INDIA INSIGHT

1 | 2017

MAIER VIDORNO

For more Information about M+V: www.maiervidorno.com

E-Commerce in India – Sales in the era of digital globalization

In India right now there are more than 70 million households with an annual income of more than $25,000 [1] – and by 2020 that number will have more than doubled to 150 million. That's an awful lot of people, and while an income of $25,000 doesn't sound like much in Europe or the US, purchasing power means that income would be equivalent to $90,000 in American terms right now. Talking of a market of $150 million households with purchasing power of $90,000 sounds much more exciting to almost any industry, but there is still a catch. India is very big. No doubt there is a lot of potential in the market, but the problem for most companies is that those households with purchasing power are difficult to reach because they are scattered across the cities of India. Only 8% of the population live in the big metros known as 'Tier 1 cities' (Ahmedabad, Bangalore, Chennai, Delhi, Hyderabad, Kolkata, Mumbai and Pune – each of which had more than 5 million inhabitants at the time of the 2011 census) [2]. While there are 47 cities in India with a population over 1 million – scattered across the breadth of the country. Still more of these households with more than $25,000 live in the smaller cities and in the villages.

Foreign companies entering India's markets tend to focus on the tier 1 cities to help bring focus to their sales strategy, but after some time the question always comes up – how can we best tackle the entire India market? Building a sales team to cover the entire country is an impossible task to all but the largest companies, so until recently most companies stayed in the metros doing well, but not reaching all their potential Indian customers. Then the internet came to India.

[1] Frost&Sullivan, India Macroeconomic Outlook 2016-17, Published: 27 Jul 2016

[2] http://www.iamwire.com/2016/05/influence-scope-ecommerce-tier-ii-tier-iii-cities/135458

Today almost 55% of e-commerce business is done in the tier 2 and tier 3 cities, and any company can reach almost all their potential market through their smartphone. India now has more than 220 Smartphone users and is – after China – the biggest smartphone market in the world. Computer ownership is still relatively low, but ever better network coverage for smart phones has brought the internet to Indian consumers. More than 40% of all e-commerce sales are conducted via smartphone apps, with Flipkart claiming 50% of its business is via mobile phones – while its rival Quickr says its smartphone business is closer to 70%.

Today the B2C e-commerce sales in India is 'only' $20 billion, but the market is growing by 51% annually. The upper economic classes currently make up around 68% of all B2C e-commerce sales as they use the internet to source luxuries that once would have been available only abroad.

Indians still pay for most of their online purchases on delivery with cash, but demonetization back in November 2016 led to tremendous growth rates in a new payment method for the country – mobile wallets which allow payment via smartphone apps. The biggest of them 'Paytm' already has more than 150 million users and 13,000 employees. This just makes the potential of the B2C sector all the more enticing and accessible. Although all foreign manufacturers require an Indian partner to leverage this opportunity because of state restrictions on Foreign Direct Investment (FDI). These restrictions are both to limit the competition that all online commerce presents to 'brick and mortar' stores – there are over 14 million Retailers (voters) in India – and to ensure that foreign products do not outcompete Indian products.

These restrictions and how they relate to foreign investors are set out in clear guidelines in March 2016 which set limits for B2C e-commerce[3]. In summary 100% FDI is allowed for B2C e-commerce via the marketplace model, – the market place in India's case is any IT platform on a digital and electronic network that acts as a facilitator between the buyer and seller. Selling your products directly to Indian consumers on your own site is prohibited (because FDI is not allowed in inventory based multi-brand B2C).

The marketplaces – like Amazon, Flipkart and the many other niche platforms now growing – can sell your products but there are conditions:

> PAGE 2

[3] The Department of Industrial Policy and Promotion (DIPP) vide its Press Note No. 3 (2016 Series); dated 29th March, 2016, prescribed clear guidelines on FDI in B2C e-commerce sector

CONTENT

- An e-commerce entity will not be permitted to sell more than 25% of the sales affected through its marketplace from one vendor or their group companies.
- The entity providing the marketplace will not exercise ownership over the goods to be sold (so Amazon cannot sell its own products on Amazon.co.in).
- An e-commerce marketplace entity can make transactions with sellers registered on its platform on B2B basis.
- Support services to the sellers, like warehousing, logistics, call center etc., may also be provided by the e-commerce entities.
- The warranty/guarantee of products or services sold online will be borne by the sellers, not the e-commerce entity. In addition, the seller alone shall be responsible for delivery of goods and satisfaction of customer.
- The price of goods or services shall not be influenced by the e-commerce entities providing marketplace neither directly or indirectly.

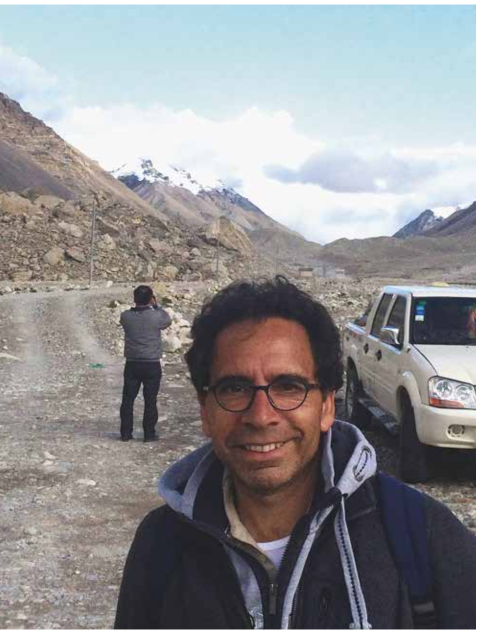
B2B e-commerce in India is a different story as it is much less political. FDI in B2B e-commerce has been allowed for many years and the market has now reached volumes of more than $400 billion. The B2B e-commerce market has also high growth rates and in 2020 it is expected to reach $700 billion. But foreign investors face some risks in setting up their own e-commerce shop related to online payment processing, payment methods, system / network operations, returns and refunds, logistics etc. What these conditions and investment restrictions mean is that a foreign company wanting to sell products directly to Indian consumers will need an Indian partner who is able to import and sell the products locally for them on market places like Amazon. While companies in B2B markets face less regulations but still benefit from having support for distribution networks and after sales.

And now come and sell in India. Maier+Vidorno can help you reach customers via e-commerce in India and stay in control.

Text: Thomas Breitinger

Chalta hai and guanxi: Doing business in India and China

You need to be familiar with both phrases if you want to succeed in India and China. Chalta hai is Hindi, the most widely spoken language in India (never ask anyone if they know 'Indian'!) and roughly translates as "it is fine". This is often accompanied by the typical headshake, which usually means "yes" (except when it means "no", of course ...). It is usually used to express that 80% is enough, why 100%? This does not sound like something an engineer from Germany could be happy with, but familiarity with this very Indian attitude certainly helps more than continual frustration - and perhaps the objectives for the Indian market do not always require German perfection. Drive a car in Mumbai or Delhi, walk through the streets of Bangalore or Kolkata and see for yourself if you still demand 100%?



The writer Dr. Manuel Vermeer in Tibet, right between China and India, in front of the Mount Everest.

India is vibrant, colourful, loud, chaotic – and some knowledge about the culture would be much more beneficial than complaining about how Indians never do what is asked of them. Prepare yourself, learn something about "jugaad" (have you ever heard this word before?) and teach the eager-to-learn Indians about your home culture, this will get you further than irritated emails, teleconferences and exhausting red-eye flights. You can achieve success in India when you work with people and build relationships rather than just KPIs, deadlines and milestones – when you build and maintain personal contacts, when you accept wedding invitations and try to get to know your business partners. And of course, invest time. Even more than for China!

You have no time and no budget? Then do not bother with India. You will waste far more of your budget with pointless emails and workshops where you cannot separate the positive feedback from the actually retained and understood information. Cheerful head waggling all-round, but what has actually got through? Indians can always do everything, but what can your partner really do?

There are more than 1.3 billion Indians, and you like to eat 'Indian' food? What even is that? You cannot compare your partners from Chennai with those from Chandigarh, these are different people, languages, food, cultures. And just 20% speak English, so do not believe "all" Indians speak English. What do you really know about India, which is after all one-fifth of mankind?

This diversity even surpasses that of China, which also has 1.3 billion inhabitants, also many cultures and not just one, also many markets and not just one. But there is at least one "standard language", Mandarin, the dialect from Beijing. This will get you through. And yes, you can learn a few words of Chinese, the grammar is easy, it will be faster than learning Spanish. Not just "ni hao" and "ganbei", you can manage more than that! And "guanxi" basically means relationships, good connections, sometimes fluidly bordering on corruption. Yet again not exactly something favoured by compliance-conscious Germans, but this networking also has many advantages; good guanxi enables you to get everything, including anything you are not legally entitled to. Without any guanxi you get nothing. Here too you must maintain your relationships, accept invitations, and yes, sing karaoke! It helps, it is good for your guanxi! In China too, personal relationships play a more significant role than with most Europeans or Americans; hand out your (Chinese-language!) business cards, collect those of your partners, write occasionally, bring gifts ... all these count at least as much as a formal email. The Chinese too are proud of their culture; educate yourself and do not hold back with praise! The culture, the food, the landscape. It is ok to criticise when it comes to the subject of human rights, it is even better to avoid politics altogether. Do not roll over, take a clear stance; that's fine.

> PAGE 3

If you are educated about the destination country, about India or China, you may also be allowed to criticise. But please do not begin your conversation by talking about Indian slums and abuse of women; Indians themselves know about their country's problems and it is grossly rude to start off with such negative stereotypes. In China, please do not come up with copyright infringements and hackers straight away; there are also negative things to be said about your own country, but we are all happy with a positive image abroad. So start off with positives, there are plenty. Once again: Criticism, where appropriate, is fine; in my Tibet novel „Mit dem Wasser kommt der Tod", I describe the situation in Tibet very clearly and (still) always get a visa ... But the kind of critical remarks that foreigners like to make (Why is India so dirty? Why is nothing done against poverty?) offend the hosts. This does not help anyone. And this applies for both countries: Arrogance is not well-received ("I was amazed at how well-developed the Indian industrial park was!"). Your Indian audience will be left wondering why you were so amazed. India and China are more advanced than other countries in some technical fields, for example when it comes to mobile communications and e-payment.

When you need to achieve 100% international quality in India or China you will need a lot of seminars, workshops, training. You need to know how to conduct such seminars in Asia, how to recognise valid feedback, how to motivate the participants, etc. Your local employees want to learn, but a lot has never been taught to them because knowledge is always power and passed on reluctantly. If you have intensively prepared yourself for the target market, then you also need to prepare your partners in Asia! Professionally, technically, yes, but also culturally. Why, for example, are Germans so direct? They consider this efficient, but Asians consider it impolite. Why is the tone of German emails and phone calls always so irritated and dissatisfied? Because we only call when we are dissatisfied. Why do we want a certain quality, why is it bad when the windows of the Indian plant are open and dirt is gathering on the machine, etc. Explain those issues that are self-evident to you.

China has always been considered the market of the future, and in the last 30 years the Chinese have created something that was previously unimaginable. With pressure, with violence, with dictatorship, one might say. And rightly so. It is easier now to do business in China than in India, as at least everything is regulated there: Clean and flawless infrastructure, energy industry, approval processes are much more transparent and usually faster than in India. China is safe, even for single travellers, you are not dependent on the monsoon - there are many reasons why China is currently ahead. But only at present; India will catch up quickly and efficiently, and then China will be caught up with its issues of environmental pollution and the ageing population.

Both countries are exciting markets with very different problems for foreign investors. You can get far in China with guanxi, but that is not enough in the long run. Prepare yourself, learn something about the people, take the time. It is worth it. Maybe not everything is going well, but you have to try. As the Indians say "everything will work out in the end, if it hasn't worked out yet, then it's not the end." Perhaps not everything is perfect, perhaps your market entry takes longer than anticipated - but it can be a start. Chalta hai!

Text: Dr. Manuel Vermeer

About the writer: Dr. Manuel Vermeer, born from an Indian mother and a German father, studied sinology at the universities of Heidelberg in Germany and Shanghai in China and spent a number of years working as translator and interpreter for the German Federal Government. He has published numerous articles on Chinese and Indian economic, cultural and language issues and has written two books on China and India as well as one Chinese language guide. Dr. Vermeer conducts specialised training for CEOs, managers and employees either relocating to China/India or dealing with Chinese/-Indian business partners. He offers a full spectrum of business consultancy services and support in all phases of corporate activity in China and India as well as supporting Chinese/-Indian companies starting operations in Europe/US/Africa.

You asked, we answer: FAQs about HR in India

What are the most important advices for new market entrants on HR?

Start with hiring your most senior people – this is usually your national sales manager. It is a really good idea to have this person on board before you hire the rest of the team. Get your policies and procedures in place early to avoid unnecessary problems later. A clear payroll system and fair policies for travel allowances and hours worked are really important to ensure transparency and fairness. Also set up an induction process – include basics about your company, your code of conduct as well as information about insurance and statutory payments. All companies will need to pay Provident Fund (PF) when they reach a certain size and this will need to be factored into the payroll and become part of induction.

What checks are required before hiring in India?

You need to check their salary expectations – and you need to check what they were paid before. India is very much a negotiation culture and many people will tell you they are earning a lot more than they are, so to check previous earnings it is a really good idea to ask to see salary slips.

> PAGE 4

You need to also do medical, residential and criminal checks – in such a vast country you need to ensure you know where your team comes from and their state of health. It's also a good idea for senior people to check if they really do have the qualifications they claim – it is not unknown to find false claims made about degrees and courses.

Traditionally reference checks have not been standard, but they are really important. Ask for specific objective information about the person – did they work at the company when they said they did and are there any notes or warnings in their file (and if so what), and the reason they left. Do ask about past performance, but keep in mind that a character reference may not always be helpful as India is a formally polite culture where people would not like to write down negative feedback on an individual. It is a good idea to check a couple of companies on the person's CV – not just the people they are suggesting as references. For senior positions it is a good idea to do psychometric tests with skill tests specific for the role. These are important because first impressions can be very wrong when you are looking at hiring from any other country than your own.

Do workplaces in India prevent sexual harassment?

Companies are required to have a policy to manage any complaints of harassment and to train their employees to emphasize this is not acceptable. Any sexual misconduct by an employee while on duty with your company is counted under the act – whether it took place in your office, on the road or on the way home so there is a very broad definition. Companies who do not comply with the law can be fined. In reality many firms are yet to conduct training or introduce mechanisms to deal with harassment when it happens, but it is quite easy to be compliant – and becoming complaint can also aid retention as you make the workplace more comfortable for your female employees.

How do Indians view working for foreign companies?

Working for a multi-national company is the ambition of many young Indians. Foreign companies have a reputation for better pay and working conditions and more opportunities for development. Different nationalities are viewed differently. Working for a US or German company was always seen as positive in recent years, while working for a Japanese or Korean company would be a very positive career step in certain industries and less prized in others. For example young Indian engineers will aspire to work for Japanese engineering companies – especially in heavy engineering and automation; while experience with Japanese firms is less prized in the service sector.

What is important for foreign companies in India?

Build your leaders and have faith in them, but ensure you build systems and procedures around them. Indian businesses have been traditionally very informal and unorganized and heads of companies and subsidiaries tend to become 'kings'. This can often lead to conflicts with head office whose desire for inputs and updates can be seen as 'interference'.

This is tricky because if your subsidiary is not performing as expected, it can become hard to get information and find out what is going wrong. Also leadership issues can be a key reason for underperformance and for high attrition. Another problem is that if the leader is lured away to another job they are likely to take their whole team with them. Building strong performance management systems and feedback loops can help you retain not just your leaders but also their team members.

HR Policies are very important to creating a fair and transparent work environment. Ensuring that there are agreed and written down rules for travel expenses, what rating of hotels different levels of staff can use and who can use the car park or get their phone bill paid will all help reduce politics and arguments. Loyalty should be first and foremost to the company rather than the individual team leader and what you agree to in the policies can help that to be the case.

How to manage employee performance in India?

Consistent formal performance evaluation is becoming more and more standard in India's corporate sector and most recruits more than a couple of years out of college will be aware of Key Result Areas, Key Performance Indicators etc.

Using standard systems in India is really important to build fair and transparent company structures and hold people accountable to results. Managing by setting and measuring objectives important to the company's growth is therefore a great way to go. What is different from other countries is that it is better to review performance more than once a year – at least in brief. This extra attention can really help maintain alignment and highlight performance issues. To make it not too burdensome we would recommend one full annual review and 1-2 mid-year reviews with much shorter formats. It is useful to do the performance review of the head of the subsidiary first. This then sets the process and the tone for his interactions with other levels of staff.

What is important to know about salaries in India?

There are many elements to an employee's Cost to Company (C to C) and salaries can be structured in many different ways to help employees reduce their tax burden. All companies with more than 20 employees are required to contribute to their employees' state pensions (known in India as Provident Fund – PF) so when new subsidiaries plan their first few years they need to factor in the additional costs as they grow. Providing benefits like health insurance are also becoming increasingly normal.

With inflation back below 5% annual increases in salaries have also fallen. However, the market is very competitive and very dynamic and people expect increments of 8-10% per annum. Companies can structure these increments to be motivating – e.g. well performing staff receive the full increment – or even more, while underperforming employees find themselves receiving a lower increment.

It is difficult to reduce salaries and it is difficult to fire people in India for underperformance. However, linking a proportion of salary to the company's financial performance is definitely possible and can help motivate staff to ensure your turnover.

How to manage retention and lower staff turnover?

We recommend to help keep staff by making them so comfortable they don't leave. This is not just with money – although that is a big part – it is also with rewards and recognition. To make sure you pay enough to keep people happy without paying above market rates make sure you benchmark salaries regularly.

Text: Verity Corbett

IMPRESSUM
Publisher: Maier+Vidorno GmbH · Siegburger Straße 231
50679 Köln · Germany
Contact: Ms. Parboti Maya Bhattacharya
Tel. +49 221 880 408 18 · p.m.bhattacharya@mv-group.com