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"Kärcher sees huge potential in the Indian market"

Interview with Ruediger Schroeder | Managing Director | Kärcher Cleaning Systems Pvt. Ltd.

Kärcher machines have been sold to customers in India for many years now. How did the success story start and why did you decide to enter India in the first place?
Kärcher has been selling cleaning solutions in India for over 20 years now. In 2011 Kärcher bought the assets of the distributor and since then Kärcher Cleaning Systems Pvt. Ltd. is a 100 % subsidiary of Kärcher Germany. In the beginning it was quite challenging to sell mechanized cleaning solutions but nowadays more and more customers see the benefits of cleaning machines and also in the last two years the 'Clean India' initiative of the Modi government has been definitely helping to promote our products.

Recently Kärcher has developed an India specific product. Could you tell us more about the product and the story behind it?
Indian professional customers want to have simple, robust, easy to operate and cost effective cleaning solutions. These are not necessarily specific Indian requirements but common requirements from developing countries. In the Kärcher Group we recognized this and have developed products for these customers. The functions are more or less the same just with fewer features and even more robust. Interestingly this product is now also successfully exported to Europe where customers from especially in Southern and Eastern Europe also appreciate simple and cost effective cleaning solutions. The product is also successfully exported to other Asian markets.

How did you pick the requirements for Indian costumers?
As we have been in the Indian market for quite some time, we have studied the specific requirements from our customers through interviews and observations. Together with our Product Specialists form the Head-Office we developed the specific product requirements and then our local R&D team started the development under the supervision of the global R&D team. We will definitely develop further products here in India.

Service is an important matter in India. Do you offer special after sales services for Indian customers?
We have a team of over 80 service engineers in our 11 branch offices and 18 service points throughout India. As we sell working machines it is essential we provide regular servicing options. So we successfully offer Annual Maintenance Contracts where our service guys will visit the customer side every quarter and inspect the machines, train the operator and recommend any necessary repairs.

In Germany you sell your products wholesale and retail. How do you sell your products in India?
We offer different product lines for consumer (B2C) and professional users (B2B), the consumer products are yellow whereas the professional products are anthracite grey. The consumer products are sold through traditional dealers, Cash & Carry markets, electronic chains and through e-commerce. Our professional products are sold through our direct sales force and through industrial dealers in areas we don't cover. Very often our professional customers need us to demonstrate our equipment to convince the decision makers about the performance as mechanized cleaning solution still are not so well known in the market.

What are the key success factors for Kärcher in India?
Consistency in the market approach, good and reliable service and the right solution for the customers cleaning challenge.

What are your future plans in India?
We as Kärcher see in the Indian market a huge potential for the future. Everybody agrees India has to considerably increase the level of cleanliness and hygiene standards and the nationwide 'Clean India' campaign keeps attention on this. With our wide product range and our cleaning know-how we can help our Indian customers achieve this. So we see double digit growth in the coming years with more investments from our side in our people and our infrastructure.

CONTENT

The facts of Goods & Services Tax (GST)

In August 2016, India finally overcame the hurdles and passed the long awaited GST constitution Bill, and started making plans to implement the new tax by April 1st, 2017. This is one of the most significant reforms under the Modi Government, and an ambitious one. What is GST and happened since the Bill was passed?

Background: What exactly is GST?

GST is a value added tax (VAT) on goods and services and will be levied at all points in the supply chain.

Why is GST so important?

The tax is supposed to create a common Indian market. Until now, the tax system for Goods and Services is a mix of State and Nation-wide taxes. This means taxes and duties collected differ between States, making transfer of goods between States very complex and this made India's tax system especially difficult for foreign companies who want to trade because you need to understand all the complexities even if you only have a few products to sell in each state. This new tax should end the complexity as it will replace the State and Central Tax systems this with one tax for almost all Goods (a few are not on the GST list). This tax will also ultimately benefit consumers who nowadays have to pay multiple taxes on any Good or Service.

The advantages of GST

GST will:
- create a wider tax base and a more efficient tax system,
- eliminate the cascading effects of applying multiple taxes,
- rationalize the tax structure,
- ease tax refunds,
- simplify compliance processes in India.

What taxes are not part of GST?

Import taxes, such as the Basic Customs Duty, as well as the Research & Development Cess for Technology Imports, Stamp Duty and Taxes on specific products and Services, such as tobacco, electricity or alcoholic beverages, will remain.

What will really change under GST?

The new GST will change the tax structure, tax incidence, tax computation, tax payment, compliance, credit utilization and reporting, leading to a complete overhaul of the current indirect tax system. It will also have effects on all aspects of business operations in India. The Central and State Governments would levy GST in parallel on supply of goods and/or services where such supply is made within the state. The GST to be levied by the Centre would be called Central GST (CGST) and that to be levied by the States would be called State GST (SGST). An Integrated GST (IGST) would be levied on inter-State supply of goods or services. The Import of goods or services would be treated as inter-State supplies and would be subject to IGST in addition to the applicable customs duties. However, the final structure of GST is not yet set.

Why is Dual GST (CGST & SGST) required for Intra-state supply of goods or services?

India is federal country and assigns power to levy and collect taxes by the centre and state (Levels of Government), respectively. Both 'levels of government' have specific and distinct responsibilities to perform, with respect to the division of powers prescribed in constitution of India, for which they need to raise resources, and thus dual GST. To reiterate, Centre will levy and administer CGST & IGST while respective states will levy and administer SGST.

This means that offset of credit between centre and state levies won't be allowed. In other words CGST credit cannot be used for payment of SGST and vice-versa.

How will goods and services be classified under GST regime?

The HSN (Harmonised System of Nomenclature) code shall be used for classifying goods under the GST regime. The display of the HSN code will depand purely on the sales turnover of the taxpayer:

I) Taxpayers with sales turnover below INR 15 million are not required to mention HSN code on their invoices

II) Taxpayers with sales turnover more than INR 15 million but below INR 50 million shall use 2 digit code (first two digits of HSN code – Chapter code), for example 85 which stands for "Electrical machinery & equipment"

III) Taxpayers with sales turnover more than INR 50 million shall use 4 digit code (first four digits) for example 8536 which stands for 'Electrical apparatus for switching or protecting electrical circuit'

How will Exports be treated under GST?

Exports will be treated as 'zero' rated supplies – as happens today. Tax won't be applicable for export of goods or services. Credit of 'input tax' will be available as refunds for exporters.

Will all the changes of GST be good?

The tax will have positive impacts on some sectors but will actually increase the duties paid on services. Companies that until now only paid Service Tax will now also need to pay an additional State specific authority tax.

When does GST come into effect?

The Government has set a GST roll out date of 1st April 2017 to implement the whole system. As there is so much to do in the coming months that many experts think the deadline is liable to be reset. The first real test of this deadline is due now in December 2016 when all the common modules for the processes required, need to be in place for the first 17 States. These modules will clarify many details about the processes and implications, and efforts to develop these processes are likely to be very complex.

What does GST mean for my business?

All companies will have to prepare themselves for the introduction of GST. Firstly by checking which of the Goods they want to trade in India are already subsumed under the GST - Sales and Excise Taxes will still be levied on those products.

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What taxes will be subsumed under GST?

CENTRAL LEVIES	STATE LEVIES
Central Excise Duty	VAT
Service Tax	Central Sales Tax (levied by Centre and collected by States)
Duties of Excise (medicinal and toilet preparations)	Purchase Tax
Additional Duties of Excise (Goods of special importance)	Luxury Tax
Additional Customs Duty (known as CVD)	Entry Tax
Special Additional Duty of Customs (SAD)	Entertainment Tax (not levied by the local bodies)
Cesses and surcharges relating to the supply of Goods or Services	Advertisement Taxes
Swachh Bharat Cess	Lottery, Betting and Gambling Taxes
Surcharges	State cesses and surcharges related to supply of Goods or Services

Some goods are not covered by GST and, as mentioned above, taxes for services will change.

Key business impacts will appear in the areas of:

- Sourcing: Inter-state buying could prove feasible and may open opportunities to consolidate suppliers and vendors
- Distribution: Changes in tax system could change procurement and distribution, network structures and product flows may need reviewing as current arrangements for distribution of your finished goods may not be optimal with the removal of the concept of excise duty on manufacturing
- Cash flow: The removal of Excise Duty on manufacturing can result in improving cash flow and inventory cost
- Pricing & profitability: Tax savings resulting from the GST structure will require new pricing of products
- System changes and transaction management: Many systems and processes will need to change to make the optimal transition to GST – and these will require training for employees, checks to ensure compliance under GST, customer education, and tracking of inventory credit to ensure everything goes smoothly; supply chain reports need to be reviewed and existing open transactions and balances as on the cut-off date need to be migrated out to ensure smooth transition to GST

Conclusion

Overall GST will bring more transparency and simplify the current tax system in India, but it will also require a lot of work to implement, at national level, in each state, and in each individual company. Eventually, it will harmonize Centre and State tax administrations. Even though there are doubts that the Bill will be implemented by April next year, experts are positive that 2017 is a realistic target for the Bill getting realized and effective.

The contrast between Dutch and Indian communication styles could not be bigger

The Netherlands is today India's fourth largest trading partner in the EU and one of the top five investors. In recent years the value of mutual trade has risen to more than six billion Euros.

We talked to Han van Schaijk, our Dutch representative, about the differences between India and the Netherlands.

What are the biggest cultural differences between how business is done in your country and in India?

The biggest difference is the way people communicate: in The Netherlands direct communication is standard – within and between companies; we always go directly to the point and immediately tell you our opinion. Many foreigners find Dutch blunt while we consider ourselves to be clear. The contrast with Indian communication styles could not be bigger. In India indirect communication and loss of face are important.

Han van Schaijk on his last trip to India

The attitude towards hierarchy is another difference, Dutch people immediately say what they think, if the boss thinks differently, he will have to convince his employees. Dutch business people in India have to realize their counterparts may not be expressing their own views and may have to consult their management.

In India relations and networks are key while in The Netherlands we focus on efficiency, so if you want to speak to someone you drop him an email or just call him. And the other person might simply refuse to talk to you as he feels there is no benefit for him without causing insult. As a result the contract means everything in The Netherlands and is far more important than personal relations. To a Dutch person a contract is the conclusion of negotiations.

How do companies from your country view India?

Most Dutch companies have not really looked at India as it is perceived as a difficult country to do business – rife with bureaucracy, inefficiency and non-transparent decision making. Key here is the lack of real knowledge and Indian experience. The companies that are active on the Indian market have a different view. Most are positive about the opportunities, the people and the way the country is developing – let's work to get more experienced Dutch companies!

Which industries are most outward looking?

Basically all sectors are outward looking. Being a small country we simply cannot afford to not look outward. Having a trading tradition and blessed with huge ports, our economy is based on international trading.

Saying that we do have particular strengths in agriculture. Strangely enough for a small country The Netherlands is the second biggest exporter of agriculture goods. Fertile soils, moderate climate combined with innovative agrofood technology are the basis of this success. Machinery, equipment and chemical and oil products are other important segments.

What are the biggest challenges companies from your country face in India?

The size of the country and the differences between its regions are the biggest challenge. SME companies are the base of Dutch economy and these companies tend to work with distributors – a model that is often not suitable for countries like India. Dutch companies tend to focus on niches and produce top quality products. Being relatively small, manufacturing special products for the Indian market is not an option and this makes the potential Indian market for many Dutch products very small. The M+V Business Incubator services is a good solution there.

HAN VAN SCHAIJK

is representing M+V in the Netherlands since 1 ½ year. He is also supporting Dutch companies on internationalisation and improving their international strategy. Since the late eighties he is active in international sales and marketing, mainly the the area of exporting B2B technical products. In 2004 he managed his first project in India for Akapp-Stemmann.

Important Success Factors for Doing Business with and in India

Dr. Jana Helbig

When it comes to dealing with Indian business partners or investing in India, most companies see the plain numbers first. These numbers may either appear to be very impressive in terms of potential customers or may sound very attractive in terms of the rather lower costs of production in India. Of course, companies also evaluate potential bottlenecks and business risks such as an inefficient infrastructure, the Indian bureaucracy or the degree of corruption that companies may face depending on their industry. However, in daily business, it is often the soft factors that determine how successful a company in India is. No business is decided by its plain numbers alone. It is the people and the relationships in a firm that define the success or the failure of a company. In general, there are a number of cultural differences to consider when dealing with Indians and the Indian mindset.

First, there is the importance of proper hierarchies and hierarchical structures within an Indian firm and with stakeholders in India. These hierarchies need to be first established, they need to be properly communicated within the firm and externally on business cards and, most importantly, these hierarchical structures need to be followed in daily business. For many, it is puzzling how the hierarchical thinking in India affects many parts of a company's business; for instance, the chain of command within a company, the importance of organizational charts, people's preferences for brands or on how to deal with employees, business partners, colleagues and public administration.

Second, there is the importance of close guidance, monitoring, and even direct control of Indian employees and business partners. In German companies, less control by the manager is preferred by employees. Indian employees rather feel appreciated when working very closely with their manager. This includes detailed instructions to employees and even business partners, constant repetition and reminders, and role conformity of employees. Often, it may also include a certain lack of self-initiative or, in connection with hierarchies, the avoidance of asking for clarifications if something is not understood. Control is also highly connected to the importance of clarifying and monitoring the expected work quality of employees and business partners in India. German quality standards cannot be expected in an emerging market - in products or work outcome. Expected quality standards need to be taught by German headquarters and constantly monitored.

'Jugaad' is another interesting and often frustrating concept for foreigners in India. Jugaad refers to the strategy or actions on how to cope with the often erratic daily life in India and how people resultantly organize themselves. Jugaad is the concept of flexibly working around upcoming tasks or difficulties and finding new and creative solutions. This can be very positive because it is real 'outside the box thinking' and results in new solutions and innovations. But, often the solution is rather a short-term working around and not a long-term concept. Furthermore, the personalized relationships and close networks with all external and internal Indian stakeholders of a firm can be rather difficult for German business people. In India relationships and knowing someone are taken to a wholly different level. The simple reasons are the sheer size of the country and the lack of institutions that establish trust in unknown business partners.

In Germany, for instance, there is a trust in a sufficient legal system to solve late payments within an appropriate amount of time. Or, business partners can be checked beforehand with a number of business agencies. As full information about potential business partners is less available in India, trust is established via personal contacts and long-term relationships and recommendations from contacts. A myth about India is that all communication is indirect and that Indians avoid to communicate clearly. Communication always depends on the context, i.e., communication can be very formal and indirect but in other contexts communication is very direct. Regardless, foreign companies and expats in India should keep in mind the often emotional tone used, conflict avoidance, and the need for harmony of Indian employees and stakeholders. Indian employees are differently motivated to employees in Germany.

Whereas many employees in Germany value work-life-balance, Indian employees value harmony in the workplace, and salary is a big motivator due to the overall economic development of an emerging country like India. Overall, important success factors for doing business in India are the stamina and the commitment of the decision makers as well as the personal characteristics of the involved key personnel in both countries. In-house trainings of the local employees and the establishment or assignment of an expatriate in India are very important. Apart from these, understanding and adapting to local business and management practices, as well as building and maintaining personal contacts and networks, are highly advised. Successful companies often cite personal learning and increased knowledge of the involved personnel as key success factors.

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