

BUSINESS STRATEGY

Srikant Parthasarathy applies Michael Porter's classic "five forces" model of competitive analysis to India's singular business environment.

India's cultural and linguistic diversity make the country unique in many ways, so can general management theories be tailored to suit Indian business? I decided to apply the famous "five forces" model, which was designed by Michael Porter, professor of strategy and competitiveness at Harvard University, to give a company insights into the potential profitability of a market and help it form its strategy accordingly.

The first force covered by the analysis framework is the threat of new competition. Unless the barriers to your market are formidable, new players can enter and poach your share of it. If you wish to enter a new market, you want these barriers to be low, of course. If Porter were Indian, he would recognise that factors such as state protectionism and a lack of infrastructure are a greater barrier to entry in India than they are in more developed nations, where market forces are more powerful. This is because governments of emerging economies are usually reluctant to open the doors to new players in many sectors. Even if they do, it's likely that they will adopt more interventionist policies at a later stage. For example, India's airline sector is poised for growth, but the fact that it has recently been deregulated makes it more difficult for competitors to develop long-term strategies, because all such strategies will collapse if the government feels that new entrants are threatening its home market.

One factor that could play a crucial role in India is public opinion, which exerts a considerable influence on the government. A good example of this is the campaign by local retailers, which feel that the arrival of US retail giant Walmart could put them out of business. Walmart has made huge investments in India, but is having to find ways round stringent regulations that prevent it from doing things as basic as putting its brand name on stores.

The psychological profile of stakeholders can be crucial to your competitive strategy, because it means that you have to handle

the regulators before you deal with your competitors. This is not so true in developed economies, where regulators are more prepared to let the market prevail. They don't rely entirely on market forces to determine competition, of course, and there can be opposition to takeover bids for household names, which is what happened in the UK when Kraft acquired Cadbury, for example, but developing nations tend to be far more conservative and treat such M&A deals with great scepticism. For example, even in telecoms, which is arguably India's most sophisticated industry, Bharti, one of its big players, is still experiencing problems concerning its proposed merger with South Africa's MTN Group. Its foreign suitor continues to be viewed with suspicion and the on-off deal has been smothered in bureaucracy. While innovation is seen to contribute to the economy in the west, in India it is still seen more as a threat.

Porter's second force is the bargaining power of suppliers. The model assumes that they can exert significant influence over a corporate customer. Companies in developed countries generally have a bigger

pool of high-quality suppliers and fewer concerns about their ability to honour their contracts, but this is a big issue in India. Most companies here have a plan B – ie, they have already selected a supplier that will be chosen if the first choice fails to deliver.

Most companies in the developed world have learned the hard way that any system that aims only to reduce costs is flawed and that they also need to consider quality. In India buyers are less likely to demand quality, so retailers are lethargic when it comes to seeking it. Indian companies tend to experience two extremes: they either have no suppliers at all for prospective products or they have too many unreliable suppliers overcrowding the industry. This is because of the "bandwagon effect": any firm that makes a profit quickly attracts rivals into its market. These new competitors may not have the infrastructure or the quality processes to outperform the original player, but they create pressure on it to deliver quickly at the lowest cost. This is different from western or Japanese business cultures, in which few companies would consider suppliers working below a benchmark standard of quality.



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The third force is the bargaining power of buyers. As an Indian consumer myself, I know that getting a company to reduce the price of a product would be a big achievement, but the real question is how many of us it would take to manage it. Although customers can be influential, the truth is that most accept the price of the product, either because they feel they cannot affect its price or because they lack knowledge about its true cost and value.

The bargaining power of buyers is also more disguised by tariff regulations in India than it is in developed countries. Take the country's growing mobile telephony market, for instance: the cost to the operator of a

text message does not exceed Rs0.01, while the normal charge to the user for each text is Rs0.50 to Rs1.00. Customers pay this either because they don't know that the tariff is at least 50 times the cost or because they want the services too much to complain and can't find an alternative. The concept of pay per second rather than per minute came late to India because buyers were ignorant of the global situation.

The fourth force is the availability of substitute goods. A substitute is generally understood to be the closest equivalent, but the definition can be different in India from that in more developed markets. For example, most Indian consumers view a Mars bar as the same thing as a bar of Cadbury's Dairy Milk. While these are priced similarly in the UK, they are priced differently in India, where Cadbury has pursued an aggressive strategy. A price war has meant that a chocolate bar called Munch now retails for Rs2, which has taken competition to a new level: Cadbury now charges Rs5 for a Dairy Milk bar, while Mars bars cost Rs25. It's clear that the sales teams for Munch and Dairy Milk are seeking high volumes of sales at the cost of profitability. As long as their desire for chocolate – of any kind – is sated, Indian consumers will tend to go for the cheapest option. Here, consumer choice is influenced more by price than by quality.

The same applies to business schools in India. An MBA is considered to be a premium qualification, but most students don't seem to worry about what the degree offers, as long as they can put those three

designatory letters after their names. It's difficult, therefore, to differentiate your brand in India by anything except price unless you adopt the strategy of projecting your product as being a completely different “macro element”. For example, marketing a Mars Bar as something with a much higher status than mere chocolate could have the desired effect on Indian consumers.

The fifth force – competition within industries – is often more virtual than real in India. Most industries are dominated by two or three top players, even when the sector seems to be flooded with competitors. While this can also be true in more developed countries, the gap between the top players and the second tier in India is often much wider. Lower-level players may have the desire to compete, but they tend to lack the experience or size to gain traction against the strongest companies.

Lack of competition at the top affects how the other four forces apply. The leading company has to compete against only a few smaller rivals and always wins. As the competition flows down the pyramid to the second tier, it intensifies until it becomes most intense at the lowest level. New entrants can easily set up shops by copying a few profitable companies, but many of these have no chance of growing and they exist merely to make as much profit as possible at the lowest cost. In this way they drag down other smaller companies by creating constant virtual threats.

Companies in India spend much of their time and resources dealing with lower-tier rivals rather than with players at the same level. The government supports the small entrants with its tax regime, but it has yet to provide the infrastructure they need in order to develop and become serious competitors further up the scale.

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