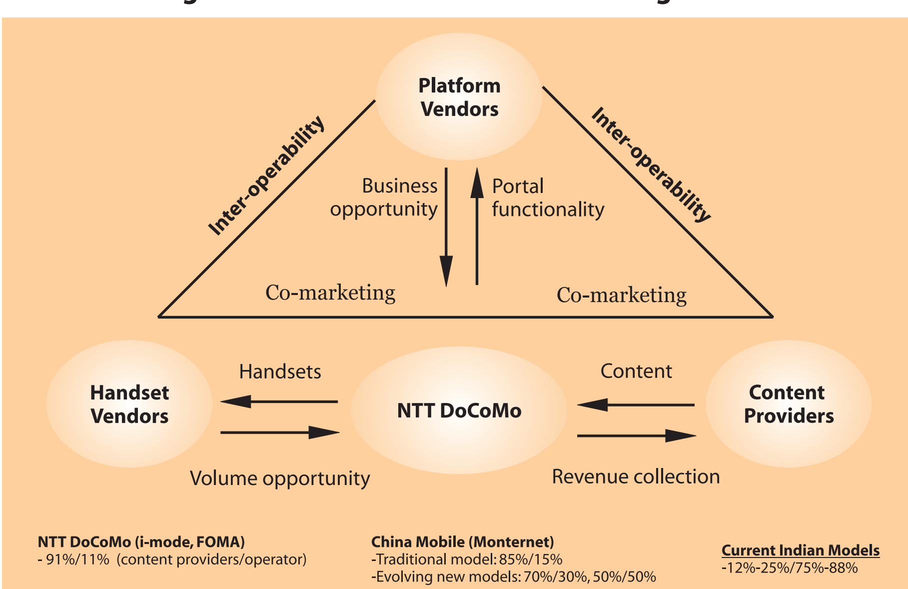
Today, the industry is characterized by the rapid decline of mobile tariffs, price erosion in handsets, and affordable services. At the same time, operators and vendors are transitioning to 3G networks, while struggling with a growing range of stationary broadband options (Wi-FI, VoIP), some of which are expected to pose substitution threats (WiMAX). These new networks and options are critical to operators and content providers because they enable more for less, i.e., greater and more diversified services for lower cost.

Since 2001, worldwide mobile markets have witnessed early transition to multimedia cellular (3G, UMTS). Today, there are several international 3G standards. In the US, Qualcomm has pioneered CDMA. In Europe, a group of companies led by Nokia promote WCDMA. More recently, China has been pushing its TD-SCDMA. At the end of 2005, more than half of the 50 million 3G users were still in Japan and more than 40 percent were in Western Europe. The 3G penetration was barely 2.4 percent worldwide. The worldwide 3G subscriber base is expected to grow from 29.1 million in 2004 to 540 million in 2010.

In high-income OECD economies, the benefits of 3G have been touted largely on the basis of advanced services. In China and India, the emphasis is heavily on cost advantages. Expected to be introduced in 2006, 3G has 4-5 times higher voice capacity than the current 2G services. 3G will also enhance India's competitiveness in business process outsourcing (BPO) – via the expansion of broadband and IT.

In spring, the Department of Telecommunications (DoT) in India released a set of new guidelines that increased the limit of spectrum each GSM and CDMA operator can claim, based on their subscriber base. The new approaches have been welcome, but also criticized for a piecemeal approach to such a vital issue as spectrum. As noted by Sridhar T. Pai, head of tonse telecom, "The impending spectral shortage has been a ticking explosive in the Indian telecom

Figure 9 NTT DoCoMo Revenue-Sharing Model



infrastructure for a longtime now. The lack of an overall comprehensive plan to accommodate the ever increasing mobile subscriber base is appalling."

In truly long-term strategies and policies, the issues of 3G and spectrum cannot be separated from those of value-added services. Ultimately, it is the efficient infrastructure that enables high-speed networks and diverse, low-cost services.

Boosting Indian Competitiveness

Boosting Economic Growth

To India's regulators and policy authorities, the key challenge is to boost conditions for rapid and sustained productivity growth – to facilitate the transition from agriculture to industrialization and knowledge. In emerging economies, the mobile revolution can have highly beneficial outcomes. Due to lower cost in rollout over large areas than fixed-line telecom, the economic growth impact of mobiles is large in both developed and developing countries, but around twice as important in the latter.

Strongly supported by operators, vendors, regulators and industry bodies, the government goal is 250 million telephone lines in 2008, which is predicated on 200 million mobile subscribers. Such objectives require changes. Despite reforms, levies and duties on Indian telecom sector remain some of the highest in the world, which leaves negligible surplus for expansion, while slowing down the diffusion of new technologies. The mobile industry should not be viewed just as a source of revenue by the government, but as an enabler of economic growth.

Despite reforms, levies and duties on Indian telecom sector remain some of the highest in the world

Over 2005, the government introduced a number of significant policy measures to realize the potential of India's mobile segment. In the long term, one of the most important measures has been the enhanced FDI limit in telecom from 49 percent to 74 percent, which is attracting major foreign multinationals with substantial investment plans. These global telecom and IT companies have committed investments of over US $ 8 billion. Sustaining such encouraging trends would assist to realize the dream of India as important regional hub.

Figure 8 India in Global Competition

Growth Competitiveness Index		Business Competitiveness Index	
1.	Finland	1.	United States
2.	United States	2.	Finland
3.	Sweden	3.	Germany
4.	Denmark	4.	Denmark
5.	Taiwan	5.	Singapore
6.	Singapore	6.	United Kingdom
7.	Iceland	7.	Switzerland
8.	Switzerland	8.	Japan
49.	China	31.	India
50.	India	57.	China

Business Competitiveness Index (BCI)

	BCI		Company Strategies		Quality of Business Environment	
	2005	1998	2005	1998	2005	1998
India	31	44	30	50	31	42
China	57	42	53	35	58	44

Staying Close to the Productivity Frontier

To the leading mobile industry firms – including operators, equipment manufacturers and IT enablers – the task is to stay close to the cutting edge in innovation-driven growth. According to the Global Competitiveness Report 2005-2006 by the World Economic Forum, India ranked 50th, right after China, in the growth competitiveness index (GCI). With business competitiveness index (BCI), India's ranking has improved, while China's has decreased (Figure 8).

In the innovation-driven stage of economic development, it is the ability to produce innovative products and services at the global technology frontier. In business process outsourcing, many Indian ICT giants, including Wipro, Infosys and Tata, have managed to move higher in the value-added. The mobile revolution holds compa rable potential to ambitious Indian firms.

Due to globalization, mobile future now has two faces: innovation and new services in maturing markets, double-digit growth and new subscribers in emerging markets. While maturing markets remain necessary to industry growth, emerging markets – particularly China and India – are now critical to industry leadership. For Indian operators, IT enablers, even nascent equipment manufacturers, the secret of success is to excel in the new 'dual business models' that capitalize on India's inherent cost advantage, while focusing on unique products and services that can be leveraged worldwide.

New Roadmap

With industry globalization, the ongoing transition to multimedia cellular and alternative broadband access technologies requires:

- firm-level strategies, regional and government policies which embrace globalization;
- close cooperation with US technology sector to benefit from US capabilities in

Macro-economic stabilization that began with the 1990s' reforms should be coupled with micro-economic activities

CDMA, ICT, media, entertainment, and marketing;

- continued benchmarking of China's mobile experiences to promote policies supporting rapid growth and -penetration strategies.

With India's mobile marketplace, the shift to rapid growth requires:

- continued market-driven regulatory reforms to support industry growth and mobile penetration in rural India;
- growth strategies of the dominant operators, which will reduce the digital divide between urban and rural regions, while enabling these operators to internationalize over time;
- support of the localization strategies by the mobile equipment manufacturing leaders, including production facilities, R&D hubs and relationships with Indian-based contractors;
- boosting R&D by India's leading business outsourcing providers (BPOs).

With new mobile services, successful initiatives require:

- successful cooperation among the different participants of the mobile value system, including operators, manufacturers, software developers, content providers, media players, and technologists;
- new revenue-sharing models that provide adequate incentives to content providers and developers, while satisfying operators and manufacturers;
- strengthening the base of media and entertainment properties (from Indian TV to 'Bollywood') by facilitating adoption of new technologies for content services and marketing;

With 3G and spectrum issues, success is predicated on:

- market-driven regulatory reforms in mobile communications, Internet services, and new broadband access technologies (incl. VoIP, WiMAX);
- comprehensive, market-driven policies to overcome the impending spectral shortage;
- promoting government's existing broadband and IT initiatives, including the potential of 3G in advanced services in cities and low-cost applications in the rural regions.

With Indian competitiveness, the macroeconomic stabilization that began with the 1990s' reforms should be coupled with microeconomic activities by:

- accelerating India's ongoing transition from factor-driven growth to investment-driven growth;
- facilitating mobile revolution via aggressive growth policies and continued liberalization of inward FDI;
- capitalizing on the mobile impact on economic growth;
- supporting sophisticated strategies by companies and attractive business environment by regions;
- supporting efforts to create dual business models, which leverage local cost structure to develop breakthrough products and services for worldwide markets.

With ICT globalization, the absolute superiority of US innovation has been eclipsed. It is not that American innovation has failed; in fact, US innovators are thriving. Rather, new ICT players such as India are also thriving. In this magnificent transformation, mobile industry is the midwife of the future.

Reference

On mobile evolution, see Steinbock, D. (2002) Wireless Horizon: Strategy and Competition in the Worldwide Mobile Marketplace (New York: Amacom).

World Bank Development Indicators.

Indian Cellular Association (ICA).

In other words, 60 million of the handsets are purchased by new subscribers, and remaining 40 million as a replacement of old handsets.

Reliance capitalized on CDMA to become the second largest mobile operator, which allowed LG and Samsung to build foothold in the combined GSM/CDMA market.

"Nokia celebrates the inauguration of its manufacturing facility in Chennai, India," Nokia Press Release, March 11, 2006. On Nokia's success and globalization, Steinbock, D. (2001), The Nokia Revolution (Amacom Books, May 2001); What Next? Globalization and the Finnish ICT Cluster, Finland's Ministry of Interior, 2005.

Reportedly, BSNL and MTNL expected to invest 900 billion rupees in 2005-2010 to purchase equipment and expand networks. This represented 85 percent of the total sector investment.

See Steinbock, D. (2005), "Design and Mobile Innovation", Design Management Institute (DMI) Review, Fall 2005.to the telecom sector. See Grant Thornton India, May 2006.

The Indian Telecom Services Performance Indicators July-September 2005, TRAI, Dec 2005.

"Improved Rural Connectivity – One Of The Top Priorities," by Shri Dayanidhi Maran, Minister for Communications and Information Technology, Address for the 3G GSM World Congress at Barcelona, February 14, 2006.

In addition to voice, Reliance Communications Ventures Ltd.is banking on data and video. Reliance has its network available in over 240,000 towns and villages across the country (42 percent of the rural population). By the end of the year, it hopes to double the rural coverage to 400,000 villages (50 percent of the rural population). kind of short-term manipulation.

Dan Steinbock, ICT Director,
India, America & China Institute

rethink edify delineate

IIPM - Think Tank

web : www.iipmthinktank.com

Who we are..

The **IIPM Think Tank**, an independent, India-centric research body, is inspired by **Dr. M.K. Chaudhuri's** vision of India as an economic powerhouse in the 21st century; a modern nation state where poverty becomes history and the underprivileged are not consigned to the dustbin of amnesia. The national presence (across seven nodes, News Delhi, Mumbai, Chennai, Pune, Banglore, Hyderabad and Ahemdabad), makes our understanding of the economy superior, where is many research fellows, senior research associates, research assistants, program coordinators, visiting fellows and etc embark on research assignments and network with global intelligentsia.

Who we believe..

The **IIPM Think Tank** is wholly free of ideology and looks at the Indian Development Paradigms, Purely modeled upon the basis of 'Objective Reality'. We passionately believe in the credo that we constantly seek to follow: rethink, edify and delineate. This enduring commitment has helped us foster and broaden the parameters of public policy debate and alternatives. Toward that goal, it strives to archive greater involvement of the intelligent, concerned change agents (reform minded politicians, public servants, media, socially responsible firms and citizens) in questions of policy and the ideation, furthermore, we ardently believe that the managers of tomorrow that are being groomed at IIPM today will play a decisive role in India's renewed tryst with destiny.

What we do..

As a premier 'ideas organization' in Asia The **IIPM Think Tank** is committed to enhance public awareness of policy issues an economics and management and to engineer solutions that will fulfill the 'Great India Dream'. By publishing the finding of its research, and though the active participation of its senior researchers in the media and policy, it aims to bring new knowledge to the attention of policy makers. Every year, The IIPM Think Tank commissions and publishes three quarterlys reviews and an annual review, on a wide range of policy issues including education, health, poverty, unemployment, agriculture, industry, services, FDI, external trade, infrastructure and environment. All these outputs meet the highest standards of scholarship, are accessible to a broad readership, and explore policy alternatives consistent with the philosophy of ours. The central theme of our issues are devoted to assess where the critical predicaments are, analyzing what needs to be done to annul the element of development deterrents in the economy and offer concrete proposals on how to accelerate welfare everywhere towards achieving inclusive development. The India Economy Review is a small manifestation of that vision. More than 1,000 students (seven nodes of IIPM0 have---and continue to-spent endless hours conducting primary and secondary research on contemporary issues that confront the Indian Economy. This research is then analyzed threadbare by at least 50 knowledge workers across the seven campuses. Brand new insights and policy recommendations that are provided by this core team are then crafted, honed and polished by 20 members Economy Research Group (ERG). This massive effort is spearheaded and led by the renowned economist and management guru, **Professor. Arindam Chaudhuri.**

A guiding MANTRA in quality nirvana

PABITRA RANJAN, IIPM AHMEDABAD

A subjective commentary on how Total Quality Management guides the way processes are structured

People define quality in many ways. Some think of quality as superiority or excellence, while others view it as lack of manufacturing or service defects, still there are others who think of quality as related to product features or price. With globalization, managers think quality is something which is imperative to satisfy customers. Success in global market demands agility. Flexible, rapid and customized response is the need of the hour. Organizations therefore need shorter cycles for the introduction of new and improved products & services, as well as for faster and more flexible response to the customers. Major improvements in response time often require simplification of work units & processes and ability for rapid changeover from one process to another.

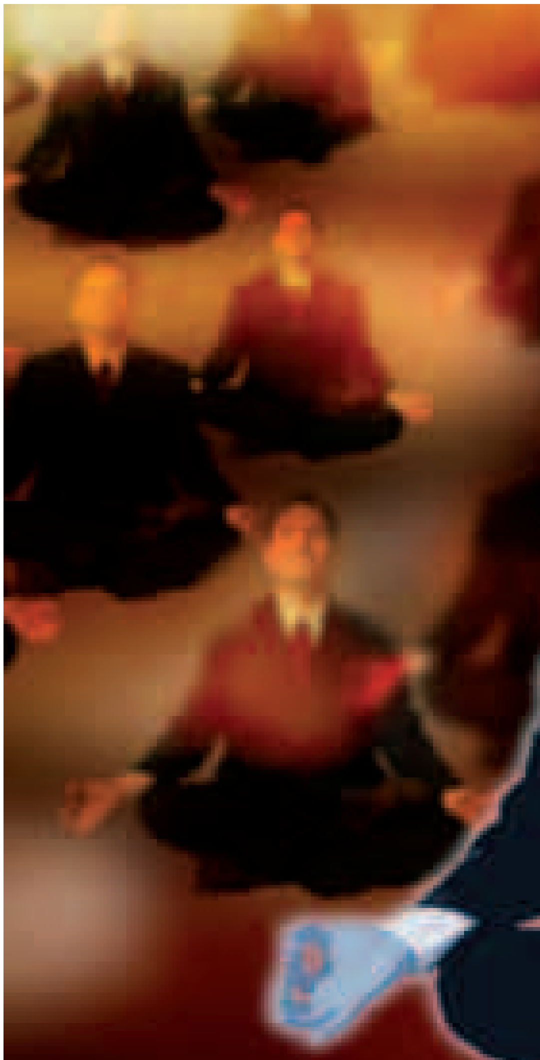
To meet demands of rapidly changing markets, organizations need to carry out various techniques like Total Quality Management (*TQM*), Just in Time, Concurrent Engineering, *et al*, and many other techniques to improve the quality standards.

One of the basic concepts of TQM philosophy is Continuous Quality Improvement (*CQI*). This concept implies that there is no acceptable quality level because the customer's needs, values & expectations are constantly changing and becoming more demanding.

Every organization undertakes various improvement activities, so as to enhance its business success. In many cases, it is experienced that in spite of sustained improvement efforts, its impact on the business results (*measured in terms of financial and non-financial performance, customer satisfaction and employee satisfaction*) is insignificant.

Continuous Quality Improvement is a process improvement effort to increase efficiency, effectiveness and to optimize the final results, which if converted to monetary terms should yield profit. The techniques of CQI are many in numbers and each business has to select suitable techniques that are suitable to the nature of products or services offered by them to the customers. However, the word 'continuous' is very important because interrupted or accidental improvements will not result in sustaining growth in profits of business.

As we move from the environment of shortages to an environment of surplus the quality element is extremely crucial. So the companies which use total quality principles to understand customer requirements will certainly dominate the global markets of future.



If we want to predict the future then we can easily say that it is the quality factor that will constantly expand.

If we think of the Japanese corporates, the approach towards total quality management initiated during 1950's in designing component and manufacturing, ensured that the produtcs manufactured were defect free, with no rejections. Total Quality Management is therefore becoming competitive globally.

As said by Joseph M. Juran, Father of Quality Management, "The improvement that many firms undertake to create quality but few have actually reached leadership."

Quality is vital. And it is with quality that we will be able to compete globally. Indian market is moving at the rate of nanoseconds. Today if we can achieve quality superiority then very soon we can become an economic superpower. Our quality efforts are under way in big industries. But the main struggle is with the unorganized sector, that are losing the luster due to scarcity of resources to implement TQM procedures. So it is important for the government, along with the big players in different industries to come together at a macro level to help out the unorganized sector with their struggle for quality management.

As we move from the environment of shortages to an environment of surplus, the quality element is extremely crucial

The quality standards by the big three auto manufacturers namely, DaimlerChrysler, Ford & General Motors of USA fits perfectly with the theme. In India, the example of Jet Airways is fitting. With a humble beginning in May 1993, Jet Airways has now flown over 54.6 million passengers. Today the airline carries approximately 24,000 passengers daily, via its 280 flights to 48 destinations that span the length & breadth of India and beyond, including Colombo in Sri Lanka, Kathmandu in Nepal, Singapore, Kuala Lumpur in Malaysia & London Heathrow. The growth that happened because of service quality, which began as a part of Jet's mission statement, is now being reinforced at every stage.

Aviation is an important sector of the Indian economy. Aviation provides part of the economic infrastructure that oils the wheels of business, allowing it to take place efficiently and effectively. Companies need quick and easy access to their markets; they need to be in contact with other companies in order to sell their products in a range of markets across the globe; and they innovate using the cross-fertilization of ideas that comes from networking and contacts with others from a broad range of backgrounds and cultures. Air travel is essential for all these activities

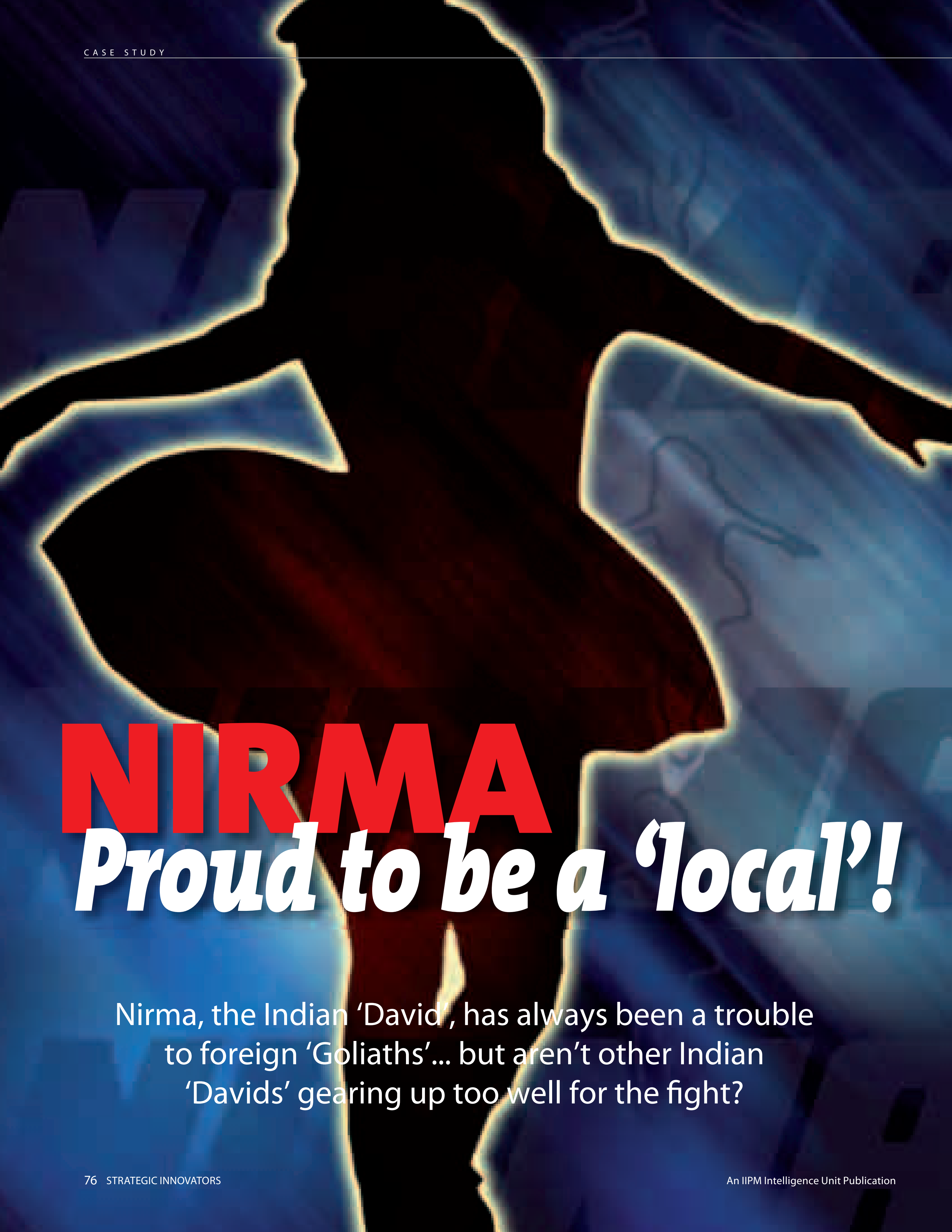
Jet Airways' basic credo is simple. There is nothing like perfection in delivering service. It can always be improved. And the message comes directly comes from the top and trickles down. Jet Airways was set up with the objective of providing high quality and reliable air travel in India.

There are norms laid out for all areas of customer experience – from reservations to check-in, departure, in-flight services, arrival and post flight. Whenever there is negative feedback, it is mapped against set processes to check where the non-compliance happened is then remedied by proper communication and training, wherever needed.

During the last two years, the brand has consolidated its market position of leadership, placing greater emphasis on Customer Relationship Management. The Service Tracker, a system for collecting and acting on passenger feedback within seven days, helps analyze trends and measures quality aspects, such as, meals, in-flight service, on-time performance, etc.

One of the biggest challenges in running a modern business is figuring out whether you have succeeded or not. Even if you haven't you need to know whether you are at least heading in the right direction, and how long you will take to get there. Rather you can get lost if you do not have the right tools, techniques and metrics for measuring, evaluating and revalidating your business game-plan.

"Thus we can say that total quality management is a guiding mantra in quality *nirvana*".



NIRMA
Proud to be a 'local'!

Nirma, the Indian 'David', has always been a trouble to foreign 'Goliaths'... but aren't other Indian 'Davids' gearing up too well for the fight?

It was during the summer of '69 where this journey started and even 37 years later, this so called 'minnow' stands tall against powerful sweeping forces of the multinational brands, which till date have brushed aside many an Indian entrepreneurial motive. And such vigorous was Dr. Karsenbhai Patel's motive that it shook the very foundation of the likes of detergent majors like Hindustan Lever Limited (*Indian subsidiary of the NYSE-listed $85.64 billion Unilever Group*) and Procter & Gamble Co. (*another global FMCG major with a market cap of $194.44 billion on the NYSE*).

And the journey started perhaps with the brand name itself. Thinking of a strong name for a brand and then to follow it up by strengthening and increasing the goodwill for that brand in the market is certainly the toughest ask from a marketer, especially when we consider the crowd of brands existing in the market for any product or service category as such. So when we think of brand names being established after celebrated designers and entrepreneurs, a host of names come to our mind, but when it comes to an ethnic sounding brand name Nirma, (*christened after Dr. Karsenbhai's daughter*) one realises that there's much more behind the legend, than what is visible.

Being a home-grown brand, Nirma has taken full-advantage of its local knowledge and regional intelligencia. For the price sensitive Indians, Nirma means more of a revolutionary concept than just a detergent brand. And of course, Indian consumers (*including 74% Indians living in rural towns and villages*) got a new jingle to titillate, with Nirma certainly becoming *sabki pasand* despite foreign and bigger players shelling out crores of rupees for all marketing purposes! But then, was it a simple case of the price-sensitive Indian being lured by a cheaper washing agent; or was the reason simply an example of how local brands have penetrated every nook and corner of the nation, thus posing a threat to MNC giants across all product categories? This paper attempts to cover those critical factors that have ensured the above mentioned entrepreneurial success that made a domestic brand's positioning as strong, if not stronger, as those of MNCs.

'Naming' a brand & then 'branding' the name is the toughest task for a marketer to establish in today's tough business environment

Down the memory lane…

Karsenbhai Patel, the son of a small farmer, started his now successful story with a clear vision coupled with a manufacturing unit in his backyard at Ahmedabad. Despite a lot of problems that cropped up and the lack of monetary resources that threatened his progress, his ride to success did not witness a decelerating phase. And if we credit Michael Dell for having mastered the concept of supply chain management and logistics, Karsenbhai undoubtedly deserves the credit of having pioneered the model of personal selling. He started off by packing the detergent in a polythene bag and moved on to lure his prospective clients from door to door with the product stacked on his bicycle (*and those of his many assistants*)!

And yes, little would he have realised then that he was initiating a marketing strategy that would be adopted religiously by mature firms thirty years after he gave birth to the personal selling revolution! That now has ensured that Nirma crosses the doorstep of every value-for-money minded Indian household! Clearly, this door-to-door philosophy allowed Nirma to have a comprehensive ground level focus on the consumer behaviour. And there lies the genesis of the legend. What has propelled Nirma to the status of a *David* lies in these 'local' origins themselves. Understanding of consumer psyhcology, empathy towards the value-for-money Indian target market and ensuring low costs due to its localised nature were advantages Nirma enjoyed; advantages, which at that time became significant competitive advantages for Nirma over MNCs. The most important factor here is that Karsenbhai passionately struck the note of 'customisation', and stuck to it, because he understood very clearly the conditions common Indians pass through.

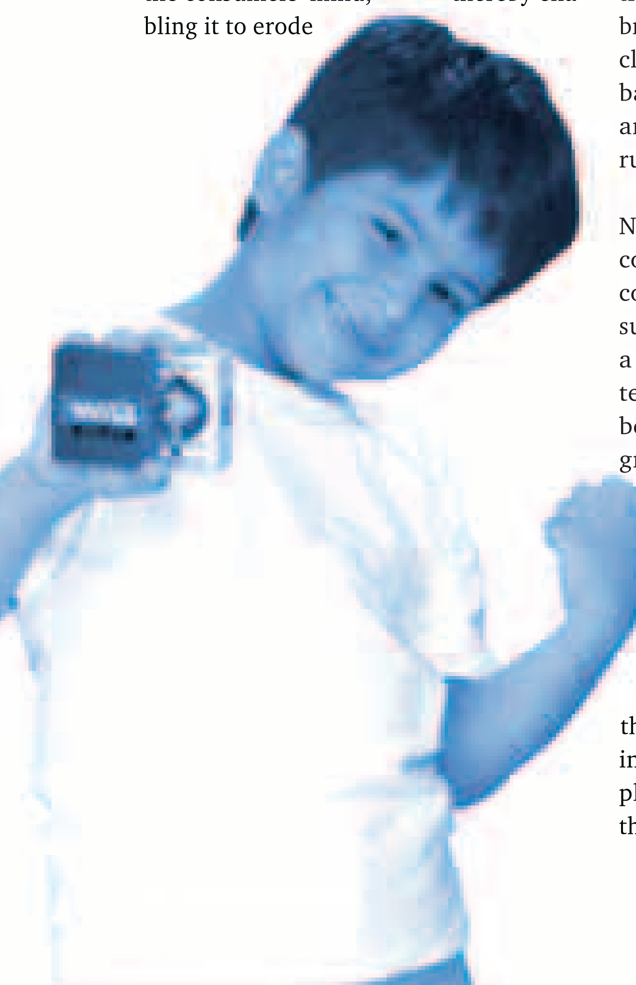
And the result of all this – Nirma sold, and like nobody's business! Not long after the launch, Nirma crossed the borders of Gujarat and the fever spread all across India sending shivers down the spine of all other biggies! Till the late 60s and early 70s, detergents were still considered luxury items in a

majority of Indian households; but having understood that, Nirma introduced the same generic product with a lower price tag, which automatically catapulted it to the position of a 'substitute' brand for HLL's Surf and P&G's Ariel & Tide. And today, Nirma holds about 28% of the total detergent market in India (*2005*) with revenues of about Rs.20 billion!

Also to be noted is the fact that the positioning of Nirma as a harmless product was also not all that difficult due to its environment-friendly and phosphate-free formulation. It was this feature which made users of other brands shift over to Nirma and lending a deaf-ear to what the marketers would call 'brand loyalty'.

Expansion of its brand portfolio:

After attaining major success in the detergent powder market, Nirma expanded its basket of brands offered and gave something new to its customers. They launched the Nirma detergent cake in 1985, which surprisingly came after a real long sixteen years after its first product was launched! This move worked wonders for Nirma and elevated its image in the consumers' mind, thereby enabling it to erode its competitors' market shares.



> The little girl in a frock swirling to the tune of the jingle became an evergreen brand ambassador and will ever be fondly remembered by all

These marketing and branding strategies made it hard to breathe for its colossal competitors and even successfully disturbed the advertisement budget for Hindustan Lever Limited (*India's largest FMCG Company*), which then adopted an offensive marketing strategy with the introduction of the low-priced Wheel – a brand meant to cater to the lower-middle class and economy segment – to bounce back into the Indian detergent market and counter Nirma's popularity in the rural and sub-urban market.

And then came another shocker from Nirma's stable – while HLL was tied-up concentrating and delving over how to counter Nirma's onslaught, Nirma Consumer Care Limited had already planned a strategy to breach into HLL's prized territory of beauty soaps – and Nirma beauty soap came about, which again gnawed hard into Lux and Lifebuoy's market-shares.

Crystal-gazing into the future...

But then again, when we think about the gala time Nirma seems to be having after having bedazzled the Indians, there are innumerable local players closing in even on the likes of every major player – including Nirma. Now imagine this. According to Lotus Strategic Consultants, the product category of detergents alone is studded with over 10 assorted brands in each Gujarat town, whether big or small! And the situation is no better across India as a whole. The unorganised players all across India, according to their research, turned out to be an alarming 7-10%! With detergent-making being accepted as almost a 'backyard activity', the capital outlay essential to kick-off the cleaning business is not a tough ask. And that perhaps is the very reason why a number of smaller local aspirants have tried to emulate Nirma, perhaps even emulating the product and packaging features with their 'look-and-sound-alike' products flooding the rural and semi-urban Indian markets, where consumer education is paid no heed to.

Another threat is the increase in consumer spending, which has resulted in intense competition from the big boys. This further enhances the advertisement spend obligatory on the part of the players to protect their market share. Moreover with rural marketing being understood as an important effort for survival, Nirma's dominance in the rural and semi-urban areas appear threatened and delicate. Added onto this, in this era of freebies, cash and trade discounts (*which have become the order of the day*) and increased promotional activities, it is Nirma which could well find itself on the wrong side of the cleft if it does not appreciate this not so sublimal change in competition!

Be it Nirma's advertising campaign with the popular 'little girl with the white frock' dancing to a jingle or just its 'local nature' competency coupled with its strong distribution strategy, Nirma has always proved to be an example of what can be done with meagre resources! But with markets growing beyond the traditional urban, the modern world sees even technology & telecommunication industries concentrating on the rural market, what to say about detergents. Nirma surely is at a crossroads, facing the same strategies from smaller competitors, which they themselves had utilised against the larger players. The rules of yesterday are no longer the ones that define success anymore...

The **Gazelle** way to **India**

Strategies of Reebok in the Indian market;
a commentary synopsis

Well, if you've not heard of this one, then your management heart has been surely not been beating too many times in the past few years eh? But pray allow us to present the cliche once more; for the sake of the argument... So here goes – "Once upon a time, in a distant country lived two salesmen. They were assigned to visit a desert island. One of the two reported back 'Unbelievable! No one wears shoes here. No scope for business!' The second salesman reported back, 'Unbelievable! No one wears shoes here. Huge business opportunity!' A small trite allegory, which is oft repeated when the name Reebok is mentioned, drawing the connection that Reebok is the second salesman & the desert island signifies India.

Reebok entered India in the year 1995 and presently enjoys the leadership position in the country. Reebok India is the subsidiary of Boston-based fitness and sportswear giant Reebok International Ltd. Though gaining the leadership position can not be attributed only to the early entry strategy of the company, it is a fact that India is one of the few geographical markets where Reebok has left arch-rival Nike behind.

When Reebok (*which literally means a 'Gazelle' in Africa*) entered India, the sport shoe market was at a very nascent stage. Not only were Indians used to only formal 'shoes', domestic competition from the likes of Liberty, Action etc had ensured that even for sports shoes, high prices were unheard of! And consumers at that point of time related Reebok with being an imported "illogically high priced" brand, meant only for the upper classes. As Reebok was averse to positioning their brand as only being a high society brand, it stuck to its traditional mix of being associated with sports, marketing its brand as a normal sportswear statement. Clearly, education

The Adidas Advantage ...

Nike would now face stiff competition from the combined force of Reebok and Adidas. German based Adidas acquired Canton, Mass based Reebok on August 3rd, 2004. In 2004, the combined global sales of Reebok and Adidas stood at $12 billion ($8 billion from Adidas, $4 billion from Reebok) against Nike whose sales were $14 billion. The combination will not only yield results in terms of profits or revenues or market share but also provide a strong and a comprehensive product portfolio to both of the companies. While Reebok has a strong foothold in tennis, fitness and basketball, Adidas is strong in soccer and team sports. But acquisitions should not only be restricted to paperwork, they should have real life implications too. Unless the two companies work hard on resolving post merger conflicts, the expected synergies could well end up in debilitating disappointments...

THE SEED SOWN: 1890-1930

In the 1890s, the first spiked running shoes were made by Joseph William Foster. By 1895, he was catering to the 'shoes' need of some top runners. Within a short span of time, his company, J. W. Foster and Sons, boasted of an international clientele comprising well-known athletes, It is also the contented makers of the running shoes worn by Harold Abrahams and Eric Liddell, famously shown in film Chariots of Fire.

THE NAMING RITUAL 1950-1980

It was the year 1958, when Jeffery and Joseph, grandsons of Joseph William Foster, founded a companion company by the name of REEBOK, which in Afrikanese means a gazelle. In 1979, Paul Fireman, a partner in an outdoor sport goods distributorship, noticed Reebok in an international trade show. He became the North American distributor and introduced in US three running shoes priced at $60, at that time the most expensive running shoes in the market.

THE WINDS OF CHANGE 1980-1990

By late seventies and early eighties, Reebok's sales were exceeding $1.5 million. In 1982, Reebok came out with a revolutionary product – Freestyle – an athletic shoe for women for a fitness exercise called aerobic dance. This concept resulted into the emergence of three new trends – the aerobic exercise movement, the influx of women into sports and exercise and the acceptance of well-designed athletic footwear by adults for street and casual wear. Freestyle later came to be known as Classic, the best selling product of the Reebok portfolio. In 1985, Reebok came out with its IPO (Initial Public Offering). This was also the time when The Pump® technology was introduced, which is a path breaking technology in sports and fitness activities. The year 1989 saw the company launch Step Reebok®. In its first ten years, Step Reebok became an international fitness phenomenon as millions of people in 16 countries used the program to stay in shape.

TIME FOR TRANSITION 1990-2000

Early nineties saw Reebok changing its focus from being only fitness and exercise centric to being a sports shoe company. The product portfolio now comprised shoes for varied sports. Also it signed numerous athletes, teams and federations. The new millennium saw Reebok coming out with a yet new concept – core training. The company states core training as follows – The training program is based on athletic and physical therapy training principles, representing a significant shift in how to approach exercise, and training by focusing on "quality" (not "quantity") of movement. Central to the program is the Reebok Core Board, the first-ever exercise board offering a three dimensional action that tilts, twists, torques and recoils with the body's movements. When used together, Reebok Core Training and the Reebok Core Board provide a highly effective, strength training workout that conditions the user for daily living, whether in sports or for daily living.

THE ERA OF AU COURANT 2000...

In December 2000, Reebok and NFL entered into a ten year exclusive license agreement where Reebok had the rights to manufacture market and sell NFL products to all the NFL teams. In August 2001, another ten year agreement was made with NBA, the Women's National Basketball Association (WNBA) and the National Basketball Development League (NBDL). In February 2002, Reebok and the Indy Racing League (IRL) went in for a multi year agreement which made Reebok the official outfitter of IRL. It was in this year, that another brand Rbk was launched, a collection inspired from street footwear and apparel.

of the consumers was the primary task for the company, and they did that with much panache, comprehensively educating not only the consumers, but also its own staff. Reebok set up seventeen exclusive showrooms, called Sports Infinity, in the major cities of the country. The stores were designed in a manner where each of the walls was devoted to a particular sport – tennis, golf, cricket, soccer and cross-training. The staff members were imparted extensive training where they were taught the finer nuances of different sports and what was the effect of those activities on the feet. For example, basketball players land on their feet repetitively; squash and tennis shoes should have non-slip soles and so on and so forth. The stores also had treadmills and consumers were persuaded to use them. Their running activity was recorded on a camera and they were then shown their own videos on how different people landed on their feet in two different ways for the same activity. This helped them convey the message that sports shoes purchase decision is very important and it had a direct effect on the health of the runner.

Reebok also followed the commonly tread path of advertisement to entice the consumers to their stores. The focus of the advertising though remained the same. The advertisements focused on the features and benefits of the shoes. The campaigns were more or less centered on the concept of what are the basic requirements of a good running shoe. It further had celebrity endorsed campaigns with sports icons like Mohammad Azharuddin, Navjot Sidhu & Anil Kumble. Reebok clearly understood that India is a cricket frenzy country and anything related to cricket is always well received by Indian minds. It ensured that the brand had high recall and high visibility too. Reebok did not stop at that; it went on to sponsor local cricket tournaments.

Reebok had seemingly understood the Indian mindset very well, barring the fact that Indians are also very price sensitive people. Reebok products were priced double the normal products available in the market that time. And this hit back the company badly. An incident that allegedly happened in one of the Reebok stores became part of management folk 'jokes'. This farmer hailing from a village near Chandigarh walked into a Reebok store and asked for a sports shoe. When he was informed about the four digit price, the wife retaliated by saying that they could as well buy a buffalo with that much amount of money. Not necessarily to dissuade the farmer from buying that buffalo, in early 1996, Reebok introduced the first ever below-Rs.1,000 segment shoe range, offering a jogging shoe made specifically with the Indian consumers in mind.

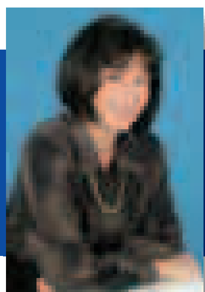
When Reebok entered India, customers used to consider the Reebok range of shoes as being only illogically high priced & imported

Even at the cost of bearing losses, the company decided to get their shoes into the Indian households. The end of the year saw a discount sale, which was an initiative to shed out the excess fat. As soon as prices were lowered, Reebok experienced a significant sales increase. As walk-ins increased, a whole new market segment opened up for the company. January next year, when the company unveiled its new collection at earlier prices, the sales figures went further up. They further tied up with distribution agencies like Planet Sports for increasing their reach overnight. The gazelle strategy of first alluring the target customer through a rapid market penetration approach, and then making them addicted to the product, worked wonders for the company.

Reebok was adapting itself to Indian tastes and preferences. Though this led to quite a few successes, it also had its extremities. Unbelievably so, targeting the Indian woman, Reebok launched a line of sports *salwar kameez* range for women, which were accepted by Indian women in the same way as the farmer had accepted their shoes... basically, it was a disaster! Reebok learned fast, and adapted. Now, Reebok has already opened up its first exclusive women's store in Gurgaon. To attract the fairer sex, the company has given extra attention to the interiors of the shop. They have deliberately given a softer touch to the colour and visual tones in the store and have made a significant effort to reduce the testosterone level.

Customisation of products, pricing, rebranding of products, all can be mentioned as factors leading to Reebok's success in India. But what remains to be seen is whether this success in market share actually translates into money for Reebok, or would they keep ruing why they didn't heed the first salesman's report!

Creating Competitive Advantages in the Global Marketplace: The Singapore 'EXPERIMENT' in India



Caroline YEOH, Norhanna YUMI
Victor SIM
Singapore Management University

Introduction

Although Singapore is faced with resource constraints, it has managed to succeed economically by concentrating on its core-competencies. People-powered, Singapore has thrived itself upon the brand name of infrastructural and technological know-how as well as valuable reputation among foreign companies. Constant economic reform programs have also helped to attract foreign direct investment into the city-state. Such a move started as early as the mid-1960s which saw the beginnings of the Singapore government's aggressive approach to woo foreign MNCs to fuel the city-state's economic development (*Chia, 1986; Pang, 1987*). Although much of Singapore's initial growth relied upon such inflow of foreign investment, a reversal of trend was being observed in the mid 1980s. With the rise in economic growth and liberalization of foreign investment controls in the Asian region, Singapore seized the foreign investment opportunities to develop its external economy, locally known as the 'second wing'. This second wing granted Singapore great location-specific resource benefits that were denied in the limited city-state. By leveraging on such advantageous economic resources of neighbouring countries, Singapore was able to counter its own resource-deficient status.

The regionalization program saw the establishment of industrial parks in the region that simulated a 'Singapore-styled' business environment in the emerging economies (Perry and Yeoh, 2000; Sitathan, 2002). With regionalization, unique set of benefits and competencies could be utilized to create economic space for local and Singapore-based multinationals to redistribute their resource-dependent operations. Location advantages were foreseen to enhance the competitiveness of Singapore-based companies by enabling it to redistribute particular operations to reap such benefits. Not only is cost-competitiveness enhanced, Singapore is developed into a high-value investment hub with strategic linkages to resource-abundant locations in the region. Singapore's reputation and competitive strengths in infrastructural development and management supplement the location advantages of these strategic sites.

Against this backdrop, this paper explores Singapore's move into India with the establishment of the International Tech Park Limited in Bangalore. The objectives of the paper would be first, the extent to which the park has managed to achieve the 'regionalization' objectives in terms of reaping location-specific advantages and second, the successful exportation of Singapore's strengths to the park.

The theoretical considerations for supporting the project are included in the next section. The theories mainly include Dunning's Investment Development Path (IDP) and the Eclectic Paradigm which corroborate Singapore's recent economic move of directing investments outwards, into parks abroad. The subsequent section takes a closer look at the progress of the International Technology Park Limited (ITPL), and examines the challenges confronting this flagship project. The analyses are further reinforced by our survey results and in-depth case studies of the Park's tenants. The final section considers the implications of the new evidence on Singapore's broader regionalization initiative.

Theoretical Considerations

Dunning's Investment Development Path

Dunning Investment Development Path (IDP) is key in explaining Singapore's heavy foreign direct investment offshore after more than two decades of receiving substantial foreign investment. Dunning (1981) and Dunning & Narula (1996) put across that a country's net outward investment (NOI, outward FDI minus inward FDI) is systematically related to its economic development. The IDP relates conceptualizes a U-shaped relation between economic development and a country's net outward investment position.

Net inward direct investment usually grows and then declines as economic development takes place. Although a country's infrastructure may be inadequate to support such inward investment in the beginning of such capital inflows, such investment will continue to increase as the economy grows. Singapore was of the above description during its developmental period from the mid-1960s to the mid-1980s). An increasing growth rate of inward investments was observed. In fact, its long-established stratagem of economic development through foreign direct investments is well documented.

According to Dunning, such inward investment will generate firm-specific assets to facilitate outward direct investment. However, in backward regions it will take longer to accumulate such assets in order to initiate any kind of outward capital flow (Dunning, 1988; Caves, 1996). As time passes, outward direct investment takes centre-stage as incentives for inward investment decrease. This takes place, as along with the reversal of trend propelling investments outward, the country will face an erosion of its comparative cost competitiveness. Singapore experienced this trend with rising business costs in the mid-1980s stifling cost-competitiveness. However, with outward investments to retain competitiveness as a financial resource, the city-state became wealthier and its regionalization strategy came under way.

The Eclectic Paradigm

Location-specific advantages are of utmost importance for the investing country. Following Dunning's IDP, economic development is characterized with the net outward investment position of the country whilst government policy is correlated with economic development to ascertain the pattern of competitive advantages of foreign investors relative to those of local firms (ownership advantages or the O-advantage), relative competitiveness of local bound resources and capability of the country (location advantages, or the L-advantage), and the propensity of foreign and local firms to utilize the ownership advantages internally rather than through markets (internalization advantages, or the I-advantage). Dunning's Eclectic Paradigm explains the above OLI model.

Foreign investment will occur only if it is advantageous to combine spatially transferable intermediate products produced in the home country

According to Eclectic Paradigm, foreign investment will occur only if it is advantageous to combine spatially transferable intermediate products produced in the home country, with at least some immobile factor endowments or other intermediate products in another country (Dunning, 1988). Simply put, the OLI-model must be satisfied. In other words, there needs to be a balance between the three criteria. Dunning goes so far as to comment that the OLI triad of variables may be likened to a three-legged stool, each leg supportive of the other and the stool is only functional if the three legs are evenly balanced (Dunning, 1998). The third leg is considered the most important as it completes the balance. It can hence, be drawn that the location-specific advantages associated with the Indian venture form the third leg of the stool, it being the single-most important reason for Singapore's foray into India.

Traditional location theories dealt with asset-exploring activities which were designed to maximize the firms' current efficiency whilst identifying the transaction costs and benefits of neighbouring activities. Contemporary theories postulate that in locating their activities within a limited spatial area, firms maximize the benefits of dynamic learning economies at the same time minimizing transaction costs associated with space (Dunning, 2000a, 2000b). Firms' strategic choice of location reflects twin aims; to not only transfer their resources to the host countries, but gain access to the available strategic assets as well (Dunning, 1995; Porter, 2000a, 2000b; Makino and Delios, 1996; Chen and Chen, 1999; Frost, 2001).

Regionalization: Establishment Of The Indian Presence

The growth of Singaporean industrial parks in numerous countries such as Indonesia, China, Vietnam and India can be attributed to the regionalization venture undertaken. This paper will be focusing on the latest regionalization endeavour in Bangalore, India. The positioning in India in 1994 could not have been at a better timing. The strategy India used in the early 1990s was similar to what Singapore had done it its early years of development. India opened its doors to foreign investment as part of a determined liberalization procedure in order to boost economic growth. Singapore responded positively which led up to the establishment of the International Industrial Technology Park (ITPL) in Bangalore, the country's IT capital.

There were several location specific benefits proposed by India, which prompted Singapore to set up an industrial park in Bangalore. There was cheap and bountiful availability of skilled and unskilled labour, abundant land resources coupled with cooperative and encouraging attitude of the Indian government. It was a myriad of advantages for Singapore if it were to relocate some of its operations in India. The government of Singapore had not only identified this golden opportunity, but had distinguished that an Indian park could translate into more benefits than some of its already established parks. Its information technology boom supplemented with the vast disposal of IT facilities and highly-skilled software specialists provided Singapore an avenue for building a technology park wherein high-end activities could take place. Hence, ITPL presented Singapore a unique set of advantages while other parks engaged primarily in manufacturing or "operation" activities.

Table 1:Factors Influencing the Respondents' Decisions to Invest in ITPL and Electronics City

Factors affecting choice of	ITPL Frequency	Electronic City Frequency	Maximum Likelihood tenants to locate in the park	
			α i	p-value
Support from local authority	6	15	-0.662	0.470
Investment incentives	4	15	-2.122	0.045*
Reliable infrastructure facilities	9	11	2.543	0.023*
Presence of major buyer	2	9	-2.632	0.029*
Presence of major competitors	1	7	-2.399	0.075*

Source: Questionnaire survey *** Significant at 1% level ** Significant at 5% level * Significant at 10% level

A Singaporean prescription, the 'work, live and play' concept was adopted by ITPL's development. On top of that, features specially to appeal to potential tenants in the targeted IT and high-tech industries were guaranteed. ITPL assures uninterrupted telecommunication facilities and power-supply, immediate-occupancy business incubator space, and the formulaic 'one-stop' service.

Table 2: Constraints Faced by Tenants in ITPL and Electronics City

Factors affecting choice of tenants to locate in the park	ITPL Frequency	Electronic City Frequency	Maximum Likelihood Estimates - Binary Logits	
			α i	p-value
Rising labour cost	5	10	-1.639	0.185
High labor turnover rate	1	7	-1.180	0.361
Difficulty obtaining capital equipment	3	1	3.101	0.048
Lack of good supporting services	2	8	-0.768	0.501
High or rising overhead cost	4	6	2.350	0.112
Impact of government regulation	1	7	-2.993	0.071
Lack of transparency/ frequent changes in host government regulation	2	4	-0.934	0.453

Source: Questionnaire survey *** Significant at 1% level ** Significant at 5% level * Significant at 10% level

ITPL presented Singapore a unique set of advantages while other parks engaged primarily in manufacturing or "operation" activities

The next section of the paper delves further into ITPL, giving a description of its functioning and characteristics.

International Technology Park Limited (ITPL)

Located 18km away from Bangalore, ITPL was set up as a pioneer for a new generation of Singapore-developed IT parks in India. The idea was further deliberated in 1992, by the then Singapore Prime Minister Goh Chok Tong and Indian Premier, P.V. Narasimha Rao. Construction began in 1994 and the park was officially inaugurated in 2000. A Singapore consortium led by Ascendas International, India's Tata Group and the Karnataka state government partnered the project in a 40-40-20 arrangement. The Singapore consortium and the Tata Group have since increased their respective stakes to 47 percent each while the state government has reduced its stake to 6 percent.

This present day, 106 companies occupy the ITPL, employing around 12,000 people. More than fifty percent are wholly foreign-owned firms and among these are several major players such as AOL, and Infineon. Along with that, 70 percent of ITPL's tenants are involved in software development, integrated circuit design, research and development and precision technology.

Electronic City (EC)

Electronics City is an industrial park with size of over 330 acres, specializing in electronics and the IT industries. It was made known as a software and IT hub in 1994, even after it was mooted by Software

Technology Parks India (STPI) in 1991. Currently, it is house to over 100 companies including leading IT firms such as Infosys and Siemens. The entire infrastructure is maintained by Keonics, a government-linked management company. Also, to have close watch of the movements of the industry, STPI has its headquarters in Electronics City itself.

The main variation between ITPL and Electronics City is that Electronics City is a hub city that houses different IT and electronics companies in their own private buildings. State-owned buildings, are however, occupied by smaller companies because of the low rental rates and basic facilities.

Empirical Findings

ITPL's competitive advantages as an investment location is rooted in the two-fold strategic intent mentioned in the introduction. However, to adequately assess the impact of the various pull factors and constraints faces, as a measure of ITPL's success, the paper adds a 2-pronged approach featuring

The Electronics City is a hub city that houses different IT and electronics companies in their own private buildings...

on-site questionnaire survey analysis and in-depth case studies of selected firms in ITPL and EC.

Logistic Regression Analysis

In order to obtain primary data from the parks, surveys of the tenants of ITPL and Electronic City were administered in December 2004. 40 door-to-door survey questionnaires were completed – 14 from ITPL and 26 from EC. 3 of the ITPL and 19 of the EC firms are wholly-Indian owned, while the rest are either joint venture or foreign. 7 surveyed ITPL firms and 18 surveyed EC firms each employs less than 100 people.

Apart from analyzing the descriptive statistics and popular rankings on the responses relating to factors and constraints, a logit model was applied to compare the perceived advantages influencing the tenants' decision to locate in the case-study parks. A similar model was also applied to the constraints faced by the tenants in these parks. The logit estimations are set out in Tables1 and 2 respectively.

From the result of the binary logistic regression, we seek to ascertain whether firms choosing one particular factor in the question will be more likely to be from ITPL or EC, ceteris paribus. When the coefficient of the estimates is positive, firms picking the factors are more likely to be from ITPL and when the coefficient is negative, they are more likely to be from EC.

Factor's Influencing Tenants' Decision to locate in ITPL & EC

"Investment incentives" is the factor stated by significantly more tenants from EC, vis-à-vis ITPL. This is also supported by the negative and statistically significant α2 (=-2.122). These incentives appeal to the EC's target market, which are mainly start-ups and SMEs. For these small firms, these incentives are vital to enabling them to survive despite stiff competition from the major industry players. With ITPL targeting the more established corporations, their tenants would be less likely to be influenced much by these incentives.

In addition, we also note that agglomeration plays a significant role in EC's attractiveness to investors. The presence of major buyers and competitors influenced tenants during their decision to locate in the park. This is as evident from negative α4 and α5 (=-2.632 and -2.399 respectively). From this result, it appears that EC caters mainly to electronic companies which value being close to their buyers and competitors.

The positive and statistically significant α3(=2.543) also suggests that reliable infrastructure facilities are more important factors for ITPL tenants compared to their counterparts in EC. This is not surprising, given the establishment of the Singapore model in the park which is associated with reliable infrastructure and facilities. Investors who are able to recognize this factor are hence more likely to favour ITPL.

However, in terms of constraints faced by the tenants in ITPL and EC, our logits estimates suggest that there are no significant differences in this aspect. This is as ascertained by our insignificant test statistics highlighted in table 2.

Case Studies

Two case studies from each park are presented in this section. Cases of both small & big firms of each park are represented so as to give a holistic picture of the parks.

ITPL-Company A

Company A is a low-cost software development and customer service centre of a US interactive services company. It employs over 1,000 employees in ITPL to service 35 million global online subscribers. It has a well-equipped facility of 110,000 square feet, enabling for services to be effectively and professionally handled. The international image of the company is illustrated with the one-stop center concept and modern infrastructure. Costs for the infrastructure are split amongst all of the companies in ITPL and not just spent by company A. Hence, there is significant cost savings in maintaining such an infrastructure. As like-minded people gather together in the software cluster, it is a base that spurs the exchange of ideas as well as encourages competition in retaining the brightest. Despite this, a high labour turnover is still experienced as the demand for IT professionals increases.

ITPL-Company B

Company B deals with software development for its US parent company, a premier provider for wireless and enterprise networks. First established in 2002, ITPL was the best location choice for the company, for there were no close competitors. Today, close competitors burgeon in more ideal locations. ITPL's plentiful advantages were decision-making factors for Company B's choice of location. ITPL flexibility allowed built-to-suit facilities for the company and versatility provided full services for all its tenants ranging from the shuttle bus services to travel services. There was also peace, away from the hustle of the city. However, a major concern is the employment and retention of labour. As the demand for IT professionals propels further, this is going to be a major problem especially for smaller companies.

Electronics City – Company C

Company C is a subsidiary of a German company. It manages 60-70 percent of its global software development. Along with that, they also serve a private pool of companies. Its main agenda in Bangalore is developing customized healthcare software for its clients. It has 1100 employees in Bangalore alone. STPI in Electronics City is an advantage for this company as they provide the basic necessities such as satellite communications and infrastructure. The big companies cluster in EC, empowering them over STPI to bring about favourable changes to their advantage. When ITPL was set up in 1994, the company did not express interest in moving over, having their own building with space for extension. The two factors that will continue to keep Company C in EC are the low land costs and logistical advantages of keeping the company's departments together to ensure efficiency and synergy. The key issue however would be the city traffic congestions. Workers rush to beat the evening traffic, reducing maximum productivity. With an opportunity to work in the city, many employees may think of switching over.

STPI in Electronics City is an advantage as they provide the basic necessities such as satellite communications & infrastructure

Electronics City – Company D

Company D is a small public limited company with 15 employees located in the same building as the STPI headquarters. The rising software development unit in embedded systems focuses on mainly on quality. Its main client is the government. Starting 8 years ago, its aim was to be one of the forerunners in embedded systems within the next 10 years. Their reasons for choosing EC are firstly, the good facilities provided such as satellite communications and secondly, to stay close to its main client, STPI. Even being a small company, Company D also garners strong support from the government. The government tends to be more flexible when it comes to late rental payments. Its main concern would be the traffic problems for the workers. Although it is small firm experiencing traffic jams followed by a long walk into the vicinity, the company' is too small to have transportation provided.

Issues and Challenges

The huge difference between the tenants at ITPL and the other Singapore-styled industrial parks in Indonesia, Vietnam and China, is that these other parks have attracted a majority of their tenants on the basis of abundant low-cost, low-skilled labour. ITPL has a somewhat different scenario. Gathered from our study, plentiful and cost-effective labour is not the primary influencing element in driving firms to the park. It has been found that the excellent infrastructural facilities and the Singapore-styled management characterized as quintessential efficiency of the ITPL have been the main reasons, which encouraged the firms to the park. From anecdotal evidence of our on-site interviews, international firms, such as Company A, B and C, have moved to ITPL from other locations for these reasons. Furthermore, the advanced technology made available at ITPL, has helped make the park the cynosure of all companies engaging chiefly in non-manufacturing industries, that is, those placed in the higher end of the value chain.

Theorists looking from the firm's perspective have asserted that along with the production process being viewed as a value chain [9] [18], the firms should also determine comparative or location-specific advantages unique to each country/territory [5], which will serve to complement the competitive advantage they enjoy as a result of being placed higher up in the value chain. Moreover, with the increasing phenomenon of globalization, changes in location-specific advantages are bound to take place to complement the increasing spatial integration of complex and rapidly changing economic activities. Alterations of the advantages are not the only consideration. The role of national and regional holistic approach in their influence over the extent and structure of localized centers of excellence [6] must not be ignored. Therefore, when taking into consideration firm-oriented competitive benefits as well as comparative advantages offered by the regions, a holistic approach must be adopted. Synergistic efforts will take place if a strategic fit between the competitive and comparative advantages exists.

ITPL represents a modified version of the Porter-Kogut analytical framework, whereupon the park has witnessed the location of firms engaged in marketing and sales, and other services (viz, the primary activities), which were supported by other activities such as technological development and infrastructure within the park (viz, the secondary activities), sufficiently provided by the Singapore partner. A classic example is the fast growing BPO industry, and the innumerable e-services, including telemarketing and customer sales service, by using full use of the telecommunication facilities that the park showcased, as substantiated by our case studies. Technological developments are made constantly to accommodate entry of new firms, and expansion of existing ones. Management at ITPL and the government support are the park's different selling proposition. ITPL is also qualified with many location-specific advantages to support high value-added processes, which are a blend of technology and infrastructure on one hand, and competitive skilled labour on the other.

Despite ITPL succeeding in providing the crucial links within the value chain that give client firms a competitive advantage, a setback is nevertheless inevitable. The problem arises on the flip side of the desired strategic fit – the host country's ability to provide comparative advantages. Looking from this perspective, India has excelled only in making available the advantages of 'factors of production'. Some of the components of comparative advantage provided for by ITPL and not the host country are not supplemented with the necessary infrastructure outside the park, where roads to supporting administration continue to be nearly non-existent. In fact, the success of the infrastructure within the park is not attributed to the Indian endeavour. Factors which Singapore sought to make full use of, such as the economic and political advantages, were initially present. Furthermore, while establishing the park, the Indian and the Karnataka government aligned their objectives with those of its Singapore counterpart. However, as most other government-run projects, the state had not made further inroads into the project with its support. Instead, much of the work was left to the private sector and the Singapore consortium. The state government has since reduced its stake in the project to a mere 6 percent.

With the development of similar cost-effective parks in the vicinity, Singapore's overseas industrial parks are starting to lose its appeal

Heightened competition

With the development of similar cost-effective parks in the vicinity, Singapore's overseas industrial parks are starting to lose its appeal. ITPL's main success is attributed to the 'Singapore-styled design and management' reputation, and its capacity to provide stable electricity is the only contrast from other IT parks like the Software Tech Park and Electric City. The limelight on the formulaic 'one-stop' service and self-sufficient infrastructure of the ITPL is now being deliberated. ITPL's listed lease is prices at Rs50 (approximately US$1) per square foot, while just outside ITPL, Electric City is offering less than Rs15. ITPL tenants suggested that the park's allure may be diminishing with more IT parks and companies offering lower rentals with reliable energy set up within the vicinity to capitalize on the area's repute.

Political 'Patronage'

Political patronage (and personal ties) rather than transparent contracts have had their good and bad. In India, ITPL's competitive advantage is dependent on the commitment and support of the different state governments towards the country's development. Even as cities such as Hyderabad, Mumbai and Chennai continue to advance technologically, there are a few factors that serve as deterrents to investors; the lack of good supporting infrastructure in the surrounding environment and the disparity in local state-government supporting different cities. Although corruption remains endemic, bureaucratic red-tapism is difficult to curb. These considerations act as deterrents to investors in themselves, even with Singapore's presence and involvement.

Conclusion

ITPL proves to be a refreshing change in Singapore's series of overseas investments. It showcases a unique blend of high-value added activities performed at comparatively lower costs. e-park has attained considerable success in furnishing Singapore with location-specific advantages. However, as mentioned in the above section, the location specific advantages don't come without numerous other limitations. Singapore's presence in the park thus goes a long way in eliminating many of these limitations so as to provide companies looking to settle at ITPL with an advantageous location. Hence, it is a combination of the proffered Singaporean experience and country-specific comparative advantages that help to attract corporations to ITPL.

ITPL's success hinges on the "Singapore-styled design and management" reputation. In a country where corporate image is of immense importance the Singapore presence contributes tremendously in enhancing this image. The city-state is world renowned for its management skills, disciplined efficiency and corruption-free administration. The effects of al these strengths can be seen at ITPL, where considerable premium is placed on the Singapore presence. As a result, the park has successfully leveraged on this reputation of reliable infrastructure to motivate companies to relocate to these areas where such facilities are anomaly. The park has been attracting investors with its formulaic one-stop service within a self-sufficient, self-contained environment, which is unburdened by inefficient administration. For example, ITPL is being used by many tenants to establish their brand-image, as there is prestige associated with being located in, what is locally known as, the “Singapore Park”.

ITPL has provided considerable location-specific comparative advantage in terms cheap and plentiful labor. Its contribution also extends to the nature of labor provided that enable high value-added activities within the park, making readily available high-quality software developers and IT personnel, as well as a pool of competent graduates, for various operations within the park. India has been one of the biggest beneficiaries of the global shift of high-wage professional jobs to low-cost countries (Straits Times, August 2003). The supply of qualified, English speaking professionals at lower costs has given the country an edge in wooing foreign companies.

With liberalization efforts favouring the entry of MNCs in India, the government support and the influence of inter-governmental relations cannot be ignored. ITPL shares the characteristic of active government involvement, with the Indian counterparts being the Karnataka state government and the Tata Group, which, though private, is well connected with the authorities. The strategic alliances between Singapore’s government-linked companies, and its counterparts in the regional sites, were instrumental in mobilizing the resources to complete these multi-million projects.

Finally it must be noted that the sprouting of numerous other parks not only in India, but also in the vicinity as ITPL – parks such as Software Tech Park and Electronic City – has heightened the competition amongst these parks in trying to attract foreign enterprises. However, ITPL’s differentiating factor lies in its Singapore connection which proves to be an important marketing edge over technology parks in the country.

The city-state is world renowned for its management skills, disciplined efficiency and corruption-free administration

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2 The logistic regression model both for the pull factors and constraints takes the following form:

$$P_i = \frac{e^{Z_i}}{1+e^{Z_i}}$$

Where:

P_i = probability of firm being located in the particular park

Z_i is a linear function of the push/pull factors defined as

$$Z_i = \alpha_0 + \sum_{i=1} \alpha_i F_i$$

Where:

F_i = 1 if factor i is selected, 0 otherwise

α_0 = constant term

α_i = coefficient of independent (explanatory) variable

Estimated coefficients in the logit model, if statistically significant, would suggest that the firm choosing that particular advantage/constraint is more likely to be a factor among tenants in that particular park than in those from the other industrial parks included in the survey. For example, where ITPL is the dependent variable, if the coefficient of F1 is positive and significant, this would suggest that, after taking into account the effects of other advantages, a firm choosing ‘Support from local authority’ has a higher probability of being a firm located in ITPL i.e. support from the Indian authorities were a significant pull factor for ITPL tenants, as opposed to

Sky is the limit...

...for Rupert Bray, Country Manager India, Nepal, Bangladesh & Bhutan!

What started off as an airline with just a single plane 60-years ago, today has almost 100 aircraft in its fleet. Cathay Pacific has clearly recognised India as its most important market outside its home market China, and is focused on expansion here. The Hong Kong-based airline is almost doubling the cargo capacity out of India with direct flights to Mumbai and Chennai. On June 2, 2006, the airlines started a twice weekly turnaround service between Mumbai and Hong Kong. The man behind the hustle bustle of expansion plans in the Indian subcontinent is Rupert Bray, the Country Manager of Cathay Pacific for India, Nepal and Bangladesh.

Bray is no stranger to the subcontinent, as six of the last seven generations of the Bray family were born in India. Rupert himself was born in England and educated at Wellington College and Bristol University. He joined Cathay Pacific in 1995 and has since worked in India and Indonesia apart from HongKong where he was, the Executive Assistant to Chief Operating Officer. After his stint as the Manager Cabin Crew relations in the in-flight services department, Bray came back to India in 2004 as Country Manager. Bray married Mi Hyun, a Cathay Pacific crew member, who was also its cut-out girl from 1999 to 2000. Bray and Hyun (*now a homemaker*) have a two-year-old daughter Annabel and a three -month-old son Jamie. Bray admits to being in love with India and whenever time permits he likes to take off on a tour to explore different parts of the country along with his wife. Amateur writer, amateur sailor, Bray plays his different roles with aplomb and is currently focused on his vision of linking India and China in the best possible way through the air route besides expanding cargo. Bray says, “This is a very exciting time to be running Cathay Pacific in India. The opening up of the Indian skies presents airlines and the travel community with remarkable opportunities as well as significant challenges. India is an important passenger and cargo market for Cathay Pacific. It is Cathay Pacific’s intention to continue to seek ways of expanding our coverage. Within my tenure, I hope to provide the Indian travelling public a greater opportunity to experience the Cathay Pacific service and delights of our home, Hong Kong.” Cathay has that rare distinction of being profitable in spite of the ever increasing fuel prices and the consequent recession in the airlines industry. “Cathay is a very unique airline as it is one of the really genuine private airlines and receives no backing from the government. That has made us a very versatile and resilient airline, particularly during times like SARS and 9/11,” says Bray. At present the company is big on cargo in India. It is one of the world’s top 10 air cargo carriers, which accounts for around 30% of its total revenues. Last year Cathay announced a 233% increase in cargo capacity to and from India. Currently it operates passenger flights to Delhi and Mumbai in India. “We are very keen to start some flights in various parts of India, but that’s subject to government approval,” says Bray.

Though infrastructure still remains the biggest challenge for airlines, Bray is still confident that he is at the right place at the right time and Cathay will continue to grow along with the airlines industry in India...

> This is a very exciting time to be running Cathay Pacific in India

CATHAY PACIFIC IN INDIA

Cathay Pacific Airways is based in Hong Kong and offers passenger and cargo services in over 35 countries and to 92 destinations. The airline started its services in India in 1953 with a flight from Hong Kong to Calcutta via Bangkok. At that time its head office was in Calcutta. It shifted base to Mumbai in 1976. Today it has over 15 offices in India. It operates passenger flights from Delhi as well as Mumbai, and has a strong freighter network with three flights each to Mumbai and Delhi. Cathay Pacific cargo is where the company is intending to focus its growth in India. Cathay Pacific Cargo has a network of 28 destinations around the world and carries more than 60,000 tonnes of cargo per month. The passenger aircrafts are also used for carrying cargo in its cargo space.

Martin Sorrell

The quintessential leader

In 1985, Martin Sorrell, quit his position as the finance director of Saatchi and Saatchi to start out on his own in a one room office. He bought shares in London based Wire and Plastic Products (*WWP*) and used it as a vehicle to buy other advertising agencies. Today, twenty years later WPP has 91,000 employees in 106 countries with over 2200 offices. It was with Sorrell that the advertising world started giving due respect to the non-creative people involved with the industry and a lot of credit goes to him for driving consolidation in the industry.

While referring to the importance of WPP in his life Sorrell is said to have remarked, "It's not a matter of life and death, it's more important than that." While Sorrell might have plagiarized the legendary football coach Bill Shankly's quote, he could not have found a better way to express his passion for WPP.

The only son of a highly successful radio and TV retailer, Sorrell was born on St. Valentine's Day in February 1945. Growing up in a middle class household in north London, Sorrell developed a keen interest in business. After his schooling at Haberdashers' Aske's School he went on to Christ's College and then graduated in economics from Cambridge. His keen interest in business finally drove him to acquire an MBA from Harvard. During his decade long stint at Saatchi and Saatchi he was the financial wizard behind the rise of the firm.

Interestingly, Sorrell's kids inherited the same financial streak but are not involved in the advertising industry. His three sons are investment bankers. Last year Sorrell divorced Sandra, his wife of almost 33 years. The divorce proceedings were highly publicised and the settlement was supposedly one of the highest ever in UK. In spite of being high profile Sorrell is not the page three celebrity one could expect an advertising wizard to be. Sorrell is known to be passionate about work and has confessed to have little interest in anything apart from work.

After buying shares in the basket manufacturing Wire and Plastic Products, Sorrell went on a path breaking acquisition rampage all over the world and became one of the most feared, hated and admired strategists whose acquisition maneuvers have become part of corporate folklore. David Ogilvy is said to have called him "that odious piece of shit" soon after he lost to the takeover bid of Ogilvy and Mather (*O&M*). Sorrell's known to be hands-on, aggressive and slightly arrogant when it comes to controlling WPP operations spread across the world. The 61-year-old has such a strong hold over the company that his personality seems to have overshadowed the publicly held company. This has got many analysts worried, more so because there seems to be no succession plan in place. Some of them have started questioning if he is making too many deals and is too big a figure for the good of a public company. Sorrell is has been accused of getting too personally involved and the board has lately started questioning him to a greater degree about his decisions as the corporate is growing at a breakneck speed. But then Sorrell is quite candid about his passionate involvement with the company. He has even publically admitted that he feels like a parent who has given birth to the company.

WPP had a market capitalisation of £6.8bn and reported billings of £19.6 billion in 2004. The conglomerate today includes companies in advertising, media investment management, Public relations, Healthcare communications, Direct promotions & relationship marketing, branding and identity and specialist communication. In 2005, like-for-like revenues in India grew at 15 percent and China at 23 percent compared to the relatively weaker growth of North America at 6 percent and UK at 2 percent. The focus of WPP in terms of investments and growth will clearly be in the emerging markets.

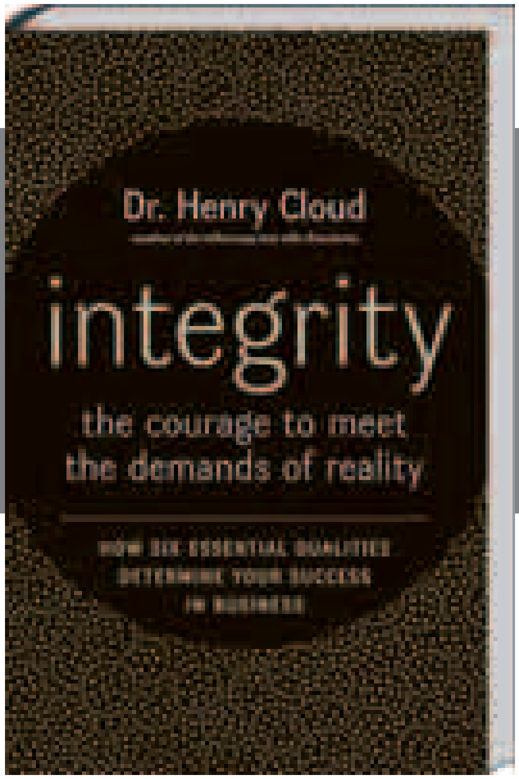
Martin Sorrell has been the Chief Executive of the company for over twenty years now. He was the one who spotted the importance of emerging markets early on and went ahead with spreading the group all over the world. Today, his greatest challenge besides the obvious need for focusing on organic growth is handling cultural differences and maintaining corporate cohesiveness in a sprawling conglomerate.

While analysts might keep on speculating over how many more years does Sorrell have at the helm of the WPP group, his name has entered the annals of corporate history as the man who broke all previous moulds by establishing his name in an industry that was believed to be ruled by only creative geniuses.

THE MAKING OF AN ADVERTISING BEHEMOTH

- 1985 — Sorrell quits Saatchi & Saatchi
- 1986 — Takes over WPP to use it as an entity to build a marketing services company through acquisitions
- 1987 — Puts up a bid of $566 million for JWT Group, including Hill and Knowlton, the world's largest public-relations company as well as market research network MRB Group.
- 1989 — Ogilvy Group acquired for $864 million
- Research firms Millward Brown and Research International also join in
- 1992 — WPP faces a tough time as acquisition costs pile up
- Sorrell goes about refinancing the company to bring it back from the brink of collapse to create a world-leading advertising business.
- 1998 — WPP joins the London Stock Exchange's FT-SE 100 index
- 2000 — Acquires Young & Rubicam Group for $4.7 billion and more than 35 other acquisitions including Spafax and Premier Group.
- 2001 — Tempus Group taken over for £434m million
- 2002 — Takes stakes in Chinese and Taiwanese advertising and public relation companies. Starts taking active interest in emerging markets.
- 2003 — Acquires Cordiant Communications
- 2005 — Grey Global joins WPP for $1.3 billion

The Nitty-Gritty's of Integrity



Integrity of a person defines his success and not his talent. That's what Dr. Henry Cloud projects through his book, "Integrity: The Courage to Meet the Demands of Reality"

By Karan Karayi

Honesty, as the old adage goes, is always the best policy. But living as we are in the age of materialistic marauders, hankerings for such fluff as honesty & integrity seem to be on the wane (*if not completely extinct!*). Old world ideas of being upright and new world lascivious leanings seem to be the opposite poles, but still repel each other. Let's face it; most business barons would, in the privacy of their cozy cabins, rather scoff at the very idea of implementing integrity in their day-to-day dealings. In such a scenario, where does that leave a quaint quintessential of the virtuous? In the present-day scheme of things, do such values or characteristics even merit a second (*albeit fleeting*) glance? Dr. Henry Cloud muses on the answers to such questions in the course of "Integrity: The Courage to Meet the Demands of Reality".

A clinical psychologist and a radio host of renown, Dr. Henry Cloud harnesses the sea of knowledge he has garnered from his interactions with a vast number of Fortune 500 companies, non-profit organizations and leaders in an individual capacity to portray how our character (*or the lack of it*) allows us to be all that we envision ourselves to be or not to be. Integrity, in the opinion of the good doctor, encompasses far more than mere moralities or eclectic ethics. Closer analysis of the etymology of the word 'Integrity' reveals its origins in the term 'integer' which means 'whole or complete'. Dr. Cloud opines that if the attainment of this wholeness were to be indeed achieved, it could only be through the 'integrated character', i.e., six character traits that then become the essence. These embrace key areas such as Creating and maintaining trust; Being able to see and face reality; Working in a way that brings results; Embracing negative realities and solving them; Causing growth and increase; Achieving transcendence and Meaning in life. By narrating anecdotes about eminent personalities such as Michael Dell and Tiger Woods, the nature of these traits is depicted in a manner easily discernible for the reader while at the same time proving imminently enjoyable.

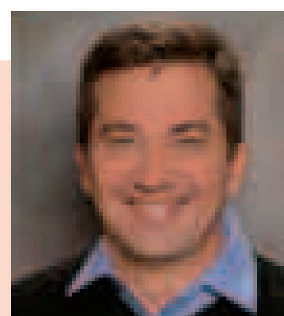
"Integrity: The Courage to Meet the Demands of Reality" passionately argues that success is not a direct function or measure of the talent at your disposal or the intelligence you are endowed with. As a matter of fact, the number of bright young things seemingly ordained for greatness who never get a sniff of success is obscenely high and bears silent testimony to this elementary factoid. In the course of Cloud's work, it becomes evident that one of the defining factors acting as a prelude to triumph is the personality of the individual in totality, and not just any one particular facet. Further, integrity should not be viewed in hues of absolute black or white, either as omnipresent or notable by its absence but rather more pertinently as an embellishment that adorns the journey of growth. Dr. Cloud expounds on how success can be driven by being candid not just with yourself but also in your associations with others. The crux of the dissertation patiently probes whether one has the courage to face realities and clamp down on calamities. Holding the six essentials of character previously mentioned to closer scrutiny and gauging it painstakingly is the holy grail, is the raison d'être of this tomb.

While there is a fair amount of food for thought on offer for connoisseurs, none of it is too heavy to assimilate or understand and one of the primary reasons behind this is Dr. Cloud's easy-going conversational style that carries the reader along with it rather than sweep him (*or her*) off his/her feet. Languid and purporting a perspicacity that is still delightfully down-to -earth in its approach, "Integrity: The Courage to Meet the Demands of Reality" promises no easy solutions, instead propagating a lifestyle change for the reader who might have instead been anticipating a ready remedy in the offing! Replete with little gems showcasing true-to-life circumstances where an individual's character contributed substantially towards the end result, the correlation drawn between integrity and profit acts as a shining paragon of virtue at the micro-level for individuals and at the macro-level for corporations, several of whom are inundated with corruption.

Success is not a direct function or measure of the talent at your disposal or the intelligence you are endowed with

One of the key shortcomings of Dr. Henry Cloud's work is the structure and flow of the book, or rather, the unstructured nature of its composition. Flowing along like a river finding its own way, "Integrity: The Courage to Meet the Demands of Reality" is a rambunctious ramble on the part of the author, with linkages that might seem incoherent between certain points professed in the book. The advice offered, at times, is nothing that will rock your world, instead bears striking semblance to popular clichés. Peruse this: "Things never work. When they don't, that is the time to make them work. Then, if you do, they work"(!) In all honesty and seriousness, that sounds like something straight out of a parental sermon session, and we are all well aware of how enjoyable those are!

When all is done and dusted with, though, it is worth mentioning at this juncture that "Integrity: The Courage to Meet the Demands of Reality" is just what the doctor ordered (*sic*). In bookshelves stacked with what might best be summed up as hokum, Dr. Cloud's offering stands out as a pragmatic and pioneering effort that demystifies the mystique of success. A bonafide goody-bag of takeaways for the astute reader, Integrity is a treasure trove of honest-to-goodness common sense and wisdom accrued from experience, which makes it an invaluable must-read. Integrity, in short, grits us to face reality as we have never seen it before!



BOOK EXTRACT

While character includes our usual understanding of ethics and integrity, it is much more than that as well. Another way of putting it is that ethical functioning is a part of character, but not all of it. And it certainly is not all of what affects whether or not someone is successful or becomes a good leader. In my own experience in over twenty years of working with CEOs, boards, managers, management teams, VPs, partners, supervisors, investors, and those who have a stake in their performance, I have seen many honest, ethical, people of "integrity" who were not making it in some way. While we would say that they all were people of good "character," the reality is that it was still their "personhood" that was getting in the way of their talents and brains accomplishing all that was in their potential. There were aspects to who they were as people that they had never seen as important to develop, and those very issues were keeping them from reaching the heights that all of the other investment they had made should have afforded them. While they met the criteria for being people of "integrity," they also left a trail behind them of falling short in some key areas of performance that left both them as well as their stakeholders and the people who depend on them wanting more. They were unable to successfully: 1) Gain the complete trust of the people they were leading, and capture their full hearts and following 2) See all of realities that were right in front of them. They had blind spots regarding themselves, others, or even the markets, customers, projects, opportunities, or other external realities that kept them from reaching their goals. 3) Work in a way that actually produced the outcomes that they should have produced, given their abilities and resources. 4) Deal with problem people, negative situations, obstacles, failures, setbacks and losses. 5) Create growth in their organization, their people, themselves, their profits, or their industry. 6) Transcend their own interests and connect with larger purposes to give themselves to, thus becoming part of a larger mission

EXECUTIVE SUMMARY

STRATEGIC ISSUES

The Phoenix 08

The paper deals with how the fortunes of Hero Honda changed overnight with the launch of Splendour, which catapulted it to the number one position in the two-wheeler segment.

Paper extract: The instant success of Splendour meant that Hero Honda grew at a phenomenal 450% over a span of ten years, from 1989 to 1999. Today the company controls 52% of the Indian two wheeler market and is the single largest two wheeler company in the world. All because of one product – Splendour.

Demand Analysis & Investments in the global Aviation Industry 12

The paper discusses the change in air demand with the change in per capita income hence serving as a guide to entry strategies.

Paper extract: There is absolutely no doubt that the aviation industry forms a significant part of any country's infrastructure and possesses vital ramifications indispensable for the development of tourism and trade, opening up inaccessible zones in the country and providing stimulus to business activity and economic growth. Thanks to privatization and liberalization, today we can actually look upon aviation as a sector where boundless amendments can be expected with rising competition and elevation of the purchasing power of the general masses.

21st Century survival strategies in Asia Pacific 12

The paper analyses in depth the Eye on Asia survey by Grey Worldwide and research firm Millward Brown. The duo conducted an exhaustive of consumer behavior, attitudes, aspirations and associations.

Paper extract: For years, academicians had been writing brilliantly analysed scholarly papers on how MNCs must pay more attention to the Asia Pacific. Coming from the ivory towers, these papers were largely ignored by strategists and marketing mavens. But the imprint of a global powerhouse like Goldman Sachs on similar conclusions meant that no MNC worth its salt would be able to ignore the inevitable – that the Asia Pacific region would be the hub of economic activity in the 21st century.

Strategic Planning a la BCG!! 18

The paper demonstrates the application of the BCG Matrix taking a hypothetical enity into consideration.

Paper extract: The greatest advantage of this model is that it is a very simplistic method of analysis and enables managers to identify the competitive position of various businesses (*SBUs*) a corporate entity might have. A very important point to note here is that BCG Matrix is not used to map various companies in an industry but for a single entity to map its various SBUs' competitive position.

STRATEGIC INSIGHT

Industrial Espionage 22

The paper by Edward M. Roche talks about how Industrial Espionage is fast becoming a threat for multinational companies across the world.

Paper extract: Industrial espionage is conducted for commercial purposes instead of the usual national security purposes. It is conducted both by governments and by private organisations. At the most innocuous level, the term is applied to the legal and mundane methods of examining corporate publications, web sites, patent filings, and the like to determine the activities of a corporation (though this is normally referred to as business intelligence), through to bribery, blackmail, technological surveillance and even occasional violence. As well as spying on commercial organisations, governments can also be targets of commercial espionage.

Consumer Response to Promotional Schemes 26

In this paper by Dr. Sadia S. Ali of Aligarh Muslim University, an analytical approach has been proposed to make a comparative study of the schemes as well as to study the consumer response to some well-known schemes.

Paper extract: Sales of consumer items with some promotional scheme is a very common phenomenon now-a-days. This may be regarded as an extension to the advertising campaign. The basic idea is to increase the sales by attracting new customers or by increasing the number of items purchased by the existing customers. Studies corresponding to this aspect of advertising have been made earlier also. In a book published in 19874, titled 'Advertising', the authors discussed this aspect. Recently, some new books have appeared containing studies on advertising price-promotions.

Does the Quality of a Mutual Fund Manager's Education Matter? 31

This research paper by Aron A. Gottesman is nothing but a compelling commentary on the qualities needed in a mutual fund manager who can make all the difference in your portfolio.

Paper extract: Mutual fund managers face the daunting task of earning superior returns in a highly competitive environment. Their performance is closely scrutinized by investors, their superiors, other managers, and the press. Measures of mutual fund performance are adjusted for risk and are easily comparable; hence any failure relative to the selected benchmarks is quickly identified and critiqued. "Superstars" are celebrated, while those that fail to meet expectations find their careers wounded. But what makes one manager a superstar and another a failure? Successful managers may have a natural talent for investing, while others benefit from working for a well run mutual fund company.

Planman's Meta SBU Analysis Constructs 36

The penultimate part of the paper describing Planman's C2A2 business analysis model. The next paper in this series, in the forthcoming issue of Strategic Innovators, analyzes not only the m-PIPE Matrix, but also various competitive strategies that can optimally affect any business industry space.

Invisible Ink! 40

This benchmark paper by Kim Warren, Teaching Fellow, Strategic and International Management at London Business School talks about how investors need to understand how 'soft' factors actually work through the business system to drive performance. Warren elucidates the role that intangible factors, such as reputation, staff skills, and business relationships, play in the strategy and performance of commercial organisations

Paper extract: If we carefully take apart a firm's business model, it is possible to trace back from performance, through the substantive resources of the business system and the processes by which these change, until the impact of true intangibles is revealed. This is also valuable for managers themselves as it gives them a stronger grip on their strategy and performance. Unfortunately, such information not only helps investors assess a firm's performance, but also makes crystal clear to competitors the sources of its competitive advantage. So, once we have laid out what would be most helpful to investors, we need to balance the advantages of disclosure against the risks.

Extend the corporate hierarchy in a Marketing Database 44

This paper by Sudip Chakraborty, Principal, Inductis, talks about how to leverage data to enable more targeted marketing to businesses. in this paper the author proposes an extension to traditional corporate hierarchies used in many marketing databases & shows how you can actually implement this by leveraging internal & external data, matching and data integration rules and technology.

Paper extract: Companies have been deploying single view databases based on traditional corporate hierarchies provided by data vendors such as D&B and Experian for several years. These hierarchies typically indicate legal relationships between companies, e.g. branches and subsidiaries. This information can be very effective for marketing especially for cross-selling. Other data sources are also available such as DDM (DUNS Decision Makers), EHA (Executive Home Address) from D&B and BOL (Business Owner List) from Experian that provide information about decision makers.

India's Mobile Revolution 50

The paper talks about how the mobile market in India has undergone a transformation. Till a few years back, mobile usage was concentrated only in the metros but todays has penetrated literally every nook and corner of the country.

Paper extract: Though the road has not always been easy, Indian telecom sector is often perceived as the 'poster-boy' of the New Economic Policy (NEP). Market-oriented reforms have provided a powerful boost in the telecom sector, not least because of the influence of India's booming technology sector whose success depends on a sophisticated communications infrastructure. In China, the mobile revolution was triggered by the great reforms of Deng Xiao Ping in the early 1980s. In India, the seeds of the transformation derive from Rajiv Gandhi's reforms in the 1980s. The new era was initiated by the great reforms of the Narasimha Rao Congress government in the early 1990s.

BEST PRACTICE

A guiding mantra in quality nirvana 54

The paper talks about how the Japanese philosophy of Total Quality Management (TQM) is used by organisations to improve their processes, thereby increase efficiency and to finally optimize the results.

Paper extract: Every organization undertakes various improvement activities, so as to enhance its business success. In many cases, it is experienced that in spite of sustained improvement efforts, its impact on the business results (measured in terms of financial and non-financial performance, customer satisfaction and employee satisfaction) is insignificant. Continuous Quality Improvement (CQI) is a process improvement effort to increase efficiency, effectiveness and to optimize the final results, which if converted to monetary terms should yield profit. The techniques of CQI are many in numbers and each business has to select suitable techniques that are suitable to the nature of products or services offered by them to the customers. However, the word 'continuous' is very important because interrupted or accidental improvements will not result in sustaining growth in profits of business. If we think of the Japanese corporates, the approach towards total quality management initiated during 1950's in designing component and manufacturing, ensured that the produtcs manufactured were defect free, with no rejections. Total Quality Management is therefore becoming competitive globally.

CASE STUDY

Nirma : Proud to be a 'local' 62

The case underlines the true fighting spirit behind the think tanks at Nirma and how besides being a small-sized player, it has stood up to the test where other giant shave wilted. This case discusses its strengths, weaknesses, opportunities and of course the threats!

Paper extract: After attaining major success in the detergent powder market, Nirma expanded its basket of brands offered and gave something new to its customers. They launched the Nirma detergent cake in 1985, which surprisingly came after a real long sixteen years after its first product was launched! This move worked wonders for Nirma and elevated its image in the consumers' mind, thereby enabling it to erode its competitors' market shares. These marketing and branding strategies made it hard to breathe for its colossal competitors and even successfully disturbed the advertisement budget for Hindustan Lever Limited (India's largest FMCG Company), which then adopted an offensive arketing strategy with the introduction of the low-priced Wheel – a brand meant to cater to the lower-middle class and economy segment.

The Gazelle way to Indi 68

The case vividly discusses the elements contained in the road to glory for Reebok in Inida, despite being a laggard when the global scenario is concerned. What they did right where Indian is concerned and what they did wrong where the globe is what's discussed in this case.
Paper Extract: Reebok entered India in the year 1995 and presently enjoys the leadership position in the country. Reebok India is the subsidiary of Boston-based fitness and sportswear giant Reebok International Ltd. Though gaining the leadership position can not be attributed only to the early entry strategy of the company, it is a fact that India is one of the few geographical markets where Reebok has left archrival Nike behind. Customisation of products, pricing, rebranding of products, all can be mentioned as factors leading to Reebok's success in India.

Creating Competitive Advantages : Singapore 74

The case illustrates how Singapore has managed to succeed economically by concentrating on its core-competencies and how the economy took seized the opportunity presented by the foreign investmetns to develop its external economy.
Paper extract: People-powered, Singapore has thrived itself upon the brand name of infrastructural and technological know-how as well as valuable reputation among foreign companies. Constant economic reform programs have also helped to attract foreign direct investment into the city-state. Such a move started as early as the mid-1960s which saw the beginnings of the Singapore government's aggressive approach to woo foreign MNCs to fuel the city-state's economic development and a reversal of trend was being observed in the mid 1980s.

CEO PROFILE

Rupert Bray – Cathay Pacific 78

Profiling Rupert Bray, Cathay Pacific, Country Manager, India, Nepal, Bangladesh & Bhutan, who talks about Cathay Pacific's success and phenomenal growth in India. Even in the face of many challenges like infrastructural bottleneck and severe competition, how Cathay Pacific has captured a major chunk of the market under his leadership.
Paper extract: Though infrastructure still remains the biggest challenge for airlines, Bray is still confident that he is at the right place at the right time and Cathay will continue to grow along with the airlines industry in India...Though infrastructure still remains the biggest challenge for airlines, Bray is still confident that he is at the right place at the right time and Cathay will continue to grow along with the airlines industry in India...

PATH BREAKERS

Sir. Martin Sorrell 82

The discussion in the paper centres around the life and achievements of Sir. Martin Sorrell, founder and CEO of the WPP Group. He is is one of the most feared, hated and admired strategists whose acquisition maneuvers have become part of corporate folklore.
Paper extract: While referring to the importance of WPP in his life Sorrell is said to have remarked, "It's not a matter of life and death, it's more important than that." While Sorrell might have plagiarized the legendary football coach Bill Shankly's quote, he could not have found a better way to express his passion for WPP. While analysts might keep on speculating over how many more years does Sorrell have at the helm of the WPP group, his name has entered the annals of corporate history as the man who broke all previous moulds by establishing his name in an industry that was believed to be ruled by only creative geniuses.

BOOK REVIEW

Integrity: The Courage to Meet the Demands of Reality 86

The reviewed book, Integrity: The Courage to Meet the Demands of Reality, by Dr. Henry Cloud covers how integrity should not be viewed in hues of absolute black or white, either as omnipresent or notable by its absence but rather more pertinently as an embellishment that adorns the journey of growth
Paper extract: "Integrity: The Courage to Meet the Demands of Reality" passionately argues that success is not a direct function or measure of the talent at your disposal or the intelligence you are endowed with. As a matter of fact, the number of bright young things seemingly ordained for greatness who never get a sniff of success is obscenely high and bears silent testimony to this elementary factoid. In the course of Cloud's work, it becomes evident that one of the defining factors acting as a prelude to triumph is the personality of the individual in totality, and not just any one particular facet.

STRATEGY AND BUSINESS THIS QUARTER (JUL-SEP '06)

Google enchanted by MTV's sweet music!

If Shakespeare was to describe the meaning of his statement, 'If music be the food of love, play on,' he would perhaps cite Google's attraction to MTV's music as an illustration, albeit in the corporate sense. The two giants have entered into an advertisement revenue sharing deal that allows MTV to share its videos with Google and in return share the revenues that come from advertisements. Also, the website owners and bloggers would be allowed to post the MTV videos and will get a share of the revenue every time a person clicks to watch the videos. Through this deal, MTV would be able to expand its online audience and Google, on the other hand would benefit through increase in flow of traffic to its website. This move is largely appropriate as this would provide a clear edge to the search engine giant as its competition with many other search engines (like Yahoo, MSN and AOL) gets more intense by the day, and will position it better to fight competition in the online video market.

The great Wall of Mart bows low!

The retail giant, Wal-Mart that was labelled as union-unfriendly by the All China Federation of Trade Unions (ACFTU) witnessed thirty of its employees (belonging to their branch in Quanzhou) set up their first union in China. Wal-Mart, whi-ch set foot on Chinese territory in 1996, currently runs 60 stores there and has always shown willingness to work in confirmation with Chinese laws. However, until some time back, the ACFTU had been pressing upon Wal-Mart to form a trade union. The behemoth has plans of employing a work force of around 150,000 people over the next five years.

Case of the unfriendly Fox

A case filed in the federal district court of New York during November 2005, has forced the Fox News Channel to pay a sum of $225,000 as settlements. The case was filed by the Equal Employment Opportunity Commission on behalf of four women employed with the network. They charged the network of supporting a sexually unfriendly work place where indecent language was used by the advertising and marketing VPs in the New York office. The case also calls for the news group to modify its anti-discrimination policy and train its managerial cadre to emulate the same.

A chilled treat from Ben & Jerry's

Ben & Jerry's is all set to serve its British customers with 150 ml and 500 ml tubs of fairtrade ice cream (a certification that the farmers were paid the right price for their harvest). The ice cream will be stocked in cooperative stores and also in branches of Britain's third largest super market, Sainsbury's. The ice cream will also reach customers in Ireland, Belgium & Netherlands foraying into other countries later. The motive is to boost Britain's fairtrade food market. In comparison to last year food articles carrying fair trade logo saw a 40% jump in sales to $366.23 million.

Yum owns Pizza Hut, UK

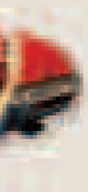
Pizza Hut is now completely owned by Yum in the United Kingdom. Earlier it was jointly owned by Yum and Whitbread in a 50:50 joint venture. Whitbread, which prefers investing in pub restaurants has parted with its 50% stake in Pizza Hut by selling it to the former for $210.38 million. The group, which owns Costa Coffee and KFC will use the sale proceeds to clear its outstanding debts. Whitbread has been keen to sell its stake in Pizza Hut since April this year. The deal is expected to be concluded by the end of September 2006.

The big bucks rewriting history

There has been a new addition in the string of private-equity deals in America recently. Albertson's, a grocery chain; Kinder Morgan, an energy firm and Univision, a Spanish broadcast network figure among billion dollar deals. But the latest one stands to break all records as it summons the title of the largest leveraged buyout. Kohlberg Kravis Roberts (KKR) and Bain Capital along with Merrill Lynch have offered a mammoth sum of $21 billion for HCA, America's largest hospital chain. The deal also comes with an assurance that the acquirers take up the firm's debt burden of $11.7 billion. HCA runs 182 hospitals and its annual revenues amount to around $24 billion.

Certification lag spurs the spin off

After reporting 54% rise in second quarter profits, Raytheon, the world's largest missile manufacturer has plans to sell off its aircraft unit. Credit Suisse has been appointed to hunt for suitable strategic options for the deal, which is to include a stock offering. This spin off of the general aviation and business aircraft manufacturing division has stemmed from certification lags of the Hawker 4000 Jet. The Flight Options business and Raytheon Airline Aviation Services, its regional aircraft asset management operation will not form part of the deal.



Winning needs nerves of steel

Another leg in the Arcelor deal has come forward. Mittal Steel Co. is required to put forth an offer to buy out the shareholders of Arcelor's Brazilian division in order to see the mega merger through. This could raise the cost of the $31.9 billion deal by an added $5 billion; the combined company will comprise 10% of the global steel production. The shareholders of Arcelor Brasil SA, listed on the Sao Paulo Stock Exchange urged the Brazilian Security & Exchange Commission to look into the issue after Mittal refused to offer a buyout. Mittal will contest the decision in the court.

HBOS employees get it all and more

The good times are not yet over for over 17,000 employees of the Halifax Bank of Scotland (HBOS), which is the fourth largest bank in UK. Five months ago, the employees had all earned an enviable bonus of about £4400 each and now there's a fresh piece of good news for them. They are expected to now get around £19.6 million in free shares. The said sum is about 5% of annual salaries of the employees. The announcement was made as the bank reported a healthy 17% rise in half-year pre-tax profits to £4.98 billion.

Encash your loss before it turns into ash

Not all's well at Dell. The world's largest computer firm has been set ablaze. In collaboration with the US Consumer Product Safety Commission and other associated regulatory authorities across the globe, Dell has voluntarily declared the recall of 4.1 million lithium-ion batteries (manufactured by Sony) used in its laptops. Six reported cases of smoldering computers in the US triggered off a month long investigation led by both the companies. Three-fourth of the faulty pieces have been sold in the US alone, while a million have touched the overseas clients. The marred batteries in question were dispatched by Dell during the period April 2004 to July 2006. The problem that has been detected with these batteries hints at a certain metal contamination within the battery packs. Excessive pressure exerted causes the metal to perforate the insulation, giving way to a short thereby overheating the battery. In exceptional cases, shorts can result in fires. The recall involving batteries fabricated by Sony Corp. could cost the company about $400 million.

Nokia, the Finnish handset seller, has come up with another way of connecting people. Nokia has bought Seattle-based Loudeye for $60 million. Loudeye possesses a vast digital music catalogue. In 2004, it had bought the British music download service OD2 that now manages a licensed catalogue with nearly 1.5 million tracks. The deal will enable Nokia to gift its customers holding music enabled phones access to the wonderful collection. Last year, Nokia sold over 45 million music-enabled hand sets, and plans to sell about 80 million in 2006. Australia's second biggest newspaper publisher, John Fairfax Holdings, that mainly operates in New Zealand & Australia is making a comeback to the Asian market. The newspaper group has signed on the dotted line to purchase a string of seven magazines in Singapore, Malaysia & New Zealand from the International Data Group for an undisclosed amount. The deal will bestow Fairfax with licensing rights to the magazines' content for the Asian zone. Fairfax also publishes Managing Information Systems (MIS) Asia & MIS New Zealand. In addition to the above, Fairfax will trade its MIS UK & rental list business Market Base to IDG.

For Honda, sky is the limit

Come 2010 and Japanese car giant Honda will be all set to enter the aviation sector, launching a mini passenger jet. Honda claims that the plane will be roomier, faster and more fuel efficient than any other aircraft in its class. The work on the seven-seat light aircraft has been in progress for the past twenty years. Honda Aircraft Company will be headquartered in Greensboro, North Carolina and will be headed by engineer Michimasa Fujino, who is associated with the project ever since the idea originated.

Regent a step ahead in pub rivalry

In a recent episode of pub rivalry, Regent Inns has struck a $49.24 million all cash deal with its challenger, Punch Taverns. As part of the deal, Regent Inns is purchasing 31 restaurants along with the Old Orleans chain from Punch Taverns – Britain's biggest pub owner. Post-acquisition, Regent, the owner of the Walkabout chain of bars and Jongleurs comedy clubs, will be better equipped to improve its position in the fast growing competitive market. The 31 restaurant group yielded an EBITDA of $4.36 million in the six-month period closing on February 18, 2006.

Afternoon update without a price

In a bid to fight competition from Rupert Murdoch's The London (paper launched by the parent of The Sun), publishing house Daily Mail & General Trust is planning to float its free afternoon daily in the market. The new daily is to be christened London Lite, which will initially meet a circulation target of 400,000 copies. The launch of the paper will see the termination of Evening Standard Lite. The group also circulates London's free morning paper named Metro.

No 'Fuji smile' for General Electric

General Electric's future in the digital breast cancer market seems uncertain. GE, which had a firm footing in the American market, is being challenged by Fuji Photo Film. The latter has received a green signal from US Food and Drug Administration to inaugurate its device, which is priced lower than that of General Electric. By the year 2010, Fuji Photo Film would have shipped 7,000 pieces of the medical device into America. Since 2003, the company has already sold 3,000 such units, which has helped it to fetch $300,000 across the globe.

Japan ropes in super sixteen

Officials hailing from the land of the rising sun have come up with a proposal to configure a 16-nation free-trade bloc comprising of China, South Korea, Australia, India, New Zealand and the 10-nation Southeast Asian bloc. Last year, the same 16 had created the East Asia Summit, which was perceived as a forerunner to the formation of a giant free-trade alliance, engulfing almost half of the world's populace. Japan entered its first ever FTA with Singapore in 2002 and also coordinated well worked deals with Mexico, Malaysia, Thailand and Philippines. Meanwhile, Australia and New Zealand have also expressed their willingness to be a part of such a bloc. The advocates of the plan, however, admit that turning it into reality will take a long time.

Banking on bottling plants

San Francisco-based Seven-Up bottling company has been bought by Cadbury Schweppes from the Easley family in a $48 million cash deal. The driving force behind the deal was the urge to increase the count of bottling plants that were incharge of selling brands like Dr. Pepper, 7-Up and Sunkist sodas. Seven-Up Bottling that recorded revenues of $140 million in 2005 has ten warehouses, a manufacturing plant and houses 600 people. This latest advancement will certainly help Schweppes strengthen its position in controlling the drinks market in the American territory.

It's time to defrost for Unilever

150 million times a day – that's the number of times a Unilever product is picked up in every part of the world! The company offers 400 brands, covering 14 categories of food products, household goods and things of personal care needs. Recently, Unilever sold a major chunk of its European frozen foods business to the private equity firm Permira Funds for a whopping $2.21 billion. The deal includes purchase of the brands Iglo and Birds Eye, as well as operations in Austria, Belgium, France, Germany, Ireland, Netherlands, Portugal

and United Kingdom. Unilever reasoned out the sale claiming that other areas under its portfolio needed considerable attention and that the frozen food sales had dipped by 4.5% last year. The Spanish frozen-food unit of Unilever was sold about two months ago. However, the frozen food business in Italy, which falls under the brand name Findus, will continue to remain with Unilever. The company has also refused to part with its ice cream division, whose brands include Magnum.

Permira faced stiff competition from bidders including Capvest and a consortium of Blackstone, JP Morgan Partners & Kerry Foods for the frozen foods business. The divestment of the division is expected to be complete by the end of this year. However, the deal's conclusion now rests on regulatory approval and a green signal from employee works councils. The company is hoping for an after-tax profit exceeding $1.28 billion. The frozen foods division reported revenues worth $1.59 billion last year and was put up for sale in February this year.

Apple burns while Sony moans

After Dell, it's Apple that has rung the alarm bells on defective laptop batteries. Following Dell's recall of 4.1 million lithium-ion batteries made by Sony for its laptops, Apple has also started recalling 1.1 million batteries sold in the US and another 700,000 batteries from across the world. Just like in the case of Dell, these batteries have also been made by Sony Corp. Although, Sony has assured its assistance to Apple in the entire recall process, the episode will surely dampen Apple's efforts of soon introducing a new range of products supported by Intel Microprocessors.

Selling equity, eroding liability

The world's leading mobile telecommunications company, Vodafone Group traded 25% of its stake to Belgium's prevailing telecom group, Belgacom for $2.55 billion in Proximus. The company found the deal lucrative enough to utilise the sale proceeds in order to lighten its debt burden. The deal will make Belgacom the sole controller of the company's operations. Earlier this year, Vodafone had also sold part of its besieged Japanese business for $11.36 billion. The company is, however, suppressing demands from its investors to sell-off its stake in Verizon Wireless. The group serves about 186.8 million customers at present. (Refer B&E Stratagem International)

BIL plays a winning hand

BIL Gaming Operations UK Ltd., the wholly owned subsidiary of Bill International Ltd. (BIL), has struck an all cash deal worth $58.54 million to acquire one of London's elite casinos – The Clermont Club. BIL is an investment company primarily listed on the Singapore Stock Exchange and enjoys secondary listings on the London and New Zealand Stock Exchanges. The company is known to have made several casino applications in the city of London along with other destinations in the UK. The casino was earlier acquired by The Rank Group Plc (a subsidiary of Grosvenor Casinos Ltd.) in 1990. Rank's departure, however, has been marked by the need to lay greater focus on mainstream gaming market.

Rite Aid acquires to aid its drug stores

America's third largest drugstore chain, Rite Aid Corp. is planning to acquire the US operations of Canadian firm, the Jean Coutu Group Inc. The deal, which is a combination of cash, debt and equity, involves $1.45 billion to be paid in cash and $1.18 billion for 250 million shares. Rite Aid will also undertake a debt of $850 million. This deal will help the third ranker inch closer to its rivals Walgreens and CVS. Rite Aid, which already operates 3,323 chains of its own, will also get hold of 1,858 Eckerd and Brooks drug stores as part of the deal.

GE Money takeovers Thai bank

Ten years after setting shop in the Thai market and attaining the number one position among the credit card providers in the country, GE Money has acquired a 25.4% stake in Thailand's Bank of Ayudhya PCL. The $600 million transaction between General Electric Co.'s consumer finance wing and the bank is subject to shareholder approval. The Bank of Ayudhya started operations in 1945 and at present is the sixth largest bank in Thailand with a network of 500 branches. The two companies had earlier entered into a joint venture in 2001.

Donald to roll the wheels

Motorcycle giant Harley-Davidson Inc. has agreed to acquire a major portion of the assets of Australia-based Castalloy. Castalloy has been the sole supplier of cast motorcycle wheels and hubs to Harley-Davidson for the past 20 years. Post the acquisition of assets, a new wing will be formed in Adelaide called New Castalloy. This new wing will be a wholly owned operation of Harley-Davidson and will primarily focus on manufacturing. Donald Gogan, who has been with the Milwaukee-based motorcycle manufacturer since 1992, has been appointed as the Managing Director of this new venture.

Santa's bag to carry Microsoft Zune

Toshiba is going to help Microsoft battle the Apple iPod. Microsoft's Zune, a portable media player that is likely to hit the shelves by the end of this year (just before the American holiday season), will be manufactured by Toshiba. The device that flaunts of a 30 giga byte memory space will enable users to share songs, photographs and other media content using a network referred to as "Pyxis." Different from Apple iPod, Zune will be able to stream music to up to four other devices.

Delayed justice adds further cost

Just when a lawsuit that had been lingering for the past nine years approached settlement, it encountered fresh opposition. Television broadcaster EchoStar Communications Corp. was caught in a dispute of programming with its associates ABC, NBC and CBS stations. The media partner had agreed to pay $100 million to resolve the looming dispute, but resistance by a group of Fox Network stations has staggered the process. EchoStar was found guilty of violating payments pertaining to the programming of local sports that the channel airs to several subscribers. The court ruling could ask EchoStar to discontinue serving about 800,000 subscribers, which in turn implies much lower revenues for EchoStar.

HP Chairwoman's Dunn by pretexting!

She is often referred to as being charismatic and an expert at whatever she does. She pursued a course in journalism at the University of California working along side as a part-time reporter. Her skill for handling people got her recognised and eventually paved way for her successive promotions at Wells Fargo Investment Advisers. Plagued by breast cancer, she stepped down as the CEO of Barclays Global Investors. Yes, we are talking about none other than Patricia Dunn, who came to be associated with HP in 1998 as a board member and soon rose to the post of the Executive Chairman. But January 2007 will see Dunn stepping out, only to be succeeded by the current CEO Mark Hurd. This down turn in her career comes in the wake of a scandal where the board members were spied on to find out who was responsible for disclosing information from board meetings to the press. And all this is known to have taken place with Dunn's approval. It was revealed that, a firm hired by HP resorted to pretexting (lying about one's identity) to get their hands on the personal phone records of nine journalists, directors and employees of HP. Pretexting is actually unlawful in California. There are also chances that Dunn may be tried by the law.

Time to get focussed

New York Times Co. has new plans to dispose-off its group of nine network TV stations. Although all the stations are profit generating, the move will help the company focus better on its newspaper and digital businesses. In 2005, the nine media channels contributed 4% to the company's total revenue. This year, the company anticipates the group to deliver total revenue of $150 million and an operating profit of about $33 million. Goldman, Sachs & Co. is the advisory to the sale.

Nationwide dreams of building a dream!

Nationwide Building Society, the largest mutual organisation among building societies in the UK, has disclosed its intentions to acquire its smaller rival Portman Building Society for about $938.35 million. The merged society will be christened Nationwide Building Society and is expected to be the UK's second largest mortgage lender and the second largest retail savings provider. All Portman ventures will shed their old names to take up the Nationwide identity. The gross value of total new assets is expected to exceed $281.50 billion.

It's the sound of music...

Vivendi's Universal Music has finally struck the right notes by agreeing to buy Bertelsmann's BMG music publishing for $2.1 billion. This will make Universal the world's largest seller of recorded music and also the leader in music publishing. The merger is subject to the approval of the US and European regulators. BMG owns more than one million copyrights for recording of various artists. This deal also sees the settlement of a legal dispute for Bertelsmann, who was sued by Vivendi over the Napster issue. Vivendi has agreed to settle the dispute though.

An all new window for MS

The war between the two IT titans, Microsoft and Google, continues to rage. In an answer to Google's launch of free news archive service that allows internet users to explore articles printed centuries ago, Microsoft has gone a step ahead and launched its new search engine named Windows Live, which will supplement the old MSN Search. The new Windows Live Search is known to be more advanced and user-friendly and is being launched in 47 markets worldwide. This is also Microsoft's weapon to battle competition in the field of online advertising from Google, which has a substantial hold over the market.

Vodafone bundles itself to get better

Vodafone – the world's largest cellular service provider – has now decided to foray into the competitive fixed-line broadband market in the UK. It has also signed a deal with the telecom giant British Telecom's wholesale wing. Vodafone aims at providing its customers with the advantage of availing the bundled packages including mobile and broadband services. Vodafone hopes to float the new service by the end of this year. Upon entering the highly competitive bundled services market, the mobile giant should ready itself to face stiff competition from O2, Orange and Virgin Mobile.

OPEC decides to sustain the yield

Staying on guard, the Organisation of the Petroleum Exporting Countries (OPEC) confirmed that it would keep pumping crude at the existing levels. However, the eleven member group clarified that plummeting oil prices could force it to cut down production. OPEC will maintain its output quota at 28 million barrels per day. The cartel reasoned out saying that supplies are more than adequate to meet world demand. Including Iraq, which does not fall under the quota system, OPEC's daily production (present) is almost close to 30 million barrels. The group, which is responsible for producing 40% of the world's crude requirements, has wisely kept its options open – allowing space for changes during their next meeting in the month of December 2006.
Lockheed Martin Corp. that engages in aeronautics, electronic systems, IT Services and space systems, has decided to downsize its commercial space business. It now wants to concentrate on greater profit yielding government space projects. This decision will narrow down options for companies that are willing to purchase or launch satellites. Lockheed also plans to sell its stake in two Russian rocket-launch joint ventures to concentrate on Pentagon space programs.

Downsizing for rightsizing profits!

Intel made its plans public, to cut 10,500 jobs which accounts for upto 10% of its employee strength globally. The job cut that is to conclude by mid-2007 has been termed to be in accordance with a restructuring plan and is supposed to help bring down costs by a whopping $6 billion over a span of three years. The move will propel Intel's profitability, taking it a step ahead of rival chip maker AMD. Intel hopes to save $1 billion this year, $2 billion in 2007 and $3 billion in 2008, through the move. Majority of the job cuts are likely to occur in management profiles, the chip maker's marketing departments and various other IT related job areas. Around 5,000 jobs have already been cut at Intel.

Alan drops-off from Boeing to Ford

Former Boeing Executive, Alan Mulally, has been appointed as the new Executive President and Chief Executive Officer of the American auto giant, Ford. This appointment came after Bill Ford gave up his post as a CEO; after struggling for five years to keep the wobbly auto company intact. Aged 61, Mulally has handled the posts of President and CEO at Boeing Commercial Airplanes since 2001. He has been associated with the aircraft manufacturer for the past thirty-seven years. Ford chose upon Mulally looking at his art to keep his customers satisfied, handling labour problems with ease and managing supplies. However, Bill Ford, who took charge as a CEO in October

2001, will continue to hold the office of Executive Chairman, working on strategically repositioning the company that his great-grandfather Henry Ford had established. His family still holds about 40% of total shares in Ford Motor.

Thames' Water up for sale...

A group led by Qatar's state-owned investment fund has emerged as the likely victor to buy Britain's Thames Water for about $13.14 billion. The bid submitted by the Qatari fund supersedes the offer put forth by private equity group, Terra Firma. The course of events can turn in any direction as final offers are allowed to pour in till October 9, 2006. It is also known that British insurance company Prudential Plc. is trying to rope in Australia's Macquarie Bank to jointly bid for Thames Water, UK's largest supplier of public water, which is owned by the German utility, RWE AG.

Losing faith of shareholders

BAE, the European defence giant, is walking out of trapped plane-maker Airbus, as it has decided to sell-off its 20% stake in Airbus to the parent company European Aeronautic Defence and Space Company (EADS) for $3.49 billion. BAE is looking forward to net proceeds of $2.25 billion and intends to return about $938.35 million to its shareholders by means of share buyback. If approved by BAE the shareholders, EADS – which currently owns 80% of total shares of Airbus – will be the sole owner.

Heart drug lends a heart-attack to CEO

Plavix, the biggest drug of Bristol-Myers Squibb, used to guard against heart related troubles, has dealt a stroke to Peter Dolan, the company's CEO. Dolan, who has been charged of manhandling a patent settlement case related to the drug, has been fired. To add to Bristol's woes, a Canadian drug-maker, Apotex, is known to have launched a generic version of Plavix – eating into 80% of Plavix's market share.

Time is changing for Time Warner...

In order to trim its range of low-profit generating titles, Time Warner Inc.'s Time magazine arm, which is based in New York, is planning to put up its Time4Media and Parenting Group titles for sale in the market. The 18 print titles that are to be sold-off include Popular Science, Field & Stream, Outdoor Life, Skiing, Parenting and Babytalk. Most of the titles in question were acquired by the company in the year 2000, when Time had acquired Times Mirror Magazines from Tribune Co. for a price of $475 million. The sale should help the company garner a sum of around $300 million. The list of potential buyers includes names like Wind Point Partners, Providence Equity Partners Inc., Spectrum Equity Investors and Warburg Pincus.

Virgin goes green route

The flamboyant mogul, Sir Richard Branson, of Virgin Group has agreed to initiate the usage of green fuels. For the same, it has set aside an investment fund worth $400 million. The company's deal backs California-based Cilion that is engaged in producing bio-ethanol from corn. The plans include constructing seven plants by the year 2009, which are expected to have an annual capacity of 1.7 billion litres. The green plan will gradually spread out to Britain, Europe and other parts of the globe.

China to scale new heights

The dragon country will soon house the second highest airport in the world at China's South-Western province of Sichuan. It will stand at 4,280 metres above sea level, preceded only by Qamdo airport in Tibet. Chinese engineers have already initiated work on the airport, which is scheduled to be completed by the year 2008. The project covers a cost of $120.8 million with a passenger handling capacity of 330,000 annually. The idea of this project, which actually first originated about 13 years ago, received the final nod in May this year.

Wal-mart's pricier...

The world's biggest retail giant, Wal-Mart – which has closed down its operations in South Korea and Germany this year – has come up with a new idea to attract the flock of wealthy shoppers so that they pick up high-margin articles. The retail behemoth is launching a collection of holiday home decor that will be designed by world-renowned designer and wedding planner Colin Cowie. The list of items includes barware, photo frames, dinnerware, napery, champagne flutes and floral topiary. The collection will be christened C Squared and is available October onwards.

To fix the fixed-lines

Italy's biggest telephone company, Telecom Italia SpA, unveiled its intentions to re-organise its fixed-line and mobile units, at a board meeting in Milan. The plan includes sharpening focus on internet services and promoting media content. The company's moving out Chairman, Marco Tronchetti Provera, had been holding talks with Rupert Murdoch at News Corp. to strike a deal to provide media content using Telecom Italia's high-speed internet service. This could spark the sale of Italia's mobile units in Italy and Brazil for $59 billion. The Italian company has a mobile subscriber base of 52.7 million in Italy and Brazil. However, it is to be noted that the company has reported a 15.7% drop in net profits during H106.

Nokia to ring with Moto Razr!!!

The American & Finnish handset manufacturers, Motorola & Nokia, respectively, have signed a deal to work jointly, enabling their customers to watch television broadcasts through each other's networks on mobile handsets. Broadcast mobile TV is the latest service that mobile companies offer to lure subscribers to add to their current base. The world leaders are planning to use DVB-H technology (digital video broadcast-handheld), which competes with two other mobile TV formats called DMB and MediaFlo. Jointly, Nokia and Motorola carry the onus of selling 55% of the global mobile sale. It is estimated that 50 million DVB-H enabled handsets will be sold by 2010. In order to push the adoption of DVB-H, five companies – Intel, Modeo, Motorola, Nokia & Texas Instruments – had formed the Mobile DTV Alliance in January this year.


You may say,
I am a Dreamer...
Let me not be the only one.
>> Let's work towards
>> a healthy, educated and
>> poverty free India by 2025!
DARE TO THINK BEYOND!
>> Adopt a school
>> Adopt a health centre
>> Fund an entrepreneurial park
Or just contribute... towards the Great Indian Dream
"COME SHARE THE DREAM"
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IIPM
PLANMAN CONSULTING
JOINT INITIATIVE
THE GREAT INDIAN DREAM FOUNDATION
HEALTH • EDUCATION • EMPLOYMENT
The Beginning of A Social Sector Revolution

IIPM Planman Hyderabad Campus

IIPM Planman Pune Campus

IIPM Planman Bangalore Campus

IIPM Planman
New Delhi Campus - II

IIPM Planman
Chennai Campus

New Delhi
IIPM Tower I, B-27,
Qutub Institutional Area,
New Delhi - 110016.

New Delhi
IIPM Tower II, C-10,
Qutub Institutional Area,
New Delhi - 110016.

Mumbai
IIPM Tower, Junction of 32nd
Round & S.V. Road,
Bandra (W) Mumbai - 400050.

Ahmedabad
IIPM Tower, 19, Inqulab Society,
Opp. Sears Tower, Gulbai Tekra,
Off C.G. Road, Ahmedabad - 380015.

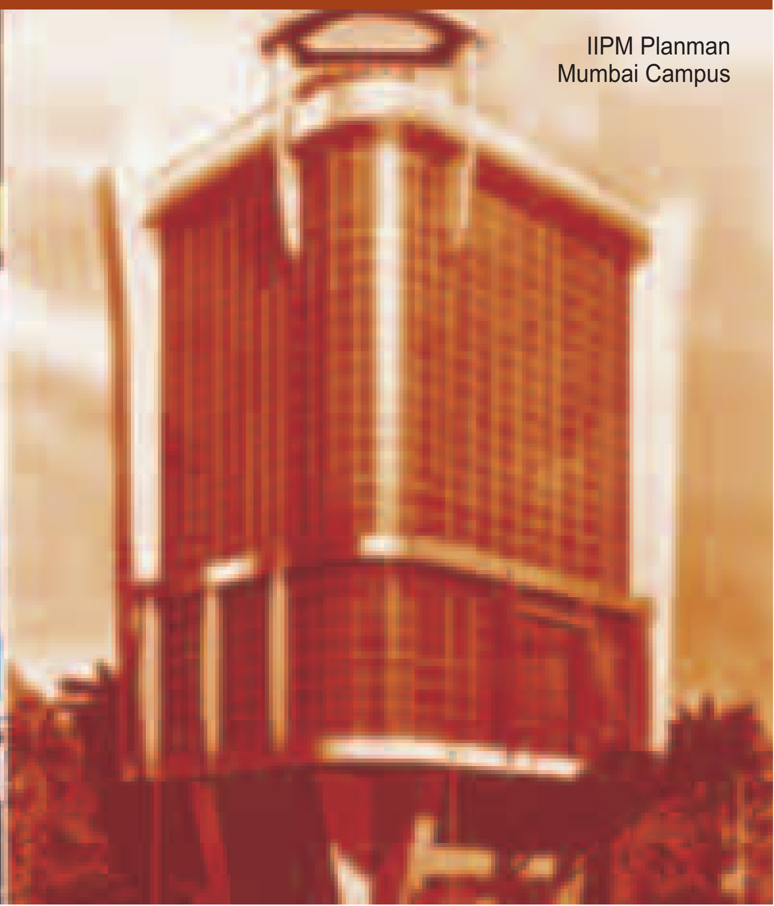
Pune
IIPM Tower, 893/4, Bhandarkar Road,
Deccan Gymkhana, Opp Oak Wood
Hotel, Pune - 411004.

Bangalore
IIPM Tower, 419, 100 Feet Road,
Next to Canara Bank,
Koramangala, Bangalore - 560034

Hyderabad
IIPM Tower, 6-3-252/2,
Erramanzil, Banjara Hills,
Hyderabad - 500082.

Chennai
IIPM Tower, 145,
Marshall Road, EGMORE,
Chennai - 600008

IIPM Planman Ahmedabad Campus



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