Win in India: An Analysis of Market Entry Strategy Into India's Food and Beverage Industry

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WIN IN INDIA: AN ANALYSIS OF MARKET ENTRY STRATEGY INTO INDIA’S FOOD AND BEVERAGE INDUSTRY

by

Grayson S. Greer

Advisor: Dr. Molly Jensen

An Honors Thesis in partial fulfillment of the requirements for the degree Bachelor of Science in Business Administration in Finance and Accounting

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Abstract

The purpose of this thesis is to examine four different modes of entry when selecting a market entry strategy in an emerging market and learn how to succeed in the world’s largest growing market, India. The introduction chapter discusses the development of international business and why companies choose to expand internationally, honing in on market entry selection in emerging markets. Market entry strategy is broken down into two primary components: county or market selection and mode of entry. Chapter two introduces India as the emerging superpower of the 21st century and conducts both a PESTEL and Porters Five Forces analysis on India’s Food and Beverage Market. The body chapters identify four separate modes of entry: exports, wholly owned subsidiary, joint venture, and franchise. Each approach is analyzed in the body chapters while examining four different companies and their market entry strategy. Nestle, Coca-Cola, Pepsi Co, and Pizza Hut each share the commonality of having established a significant business presence in India and in the food and beverage market. However, they differ in their strategy of how they entered the country and their continued marketing/distribution strategy. Finally, each company faces challenges regardless of the approach used to implement and this is examined by unique case studies for each from both research and personal accounts from company executives. The last section focuses on WINNING in India and recommendations for success from a variety of sources.
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Chapter 1: The Globalization of Business

When top management teams and CEO’s were asked the most critical challenge they face in today’s business environment; they responded, globalization (Khanna, T., Palepu, K., & Sinha, J., 2001). Globalization has brought about a variety of challenges when it comes to selecting internationalization strategies and the country in which to conduct business. Globalization, simply defined, is the increasing interdependence of citizens and nations across the world (Janda, K., Berry, J. M., & Goldman, J., 2008). With this interdependence comes new ideas, improved technologies, resources, products, services, and lifestyles that rapidly diffuse through international markets. John Hills describes globalization as having two main components: modernization and acculturation (Hill, J. S., 2009). Modernization refers to the upgrading of technologies and living standards that occur as ideas, products, and services diffuse globally. A great example is the evolution of the telephone: from a turn dial and crank in the 1980’s, to today’s 8-inch touch screen complete with an intelligent personal assistant and facial recognition. The second component, acculturation, involves the transfer of lifestyles and behaviors among societies. Societies cooperate with others by sharing unique qualities such as behaviors and lifestyles to expand and progress. The technologically advanced and globally connected society we live in today is a byproduct of these two components.

Globalization is not a recent phenomenon. Dating prior to the Exploration Era as villages were slowly forming, societies realized that specialized labor and trade were key pillars of growth for civilizations (Hill, J. S., 2009). Commercial centers and trade routes were established as merchants sought after foreign markets for new opportunities. Then came the Colonial Era from 1500 to the early 20th century (Hill, J. S., 2009). This era was characterized by military conquests and colonization efforts that brought about innovations in transportation,
communication, and production (Commet, G., Denoix, S., Derenjian, G., Hidelsheimer, F., Mackenzie, C., Pomey, P., & E. V., n.d.). This led to a new wave of globalization, between 1900 and 1945, where companies emerged as the main catalysts of economic and social change (Hill, J. S., 2009). The Western world began to urbanize, investing heavily in emerging markets in search of goods and commodities for the developed world. The search continued into the Contemporary Era beginning in the 1960’s, where movements toward capitalism, foreign direct investments, and free trade laid the groundwork for international markets to form (Hill, J. S., 2009). International business paved the way for globalization as countries became sustained by the state of their economic activity in the international markets. New ideas and technologies contributed to economic and social changes as developing markets emerged. Trade and investment boomed. The globalization of these innovations set the stage for international business to flourish.

In its simplest terms, international business is merely global transactions. It involves all commercial transactions – including sales, investments, and transportation – that take place between two or more countries (Radebaugh, L. H., Sullivan, D., & Daniels, J., 2011). As businesses engaged in international transactions, they soon learned that it is much different and more complex than operating a business domestically. Domestically, businesses were focused on prospering in the smaller markets in which they originated; whereas internationally, businesses were focused on competing and winning in a global marketplace. The strive to win across multiple markets laid the groundwork for economic theory and academia to provide strategies for company expansion as well as identification of promising markets.

Why Companies Expand Internationally

Companies expand internationally for a variety of reasons; the primary reason being the
opportunity to market and sell their products to more than three billion consumers. In many situations, the global marketplace is simply one click away and companies have the potential to increase sales by selling to markets other than their home market. By pursuing sales internationally, businesses move into global markets, which in turn, increases the demand for the product and generates more revenue for the company. Prior to entering this global arena, companies examine the resources needed for production of the product or service and attempt to locate the resources at the lowest cost. Companies tend to minimize the costs of production when locating less expensive suppliers in other countries as well (Benefits of Outsourcing for Small Businesses, 2008). Minimizing the cost of production gives the company increased net income after selling the product. Other benefits of expanding international include not only locating new and better products, but also obtaining additional knowledge. Companies benefit from diversification: some product sales that are weak domestically, may be profitable abroad. Entering target markets can diversify a company’s product line, giving them a foothold in several countries so reliance is not solely on the economy of one country (Vertical Integration and Horizontal Integration., n.d.) In this sense, companies protect their investments and markets by doing business with a multitude of countries. The benefits of moving a business into the global arena are endless; however, only few succeed in capturing the full potential that new markets offer.

To succeed in a global economy with over 200 national markets, interacting with nearly eight billion people, it is crucial that businesses have strong leadership and a longing to learn. The global marketplace is very diverse and businesses must be willing to compete at extraordinary levels to not only survive, but also prosper. Businesses must acknowledge the diversity and cope with the uncertainties of present and future international transactions. To
operate in such markets, companies must be also prepared to deal with an abundance of political, economical, and social challenges.

Where Companies are Expanding - Emerging Markets

Since the 1990’s, developing countries have been the fastest-growing markets in the world for products and services (Khanna, T., Palepu, K., & Sinha, J., 2001). Emerging markets pose immense growth opportunities for multinational corporations (MNC’s). According, to the Economist, Western multinationals expect to find 70% of their future growth there; 40% in China and India alone (Eyring, M., Johnson, M., & Nair, H., 2011). During the next two decades, emerging markets will be responsible for the highest share of the worlds growth according to Cavusgil, Ghauri, and Agarwal (2013). Before exploring the numerous opportunities in emerging economies, one must first understand what defines an emerging economy.

An emerging market economy (EME) was first coined in 1981 by Antoine W. Van Agtmael of the International Finance Corporation of the World Bank. The term is defined as an economy with low to middle income per capita (Heakal, R., 2017). Most experts can agree that emerging markets refer to the countries or regions undergoing rapid economic growth. “Emerging can be quite useful in describing the new combination of countries where changing demographics, expansion of technology, and the need for highly skilled talent will determine how some countries within a given region will develop into a global economy” (Faulk, G., & Salem, K., 2014, p. 72) Emerging markets are classified in many ways; however, there are many characteristics that distinctly separate them from the rest of the world.

An EME is characteristically described as a “society transitioning from a dictatorship to a free market-oriented economy, with increasing economic freedom, gradual integration within the
global marketplace, an expanding middle class, improving standards of living social stability and tolerance, as well as an increase in corporations with multilateral institutions” (Kvint, V., 2008, p. 4). Some of these characteristics include: lower-than average per capita income, rapid growth, high volatility, higher-than-average return, and less mature capital markets (Amadeo, K., 2017). Arnold and Quelch (1998) also suggest a few aspects which highlight the characteristics of emerging markets: economic development based on GDP per capita, pace of economic development, and system of market governance. Most EME’s are in the process of moving from a closed market economy to an open market economy. Some economists and strategy firms go a step further in using formulas such as gross domestic product and per capita income to determine whether a country is an emerging market.

Indexes and country blocs are used to help group the different emerging countries. The most well-known EME’s are represented with the acronym BRICS, coined by Jim O’Neil in his paper, Building Better Global Economic BRICs (2001). The BRICS countries - Brazil, Russia, India, China, and South Africa - represent approximately 40% of the world’s population and more than 20% of the world’s land (Bremmer, I., 2017). According to the Boston Consulting Group, China remains the most important emerging market for multinational enterprises followed by Brazil and India (Nettesheim, C., Faeste, L., Khanna, D., Waltermann, B., & Ullrich, P., 2016). Brazil, Russia, and South Africa have taken advantage of globalization by selling their natural abundant resources while China and India have integrated themselves into global supply chains (Bremmer, I., 2017). Other referenced emerging market groups include: MINT (Mexico, Indonesia, Nigeria, and Turkey), CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey, and South Korea), and EAGLE (Emerging and Growth Leading Economies of Brazil, China, Egypt, India, Indonesia, Mexico, Russia, South Korea, Taiwan, and Turkey)
(Cohn, C., 2014). The countries above have been loosely linked together, in some cases by relative growth measures, and should only be perceived as a starting point for exploring emerging markets. “While many of the countries in these groups have commonalities in demographic and economic indicators, over the next twenty to thirty years these blocs may not enjoy the kind of steady, even growth the BRICS countries enjoyed in the late 1990’s and 2000’s. The other economies can be truly viewed as emerging in building new evolving economic, political, and social infrastructures that BRICS economies already have” (Faulk et al., 2014, p. 72)

McKinsey and Company projects that by 2025, almost half of the Fortune Global 500 companies would be based in cities in the emerging markets (Mancini, M., Namysl, W., & Ramaswamy, S., 2017). Emerging markets offer both opportunities and challenges for multinational companies; first and foremost, being the first-mover advantage. Companies first to establish a business presence and offer consumers something new, have the potential to dominate their industries. A good example is Volvo’s, a Swedish vehicle manufacturer, recent entry into the luxury bus segment in India. Volvo capitalized on its first mover advantage, obtaining a 74% market share within the first few years (Kumar, A., 2013) Secondly, companies seeking to grow their customer base should take advantage of the exponential growth of middle class consumers. Increasing wealth is driving the emergence of middle-class spending and widening the global pool of talent. A new era of consumerism has arisen, while the “basic needs” era continues to decline. More than half of the world’s population lives in emerging markets and there is an increased demand for new varieties of goods and services. By 2025, annual consumption in emerging markets will reach $30 trillion—the biggest growth opportunity in the history of capitalism (Atsmon, Y., Child, P., & Dobbs, R., 2012). Lastly, the opportunity to access new
capital exists. “Untapped capital is up for grabs and building and maintaining a pipeline to those funds helps companies not only expand abroad, but also bring in new resources for domestic growth” (Kokemuller, N., n.d.). However, all opportunities certainly come with challenges and risks. In EME’s, many companies have limited protection and must navigate political, economical, and currency risk. Unregulated markets, political unrest, and volatile currency swings are also common issues (Emerging Markets 101, n.d.). MNC’s must be willing to accept the upfront financial and social commitment associated with entering emerging markets, and effectively counteract these challenges in their favor.

Since most the world’s population lives in emerging markets, MNC’s should not neglect this opportunity. While there are fundamental risks and challenges, first movers and disruptors have seen much success while investing for the long term. A United Nations report, says “emerging powers in the developing world are already sources of innovative social and economic policies and are major trade, investment, and increasingly, development cooperation partners for other developing countries” (Taylor, M. 2013). Companies should capitalize on the boom in emerging markets and form a market entry strategy that aligns with the company’s purpose and economic goals.

**Market Entry Strategy**

While emerging markets offer enormous opportunities for multinational businesses, companies must first develop a market entry strategy. As noted by Matthew Erying in HBR article, most companies struggle “not because they can’t create viable offerings but because they get their business model wrong” (2011). He goes further to say that many multinationals simply import their domestic model into emerging markets, instead of adapting their fundamental profit formulas and operating model to the needs presented in emerging markets. The success of
MNC’s in new markets is widely attributed to a firm's selection and implementation of this adapted business model. Companies must consider numerous factors including market size and growth, local infrastructure, company objectives, risk, control, and many others (Wach, K., (2014). While research and consulting firms provide their own strategic frameworks identifying these factors, we will focus on the two components of market entry strategy: country/market selection and mode of entry.

*Country/Market Selection*

Today, many corporations will enter new markets because of an executive personal or gut feeling, experiences, or even family ties. Others follow the “herd instinct” and follow customers or rivals into emerging markets (Khanna et. al., 2005). The first step in entering a new market is to conduct market research and assess the current market situation, its size and trends, the competitive landscape, and the legal environment (Pärnapuu, K., 2017). A company must gain an extensive understanding of the country it is entering and the current market landscape. In 1967, Francis J. Aguilar, was credited for introducing four influential factors in his book, *Scanning the Business Environment* (1967). He coined the acronym ETSP, representing the four factors: economic, technical, political, and social factors that shape the business environment. The acronym was later modified, in the addition of an E and L, to represent the environmental and legal issues that might affect an organization (Frue, K., 2017). Strategic Management Insight notes that the framework has the following three objectives: determine the current external factors affecting an organization, identify the external factors that may change in the future, and exploit the changes (opportunities) or defend against them (threats) better than competitors would do (Jurevicius, O, 2013).
Today, the PESTEL framework is used as a strategic tool to evaluate corporations, industries, and countries. Let’s look at each of the factors more closely. First, understanding a country’s political and economic institutions are two of the most important factors in selecting an emerging market. Political factors determine the extent to which a government may influence the economy or certain industry (What is PESTLE Analysis? n.d.). While working with individuals, knowing the political system of a country can assist a business in capturing the hearts and minds of both the people and the government by recognizing motivating stimulators. Understanding the country’s economy type is also crucial. There are three main types of economies: market, command/planned, and mixed. Each system differs in terms of control and economic freedom. Several other components which determine an economy’s performance include inflation rate, interest rates, foreign exchange rates, economic growth patterns, and sometimes even foreign direct investment. (PESTLE Analysis, n.d.)

Third, social factors “scrutinize the social environment of the market, and gauge determinants like cultural trends, demographics, population analytics, etc.” (PESTLE Analysis, n.d., para. 7) An example might be as follows: in Germany, family is still the most important social reference unit; thus, an entertainment company entering the German market may focus on forms of entertainment geared towards families (PEST Analysis for Germany., n.d.) Fourth, technological factors often affect how a company chooses to deliver its services or products to the marketplace. Some companies may choose to establish a new business presence in the “India’s Silicon Valley,” Bangalore, due to its technology capability and productivity. Fifth, the environmental landscape includes everything from government regulations and policies to the climate and weather. Many governments expect companies that enter to contribute to environmental and sustainable initiatives. Finally, legal systems define how businesses can
operate. There are numerous differences in the legal systems which must be acknowledged such as contracts, local content, product safety, and taxes. For the context of this paper, the PESTEL framework will applied later to India’s business environment.

*Mode of Entry*

The next crucial step in developing a market entry strategy is to select the best mode of entry. Business leaders must carefully choose a mode of entry that balances risk and control, enabling the company to succeed in the target market. A market entry mode is “an institutional arrangement that makes possible the entry of a company’s products, technology, human skills, management or other resources into a foreign country” (Root, 1987:5). There are many different modes of entry that will be discussed below and companies must weigh the advantages and disadvantages of each during the selection process. Just as in evaluating markets, there are multiple factors that influence the selection of a mode of entry. Author John Hill suggests that entry mode is influenced by three different variables: strategic, environmental, and transaction-specific. (Hill, Hwang & Kim, 1990:129). Johanson and Valhlne believe a company's current state, past experiences, and structure of the target market all affect the decision of what entry mode to select (1977:29). Other factors include how much time is available and level of competition. “Firms that take the trouble to understand the institutional differences between countries are likely to choose the best markets to enter, select optimal strategies, and make the most out of emerging markets” (Khanna, 2005, para. 6)

Academia provides a great framework for defining the different modes of entry and identifying advantages and disadvantages of each. Typically, the modes of entry are grouped into the following: exporting strategies, contractual entry modes, and investment entry modes. Exporting strategies are the most well established form of entering foreign markets and exist
when one country transfers goods it produced to another country. Exporting includes both direct and indirect transfers. Contractual entry modes, as their name suggests, are modes of entry where company’s make contractual agreements with other firms to license, franchise, or sell their goods and/or services. Lastly, investment entry modes involve foreign companies purchasing a local company or creating alliances and ventures with existing local market players. The matrix below has been compiled with the use of multiple academic sources.

<table>
<thead>
<tr>
<th>Group</th>
<th>Mode of Entry</th>
<th>Description</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exporting</td>
<td>Direct</td>
<td>Direct transfer of goods and services to a customer across national boundaries</td>
<td>-Low capital investment -Moderate financial risk -Reduces risk of operating overseas</td>
<td>-No learning experience -More demanding on resources -Potentially high opportunity cost</td>
</tr>
<tr>
<td></td>
<td>Indirect</td>
<td>The sale of goods or services through the domestic intermediary</td>
<td>-Least complicated -Low capital investment -Low financial risk</td>
<td>-Low profitability of transactions -Lack of control -High dependence on foreign agent</td>
</tr>
<tr>
<td>Contractual</td>
<td>Licensing</td>
<td>Foreign licensee buys the rights to produce a company’s product in the licensee’s country for a negotiated fee</td>
<td>-Fastest way to expand -Low cost of developing foreign market -Means to bridge import barriers</td>
<td>-Need for quality control -Limits market development -Relatively low income</td>
</tr>
<tr>
<td></td>
<td>Franchising</td>
<td>Franchisee gains rights to use brand name and business model in return for a lump sum payment and a share of the franchisees profits, often in the services and trade sectors</td>
<td>-Little or no financial investment -Rapid way to gain entry -Simple expansion</td>
<td>-Lack of global strategic coordination -Need for quality control -Profit sharing -Possibility of franchisee disloyalty</td>
</tr>
</tbody>
</table>
**FIGURE 1: Mode of Entry into a Foreign Market - Description, Advantages, and Disadvantages (compiled from multiple sources - Kumar, Pärnapuu, Market Entry Strategies - FAO Corporate Repository, and Strategic Management: Market Entry Strategies in the Literature)**

**Research Question**

To answer the question of how multinational corporations successfully select and implement a winning market entry strategy in emerging markets, we will learn from the successes and failures of MNC’s entering India’s Food and Beverage Market. Four companies have been selected as case studies for examining the major modes of entry: Nestle, Coca-Cola, Pepsi-Co, and Pizza.
Hut. We will first look at a PESTEL analysis of India’s business environment and an overview of its food and beverage market. Then we will examine the major modes of entry and a case study for each. Lastly, conclusions and recommendations will be made for companies seeking success in the Indian market.
Chapter 2: India - An Emerging Superpower

Out of the countries identified in the BRICS bloc, the most promising is perhaps the world’s largest democracy with 1.25 billion people, India. Located in the heart of South Asia, India has become a target country for the strategies of many multinational businesses. China’s Foxconn recently pledged $5 billion in investment in manufacturing projects, Amazon $5 billion, GM $2 billion, as well as Ford and Uber $1 billion (Mithas, S., Prasad, K., & Kannan, P., 2016 para. 6). With its diverse economy spanning a variety of industries, India is thought to be the next superpower, both geographically and economically. Geographically, the country is strategically positioned to balance the power of China and provide stability to the region. India also is focused on strengthening diplomacy and trade ties with multiple countries including Russia, Japan, and the US. Economically, India accounts for 2.83 percentage of the world economy and continues to grow at record rates (Gramer, R., 2017). In 2015, India’s economy grew by 7.6 percent, the fastest among any other major nation (Why India Is the Fastest-Growing Economy on the Planet, 2016). Services are the main source of economic growth, accounting for nearly two-thirds of India’s output (The World Factbook: INDIA, 2018). However, the country is also home to modern agriculture, pharmaceuticals, textiles, handicrafts, and many other industries.

Opportunities

India has become a preferred investment destination for many multinational companies. Whether searching for a place to outsource labor or seeking to introduce a new brand to the
market, MNC’s are stirred by lucrative business opportunities. First, based on its largely educated English speaking population and growing middle class, India will soon be the human resource capital of the world. McKinsey Global Institute estimates that by 2025, 69 cities in India will have a population of over one million each, bringing about the need for businesses to sustain the livelihood of India’s population (Kaka, N., & Madgavkar, A., 2016). “The number of hours worked will continue to climb at a significantly faster rate than elsewhere as India creates jobs to support its youthful populace” (Why India Is the Fastest-Growing Economy on the Planet, 2016, para. 10). The country boasts a labor force of 234 million citizens between the age of 15 and 24 and still growing (Mallaby, S., 2016). India’s growing workforce also translates to a growing consumer class. There is an enormous and growing demand for Western products and brands.

Secondly, the operational costs of developing a business in India are substantially lower compared to setting up a business elsewhere. “The cost of basic amenities required for businesses is lower in India, whether it is investing in infrastructure, labor, food, transportation, internet or even taxes,” notes Pratik Dholakiya (2017, para. 10). The openness of the Indian market makes it easier for businesses to enter and experiment new products or services on a large population. Third, the government has also led the effort to ease restrictions on foreign investment in sectors including construction, medical technology, railways, defense, and insurance. Starting with the Goods and Services Tax Bill, the Modi Government has passed substantial legislation to make the Indian economy more transparent and uniform. From the demonetization of the nation’s currency in December of 2016, to the Land Acquisition Bill in 2017, the current administration has focused on shifting spending from consumption to investment. The government’s “Make in India” initiative focusing on 25 different industrial
sectors was “devised to transform India into a global design and manufacturing hub” (Make In India - About Us, n.d., para. 1) It is “Make in India” not “Made in India” implying the countries hopes of attracting foreign investment and opposing protectionism. In the past decade, 20 of the 100 Smart Cities Mission have already received funding to better the lifestyles of their citizens and increase the number of available work opportunities (Menon, B. D., 2018). The Smart Cities Project is purposed with the “urban renewal and retrofitting program to develop 100 cities across the country making them citizen friendly and sustainable” (ICSESP 2018, n.d., para. 1) The Indian market provides endless opportunities for multinational companies with the right services, products, and growth outlook.

Challenges

However, many challenges remain prevalent. India still ranks 100th overall on the Doing Business list provided by the World Bank, last among the BRICS countries (The World Bank: Doing Business in India, n.d.) India is a complex nation composed of diverse religions, cultures, and languages. Despite there being 29 states, the country boasts of its diversity and economic unity. Localized markets force businesses to adapt business models in different regions of the country. The fundamental problem is India’s “massive unmet need for basic services, such as water and sanitation, energy, and healthcare, for example, while red tape makes it hard to do business” (Kaka, N. et. al., 2016, para. 3) A study conducted by the McKinsey Global Institute, estimated some 46% of Indians lack access to basic services, like subsidized food, health care, and early education (Gupta et al., 2014). The country’s underdeveloped infrastructure in transportation, energy production, and logistics further complicate strategies for international businesses. If these services and frameworks are not in place for the countries own population, India as a source for HR talent and business opportunity could be bleaker. Sebastian Mallaby, of
the Council on Foreign Relations, suggests that another source of skepticism on India concerns it lumbering state-owned banks who have accumulated stressed loans (Mallaby, S., 2016)

India faces many challenges economically including the privatization of public enterprises, deregulation of certain industries, monetary policy reform and the regulation of financial services. Dale Jorgenson, a Samuel W. Morris University Professor at Harvard notes that “social programs and restriction on businesses remain among the biggest challenges to business and labor productivity advances” (Why India Is the Fastest-Growing Economy on the Planet, 2016, para. 15) The current presence of corruption at all levels of government continues to keep business owners cautionary in regards to starting a business in India. During the clearance process in creating a business, dealing with construction permits, or even registering property: a bribe moves things more quickly. Prime Minister Modi’s goal of a top 50 ranking will only be reached if the government introduces big ticket reforms to labor law, land ownership, and the judicial process. Layers of bureaucracy and protectionist policies, provide several hurdles to overcome when importing and exporting to India. The lack of efficiency in the approval process of moving goods across borders threatens India’s rise as a global trade partner. Lastly, as noted by New Delhi’s Bureau Chief, Ravi Agrawal, weak job creation, a skewed sex ratio, climate-related heat waves, and rising religious polarization are less positive trends for the future (Ayres, A, 2017). The Modi government and private sector must persistently address these challenges in order for India to achieve its potential.

As noted above, companies wishing to succeed in emerging markets must have a clear view and understanding of the country’s business environment. Many companies use the PESTEL framework to evaluate a countries business environment. Below, the PESTEL analysis
is applied to India’s business environment. Some of these factors, we will see arise again as either opportunities or challenges for multinational corporations to navigate.

<table>
<thead>
<tr>
<th>PESTEL ANALYSIS : INDIA</th>
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<tbody>
<tr>
<td><strong>Political</strong></td>
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<tr>
<td>Federal parliamentary republic</td>
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<tr>
<td>Three-tier structure of government: union, state, and urban and rural bodies</td>
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<tr>
<td>Privatization policies</td>
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<tr>
<td>Deregulation policies</td>
</tr>
<tr>
<td>Red-tape</td>
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<tr>
<td><strong>Economical</strong></td>
</tr>
<tr>
<td>Nominal GDP: $2.349 trillion USD (4th largest in the world)</td>
</tr>
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<td>Massive amount of natural resources</td>
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<tr>
<td>Economy is considerable stable</td>
</tr>
<tr>
<td>Push for foreign investment and multinational business favored policies</td>
</tr>
<tr>
<td><strong>Social</strong></td>
</tr>
<tr>
<td>Population: 1.3 Billion</td>
</tr>
<tr>
<td>Cultural and religious diversity (predominantly Hindu) (22 official languages)</td>
</tr>
<tr>
<td>Growing young, educated, middle class</td>
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<td>Median age: 27.9 years</td>
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<td>Recent religious adversity and violence</td>
</tr>
<tr>
<td><strong>Technological</strong></td>
</tr>
<tr>
<td>Strong IT sector for development, government technology, mobile communication, technology transfer, and software/processes</td>
</tr>
<tr>
<td><strong>Environmental</strong></td>
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<tr>
<td>Air pollution</td>
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<tr>
<td>Climate varies by region</td>
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<tr>
<td><strong>Legal</strong></td>
</tr>
<tr>
<td>Significant legal changes have been made in the past including a minimum wage increase and legislation on disability discrimination</td>
</tr>
</tbody>
</table>

**FIGURE 2: PESTEL ANALYSIS INDIA**
Compiled from the following sources: (CIA World Factbook, Pestle Analysis, UK Essays)

*India’s Food and Beverage Market*

The food processing sector in India accounts for 32% of the country’s total food market, and is ranked 5th in terms of production, consumption, export and expected growth (Indian Food Processing Industry Analysis, 2017). The sector is comprised of six major segments: fruits and
vegetables, milk, meat and poultry, marine products, grain processing, and consumer food
(Indian Food Processing Industry Analysis, 2017). The consumer food segment is among the
fastest growing segment in India posing enormous opportunities for multinational corporations
and investors. Constituting over 40% of India’s Consumer Packaged Goods (CPG) industry, the
food and beverage sector was valued at $369 billion in 2017 and continues to grow at record
levels. (High-Growth Segments of Indian Food and Beverage Industry, 2017). India ranks 1st in
the production of milk and second in the production of rice, wheat, and sugarcane (Indian Food
& Beverage Sector, 2014). Factors driving growth on the supply side include the emergence of
contract farming, infrastructure development, multi-cuisine offerings, and adaptive retail
formats. New food preferences and rising disposable incomes of India’s young, emerging
middle class are driving the demand for food and beverages, as they are the top consumption
item by India’s population.

The non-alcoholic beverage segment is also an key driver of growth. These beverages
encompass carbonated drinks, sparkling beverages, still beverages, fruit juices, energy drinks,
sodas, teas, and coffee. Tea is the most common hot beverage in India and fruit juices and sodas
are slowly becoming a popular drink in the Indian diet. However, a recent trend of health
awareness acknowledged by Indian consumers is driving demand for healthy product offerings
including low sugar drinks and low carb snacks. Changing consumption preferences and
patterns has resulted in many Indians eating out, disrupting the food service industry with quick
service restaurants and cafes.

Numerous local and international companies are leader players in the market including
Coca-Cola, Pepsi-Co, Danone, Nestle, Parle Agro, Dabur, and Godrej. These companies have
diverse portfolios of product offerings and each seek to understand the desires of changing
Indian consumers. Porter’s Five Forces is a great model to understand the competition existing among players in the food and beverage markets.

### PORTER’S FIVE FORCES - India’s Food and Beverage Market

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive Rivalry</td>
<td><strong>High</strong> - power struggle for market share between many players in a highly unorganized market</td>
</tr>
<tr>
<td>Bargaining Power of Suppliers</td>
<td><strong>Medium</strong> - industry largely dependent on agricultural products for raw materials, yet also vast supply locally and from imports</td>
</tr>
<tr>
<td>Bargaining Power of Buyers</td>
<td><strong>High</strong> - customers can choose from a host of products and govt. has allowed 100% FDI</td>
</tr>
<tr>
<td>Threat of Substitutes</td>
<td><strong>Medium</strong> - trends may change but core industry will not be replaced</td>
</tr>
<tr>
<td>Threat of New Entrants</td>
<td><strong>Medium</strong> - low economies of scale and capital intensive</td>
</tr>
</tbody>
</table>

**FIGURE 3: Porter’s Five Forces**  
**Sources** - Food and Beverage Industry Analysis; Emerging Trends in Food and Beverage Services Retailing in India

**Opportunities**

The food and beverage industry is among one of the fastest growing segments in India. India is thought to surpass China’s population by 2024 and be home to 1.25 billion consumers (India's Population to Surpass that of China Around 2024: UN - Times of India, 2017) Total consumption of the food and beverage segment is expected to increase from $369 billion to $1.142 trillion by 2025 (Kasas, A., 2017) A surge in demand for healthy food and beverage options are a result of the rapid urbanization and increasing media penetration (Indian Food Processing Industry Analysis, 2017). Rising disposable income and a growing middle class provide ample opportunities for multinational corporations to introduce new products to the Indian consumer. Not only are there opportunities in product innovation, but also in evolving service offerings tailored to Indians changing consumption patterns. As Managing Director of
Weikfield Foods notes, “there is significant opportunity in health foods as there is need to move up the value chain from manufacturing healthy foods to healthy ready-to-eat foods” (Indian Food & Beverage Sector, 2014, p. 29) India’s diverse climate conditions and strategic location also make the country an attractive destination to establish a food processing hub for both investment and export. The government has pushed these initiatives by focusing on mega food parks and agricultural export zones that attract foreign investment and aid in infrastructure. Between April of 2000 and March 2017, FDI in the food processing industry stood at $7542.91 billion and the government continues to welcome corporations willing to invest in supply chain infrastructure. (Indian Food Processing Industry Analysis, 2017). The food and beverage industry is a relatively untapped market with strong growth potential for foreign investors.

Challenges

Although the opportunities look vast, there are still many challenges for both local and multinational players. A Vice President of the Association of Food Scientists and Technologies notes, “the biggest challenge is that the industry is dominated by unorganized players who contribute to 80% of the food processing industry (by volume) unlike other sectors” (Indian Food & Beverage Sector, 2014, p. 16). A lack of adequate infrastructure and supply chain efficiencies, shortage of skilled manpower, and inconsistent policy on both the national and local level presents multifaceted challenges to players in the market (Food and Beverage Industry Analysis, 2015). There is still hope, however; multinational firms are partnering with local players to address many of these issues by providing innovative and advanced strategies. As the director of Grant Thornton India LLP noted, “... food processing is expected to play a key role in bridging the gap between the demand and the supply and addressing key concerns of the sector - rising food prices and high levels of food wastage” (Indian Food & Beverage Sector, 2014, p. 14). The
continued growth of the industry is critical for India’s both economically and socially. “The food processing industry is pivotal to liberating India from the clutches of hunger and malnutrition. . . at one hand, it will provide options of global standard to the aspiring consumers in India, on the other hand it will help in boosting income levels of farmers of India,” notes Dinesh Shahra Founder of Ruchi Soya Industries Limited (Indian Food & Beverage Sector, 2014, p. 17).

The growth of the food processing industry is a high priority to the government of India as it is estimated to generate employment for 48 million Indians (Indian Food Processing Industry Analysis, 2017). Over the last 5 years, the government has made key strides to reduce wastages and set up critical infrastructure for the industry to flourish. Sixty agriculture export zones (AEZ) have been established as well as over 42 mega-foods parks are being established in public-private partnerships (Indian Food Processing Industry Analysis, 2017). The government is working with multinational corporations to develop supply chains and integrate cold storage techniques in exchange for tax incentives and deductions. The government has also focused on the overhaul of restrictive regulations and the aggressive implementation of Food Safety and Standards Authority of India (Indian Food & Beverage Sector, 2014). While many initiatives are being pushed both privately and publicly, the future of India’s food and beverage industry will be determined by a collaborative effort to provide innovative solutions.
Chapter 3: Market Entry Strategies and Case Studies

Export

Exporting is the oldest market entry strategy and is defined as the direct transfer of goods and services to a customer across national boundaries. Almost all consumer goods in the open market today are a configuration of components that were first exported. Common exports range from agricultural commodities such as rice or soybeans, to communication support services, such as call centers assisting users outside the country. More and more companies are finding profits in exporting as it has a relatively low degree of financial risk and extends beyond merely shipping a product to a foreign country. Companies typically select this mode of entry to benefit from economies of scale and open up their product to global sales. A physical presence abroad is not required when exporting; however, the potential lack of control can be a significant disadvantage. When exporting, a company usually deals with a foreign agent and there is no guarantee the agent will perform in the best interest of the company. Other challenges include tariff barriers and strict regulations imposed by regulatory authorities.

Case Study: Nestle - “Good food, Good life”

Nestle SA is recognized as one of first food and beverages companies to begin a relationship with India, dating back to 1912. The Nestlé Anglo-Swiss Condensed Milk Company (Export) Limited initially began importing and selling finished products in the Indian market (All About NESTLÉ, n.d.). Condensed milk products were sold through sales agents in Chennai and Kolkata. The company expanded it presence shortly after India’s independence in 1947, at the request by the Indian government to develop the milk economy of Punjab. During this period,
the economic policies of the Indian government favored local production and the growth of communities. In 1959, the trading company in New Delhi was promoted by Nestle Alimentana S.A. through the wholly owned subsidiary Nestle Holdings Ltd. (NHL) (Company Analysis On Nestle-India Limited, 2010). The company started with the manufacturing of Milkmaid, at its first manufacturing facility at Moga, Punjab, and established milk collection centers in the area. A local dairy farmer that has supplied milk to Nestle for the past 11 years describes the process: “milk from neighboring cow farms would be agglomerated, processed mechanically, and supplied to the company factory in Moga” (Datta, A., 2016, para. 2). The milk Nestle procures from farmers is used in the various products it produces including dairy whitener, cured, ghee, and child nutrition products. The company also began providing agricultural services with the purpose of educating, advising, and helping farmers increase efficiency and growth. Some examples of these initiatives included teaching new dairy farming methods, irrigation techniques, and scientific crop management practices (All About NESTLÉ, n.d.). An increasing milk yield and growing confidence in the dairy business transformed the Moga community into a prosperous and vibrant milk district, and eventually a thriving hub of industrial activity (All About NESTLÉ, n.d.).

Nestle continued to invest in India by establishing more factories in Choladi (Tamil Nadu) in 1967 and in Nanjangud (Karnataka) in 1989, as well as expanding existing factories to produce more milk. The Tamil Nadu plant was established to meet the foreign demand for instant tea exports and the plant in Karnataka to meet the local demand for milk fortifiers and instant coffee (Company Analysis On Nestle-India Limited, 2010). The company was not directly involved in the primary production of raw materials and other food ingredients; it rather, sourced raw materials locally from producers or existing trade channels. Strong support from its
parent company, allowed the company to launch new products and expand into the chocolate, noodle and cereal business. Changing its name in 1978, Nestle India Limited (NIL) expanded quickly, focusing on building strong and well differentiated brands like Maggi, Nescafe, Cerelac, Lactogen, KitKat and Polo. Twenty years later in 1997, NIL became one of the top players in the food and beverages industry and the largest producer of instant coffee with a market share of 49% (Company Analysis on Nestle-India Limited, 2010). Strong relationships with partners such as suppliers, distributors, and retailers, attributed to the company’s success noted by current managing director Suresh Narayanan (Datta, A., 2016).

Today, Nestle India is one of the leading companies in the FMCG space and is also among the Top Wealth Creators of India’ (Nestle India Limited, 2005). The company is present across India with 8 manufacturing facilities and 4 branch offices (help facilitate sales and marketing), with the home office located in Gurgaon. The company ranks #1 in dairy whitener, baby food, infant formula, instant noodles, sauces, and pasta, coffee, wafers and whites (Waszyk, H., 2012). In 2017, the company posted total sales of 101,135 million rupees ($1.6 BN USD) and a net profit of 10,225 million rupees ($157 MN USD) (Nestlé House, 2018). Nestle is focused on getting back to double digit growth both in terms of toppling and volumes: “I am of the opinion that growth comes first and profits come later. If there is sustained growth over a period of time, profits will follow, said Suresh Narayanan (Datta, A., 2016, para. 23). 2017 was the year of “aggression with purpose,” focused on pushing new products into the top 600 towns of India (Nestle Innovation: Change is the Only Constant, 2017, p. 3). While the current company exists as a partially owned subsidiary, the parent company holds approx. 62.76% shares in the Nestle India Ltd. (Nestle India Limited: Trendlyne. n.d.). Much can be learned from Nestle’s first move into India and its roadmap to success.
Success

Nestle’s initial success in India was a result of the economies of scale in its export strategy into the Indian market. The unmet demand for a condensed milk product was filled with Nestle’s importing and selling of Anglo-Swiss Condensed Milk. As the company expanded with each new opening of its manufacturing facilities, it built strong relationships with suppliers and launched new products into the market. A “shared value” approach was taken to not only maximize shareholder value, but to also invest in local communities, nutrition, water, and rural development. A culture of innovation and renovation, continuous improvement, and the thrust on value-for-money and affordability have helped the company to focus on adding value for the consumer (Nestle India Limited, 2005). The company’s high ranking in multiple categories can be attributed to the company’s efforts to better understand the changing preferences of the Indian consumer and meet those needs through its product offerings. The company prides itself in its R&D center in Gurgaon, India, tasked with developing products that are “more relevant” (Research and Development n.d.). It’s “Experimental Kitchen” and “Sensory Laboratory” at the center supports all markets worldwide with new product development and manufacturing excellence for noodles, while also serving as a center of expertise for local Indian cuisine. (Research and Development n.d.). The company has also targeted specific areas such as railway platforms college canteens and major events for consumption opportunities (Nestle India Limited, 2005). The lifestyles of Indian consumers are rapidly changing and the company has been keen on leveraging the vast consumer market.

Failure

However, these successes after 106 years of experience in India are not without failure.
One of the company’s biggest failures was to seize control of the Maggi crisis. In June of 2015, India’s central food regulator announced a temporary ban on Maggi noodles, one of the company’s staple products in India, after claiming that a package of noodles contained seven times the permissible level of lead (Fry, E., 2016). Once an article was published by a local Indian newspaper and the FSSAI pronounced Maggi “unsafe and hazardous for human consumption,” consumers erupted in protest and on social media, using the hashtag #MaggiBan (Fry, E., 2016, para. 10) The company was given a 15 day notice to respond and Nestlé CEO Paul Bulcke flew to India to address concerns stating that: Maggi was safe, consumers had been shaken by unfounded concerns, and that the company was committed to working with authorities and India. The company quickly found itself in a major crisis, losing at least $277 million in missed sales and having to execute a $70 million food recall (Fry, E., 2016). The company’s market share went from 63% to 23% in less than a year (Fry, E., 2016). The answer is still unknown as to whether the noodles contained lead considering the equipment used in government labs is barely functional. However, regardless of who was right, the company failed in many ways to examine social and political factors of the situation as well as engage with consumers and journalists to give access to the true story. The company will be continually challenged in the future with immense competition among companies in the F&B space and raising prices of raw materials.

The Future

The company’s attitude of not being afraid to fail and embracing the failures of new product launches, shows its resilience and mindset on paving the way for future growth. While interviewing the managing director Suresh Narayanan, he commented, “The Nestle we are building is for 100 years” (Narayanan, S., 2017). Narayanan plan involves stirring Nestle
towards a focused strategy on growing volumes and war from product rationalization. “What we sell are packets or cases, not rupees,” says Narayanan. He believes market share is driven by the actual consumption of products and looks forward to “accelerating the game in India” by investing into the company’s existing portfolio and new products (Nestle Innovation: Change is the Only Constant, 2017, p. 5). Just recently, the company announced plans in January to move into pet food segment by establishing its wholly-owned subsidiary, Purina Petcare India Pvt Ltd. (Nestle Enters Pet Food Segment in India, 2018). Nestlé’s ability to connect with Indian taste and flavor by stepping up innovation in food, nutrition, taste, and beverage will be a determining factor in the company’s long term success (Nestle Innovation: Change is the Only Constant, 2017).

**Wholly Owned Subsidiary**

Some companies enter new markets by setting up a wholly owned subsidiary, through either acquisition or the establishment of a new entity (Hill, J. S., 2009). In most cases, the parent company owns 100% of the subsidiary’s stock and has complete control over the entity. Companies whose competitive advantage is based on technological competency should consider this mode of entry to maintain control. Wholly owned subsidiaries also enable the company to benefit from strategic coordination and from local economies (Levi, K., 2007). Less competition typically exists and companies gain access to local assets. However, wholly owned subsidiaries have disadvantages too: they require a large capital investment and risk. Companies that have 100% ownership of a subsidiary bear all risks associated with loss and failure. A wholly owned subsidiary is a serious commitment of company manpower and resources; thus, this strategy should be used only when the company can afford the potential loss.
Coca-Cola was the first multinational soft drink brand to enter into India in the early 1950’s. It entered the Indian market with the opening of the first bottling plant by Pure Drinks, Ltd, in New Delhi (Faq-History, n.d.). At the time of entry, the Indian market was dominated by many domestic brands, including Parle, a previously known biscuit company who decided to venture into the cola industry in 1949 (The Story of Thums Up, Gold Spot & Limca, 2014). This venture was discontinued shortly after the entry of Coca-Cola, upon the fear of spending a fortune on legal battles on branding issues. However, Parle did not simply give up; it launched Gold Spot, an orange flavored cola in 1952 and Limca in 1971 (The Story of Thums Up, Gold Spot & Limca, 2014). Both companies fought aggressively for market share and spent heavily to promote their respective brands. Coke targeted the youth and naturally expanded as a “fun” and “refreshing drink for young couples” (Garu, P., 2016). Within a period of 20 years, Coke became the leading soft drink brand in India and experienced a significant amount of success. This success came to a sudden halt on August 10th, 1977 when Coke was told to reduce its stake in the Indian subsidiary and give up its secret formula; or leave the country. Coca-Cola had been accused of obtaining 400% profit and actual earnings of $11.5 millions on an initial investment of $75,900 plant (Coke Told to Leave India or Give up Its Formula, 1977). Under the new Foreign Exchange Regulation Act (FERA) passed in 1973, companies were forced to reduce their stake in each respective Indian subsidiary to 40% (Encarnation, D. J., & Vachani, S., 1985).
The company attempted to use its political connections to place a hold on its departure, but eventually left within a year, discontinuing its entire Indian operation. Political instability and ultimately new regulations forced the company out of India, leaving 150,000 workers without a job (Coca-Cola Won't Bow to India, 1977).

India had protectionist policies since attaining its independence in 1947, following a socialist democratic path to governance and a focus on industrial development (Kumar, R., & Xavier, M., 1996). The Indian government had closed the Indian economy to the outside world by operating on a system of central planning and having high tariffs preventing goods from reaching its market. The rupee at the time was convertible and the government strongly believed that the country needed to rely on internal markets for development rather than foreign investment (Sharma, Y., Dr., 2017). Moving into the 1980’s, the politics of populism led the government to spend excessively and an increase in world crude oil prices placed the country in a sticky situation (Nayyar, D., 2016). India began to have a balance of payments problem and the assassination of Prime Minister Indira Ganhji in 1984 crushed international investor confidence, leading to a serious economic crisis (Sharma, Y., Dr., 2017). The Singh government inherited the problem and in October of 1990, it authorized initiating negotiations with the International Monetary Fund (IMF) (Nayyar, D., 2016). India was very close to defaulting on its international payment obligations and the IMF’s involvement was critical to stabilizing the situation. In return for the IMF bailout, the rupee had to be devalued and economic reforms was forced on the country (Sharma, Y., Dr., 2017). The Indian economy was opened to foreign capital and many of the restrictions on investment were removed.

Coca-Cola re-entered India on October 24th, 1993, parading the streets of Agra and signaling to the world’s second most populated country that Coke was back to stay (Moye, J.,
The New liberalization policies in India and a modification to FERA allowed the company to reenter the Indian markets, establishing Coca-Cola India Private Limited (CCIPL) as its wholly-owned subsidiary. Automatic approval was granted for equity investment up to 51% and companies which exceeded foreign equity by 40% of the total were to be treated on par with Indian companies (History of Coca-Cola in India, 2007). The company acquired a bottling plant near Agra and billboards with tagline like “Happy to be here” dominated the streets (Thums Up Story: Coca Cola enters India, 2014). The company made the decision to launch in Agra due to the historical significance of the Taj Mahal. They also wanted to introduce and test a series of innovations in a mid-sized market. After a 17-year absence, coke was finally back and flying off the shelves. However, the team was mindful of views of a multinational corporation returning to India as a threat; thus, it launched one market a time, 17 cities in 17 months, using local advertising when possible (Moye, J., 2013). The team was focused on building the right foundation and leveraging its loyal consumer base.

To regain its foothold in India, the company had a few options. First, it could begin to expand its operations gradually over several years by building its own plants throughout India. Secondly, it could poach bottlers of other cola brands by offering attractive benefits. Third, it could acquire a company that had all the facilities in place (Thums Up Story: Ramesh Chauhan sells Parle brands to Coca Cola, 2014). The company originally started with option two and began poaching Parle owned bottlers. Day in and day out, Parle bottlers were switching to Coca-Cola and Ramesh Chauhan, the CEO of Parle at the time, realized it wasn’t simply worth the fight. In the later months of 1993, he surrendered the company in a speculated $60 million-dollar deal, selling off the company’s 60% market share to the Coca-Cola company (Thums Up Story: Ramesh Chauhan sells Parle brands to Coca Cola, 2014). The company instantaneously
gained Parle’s well-known brands of Thumbs Up, Limca, Citra and its extensive distribution network. The 55 bottlers in the Parle system gave the company a “profitable business to build on” and the company reached every part of India (Moye, J., 2013).

Today, Coca-Cola is the world's largest beverage company, present in over 200 countries. The company’s portfolio consists of over 500 sparkling and still brands and more than 3,800 beverage choices (Coca-Cola Worldwide and in India, n.d.). Coca-Cola India has invested $2 Billion USD since is re-entry into India in 1993, and plans on investing another $7 billion until the year 2020 (Coca-Cola Worldwide and in India, n.d.). The Coca-Cola system in India is comprised of a wholly owned subsidiary, a company owned bottling entity, thirteen licensed bottling partners, and an extensive distribution system comprising of customers, distributors, and retailers (Coca-Cola Worldwide and in India, n.d.). See Figure 2.1 below.

![Figure 2.1 - Adapted from Diagram](Coca-Cola Worldwide and in India, n.d.)
Coca-Cola India Private Limited manufactures and sells concentrate while also leading the world class governance system for all its operations. The Hindustan Coca-Cola Beverages Private Limited covers approximately 65% of the bottling operations for the system (Overview - Coca-Cola System., n.d.).

Coca-Cola plays a key role in the Indian economy, directly employing over 25,000 people and indirectly employing 150,000 people (Coca-Cola Worldwide and in India, n.d.). The company operates 57 manufacturing plants mostly in underdeveloped areas and sells its products across 2.6 million outlets and to 7,000 distributors (Coca-Cola Worldwide and in India, n.d.). Four of its brands top individual categories including Sprite, Thumbs Up, Maaza (juice), and Kinley (water) (Coca-Cola Worldwide and in India, n.d.). Thum’s Up is still the leader in the cola segment and has been for more than 37 years (Thums Up Story: Thums Up Continues to Taste the Thunder, 2014). Much can be learned from the company’s success and failures from entering the Indian market twice.

Success

One of Coca-Cola’s greatest strengths and successes is its world-renowned branding. “Enjoyed more than 685 million times a day around the world, Coca-Cola stands as a simple, yet powerful symbol of quality and enjoyment” (SWOT and PEST Analysis, n.d.). In India, the company focused on understanding the Indian consumer and using these insights to create additional products. Its products are endorsed by movie stars and famous cricketers. The company created distinct identities for each of its brands. For example, Sprite is promoted as “a youth icon standing for a straightforward and honest attitude” (Coca-Cola India, 2005, p. 67). Additionally, its extensive product offerings assisted in identifying the flavors and types of drinks that the Indian consumer wanted. Lastly, the company’s acquisition of Parle Export was
a strategic move allowing the company to gain immediate access to bottling plants and a nationwide distribution network. Operating a wholly owned subsidiary helped the company capitalize on low labor costs, avoid import taxes, and globally coordinate the flow of Coca-Cola products into local economies.

**Failures**

While entering the country using the wholly owned subsidiary model gave the company an ownership advantage, Coke was more subjected to the government of India and its economic policies. As discussed above, the political and economic instability of the Indian government in the 1970’s led the company to withdraw in 1977 with the threat of never having the chance to return. While Coke earned a handsome profit during its initial 25 years in India, it was responsible the losses in having to quickly uproot and leave the country. Coca-Cola bore the full risk of being banned from India and the gap it left was filled with its largest competitor in only a few short years, Pepsi-Co. The company continues to face challenges today including an unpredictable power supply, poor rural infrastructure, changing consumer preferences, and variable pricing of branded beverages. The company, along with other MNC’s, was recently boycotted in Tamil Nadu, while traders decided to favor local beverages such as lime soda and coconut water. This is primarily a result of accusations that the corporation is exploring scarce water resources in drought-hit states (Bundhun, R., 2017). Scarcity of water and waste management systems are a major problem in many Indian states and an ongoing battle persists between farmers and the industry for water. Also, Coke previously enjoyed a monopoly on the market because there were limited manufacturers with strong distribution and manufacturing capacity. However, competition now remains high among other MNC and local homegrown brands as retailers favor local brands due to the potential to earn higher margins.
The Future

Coke’s strategy in India is focused on addressing rural challenges of getting its products into the hands of every consumer in India. Its India campaign highlighted the 3 A’s of marketing: Availability, Affordability, and Acceptability (Naqvi, S. R., 2011). The company distributes the products directly from bottling plants to retailers, maintains a competitively low price point, extensively markets its name “Coca-Cola” in village residences, on television, and nationwide events. Furthermore, Coca-Cola is betting on the localization of fruit juices and planning to launch one or two new ethnic beverages in every state. The company currently has about 50 percent of its beverages comprising local brands such as Thumbs, Limca, and Maaza, but is pushing towards more in the future. “The idea is that over a period we may have one-third of our products which are basically global and two-thirds of our products which are very local,” said Coca Cola India and Southwest President, T Krishnakumar Coca-Cola Plans to Localise 2/3rd of its Products Portfolio in India, 2018, para. 2). In turn, products that connect with the hearts and minds of locals should then increase the per capita consumption of beverages in the country. The “big picture” for Coke is that the Indian soft drink market is growing at double digit rates and consumptions levels would reach that of international standards (Bundhun, R., 2017).

Strategic Alliance / Joint Venture

These two strategies are discussed together since a strategic alliance is simply a weaker form of a joint venture. A strategic alliance is defined as an agreement between two companies to combine their value chain activities for a competitive advantage (Levi, K., 2007). The big difference in the two strategies, is that a new company is formed in a joint venture, while strategic alliances are merely contractual agreements. A joint venture is typically represented in
the form of a 50/50 venture in which each party takes 50% ownership. There are many advantages in selecting this mode of entry, including the opportunity to receive a greater return from greater equity participation. When foreign ownership is not permitted, companies select this mode of entry and parties mutually benefit from each other’s understanding of the international market. Economic and political risks can also be reduced when a company joins with a local partner. A disadvantage of this strategy could be tension and conflict that results from partnered decision making. Conflict resolution is something that should be addressed upfront when establishing a joint venture. There is also a potential risk of losing control over technology or patented products. Joint ventures and strategic alliances do not always yield a fruitful advantage; however, more and more companies are using this mode to enter emerging markets where having a local partner is crucial for success.

*Case Study: PepsiCo - “Delight and nourish every Indian, every day”*

Pepsi-Co first attempted to enter India in May of 1985, joining forces with R P Goenka (RPG) group to import cola concentrate and sell soft drinks under the Pepsi branded label (Mukund, A., 2003). Leaders in the company stated that their objective for entering India was centered around “promoting and developing the export of India agro-based products and introducing and developing PepsiCo’s products in the country” (Mukund, A., 2003, para. 6). However, the government rejected the proposal, not accepting the use of a foreign brand name and the import of cola concentrate. “If you come into the country, you have to remember that same fate awaits
you as Coca-Cola,” wrote George Fernandes, the General Secretary of one of the companies leading parties (Fernandes, G., 1995).

The company continued to lobby within the Indian government and months later submitted a second proposal, this time linking its entry to solving a sensitive issue to India. PepsiCo India’s first chief executive officer (CEO) Ramesh Vangal, saw the opportunity to tie the company’s entry to bringing about an agricultural revolution in the Northern state of Punjab, and providing many employment opportunities. They claimed to “help the Punjab farmers by increasing the yield of tomatoes, potatoes, and introducing a new technology for growing and harvesting green chillies” (Dhillon, K., 2017). These employment opportunities would also assist many terrorists return as contributors to society, an issue that had plagued the state during the 1980’s. After the proposal was submitted on June 6, 1986, Vangal recalls there being more than 250 questions in Parliament attacking the projects, 7,000 articles in the media, and half a dozen cabinet meetings to discuss the pros and cons of allowing PepsiCo to enter India. However, at the same time, 5,000 panachayats in Punjab wrote in favor of the plan and the venture was supported by Punjabis hoping the project would bring stability and employment to the region (Gupta, S. D., 2014). After a large effort to keep the company from entering, the plan was cleared 1989 and Pepsi started rolling out its Colas in June of 1990. PepsiCo entered India as a minority partner in a joint venture with Punjab State Agro Industries, a government organization, and Voltas International, a subsidiary of the Tata conglomerate. The newly formed company agreed to market its drink under the Lehar Pepsi label and export at least 75% of the soft-drink concentrate produced at its plant in India (Mukund, A., 2003). This stipulation was to provide a buffer for Indian soft-drink manufacturers as well as increase export earnings (Crossette, B., 1988). The Pepsi investment of $17 million encompassed a factory that made soft
drink concentrate and provided it to bottlers, a plant that turned agricultural products into snacks, a fruit and vegetable concentrate plant, and an agricultural research center (Crossette, B., 1988). The company had finally won over the government and several interest groups by promising benefits to develop the areas in which the company would operate.

Within the next three years, the company was selling 20 million cases of its product per year (Gupta, S. D., 2014). Although its products were selling, the company faced many challenges in the first few years of entering the Indian market. Although many Indians claimed to “like” the taste of Pepsi, 91% of consumers in Bangalore tried Pepsi once, only 10% tried it for a second time (Thums Up Story: Is Pepsi the Right Choice Baby?, 2014). Pepsi had a hard time convincing farmers to work for the company and was criticized that more than 50% of its employees were working for the bottling business and not food processing activities (Mukund, A., 2003). By 1991 the company had employed only 783 people, of the 50,000 people it had promised the government in its proposal (Mukund, A., 2003). Pepsi also failed to meet its commitment of exporting 50% of production and was issued a “show-cause” notice demanding closure of its operations by Parliament in 1991 (Mukund, A., 2003). Luckily, the company did not have to face criticism for much longer. The liberalization of the Indian government in 1991, removed various restrictions on the company including the 25% overall investment and exports of 50% of production (Mukund, A., 2003).

In 1994, the company bought off its partners in the venture, established a wholly-owned subsidiary PepsiCo Holdings India Pvt. Ltd. (PHI), and changed its cola name from Lehar Pepsi to Pepsi (Mukund, A., 2003). Vangal handed leadership to Priya Mohan Sinha, who sanctioned a $1-billion war chest from the parent company in the US (Gupta, S. D., 2014). He began by aggressively expanding bottling capacity and offering interest free loans to bottlers. The
company also acquired Duke and Sons, a local drink maker in Mumbai, Sunrise Products in Calcutta, and three franchised bottling plants in Madra, Madurai, and Bangalore. He immediately transferred ownership of the tomato processing unit citing that Pepsi intentions had always been drinks not in developing agriculture. (Gupta, S. D., 2014). With Coca-Cola re-entering the Indian market in 1993, the cola wars had officially begun.

Today, PepsiCo products are enjoyed by consumers one billion times a day in more than 200 countries and territories around the world (PepsiCo, 2017) India has become one of the company’s largest markets, with 38 bottling plants and 3 food plants (Fact Sheet - PepsiCo, n.d.). Brand Pepsi is the second largest beverage brand in India and its product portfolio consists of Diet Pepsi, Miranda Orange and Lemon, 7UP, Mountain Dew, Aquafina, Slice, Tropicana, and Gatorade. It also offers a variety of local brands including Leha Everness Sodas, Dukes Lemonade and Manfola, and other ready to drink beverages (PepsiCo Holdings India Pvt. Ltd., 2005). It’s food portfolio consists of Lay’s potato chips, Kurkure, Quaker Oats, Uncle Chipps, and other roasted snack options (About PepsiCo, n.d.). In 2013 the company announced it and its partners would invest approx. $5.5 billion in Indian in an attempt to double manufacturing capacity and grow consumption levels (PepsiCo India: A High-Priority Market for PepsiCo, 2013)

Success

Pepsi entered India when very few multinationals were being welcomed. The government was hostile to multinational corporations looking to establish their businesses in India. However, through its model of partnership, the company succeeded. Not only did PepsiCo model partnership in entering the Indian market through a joint venture, the company has established a partnership with over 24,000 farmers across nine Indian states (About PepsiCo,
n.d.). The company provides 360-degree support to the farmers through assured buy-backs of their produce at pre-agreed prices, quality seed, extension services, bank loans, and many other services (About PepsiCo, n.d.). The company also adapted Phillip Kotler’s 4 P’s of market entry (Product, Place, Promotion, and Price) to include two additional P’s, namely, Politics and Public Opinion (Kotler, P., 2000). PepsiCo understood the importance of developing and maintaining a strong relationship with the Indian government as well as its most important asset, the consumer. Partnering with local firms has helped the company be at the forefront of product innovation or “indovation” as management terms it, developing “new and exciting beverages, foods, and snacks that appeal to Indian consumers” (PepsiCo India: A High-Priority Market for PepsiCo, 2013, para. 6).

From the beginning, management realized the importance of social initiative and investing in local communities as core components of market entry success into any new market. The company prides itself on its commitment to sustainable growth, Performance with Purpose, which works on four planks of replenishing water, partnering with farmers, water to wealth, and healthy kids (Fact Sheet - PepsiCo, n.d.). The company tackled India’s water challenges, becoming the first business to achieve a country-level positive water balance in 2009 (Fact Sheet - PepsiCo, n.d.). The company accomplished this by reducing the amount of water used in its operations and replenishing water through sustainable initiatives in agricultural and in communities (PepsiCo India: A High-Priority Market for PepsiCo, 2013). Agriculture accounts for 80 percent of the water usage in India and the company has made several strides to meet drinking and sanitation needs of millions of families in India (India Water Use, n.d.). Local talent has also played a key role in the company’s success. Since its entry into India, PepsiCo has used local talent to run its Indian operations and provided employment indirectly to 200,000
people (Fact Sheet - PepsiCo, n.d.). As noted by an executive at PepsiCo India, one of the key reasons PepsiCo succeeded was the recognition of talent and expertise, building out leadership ahead of the curve (Anonymous, 2017).

Failures

PepsiCo entered India at a time when there was minimal awareness and demand for soft drinks. The per capita consumption was low and cola concentrate was restricted from being imported. There was a high level of government intervention in the private sector and the priority was on the development of the agricultural sector. Thus, the timing of entry was a risk the company was willing to take. While tying its entry to already government sponsored priorities was a smart strategy, the company over promised and under delivered in many areas. The company was faced with the reality that 80% of the farmers it contracted did not even have a bank account and the climate of Punjab was not exactly suitable for growing tomatoes (Pepsi's Entry into India, n.d.). Its plant hadn’t been made operational by 1990 and farmers had to bear losses of 2.5 million (Pepsi's Entry into India, n.d.). Commitments the company promised at the beginning were quickly challenged by the political party in power. The company under delivering on its promises might have brought closure to its operational in India and been a hit to the brands reputation across the world. However, it was the change in liberalization policies that ultimately let the company off the hook and provided the company a fresh start in India. PepsiCo continues to face problems in India today, including the pesticide-in-cola controversy. Some of the companies fancied brands such as Pepsi Max have also been withdrawn due to low response from consumers.

The Future

Pepsi-Co succeeded in many categories and followed the playbook well, when it was a
time to follow the playbook,” notes an executive at PepsiCo India. The company understood the need for MNC’s like itself to work towards the improvement of the Indian economy and to learn the tastes and preferences of its consumers. The company capitalized on opportunities post-liberalization and continued to disrupt its own products ahead of the curve. The company recently made an announcement in March 2018 to introduce a range of carbonated fruit drinks in local flavors and continues to make new ventures as well (Mitra, S., 2018). Nourish Co, its JV set up with Tata Global Beverages in 2010, has produced healthy beverages and is expanding the market for fortified water (NourishCo., n.d.). The company is leading the industry in pushing Indian snacks like Kurukure and offering consumers food that caters to local taste. The companies fundamental strategy hasn’t changed, but merely adapted to demand of the Indian market. Companies across the space are increasingly taking their brands “hyperlocal” to fight off smaller regional players. “India remains a high-priority market for PepsiCo . . . and we believe we’ve only scratched the surface of the long-term growth opportunities that exist for PepsiCo and our partners,” PepsiCo Chairman and CEO Indra Nooyi states (PepsiCo India: A High-Priority Market for PepsiCo, 2013).

**Strategy: Franchising**

Franchising falls into the contractual group of modes of entry strategy. Franchising is an agreement in which the franchiser sells the rights to use its brand name to the franchisee in exchange for a lump-sum payment and a share of the franchisees profit (Levi, K., 2007). An advantage of this strategy is the speed at which a foreign company can enter a new market. Licensing is similar in form to franchising; however, it is only employed by manufacturing companies while franchising is used by manufacturing and service companies. The strategy is attractive to companies wishing to have a low capital investment and benefit from local
knowledge. Control is also maintained to a certain extent since the principal company has rules and standards to abide by when using the brand name. This can be both an advantage and a disadvantage. Quality control and global coordination is difficult when a company manages multiple franchises across several countries. A traveler booking a room at the Hilton international hotel in Hong Kong expects the same quality of room, food, and services as he would receive in Hilton New York (Levi, K., 2007). A franchises brand name “conveys consistency in the quality of products or services” (Levi, K., 2007, para. Lastly, profit sharing can also complicate financial and tax accounting when using this method.

Case Study: Pizza Hut - “Your Favorites. Your Pizza Hut”

Pizza Hut, a division of Yum! Brands Inc., entered in to the India market in 1996 with the opening of its first franchised outlet in the city of New Delhi, the capital of India (Srikanth, G., 2004). The company established four franchises in India: Pizzeria Pure Foods, Devyani International, Wybridge, and Dodsal (Pizza Hut Aims for 100 India Outlets by ’04, 2002). The food chain began opening dine-in restaurants all over India and was serving 40,000 customers a day by the end of 2003 (Srikanth, G., 2004). Each dine-in restaurant was 2,000 square feet and could seat between 120 to 200 people (Srikanth, G., 2004). However, being the first company to pioneer the market for pizza in India, Pizza Hut’s offerings were met with confusion by the Indian consumer, not know whether to treat pizza as a snack or meal option. This confusion along with high prices deterred consumers from eating at its dine-in restaurants which needed an
average of 450 customers per day ordering a minimum of approx. $5 dollars’ worth of food to at least cover the rent (The Incredible Shrinking Outlets, 2004).

The company not only faced competition locally from other dine-in restaurants, but also from another multinational corporation: Domino’s Pizza. Domino’s pizza followed the company’s entry into India in 1996 through a franchise agreement with Vam Bharti Corp (Srikanth, G., 2004). Dominos quickly positioned itself as the brand that delivered pizza straight to your home free of cost, within 30 minutes of placement of the order (Srikanth, G., 2004). Domino’s strategy was an instant success and Pizza Hut began losing its customer base. After the demand for pizza in India was established, other international pizza giants began entering the country and attempted to compete with Pizza Hut and Dominos for market share.

Pizza Hut responded to the competition with a host of changes. It changed the size of its restaurants, cut costs, “Indianised” the menu, and partnered with major branded coffee and drink maker to provide a holistic experience (Srikanth, G., 2004). Pizza Hut started an aggressive advertising campaign and diversified into a delivery system is smaller towns across the country. The company began to do very well in large cities, becoming the first pizza giant to match pizza selection with local tastes. The company asked the question “how do consumers start loving Pizza?” The answer: “offer something new and something familiar; that is the best combination” (Varma, U., 2017). The company did just that by catering to regional tastes, offering a variety of pizza options including ev puri, chettinad paneer, chicken achari, and nimbu mirchi flavored pizzas. Below in Figure 4 is the menu the company offered in 2004.

Today, Yum! Brands operates over 45,000 restaurants in 135 of counties across the world. Its 377 Pizza Hut stores are scattered over 100 cities in India (Yum! – Company). The
FIGURE 4: Menu of Pizza Hut

company is known worldwide for its culture to fulfill the objective of “satisfying each and every customer” and ensuring every customer says, “I’ll be back” (Sengupta, M., Dr., Sengupta, N., Dr., & Raghupathi, S., Prof. Ms., n.d., 2012, p. 95). The company has also franchised nearly 300 Kentucky Fried Chicken stores and 17 Taco Bells in country (Yum! - Company, n.d.). The stores are operated by its two franchise partners Devyani International and Sapphire Foods.

Success

An unfamiliar market to the company, franchising was the best method to enter India as it required little to no financial investment and provided the company a route to quickly expand its restaurant base. This route helped the company to understand its target market and learn the changing preferences of the Indian consumer before its competition. Pizza Hut follows the

<table>
<thead>
<tr>
<th>Pizza Hut's Menu in 2004</th>
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<tbody>
<tr>
<td>Pan Hindustani Menu</td>
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<tr>
<td>New Chettinad Pizza (serves)</td>
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<tr>
<td>Vegetarian</td>
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<tr>
<td>Veg Nilgiri</td>
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<tr>
<td>Dakshin Paneer</td>
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<tr>
<td>No Vegetarian</td>
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<tr>
<td>Deccan Chicken</td>
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<tr>
<td>Southern Supreme</td>
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<tr>
<td>Tandoori Pan Pizza</td>
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<tr>
<td>Vegetarian</td>
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<tr>
<td>Veggie Tama Tam</td>
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<tr>
<td>Paneer Panjabi</td>
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<tr>
<td>Non-Vegetarian</td>
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<tr>
<td>Murg Mazeeedar</td>
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<tr>
<td>Supreme Tandori</td>
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</table>

Source: Menu of Pizza Hut, Hyderabad, India
strategy “think global, act local” and has succeeded in both developing a local supply chain and catering to Indian tastes (Marketing Strategy of Pizza Hut, n.d., p. 3). More than 95 percent of the ingredients are sourced locally and the company’s local menu options are as large as its international menu (Pizza Hut India: Yum! Restaurants International, 2005). Pizza Hut was also one of the first international pizza chains to have purely vegetarian dine-ins to cater to certain members of the community who may prefer to eat at places where meat is not served (Pizza Hut India: Yum! Restaurants International, 2005). While its competitor Domino’s continues to maintain a core strength of home delivery, Pizza Hut has been focusing on offering more food options than just pizzas: some of these include appetizers, pasta, rice, dessert, and beverages as part of its move to provide a complete dining experience. Opportunities in the future exist for companies like Pizza Hut to introduce new specialty products and hopefully gradually move consumers over to higher price points.

**Failures**

Pizza Hut entered India with the notion of making pizza a popular food item. However, the Indian consumer thought otherwise: pizza was viewed as a “snack food” and the company initially found it challenging to compete with meal serving restaurants. It also tried to attract customers with large dine-ins, but these were not successful in smaller towns. As Managing Director Unnat Varma noted, the problem was two-fold: consumers neither understood the food nor had the money to pay for pizza at the price level (Varma, U., 2017). The company failed initially to properly introduce pizza as sit-down meal for families, allowing Domino’s to enter the market and brand pizza as a snack. Dominos capitalized on this opportunity through its delivery system, revolutionizing the way Indians order food.
Competition across the industry remains high due to lower pricing and frequent offers and promotions to attract customers. Eagle Boys Pizza and Sbarro, are only two of many global pizza chains forced to close their operations due to the stiff competition in the pizza category. “Even across geographies there is seldom more room for more than two big brands who tend to capture 80% of the market,” said Unnat Varma, Managing Director of Pizza Hut India (Chatterjee, P., 2017, para. 15) International food chains also continue to face the challenge of slow growth due to a variety of factors. The demand for “healthy” food options and slow growth in eating out are merely two. While the growing middle class is prone to try new things, “Chief Strategy Officer Dheeraj Sinha of an advertising agency notes that “food has an immense cultural and social connotation in India” and “the core staple meals remain traditional” (Tandon, S., 2016, para. 2)

The Future

In 2012, Yum! Brands opened its first equity store in Mumbai as part of its 2020 growth strategy, something new for the 100% franchise operated company. “India is one of the very few countries where the company is investing in equity as there is immense potential growth in the business, Yum Restaurants GM Sanjib Razdan told the Economic Times in an interview (Yum Brands Opens its First Owned Pizza Hut, 2012, para. 2). The company plans on doubling it outlets in India to over 700 in the next five years (Pizza Hut Marks Out India as a Key Market for Global Growth, 2017). In July through September of 2017, the company saw a 7% system sales growth in India and believes in more accelerated growth to come. "Pizza Hut has grown stronger in India over the last 20 years, and we believe our digital-centric delivery and contemporary, open kitchen restaurants will build the next generation of pizza lovers to further reinforce Pizza Hut as the most loved and trusted food service brands in India," said Unnat
Varma, Managing Director, Pizza Hut (India Sub-Continent) (Pizza Hut Marks Out India as a Key Market for Global Growth, 2017, para. 14).
Chapter 4: Winning in India

In March of 2012, McKinsey and Company, a consulting and research firm, published an article titled, “How multinationals can win in India – companies should avoid simply imposing global business models and practices on the global market” (Choudhary, V., Kshirsagar, A., & Narayanan, A., 2012). To be used as a localization-assessment tool, the firm published the illustrative scorecard below to guide companies on how to Win in India.

<table>
<thead>
<tr>
<th>1. Ensure top-leadership support and commitment through cycles</th>
<th>Set bold and explicit aspirations over next 5 years (eg, 3x–5x growth in India)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Send global CEO and relevant senior executives to India 3–4 times a year; engage in regular dialogue with top Indian clients</td>
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<td></td>
<td>Maintain appropriate local investments even through business cycles</td>
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<td>2. Customize offerings to suit Indian market and customer needs</td>
<td>Gain deep understanding of 4–5 target client segments and the initiatives that will deliver against a 3x–5x growth goal (ie, beyond just niche markets)</td>
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<tr>
<td></td>
<td>Set high market share goals (eg, 15% or more) for the targeted client segments</td>
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<tr>
<td></td>
<td>Tailor product/service packages to client segments’ needs and local market differences</td>
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<tr>
<td>3. Create innovative and localized business model</td>
<td>Commit to products that have 30% less functionality and that cost 50–70% less without compromising quality</td>
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<tr>
<td></td>
<td>Build distribution network that mirrors customer targets; plan to expand it by 20–30%</td>
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<td></td>
<td>Employ robust supply chain in India (eg, reliable vendors conforming to quality specifications)</td>
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<td>4. Scale up via deals and partnerships</td>
<td>Assign a business-development/M&amp;A team to scout for opportunities in India periodically</td>
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<td></td>
<td>Develop strong local partners and joint ventures; manage results proactively every quarter (ie, no arms’-length relationships)</td>
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<tr>
<td>5. Leverage India for global products, services, and talent</td>
<td>Make India team a key R&amp;D hub with sufficient resources to deliver results</td>
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<td></td>
<td>Deploy business-model and technical innovations from India in other relevant markets</td>
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<td></td>
<td>Global operations benefit from India’s cost advantage, scale, and talent pool</td>
</tr>
<tr>
<td>6. Manage perceptions and regulation</td>
<td>Maintain strong relationships with top 10 external stakeholders (government and regulators); don’t rely on external agencies for this</td>
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<tr>
<td></td>
<td>Achieve premium positioning for brand in India over local competitors; ensure that brand has sufficient Indian attributes (ie, not just a foreign label)</td>
</tr>
<tr>
<td>7. Empower local organization; offer a compelling people proposition</td>
<td>Make India head a senior officer and part of global executive committees</td>
</tr>
<tr>
<td></td>
<td>Provide India-based CEO with own investment budget and autonomy for most day-to-day decisions</td>
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<tr>
<td></td>
<td>Include top 5 India executives in the global top 200 executives; monitor their career development at a global level</td>
</tr>
<tr>
<td></td>
<td>Recruit 10% of global top 500 leaders from operations in India</td>
</tr>
<tr>
<td></td>
<td>Achieve reputation as preferred employer (eg, place among top 100 employers in India)</td>
</tr>
</tbody>
</table>

Source: McKinsey and Company
The article claimed that the future of many multinational corporations will depend on their ability to succeed in India. A country that could potentially account for more than 20% of global revenue growth over the next decade, India is a country of both cultural and market complexities (Choudhary, V., Kshirsagar, A., & Narayanan, A., 2012). It is essential that multinational corporations learn to do business the Indian way and commit to understanding the changing consumption patterns of the Indian consumer.

*Why do so many multinational corporations fail in India?*

According to data from the Reserve bank of India (RBI), in the period leading up to 1978, 54 companies had applied to exit India (Panchal, S., 2014). Another study done my McKinsey and Company reported that for every successful market entry, approximately four fail (Horn, J. T., Lovallo, D. P., & Viguerie, S., November 2005). India is a different ballgame. The first multinational corporations to enter India were faced with numerous restrictions on foreign direct investments and trade. Companies such as Coca-Cola, IBM, General Motors, and many others were forced out of the country after being publicly crucified in the media and failing to abide by the rule of law. Many overpromised, and under delivered; while others imposed the same international business models in the Indian context. “Too many companies think they ‘understand India,’” said Adrian Mutton, founder of Sannam, a business support firm (Why Do Western Businesses Fail in India?, 2014, para. 5) Companies failed to understand localization and deliver products that addressed issues faced by the Indian consumer. McDonalds serves as a great example, as it took years before the company realized the vegetarianism of the average Indian citizen (Why Do Western Businesses Fail in India?, 2014). Western companies that are overly concerned with rules and the legal system failed are at odds with the “process culture” in India: a culture where Indians seek to find short-cuts as part of being smart and innovative (Why
Do Western Businesses Fail in India?, 2014). Companies fall into the profitability trap, taking a “low commitment, low risk” approach and expecting to generate immediate profits in the near-term (Leavy, Brian, 2014). The Economist recently wrote, “the only way that companies prosper in these markets is to cut costs relentlessly and accept profit margins close to zero” (Eyring, M., Johnson, M., & Nair, H, 2011, para. 1).

What can be learned from the successes and failures of market entrants?

New entrants should not make the same mistakes as other companies have previously made while entering India. With research on over 1,000 multinational corporations previously entering have India, much can be learned about winning in India as well as the fundamentals of a successful market entry strategy. “Strategic planning, due diligence, consistent follow-up, and perhaps most importantly, patience and commitment are all prerequisites to successful business in India” (India - Market Entry Strategy, 2017, para. 1) We will first look at the keys to succeeding in India, focusing in on strategies and tips for companies conducting business in the Indian market.

“You need to see India as not just one country but 20 separate cultures, with different languages and customs” – Founder and Director of FAD International. (Barton, E., 2016)

India is arguably the most diverse market in the world: the country boasts the second largest population on earth is divided into 29 states and 7 union territories. Approximately 22 different languages are spoken across the country, not to mention the 1,500 different dialects. As one may conclude, conducting business in one part of the country, can and tends to be extremely different than conducting business in another part. Cultural norms, cuisine, and customs are all different depending on whether you’re in the north, south, east, or west - some even change within a mile of another. Prior to conducting business in India, Founder and Director of FAD
international suggests spending two to three weeks there as a tourist to simply learn and engage in Indian culture (Barton, E., 2016). Expatriates have to learn to live in two worlds. They should be prepared to start and end their day late, for last minute schedule changes, to take days and sometimes weeks off for holidays. One of Nestle’s devastating failures during the time of its Maggi crisis, was not understanding the Indian context and choosing to disengage with consumers to resolve the issue.

**Localization - Business Model and Product Offerings**

A recent article in Harvard Business Review, argued that so many multinational corporations struggle because they have an inaccurate business model. They “simply import their domestic models into emerging markets” (Eyring, M., Johnson, M., & Nair, H., 2011, para. 3). This strategy does not work well in emerging markets and particularly in India. It fails to address the diversity of the Indian consumer and customization of products sought. What’s missing is a “systematic process for reconceiving the business model” and the identification of unmet needs that can be fulfilled at a profit (Eyring, M., Johnson, M., & Nair, H., 2011, para. 4). A localized business model targeting specific market segment and consumers, is required for succeeding in India, as many business leaders have vocalized in the past. Previous CEO Jeff Immelt of General Electric explained to Forbes India, “For GE winning in India requires a new business model, one in which we are ‘local’ in every sense of the world” (Leavy, Brian, 2014, p. 33). Since the company’s entry in 1902, General Electric realized the potential of India’s “bright, well educated young people hungry to succeed in business” and was one of the first MNC’s to choose India as a sourcing hub (GE India, n.d.). The company also noticed an unmet need to grow the industrial and financial services sectors, in which it has prioritized by continually investing in infrastructure, research centers, and a variety of capital services.
“Successful companies develop strategies for doing business in emerging markets that are different from those they use at home and often find novel ways of implementing them too” (Khanna, T., Palepu, K., & Sinha, J., 2005, para. 6).

As part of a localized business model is the opportunity to localize product offerings. The growing middle class in India demands “low cost, high value” product offerings that are both “new and familiar” in taste. Pizza Hut’s strategy of “think global, act local” has succeeded in both developing a local supply chain and catering to Indian tastes (Marketing Strategy of Pizza Hut, n.d., p. 3). As mentioned above more than 95 percent of the ingredients are sourced locally and the company’s local menu options are as large as its international menu (Pizza Hut India: Yum! Restaurants International, 2005). Purely vegetarian dine-ins and menus that cater to the Indian taste, attract crowds middle class consumers to incorporate the new food into the Indian diet. The need for localized product offerings is particularly evident in the food and beverage sector.

“Invest, empower, and commitment are keywords that multinationals should keep in mind. They should invest in local talent, empower <the> local population, and be committed towards the Indian market to be able to make a name.” - (India Entry Strategy: Mantra for Global Multinationals, 2017).

In India, social and financial commitment go hand in hand. As we saw with PepsiCo’s entry, a strategy tied to the agricultural and economic development of Punjab was the only means in which the company could enter the Indian market. Since liberalization, the government of India has focused heavily on the potential for MNC’s to develop their respective industries by investing in infrastructure, distribution networks, and other social activities. Many companies have been proactive in addressing the issues and problems, plaguing the country and inhibiting
business growth. One example is PepsiCo’s Performance with Purpose: the company has been committed to developing educational and health programmes for multiple communities near its bottling plants. The company also operated three initiatives to better the environment: water replenishment, waste to wealth, and partnerships with farmers (Environmental Sustainability - PepsiCo., n.d.). Social commitment is not only attractive to the government localities, but also it improves perception among consumers. Some consumers remain hostile towards multinational corporations and investing locally is a great way for consumers to experience the company’s intentional commitment. Ratan Tata said it best regarding the Tata Group’s success and social commitment: “Some foreign investors accuse us of being unfair to shareholders by using our resources for community development. Yes, this is money that could have been designated for dividend payouts, but it also is money that’s uplifting and improving the quality of life of people in the rural areas where we operate and work. We owe them that” (Manallack, S., 2016, para. 10). India offers businesses a plethora of opportunities from sourcing talent to selling soon to be the world's largest consumer class; however, a continuance in economic growth will only be made possible by a continuance in social and community development. Corporations should choose a problem in India that aligns with their core competencies and purpose to improve the lives of its workers and make a better India. “Stand for one thing and deliver on it consistently better than anyone else. Whatever the consumer wants, stand for that. Think pizza, think pizza hut” (Varma, U., 2017).

*India is a long game. Take the “long term view. . . focusing primarily on the potential in the market.”* - (Leavy, Brian, 2014)

A main source of criticism of MNC’s is that they are “mainly profit oriented and have
short term focus on quick profits. National interests and problems are generally ignored” (Selal, M., 2016, para. 4). As noted above, regarding why companies typically fail in India, many MNC’s tend to first target India’s 20 million “richest” consumers to generate sales and growth. While initially the strategy may work, companies start to “sink into the midway trap” and risk consigning themselves to the 1% club (Leavy, Brian, 2014). The long-term view ambitiously expands this footprint to lower market tiers. Pricing is a key component of recognizing the potential to sell to all consumers in India. “Don’t take the Indian consumer for granted; even though they can’t spend much per capita, the consumer in India still states that they want a great quality product at a very affordable price” (Khanduja, R., 2017). While the middle class in India is growing rapidly, a considerable large part of the Indian population lives below the poverty line and spends little on day-to-day needs. To put this into perspective, the average American spends $97 every day, the average Chinese $7 and the average Indian $1.8, according to Goldman Sachs data and an IndiaSpend analysis (Tewari, S., 2016). The global poverty line, as defined by the World Bank, is $1.90 (Rs 126); as many as 363 million Indians live below the poverty line defined in India as Rs 47 per person per day in urban areas and Rs 32 in rural areas, nearly half of the global poverty line (Tewari, S., 2016). The growing middle class is beginning to spend more. A senior VP of Strategy put it this way: “the Indian consumer is neither a pay more get more; or pay less, get less. The Indian consumer wants pay less, get value” (Anonymous, 2017). PepsiCo has achieved this strategy by keeping 70% of its products price points to between 5-20 rupee transactions (Anonymous, 2017).

*Have the right local partner*

When asked “How to Win in India” to the CEO of a large Indian Conglomerate, he
responded “have the right local partner - someone who is transparent, honest, values relationships, has integrity, and a great track record” (Dhillon, K., 2017). Finding the right partner who understands the local Indian market and economic landscape of the country can be helpful when the decision comes to invest in the market as a new company (5 Aspects to Consider Before Entering the Indian Market, 2017). Experience and insight can help the company avoid careless mistakes and create an Indianised strategy. However, this doesn’t necessarily mean one must use the joint venture model to enter the country. In fact, many strategists argue that when selecting the joint venture route, “it is mandatory to have a clear-cut ownership path as well as management control to avoid confusion at a later stage” (How to Enter India Market: The Right Strategy, 2017, para. 2). It is nearly impossible for a multinational corporation to fully understand the nature of the Indian market. Not only is Pepsi-Co a case study of joint venture entry, there are many others. Starbucks Coffee Corporation dealt with issue for years as it studied the Indian market and a failed at an early attempt. Acknowledging the complexity of the Indian market, the company took 6 years to carefully plan and execute its entry strategy into India. In January of 2012, Starbucks Coffee Company entered a joint venture with Tata Global Beverages to operate Starbucks cafes in India, roast coffee to supply to the cafes, and export coffee from Indian estates to the Starbucks Coffee Company in the US. As mentioned by CEO of TATA Starbucks Private Limited Mr. Sumi Ghosh noted, “the biggest decision you make when you go into a marketplace is finding the right partner. With Tata it all made sense. I would say Starbucks would not be in India if it wasn’t for Tata” (Menon, S., 2016, para. 6).

Leadership

“An American company. . . must be willing to set its leaders in India free of the
bureaucracy at corporate headquarters, so that they can address local issues and opportunities” (Govindarajan, V., & Bagla, G., 2017, para. 4). Having a large sense of autonomy is key to succeeding in the India market since customization by different consumers is demanded. When employees are valued for their innovation and managerial talent, they are in tune with the company's direction and can act on local issues that need to be resolved at a lower level. Local decision making helped PepsiCo to develop the snack food, Kurkure, for India and relayed commitment to understanding the Indian market. Consistent leadership also matters to properly understand India as a complex country with different values. Over a span of 21 years, General Motors had nine different individuals head up Indian operations. “A motivated executive needs about three years to become fluent in India, yet GM’s average CEO only lasted a little over two years” (Govindarajan, V., & Bagla, G., 2017, para. 3).
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