

**International Marketing**  
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**Lecture – 26**  
**International Business Case Analysis**

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**Challenges :**

**Critical Issues which needs to be addressed:**

1. Washer Disinfector is very critical equipment at CSSD department. In case the unit is down due to non availability of service technician or spares, entire days plan for Surgeries will go hay wire.
2. Huge disruption will create issues for Hospital Administration & Patients
3. In case Service cannot be provided , hospital will loose revenue / bad reputation
4. Establishing wholly owned subsidiary requires time & compliance to several legal requirement
5. Recruitment & training of 50 to 60 engineers will require long time. No revenue generation during project implementation period
6. Training Center is in USA. All freshly recruited engineers has to go through training in USA HQ.
7. There will be two different types of customer in Japan
  1. New installations at hospitals
  2. Customers having service contract ( CMC) with Distributor
8. All new sales contracts & all existing CMC will be transferred to ABC Inc from distributor
9. Management of Spares Inventory
10. Warehouse for storage for Washer Disinfectors & building inward & outward logistics.

Hi, welcome back. So, we were continuing with the problem, the business case problem and we will now see how. So, we discussed that the training centre is in United States. So, you need to provision or you need to ensure that all the engineers whom you recruit in Japan they have to be trained at the training centre in the United States. And also, one more detail here after once they are trained, they should have some hands on experience.

So, it is not only the training at the training centre, they have to physically visit certain hospitals and ensure that they are qualified enough to rectify or to install or to rectify or even to calibrate the equipment; all those knowledges are required by these all engineers whom you have to freshly recruit. So that is one of the critical challenges for you. And there are two types of customers in Japan for this product.

One is a new installation that means distributor has sold and those equipment have to be installed. So, when you take it over that period, suppose the distributor period was say 31st of December and from first of January you have to take it over, the equipment sold in the month

of December will land up sometimes in January and then your engineers have to install that. At the same time, there is a large installation of these products in Japan for last 15 years.

So, huge number of equipment have been sold, they are not instruments I am extremely sorry, the equipment are there which need to be installed which are in contract with the distributor. So that means there may be a comprehensive maintenance contract or annual maintenance contract. Comprehensive maintenance contract means it is a labour as well as the spares. And in annual maintenance contract is only labour only contracts.

So, some of the hospitals will opt for only labour only AMC and some of the hospitals will opt for comprehensive maintenance contracts. So, AMC and CMC will come into the picture after the warranty period is over. So, typically the warranty for this product is 1 year, once the 1 year warranty is over, you have to ensure that you attend this, you have to have a machine service contract. So, service contract is also another huge revenue earning because it is a large install base.

And you may have large number of equipment there and each of these equipment will be in a contract. So, there will be huge revenue also from the service. So, there will be three revenues. One revenue is from the sales of the equipment, one revenue flow will be sales of the consumables and the third one revenue will be service revenue through AMC and CMC. So, another issue is that these currently when the transition will happen, the contracts are already with your distributor.

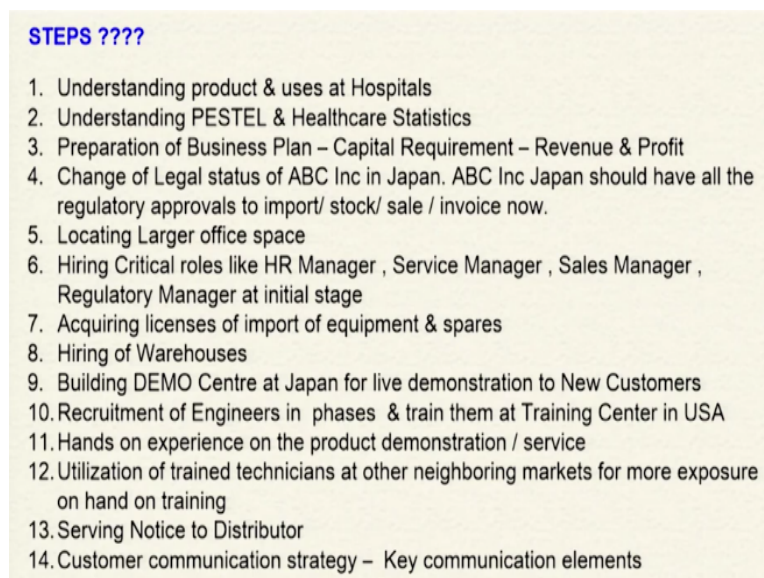
So, there is a legal contract between the hospital and your existing distributor in Japan, those contracts have to be transferred from the distributor to your company's name, your ABC Incorporation Japan's name so that is also a big task for you. Then, you have to manage the spares inventory, so which is also very crucial for you because spares inventory, you need to keep the inventory of the spares for this equipment and you also have to get warehouse.

You have to find out a warehouse where you have to have the new machines, new machines which comes from US has to be kept there before they are delivered to the customer. So, there is a warehouse where the spares should be kept, where the same warehouse you should have the provision for keeping the washer disinfectant and also the warehouse you have to store the chemicals.

As you know these are the chemicals there is a special regulatory guideline for storage for these detergents. So, these are all chemicals, so you need a special license and a different type of warehouse where you can store this detergent. So, these are the three things. Also, you should have been billing inward and outward logistics that means the equipment will come from United States.

The spares will come from United States, the detergents will come from United States and then it has to come to your warehouse and outward means from your warehouse to you Japan customer throughout the Japan. So that are the challenges here. So, I hope now you understand you have so many challenges in front of you. So, how you move forward?

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- STEPS ????**
1. Understanding product & uses at Hospitals
  2. Understanding PESTEL & Healthcare Statistics
  3. Preparation of Business Plan – Capital Requirement – Revenue & Profit
  4. Change of Legal status of ABC Inc in Japan. ABC Inc Japan should have all the regulatory approvals to import/ stock/ sale / invoice now.
  5. Locating Larger office space
  6. Hiring Critical roles like HR Manager , Service Manager , Sales Manager , Regulatory Manager at initial stage
  7. Acquiring licenses of import of equipment & spares
  8. Hiring of Warehouses
  9. Building DEMO Centre at Japan for live demonstration to New Customers
  10. Recruitment of Engineers in phases & train them at Training Center in USA
  11. Hands on experience on the product demonstration / service
  12. Utilization of trained technicians at other neighboring markets for more exposure on hand on training
  13. Serving Notice to Distributor
  14. Customer communication strategy – Key communication elements

The steps: So, the first step for you is you have to understand the product and uses at the hospital, which I have explained to you as lucid as possible I could explain you to clean and disinfect the surgical instruments which are used at the surgery so that these instruments can be sterilized and after that the same instruments can be used for the next patient, so that is the objective. Then comes for you to understand the PESTEL which I have explained in my previous sessions.

So, PESTEL is political, economical, social, technological and then the legal. So, these are the very important analysis what you have to understand and I will come back to you each of this study about the Japan market. Then you have the most important part, another important part for you is the preparation of the business plan. So, the business plan you have to prepare

the business plans which you need to present to your seniors and also it has to be presented to the board and then board of directors has to approve the business plan.

Typically, a business plan, it is not in the scope of my course how to prepare a business plan, to just give you an heads up on that in the business plan you have to mention how much capital you need for establishing all these like the establishing and direct operation there, legal fees, then various other consultant's fees, then hiring an office area, then the warehouses and then hiring people and the sales manager and all those.

So, those all the capital expenses how much the capital you need for that, so you have to budget for that and you have to move with that. So, that is the capital requirement. In a business plan, then you have to also give a forecast for how much will be your revenue for the capital equipment, how much you will be your revenue for the consumables and how much will be your revenue from the service.

So, three streams of revenues; one is the capital equipment, number two is the consumables and number three is the service. So, all these you have to forecast for at least 5 years of period. So, you can use typically your distributors last 2-3 years' growth rate, how they have grown the business, and then also you are recruiting lot of your sales people, also direct sales people and they ensure you will look into a much more aggressive way to increase the sales.

So, you have to give higher sales because the company management will ask you now the distributor is not there, we have given you a lot of direct sales people why cannot you increase the revenue more, so you will have a tremendous pressure on increase on the revenue for the capital equipment which you have to forecast also. So, you have to forecast that from the distributor sales you are improving the sales.

If distributor is selling x number of units per month, you have to sell at least 20% or 30% or 40% more than the distributor because now you are a company representative who is selling directly there. So, company had made huge amount millions of dollar investment in Japan market for a direct operation, they will expect more revenue from you, so you have to give a forecast for that. I am not teaching here how you do the forecasting and other techniques that is not the purview for this case study.

But the thing which I want to emphasize is that you have to forecast the revenue there and also revenue and how much profit after all the expenses, how much is the profit at EBITDA level and that is earnings before interest, tax, depreciation and amortization and what is your EBIT and then profit before tax, profit after tax all those you have to give a forecast. Then the company will look.

Finance people as well as your senior management people in the company will look into the business proposition viability that way really what is the rate of return and what is IRR of the project, what is the ROI of the project they will look into that and every company has got certain guidelines that we should work on certain IRR internal rate of return at certain percentage or return on investment at a certain level they are looking for that and it might vary from company to company.

Some companies very aggressive, some company needs they might work in a different IRR or ROI. It varies from company to company. So, there is no such thumb rule there. So then once this is approved, now you are the person, you are the international manager, now you have to take the entire tasks to implement it which is the most complicated part of it. So, the first thing what you have to do change the legal status of the company because what is the legal status, currently it is a representative office.

So, ABC Incorporation Japan is a representative office and then you should have all the regulatory approvals, then you should make it in a wholly owned subsidiary which should be able to recruit people and also able to have the various import and export licenses and various other licenses required as per regulatory guidelines in Japan for doing the business, you should have all the legal approvals for that.

So, you upgrade your company from a representative office to a wholly owned sales subsidiary for doing business into the country, so there are several and you need to take the help of the legal people there who will help you to establish that. These are process typically in a country like Japan, it takes typically around 3 to 4 months of time or maybe 5 months of time for getting all those things converting a representative office to a fully wholly owned subsidiary office for conducting a business.

And this office should be able to import stock, sale, invoice, everything as per the laws of Japan. Then you have to locate a larger office because your previous office was hardly few people sitting there in that, now you should have a larger office where large number of your service people and then you will be recruiting sales people, HR people, IT people to manage the IT, so all those people will be recruited so you need a lot space.

And you also need a lot of capital equipment there like this computers, various hardware, printers, office equipment, office tables, chairs everything all you have to look into that. And then after you do that office space, then the comes the HR manager recruitment which is most important, human resource manager, then recruitment of this country service manager, recruitment of the country sales manager and then recruitment of the regulatory manager.

So, in Japan regulatory manager is very important who looks about healthcare related all the regulatory guidelines he has to strictly monitor that we are meeting all the regulatory guidelines in the country, otherwise it will be huge penalty for the company. The next step will be how you acquire the license for import of equipment and the spare. So, that means now you have to import it from your parent company Japan.

So, there are formalities for that you have to set up what is the transfer price at what price and the transfer price you will study in a different course what is known as a transfer pricing. So, that transfer pricing at what price your parent company ABC Incorporation USA will sell to ABC Inc in Japan, so that pricing is known as transfer pricing between the two same companies, so that has to be approved by the customs department.

And then once that is done, then you have to get the license and also the same for the spares. Then you have to hire the warehouse as I said, warehouse has to be hired and these warehouses are for the equipment and also for storing the chemicals like the detergents and also these warehouses should there be provision to keep the sophisticated spares, electronic spares and this has to be kept in a dust free environment all the spares and accordingly the warehouse has to be there for that.

And it goes without saying you have to build up the entire IT infrastructure and information technology, all the computer, hardware and then it has to be migrated with your parent company ABC Incorporations ERP systems say SAP or Oracle or whatever may be the ERP

system working there, so you have to migrate that. Then you have to also ensure that you build a demo centre in Japan for demonstration to the new customers.

So here it is very important that your customers who will buy this equipment, your future customers, they want to see the performance of the equipment, they want to see the field equipment. So, there is a demo centre. So, all these medical equipment companies, mostly the large companies, they will put a demo centre within that office premises where the actual machine will be there.

A demo machine will be there with all the facilities like the water and everything so that a full cycle can run and show it to the customer how good it is and explain the feature. So, demo centres help the salespeople to bring a customer because what happens in the medical equipment, now you suppose a potential customer is there. He wants to see your machine and he has already seen your competitor's machine, but he has not seen your machine.

So, what are the options you have? One option is that you sell him by giving an what is called the presentation through the laptop, but he may not accept because it is a huge costly, a very high-cost equipment, he wants to see the actual performance of the equipment. So, the option one for him is you to take the customer to an hospital where you have already an installation. So, this is a little complicated.

The reason behind this is first of all the hospitals will not really allow another competitive hospital to come and have a look inside or even they allow there is a very stringent guidelines are there, then you have to come, you have to bring your new customer when your existing customer gives a slot that time you have to bring. So, there are certain challenges there. I am not telling that it is not doable, lot of times we have done in India in various hospitals.

But it is not that easy always a customer may not allow you to bring the customer inside the hospital. So, the option for you is to build a demonstration centre and in the demonstration centre, you keep the equipment ready in the demonstration centre and then you can demonstrate the future customer and explain the features and the benefits of your product so that customer gets convinced. Then the recruitment of engineers in phases.

So that is a very big challenge because you cannot have to recruit, say around 80 engineers are there currently with the distributors, you have to at least recruit 50 to 60 to start the operations. So, recruiting 50 engineers is not very easy because there is a huge recruitment drive to be there to do that. And then the scrutiny of the all the applications and then conducting interview of all these engineers.

And then after the interviews conducted and then giving them the offer of appointment and after giving the offer of appointment, these people wherever they are working, if they are fresh fine, they can join immediately, but most of these companies they always prefer to have someone who is experienced because these equipment are very crucial equipment in the hospital. So, they always need some experienced engineers, not really the freshers.

So, these experienced engineers must be a mess, you have to assume that they are working currently for some other company, they will have a notice period say 1 month or 2 months with their existing company. They have to submit that notice the resignation and get clearance, so a period is there, so you have to consider that even if you give them offer of appointment it might take say 2 to 3 for them to join.

And once they join, they have to come and then they have to travel to United States for the training centre. So, training is very crucial here because you have to understand the basics of the equipment in the training and then various service what is called the training of this equipment and then calibration of the equipment, all these things. It is a typically 3 to 4 weeks of training in United States.

So, it is a very tedious training process and they have to learn, even if you know the washer disinfectant product very well, but still you have to go through this process because calibrations will be different and there are various techniques you need to learn and how to rectify, how to service the equipment. So, those trainings you will get there and after you complete that training then you are authorized to really go and service the equipment.

Now even that after the training also when you come back from that recruitment and then come back you need some hands on experience. Now, you cannot go to Japan customers for your hands on experience because the customers are already with your distributor. Distributor will not allow your engineers to go there. And distributor may not know by that time or may



have heard from the market that you might come up with a direct operation because there is a recruitment drive going on.

So, he collects information from the market that the company ABC Incorporation is now planning to come up with a director operation and all those, so it is possible they get the information, it is possible they may not get the information. So, in this case you cannot use these engineers in Japan domestic market to attend the field service. So, what you have to do? You have to send these engineers once they come back from the training from United States, you have to send them to the neighbouring countries.

Say any of the Korea, South Korea or you can send them to Philippines or you can send them to Malaysia or Singapore or of office at Thailand and where there are large installations of ABC Incorporation US product there. So, you can really go there and these engineers can really work and have some hands on experience before they start the doing the service of the products in Japan. Then that is very important which I mentioned in point number 12.

They should have hands on experience on the product. And then after all these parameters are there ready, then all these points like your legal subsidiary is ready, then you have all the licenses to conduct the business, the inventory is ready, the product inventory is ready, you have already recruited all your sales people or majority of the service people then you can serve the notice to the distributor that look gentleman, we have been with you for last 15 years.

We really appreciate your help to market our products in this large market and we are extremely grateful for your service. Now, we have decided to enter the market directly and we would like to take up the entire sales and service of the products directly from you and then discuss with you and consult your legal people. And then based on the advice of the legal people and based on the terms mentioned in the agreement, you serve the notice to the distributor.

So, now the distributor knows that you are coming up directly and you submit that and you know this will be very embarrassing situation for the distributor because he is there for 15 years, he has 80 people there, their livelihood there and there are a lot of psychological issues this point of time and you are a professional manager you need to deal this very

professionally, very professionally you need to deal this because the distributor will never be happy.

He will be very angry, he will be very emotional because you know he has a relation for 15 years. And he will always think that your predecessors, whoever your predecessor international managers were they are in Japan, they were very nice, they have helped them, you are the guy who has created all problem for him because he is losing his entire revenue once this is terminated.

So, he will not have any sales revenue, he will not have any revenue for the consumables, he will not have any revenue for the service revenues, CMC or AMC, so the distributor will be mentally very upset. So, you have to handle that. As a professional you have to handle that. I am sure a little bit of handling is not easy, there is no such thumb rule that you deal it this way, but you need some sort of a training or maybe some sort of a good training from your seniors.

How you handle the distributors in this kind of a situation when you are terminating a distributor who is there for last 15 years or 20 years and who has established your product in that market. So, you need to learn how to communicate and you need to really handle it very nicely softly so that a smooth transition happens from your distributed to you. Then comes the most important part is your customer communication strategy.

How you communicate to your customer that these are my key communication that how I am going to that we have been selling the equipment or our distributor was selling the equipments for last 15 years. Now, we are pleased to announce that we are into the marketplace to serve you directly which will improve a better service, then you have to say quantify and you have to mention that how good it will be for the customers.

So this communication is very important and there are various ways to communicate. First of all, one communication is there that you send an official communication which is the drafted by the legal people. So, you should never draft this type of letter, it should be drafted by the legal people and then you communicate. Once you communicate these to the distributor, once you communicate to your customers, then there will be key customers.

There will be very important key customers, who are large customers maybe using your 10 or 20 of your disinfectors, washer disinfectors. So, you need to personally go and meet with this customer, explain the situation and every customer will ask you a very simple question why you have done this, the previous distributor was very good, I have no problem for so many years and so why are you changing it? And what are the benefit I am going to get if I am operating, now you will operate directly?

How do I know your service engineers are skilled enough to really maintain it? How I am sure that you will provide me the spares during emergency? Have you got all the inventory? So, there will be series of questions which the customer will ask to you. So, you need to have the sales people for this type of communication **I would** suggest that you should have some frequently asked questions, prepare that questions and then brainstorm what should be the correct answer for each of these questions.

So, you can anticipate there can be 20 different types of question from your customer and some of the customers might show unhappiness. Some of the customers might feel happy, okay good great now the company is directly there, I am very happy. Some customers may not be happy. So, all these issues will be there. So, you should have some communication, which communication should be standardized.

So that means if I am Biswarup going and meeting with the customer and you are Mr. X going and meeting with the customer, our communications on a same point should be identical. I should not say something different and you should not say something different. We should say exactly what is decided as a communication for the customer. So, this I would suggest that you have a very strong and a long brainstorming session.

Where all your managers including your service managers and all sit down together and discuss what can be the major questions from the customer and prepare the answers for that. Ensure that all your sales people and service people whoever goes to the hospital communicates all these to the hospital authority so that there is uniform communication. And then I would also suggest that you hold a customer meet so that is very crucial and you have this customer meet.

And I will come back to the Japan market and all those to give you an heads up on that. And in the customer meet you explain the customers that you have a session maybe by the country head of Japan or if you can bring somebody from ABC Incorporation US some senior manager come and then communicate to them that we have been there and we will bring more better value to your table compared to the previous distributor.

And this will be the opportunities for you to grow. So that is the reason you have the communication. So that is all **time** being from me. I will come back in the next course. Thank you very much.