**Business Development From Start to Scale**
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**Week - 11**
**Strategies for Markets and Industries**
**Lecture - 55**
**Global Industries and New Businesses**

Hi friends, welcome to the NPTEL course Business Development from Start to Scale. We are in week 11 with the theme of Strategies for Markets and Industries. In this lecture, the 55th in the series, we cover the topic of Global Industries and New Businesses.

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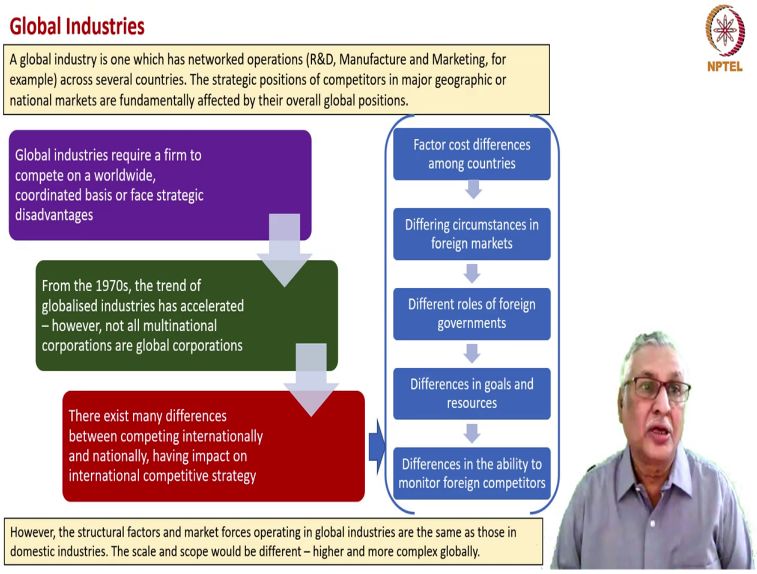


A global industry is one which has networked operations R and D, manufacturing and marketing for example, across several countries. These companies have strategic positions in different geographic or national markets, but they are fundamentally affected and influenced by their overall global positions.

Global industries require a firm to compete on a worldwide coordinated basis for competitive advantage or face strategic disadvantages. From the 1970s, the trend of globalised industries has accelerated. However, not all multinational corporations are global corporations. There exist many differences between competing internationally and competing nationally. And this has an impact on international competitive strategy. What are the markers for international competitive strategy?

Factor cost differences among countries, different circumstances in foreign markets, different roles of foreign governments, differences in goals and resources, differences in the ability to monitor foreign competitors. However, the structural factors and market forces operating in global industries are the same as those in domestic industries. The scale and scope would be different, higher and more complex globally.

One of the ways in which global industries and global companies are coping with these is to design and put in place certain structures which are partially local and partially global, to get the best advantages of global standardization along with local autonomy and local creativity.

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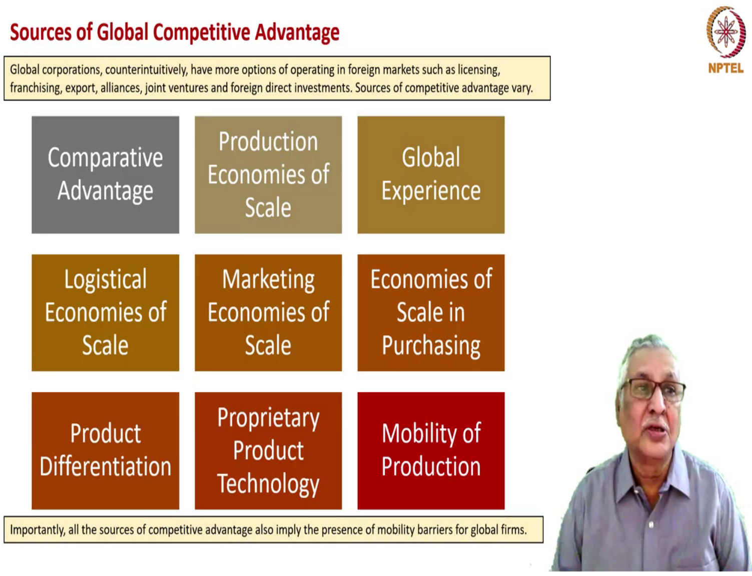


The sources of global competitive advantage are many. Global corporations have more options of operating in foreign markets actually. We have seen however, in the earlier lessons, elements such as licensing, franchising, exports, alliances, joint ventures and foreign direct investments along with mergers and acquisitions as routes of competing in various business development arenas.

And these apply to global companies as well. The sources of competitive advantage for global companies are many and they vary. Fundamentally, it arises from the comparative advantage of locating in a nation. If a company has capabilities in a particular factor based area or talent based area or in an industrial based area, there would be a comparative advantage for a global firm to operate in that country.

Today, India is very good in automobile manufacture. So, it makes sense for a global automobile corporation to set its base in India and operate through the Indian activity. Production economies of scale is another determinant of global competitive advantage. Global experience cross-pollinates one country with another country and this leads to an expanded universe of global experience that can be put to use in several local conditions.

There would also be logistical economies of scale because the production centres and R and D centres are located all over the world. It is possible for global corporations to reach the markets with least cost solutions. There would be marketing economies of scale because the content, the language and the way of communication could be standardized.

Although, linguistically, the messages could be different. There would be advantages of global strategic sourcing that is the economies of scale in purchasing. On a technological basis, there would be product differentiation because the inputs from different global operating conditions can make a product better. There would be proprietary product technology again embellished by local intellectual property developments. There will be mobility of production depending upon where the factor advantages exist.

At the same time, when emergencies or crises strike certain parts of the global network, it would be possible for companies to shift production and maintain the overall global production scale. Importantly, all the sources of competitive advantage also imply the presence of mobility barriers for global firms. If a company is committed to a particular region, it becomes difficult for a global corporation to move out of the region unless there are valid grounds to do so.

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There are impediments to global competition. There are three types of impediments to global competition that global firms face as presented below. The first class is the economic impediment class. We have transportation and storage costs, differing product needs, established distribution channels and local sales force as some of the primary line items.

Along with this, we have economic impediments related to local repair needs, sensitivity to local lead times, complex segmentation in each market and lack of world demand. These constitute impediments which have expressions in terms of the economics of global production.

There are managerial impediments to differing marketing tasks, intensive local services, therefore, they need to develop local field force and local managerial talent, managerial perceptions about geographies and technologies that need to be adapted for local needs. From the point of view of institutional impediments, government policies on economic development in various nations act to the support or to the determinant of global companies.

Governmental policies on industrial development, resource impediments, perceptual impediments, viewpoints of competition commissions in several countries, all of these things have impact on global competition. They are always present to some degree or the other in different nations.

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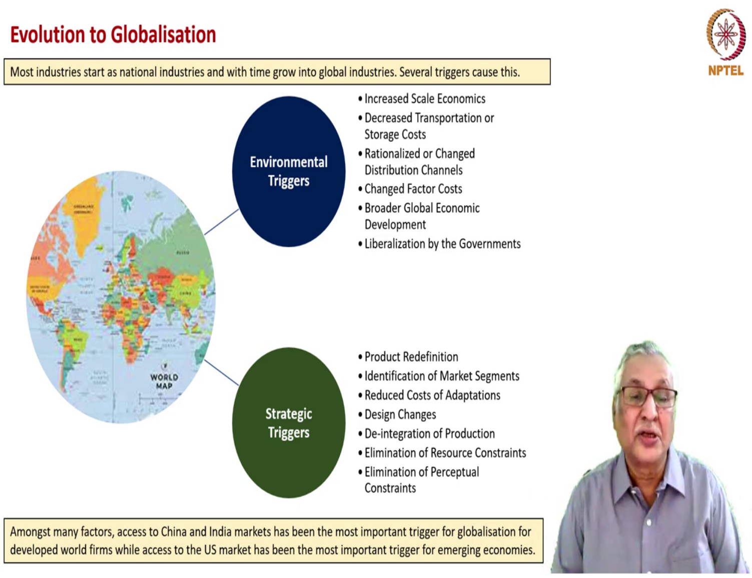


What did the evaluation to globalisation happen? Most industries which are global today have started as national industries. Japanese automobile industry started as a national industry. One or two companies for leaders in the Japanese automobile industry, Toyota and Nissan, and their know-how spread to other companies as well.

And today, Japanese national industry in automobiles is in fact, a global automobile industry. And this happens with time. There are two types of triggers which cause globalisation, environmental triggers and strategic triggers. Environmental triggers are increased scale economics, decreased transportation or storage costs, rationalized or changed distribution channels, changed factor costs, broader global economic development and liberalization by the governments.

In the case of India, make in India or globalisation into India has happened because of liberalization by the successive governments and the current specific moves by the government of India, led by Narendra Modiji. For production linked incentives for ease of business and all related reforms for global production to be transferred to India.

In terms of the strategic triggers, we have product redefinition, identification of market segments, reduced costs of adaptations, design changes, de-integration of production, elimination of resource constraints and elimination of perceptual constraints. Amongst many factors access to China and India markets has been seen to be the most important trigger for globalisation, for developed world firms.

Similarly, access to the US market and other developed markets has been the most important trigger for emerging economies. But generally, it is believed that the next century is going to belong to India and that is the level of confidence which the global committee has about India.

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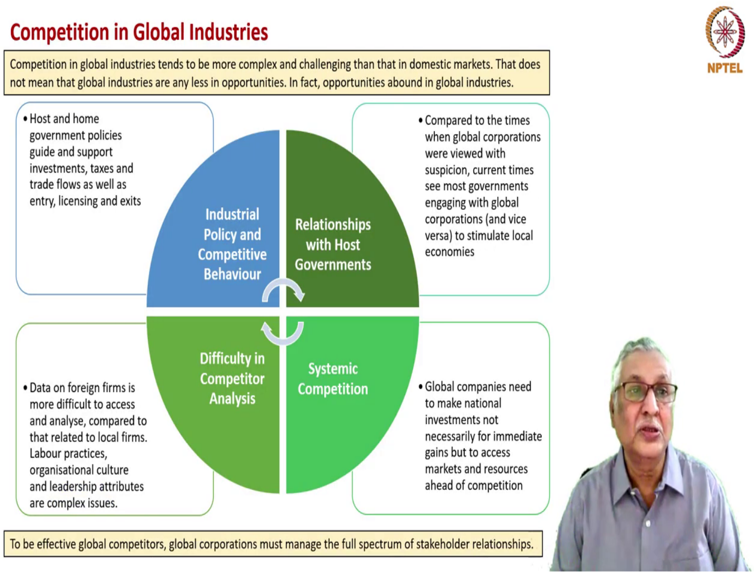


How does competition in global industries manifest itself? It tends to be far more complex and challenging than the competition that exists in domestic markets. That does not mean that global industries are bereft of opportunities, in fact, opportunities abound in global industries. There are four aspects of global industrial behaviour that are important for us. The first is the industrial policy and competitive behaviour.

Host governments as well as home governments have policies that guide and support investments, taxes and trade flows as well as entry licensing and exits. Many times, government to government collaborations and aid programs assist in movement of private sector investments into various countries.

Secondly, there would be relationships with host governments compared to the times when global corporations were viewed with suspicions and the times when global corporations thought it better not to deal with local governments. Today's times see most governments engaging with global corporations and vice-versa to stimulate local economies.

People are able to share technological alignments and business alignments openly despite the different political platforms and different governance system systems. The third factor is the difficulty in competitor analysis. Data on foreign firms is more difficult to access and analyze compared to that related to local firms. If local firms are private limited companies, the data is even more hard to get into.

Also the market related data, the retailer level data, the consumer level data are not perfectly captured in emerging economies. Organizational culture and leadership attributes in local contexts are complex issues as well. Then there would be the fourth factor of systemic competition. Global companies need to make national investments not necessarily for immediate gains, but to access markets and resources ahead of competition.

That is why Chinese companies have entered the African countries to secure supplies of factory resources. To be effective global competitors, global corporations must manage the full spectrum of stakeholder relationships.

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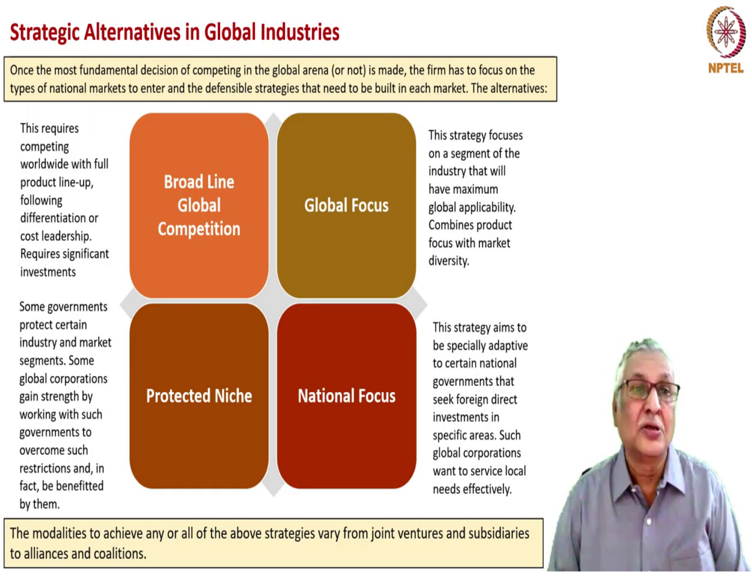


What are the strategical alternatives that are available in global industries? There are four broad areas of operation for global industries. One, broadline global competition. This requires competing worldwide with full product line up following differentiation or cost leadership. This requires significant investments. It is not common that global companies provide the entire product portfolio in the emerging economies where they intend to operate it. Only select products are offered.

Secondly, global focus. This strategy focuses on a segment of the industry that will have maximum global applicability. This combines product focus with market diversity. The other is protected niche. Some governments protect certain industry and market segments. Some global corporations gain strength by working with such governments to overcome such restrictions and in fact, be benefited by them. Information technology, cybersecurity, cloud, artificial intelligence or areas of interest for Indian government.

Global technological companies can indeed work with these sectoral bias along with the Indian government and help in globalisation of the Indian industry. National focus is another important aspect of globalisation. This strategy aims to be specially adaptive to certain national governments that seek foreign direct investments in specific areas.

India at this moment seeks technologies and investments in sunrise areas such as semiconductors. Such global corporations who can offer those services will be able to service local needs effectively and also make their presence felt and grow in the Indian economy in a robust manner for the future.

The modalities to achieve any or all of the above strategies vary from joint ventures and subsidiaries to alliances and coalitions. All of these we have discussed in our earlier lectures.

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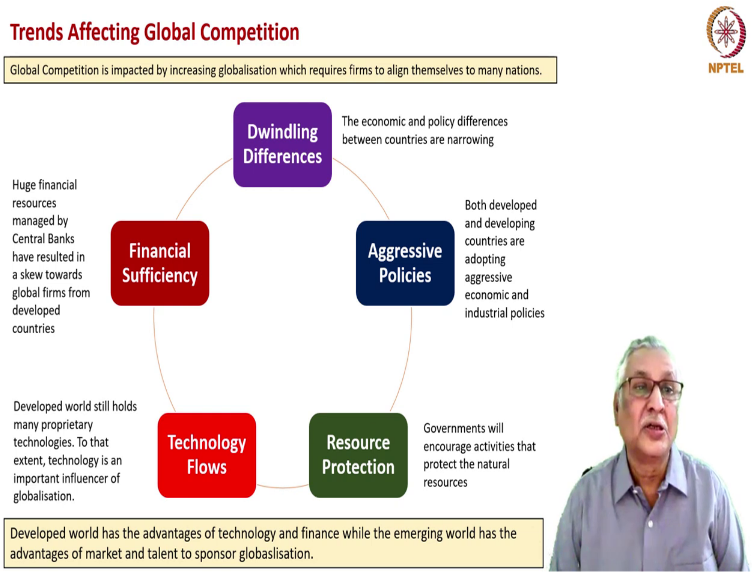


What are the trends affecting global competition? Global competition is impacted by increasing globalisation which requires firms to align themselves to many nation. Today, the economic differences and policy differences between countries are narrowing. Dwindling differences are one of the important reasons for global development as also global competition.

Aggressive policies of governments is another factor driving global competition. Both developed and developing countries are adapting aggressive economic and industrial policies to invite foreign direct investments and global companies to enter the domestic markets. Resource protection is the third factor. Governments will encourage activities that protect the natural resources and even help in development of the natural resources.

Technology flows will be one of the most important determinants of globalisation and also global competition. Developed world still holds many proprietary technologies. To that extent technology will be an important influencer of globalisation. Financial sufficiency is another area. Emerging markets require huge amounts of scale up in production and consumption of various factors of production.

Huge financial resources are required for this. The financial resources that are managed by the Central Banks and the financial resources that are processed by large, monolith corporations in the world are very helpful for the emerging economies to globalize themselves.

Developed world has the advantages of technology and finance while the emerging world has the advantages of market and talent. And this combination is bound to sponsor globalisation to a greater degree in the coming times.

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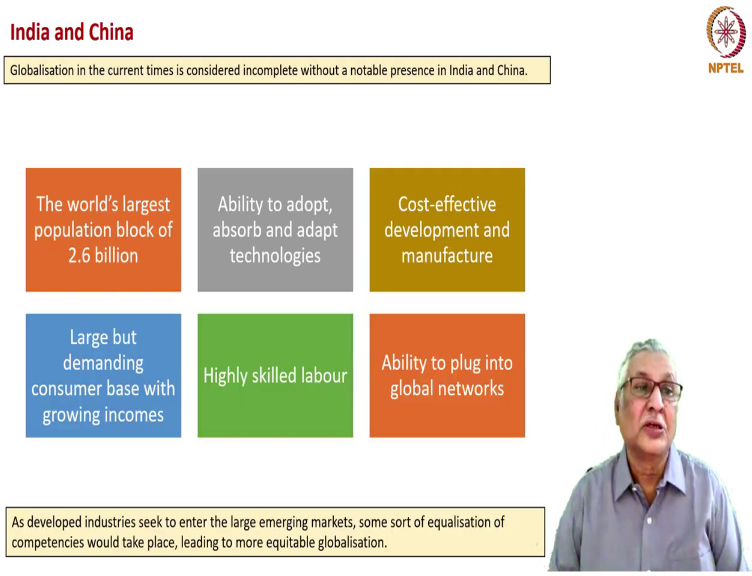


India and China. Globalisation in the current times is considered incomplete without a notable and coherent presence in India and China. Together, India and China have the world's largest population block of 2.6 billion people. The economies have the ability to adopt, absorb and adapt technologies. Very soon, the countries will be capable of developing their own technologies independently.

The fact that we have developed our own vaccine for COVID-19 and also the first international vaccine COVID-19 reflects the technological and scientific ability of the Indian industry and the scientific institutions. And more such capabilities are on the angle, particularly in the food processing industry. Indian research institutions have got lots of capabilities which are yet to be exploited by the Indian industry. Cost-effective development and manufacture goes without saying as far as the emerging economies of India and China are concerned.

We have large, but demanding consumer base with growing incomes. The advantage of entering the Indian market lies not only in the large market base, but also in the growing income base. Apart from that, the demanding nature of the Indian consumer which requires the best possible quality at an affordable price point is another stimulus for global corporations to come up with novel methods of product design and product delivery.

Highly skilled labour is another factor advantage of Indian and Chinese economies. And the ability to plug into global networks seamlessly is an important aspect of globalisation for India and China. The way the Indian information technology industry has plugged into the global technology sector has been there for several years for all of us to witness and also appreciate.

This advantage is going to extend to many other industries in the times to come. As developed industries seek to enter the large emerging markets, some sort of equalization of competencies would take place, leading to more equitable globalisation.

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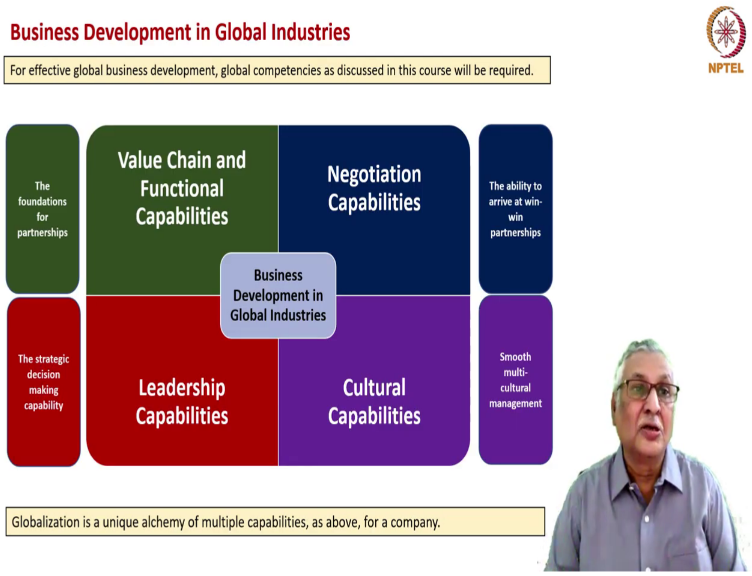


How does business development occur in global industries? For effective global business development, global competencies as discussed in this course will be required. These are four types of capabilities that need to be brought into play in a complete manner. First, value chain and functional capabilities. These are the foundations for partnerships on a global scale. Second, negotiation capabilities. The ability to arrive at win-win partnerships is the next capability that will support globalisation.

Cultural capabilities, smooth multi-cultural management would be one of the important factors of globalisation. And finally, leadership capabilities. The strategic decision-making capability of leaders of India Inc. will drive globalisation in a significant manner. Globalisation is a unique alchemy of multiple capabilities as above for a company. The number of Indian companies which are globalizing is increasing by the day.

Asian Paints has globalised itself substantially with presence in many countries. Tata Motors has globalised itself by acquisition of JLR brands. Tata Steel has globalised itself by acquisition of chorus brand of steelmaking and the facilities. Many global companies have entered India over the last 5 years to extend the globalisation.

Arcelor Steel Company has entered India through the IBC process along with Nippon Steel to become a leading steel player in India. There are several other companies which are looking at India for global entry. Apple was never known to be keen on entering in a country unless it had complete confidence in the country's capabilities.

Apple has entered India in a big way, not merely in terms of marketing, but in terms of assembly of the latest generations of Apple phones. Samsung has already built its largest single location mobile phone manufacturing facility in India. Such competencies, such capabilities, such achievements are many. India is also capable today of establishing global facilities. Larsen and Toubro has been leading construction projects in several parts of the world.

There are capabilities that exist in India to develop vaccines for global needs. Serum Institute supplies every third vaccine or so for the global needs. Serum Institute has been the backbone of AstraZeneca's COVID-19 vaccine to be made available in various developing countries.

There is a fruitful collaboration between biologically ones and Canadian vaccine manufacturer for supply of vaccines for the COVID-19 pandemic. Plasmid vaccine, the DNA Plasmid vaccine has been developed for the first time by the Zydus-cadila Group and that is capable of being licensed globally.

Orchid Pharma has developed an antibiotic in potentiator that has been used in conjunction with a known cephalosporin antibiotic to achieve greater ICU treatment capability. This is the first complete new molecule development in the drug discovery area. Although there have been many high impact from the point of view of publicity licensing arrangements that have happened.

This development by Orchid Pharma has been the first actual on-ground development and approval of a novel molecule by any Indian pharmaceutical company and that has gone to the credit of the company and its scientific team. So, globalisation into India, globalisation out of India are going to be the facts of the future development.

The fact that Indian economy has proved to be far more resilient and far more growth oriented than other economies in today's turbulent times is another reflection of the strength of the Indian economy. Inflation in India has been under control compared to other countries. The devaluation of the currency in India has been far less than the devaluation that has occurred in many other foreign currencies.

The resilience of the stock market and the growth momentum of stock market has been much better in India than in many other countries. Therefore, there are so many other indicators that are going to help India propel itself. This coupled with the government's positive policy framework to bring in the best and latest technologies for India into India and also make India as a base for global supplies is going to occur very well.

For the globalisation of Indian industry and also for the global industries should take India as an integral part of the global network. In this process, business development has to play a stellar role. The business development divisions of individual companies have to identify the value chain components and the functional components of their companies which would be valuable for the foreign partners to develop partnerships.

And this must be accompanied by first class negotiation capabilities which arrive at win platforms. The ability to straddle multiple cultures and have both cultural interfaces be it the oriental culture of Japan or the prim and proper culture of the United States. We need to find the cultural means to handle all types of global cultures.

And above all, the leadership of India Inc. has to rise above the domestic compulsions and take a global view and see how the best of global talent, best of global knowledge can be brought to India, how the best of Indian talent can flow to global endeavours. The fact that more than 20 Indians are at the help of global corporations is proof enough of the capabilities of Indian leaders, but they are working in the global environment.

We must have several more Indian leaders working at the help of Indian companies, globalizing their companies and making a further impact on the globalisation. Therefore, globalisation viewed in any which way is going to be a unique alchemy of multiple capabilities and global business development managers have a significant role in harnessing this capability for global growth.

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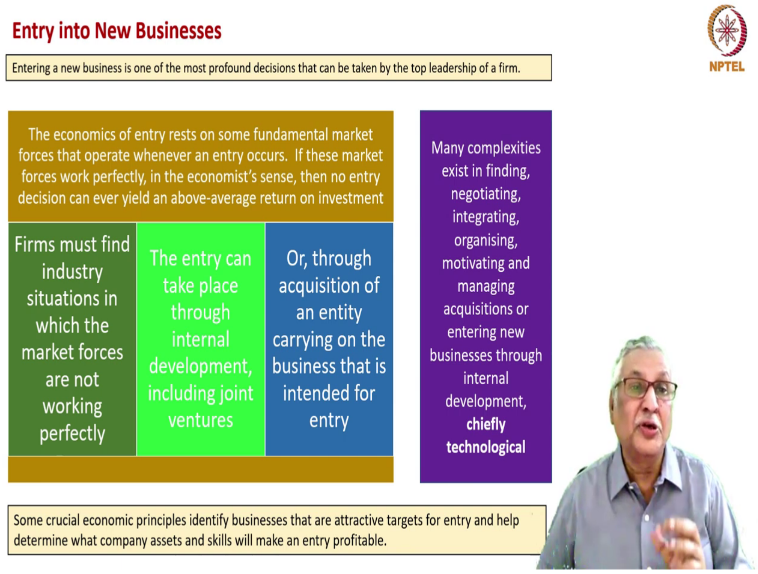


Now, let us look at new businesses. When you talk about new businesses, it is not only new technology led new industries, but also diversification for existing businesses. So, this is a big topic. Entering a new business is one of the most profound decisions that can be taken by the top leadership of a firm.

This entry into a new business is usually in the nature of diversification or is in the nature of acquiring a new technology to be able to lay the foundation for an entirely new business. The economics of entry rests on some fundamental market forces that operate whenever an entry occurs. If these market forces work perfectly in the economic sense, then no entry decision can ever yield an above average return on investment.

That is, if everyone understands the economics of entry in an equal fashion and the economists view of perfect market conditions operate, then nobody can have a superior competitive advantage based on the entry decisions. However, this is not the practice. Any company which has got greater knowledge of the new business opportunity would have the ability to earn more than the average rate of return on the investment.

Therefore, firms must find industry situations in which the market forces are not working perfectly. And; that means, that there are companies which are available for acquisition. There are new technologies that are available for acquisition and there are opportunities for setting up basis in foreign countries where there are talent shortages.

This kind of entry can take place through internal development, including joint ventures or through acquisition of an entity carrying on the business that is intended for entry. Many complexities exist in finding, negotiating, integrating, organizing, motivating and managing acquisitions or entering new businesses through internal development and that includes chiefly technological development.

At times, it becomes more useful and more expedient to acquire technology rather than seek to develop technology from the grassroots. Some crucial economic principles identify businesses that are attractive targets for entry and help determine what company assets and skills will make an entry profitable.

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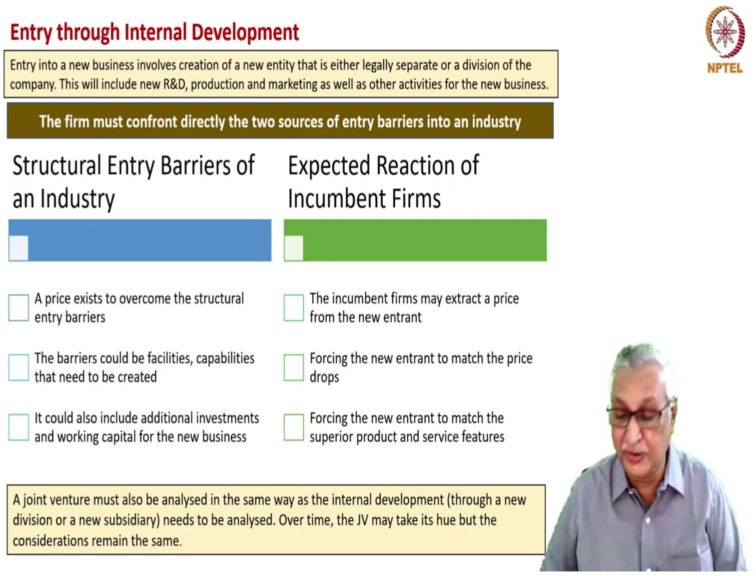


How do you do an entry through internal development? Entry can be through the creation of a new entity that is either legally separate or a division of the company. The former helps in an independent movement of the entity whereas, a division will be constrained by the parent company's ways of operating. This could include new R and D, production and marketing as well as other activities for the new business. The firm must confront directly the two sources of entry barriers into a new industry.

First, the structural entry barriers of an industry. When we talk about an industry here, the industry could be a fledgling industry that is setting up itself based on the new technologies, artificial intelligence, machine learning could be an industry which is a fledgling industry. Robotics robotic process automation could be a new industry that is getting set up. If you want to enter that industry, you must recognize that there would be structural entry barriers relating to that industry.

There would be a price point which exists, which needs to be overcome to be able to enter into that industry structurally. These barriers could be facilities, capabilities such as technology that need to be created. It could also include additional investments and working capital for the new business. Just like that, a company cannot get into robotics. It needs to understand the nuts and bolts to speak literally without pun of understanding a robotic machinery and that comes through technological capability.

All of that has to be built up or all of that has to be acquired. Then there would be also expected reaction of incumbent firms because you may not be able to get such technologies into Nvidia. You may not be able to get Nvidia to participate in India. You may like to get into the developed markets and acquire startups, acquire medium scale companies which have those technological capabilities. At that point of time, you will encounter reactions of the incumbent firms.

These incumbent firms may extract a price from the new entrant. They could force the new entrant to match the price drops. They could force the new entrant to match the superior product and service features. Acquiring technology is one thing, but trying to operate in the foreign shores with those technologies is an entirely different ballgame.

A joint venture, if when it is required for development must also be analyzed in the same way as internal development which could happen through a new division or a new subsidiary. Over time, the JV may take its hue, but the considerations remain the same. Whether it is an internal development through a division or a joint venture or a subsidiary or a merger and acquisition opportunity, the internal considerations that challenge entry into a new industry and into a new business are more or less the same.

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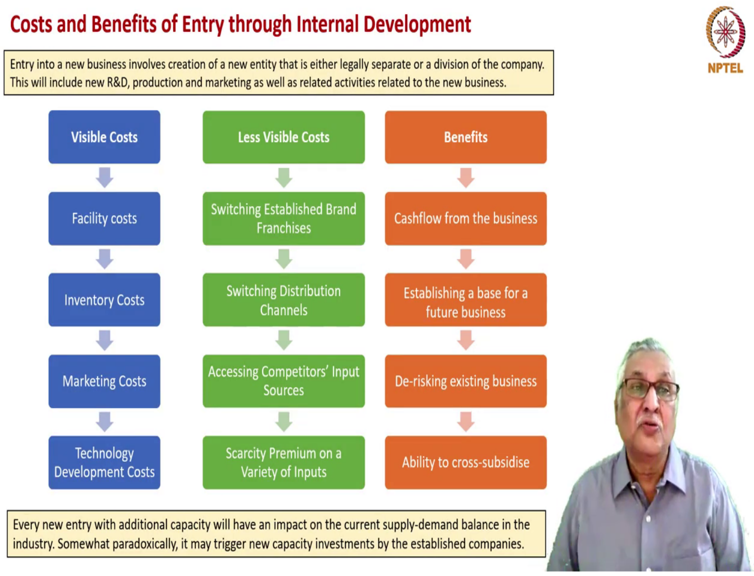


What are the cost and benefits of entry through internal development? The advantage of entry into internal development is that all the technology, all the know-how is internally held, it becomes proprietary and also that will lay the foundation for similar such exercises in future.

Entry into a new business involves creation of a new entity that is either legally separate or that acts as a division of the company. It is what we have seen earlier. When you do that, there will be several visible costs and there will be several less visible costs. The visible costs are in terms of setting up the facilities, costs of carrying inventory, the marketing costs and the technology development costs.

The costs which are less visible are the switching costs in making established brand franchises, switching distribution channels, accessing competitors input resources and sources and scarcity premium on a variety of inputs. But when you do the entry through internal development, you get several benefits. By having everything in-house, you cut out the margins that are involved in outsourcing and offshoring. Therefore, you will have higher cash flow from the business.

You will be establishing a foundation for future business because you have created the technological base by entering a new industry and more importantly, you have built confidence into the organization that the organization goes can do something completely different. By doing organic development, you would be de-risking existing business. You would be choosing the sequencing and timing of new entry and you also will have the ability to cross-subsidize.

The emerging businesses can be cross-subsidized by the core businesses. And every new entry with additional capacity will have an impact on the current supply demand balance in the industry. Somewhat paradoxically, it may even trigger new capacity investments by the established companies.

Whenever someone wants to make a capacity expansion, the incumbents immediately respond to the move by enhancing their own capacities. Over a period of time, unless demand moves in tandem, there would be capacity clogged in the industry. These all the common factors and common resultants of getting into new businesses through internal development, whereas, in the case of acquisition, you are not creating new capability or new capacity are being issued.

Whatever capacity exists, you are simply acquiring and making it your own. Therefore, the competitive impact that arises from an acquisition is somewhat less than the competitive impact that gets generated in the industry through creation of new capacity. The competitive forces in the industry escalate when you do organic development, when you undertake organic investments in an industry.

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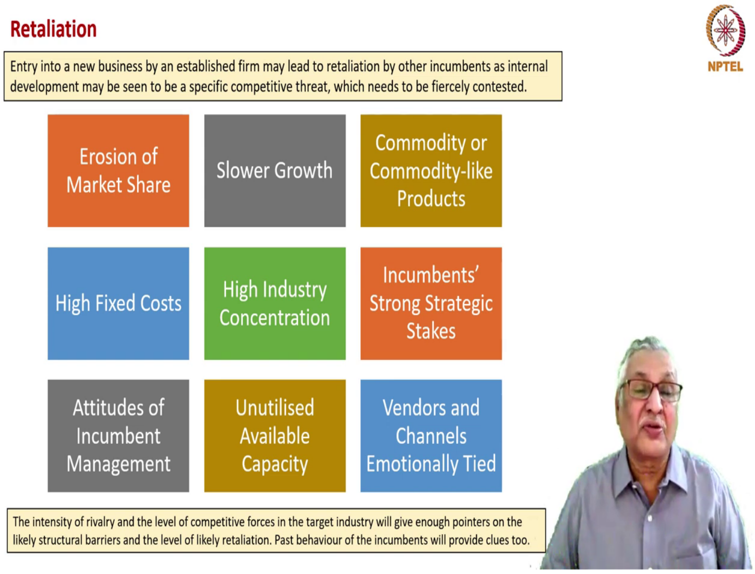


How does retaliation occur when someone is trying to develop itself in the new industry all by oneself? Entry into a new business by an established firm may lead to retaliation by other incumbents, because internal development may be seen to be a very specific competitive threat which needs to be fiercely contested. It is worth repeating again that when an existing company is acquired by someone, desirous of entry into the new industry, no additional capacity is created.

There may be additional capability to grow that may be created, but no additional capacity is created from day one. On the other hand, if you are entering the industry on the basis of a new structure, new organization and new facility, you are creating additional capacity and stoking the competitive forces in the industry. Therefore, there is bound to be retaliation. That could happen by means of erosion of market share for the incumbents.

There could be slower growth in the overall for the incumbents as well as for the new comer. Products could become commodity or commodity like. There could be high fixed costs which every company would need to bear, particularly if the others retaliate by adding their own capacities. There would be high industry concentration and the incumbents strategic stakes will be strongly challenged.

The attitudes of incumbent management would change. They would become more competitive in their approach. As a result of all of these actions, there would be unutilized available capacity and we have on the other hand vendors and channels which are emotionally tied to the existing incumbents.

So, there would be intense rivalry and intense jockeying for positions against the background of enhanced level of competitive forces in the target industry. And this will give enough pointers on the likely structural barriers and the level of likely retaliation. Past behaviour of the incumbents will provide clues too.

So, if you look at from an overall perspective, probably it would make sense for a company to make a quiet acquisition and enter the market rather than set up a new capacity with the lead time of 3 to 5 years and wait for the unknown to happen by the time the capacity gets translated into commercial production.

Therefore, there are different strategies that can be adopted to get into new businesses which a leadership has to consider.

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How do you identify target industries? Clearly, if the target industry is based on new technology, that is a target industry which needs to be considered. But we have also seen previously that too soon could be too dangerous too. So, a leadership depending upon the technological and risk appetite should weigh in the pros and cons of getting into a new industry based on new technology and the earliest possible time.

At times, it could be better to wait on and enter into the industry when the technology is little more established. If the new industry is stable and in equilibrium, the new entrant again cannot expect to have above industry average profits. Companies may enter such an industry only if the firm has certain special advantages.

Otherwise, we need to enter an industry or we need to consider an industry as a target industry only if the following 5 conditions are satisfied. One the industry is in disequilibrium. The disequilibrium could be with respect to the demand. That is that disequilibrium could be the balance between the old technologies and the new technologies.

The disequilibrium could be in terms of the factor resources and financial resources. But something is disturbed in the industry and that is an opportunity for you as a new entrant to enter the industry and take advantage of the disequilibrium. The second situation is when incumbents are unlikely to retaliate effectively. Let us look at a situation where a number of startups are operating in an industry and they all have a new world class technologies full of promise, but are yet to be proven.

In such an industry, you as a major player can enter with confidence acquiring one or two startups or developing one or two new technologies and the startups would be unable to retaliate effectively. Suppose as a new entrant, you know the geography, you know the nation. So, well that you have lower entry costs than other firms. Then that is a condition which is ripe for entry by you. Suppose you are a company which has been doing a lot of information technology work in the developed world, particularly the United States.

So, if you are entering into the field of artificial intelligence, you are better equipped because you know the geography, you know the talent structure, you have people who are resident as leaders in the geography and you have everything going for you. And the huge resources you are generating out of the big deals in the developed world can be channelled into the higher resource requirements of establishing a facility in artificial intelligence in the geography.

The fourth condition is that the firm has distinctive ability to influence industry structure. If you are getting into an industry which is highly IP based and where huge amount of analytics and design development is required, then India would have a distinctive ability to match. You can set up onshore and offshore centres having thousands of employees which can work on the new design paradigms. You can also target an industry if it will have a positive effect on a firm's existing business.

Every information technology company in India again to quote the same example should take every opportunity to get into the fields of artificial intelligence, machine learning, mixed reality and metaphors by acquiring companies which are already specializing in those areas. They could even acquire gaming companies. They could acquire various other companies which are using digital platforms.

They could make bolt-on acquisitions in the product space as well because they are strategic adjacencies and strategic go forwards for the information technology industry which is highly successful in India out of the global delivery model. If the above conditions are fulfilled, a new entrant will stand to gain substantially from entry into such an industry.

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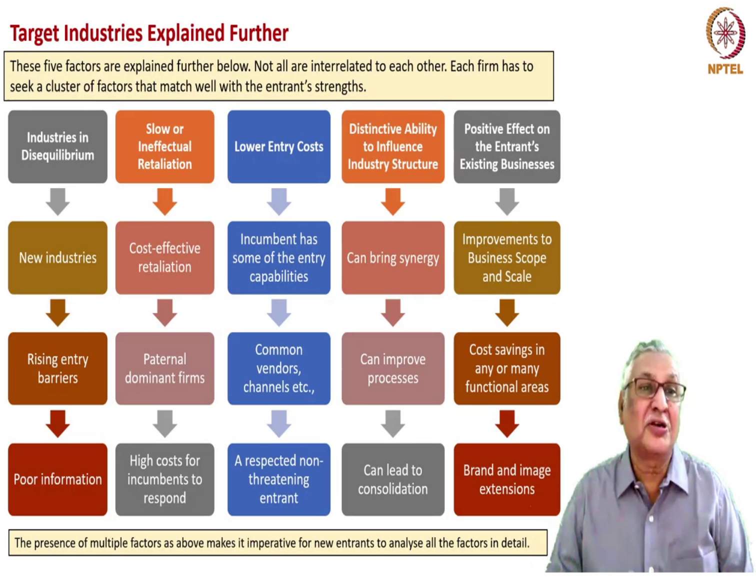


Let us see the expansion of targeting industries. There are 5 factors as I said which demonstrate whether an industry is ripe for entry. These 5 factors are further explained here. Industries in disequilibrium are typically industries which are new based on new technologies.

Industries in disequilibrium are industries which are having rising entry barriers due to capital investment requirements or marketing requirements or facility requirements and so on. Industries in disequilibrium are those industries which are closed where we do not have much information on what is happening in terms of the industry itself or the marketplace.

Industries which are slow and ineffectual in terms of retaliation have the problems related to the following cost-effective retaliation, paternal dominant firms, high cost for incumbents to respond. Because of these three factors, many companies would not like to retaliate even if there is a new entrant coming into the industry and that is an ideal state for you to enter a new industrial scene. Then there would be lower entry costs based on the new entry. Incumbent some of the entry capabilities himself.

So, the incumbent does not mind someone else coming into the industry. There are common vendors channels whose utilization may actually help the existing incumbent. There could also be an entrant who is a respected name and who is non threatening. If a TATA group company enters a new industry, it is not seen with worry and askers by other players because the company and the group are known to play by book of ethics, book of good practices.

So, it does not generate huge retaliation. Distinctive ability to influence industry structure if a company which is entering the new industry has the ability to bring synergy, if it can improve processes and if it can lead to consolidation, actually the entry would be welcome.

If Adani group which has got strong presence in the infrastructure space, in the transmission space, in the airport infrastructure space, if it has got capabilities in the new digital technology space, its entry into a new industry will be welcome because the group is bound to bring synergy in terms of its other multifarious capabilities. It can help improve the processes in the industry.

It can lead to consolidation. So, it is not that the entry of a new player, even if the new player is a mighty player, will be seen with risk and with worry by other incumbents. They may even be welcomed. Then there will be a positive effect on the entrance existing businesses because of the new entry. The existing business could improve in scale and scope.

Here you have this possibility of Adani transmission getting into the business of energy meters because energy meters are an essential requirement for cost effective and accurate transport systems for logistics system. Energy meters determine the flow of various commodities including energy and smart meters are going to be the determinants of how efficient we are in generation of energy, in distribution of energy and also in the flow of fluids of any kind across the nation.

So, entry of Adani transmission into a new industry called smart meters is a actually a welcome move. And that would also have an welcome effect on the company's existing businesses. So, there would be improvements to business scope and scale because of new entries. There would be cost savings in any or many functional areas relating to the company.

And there would be brand and image extensions relating to the new businesses. As of now, it is reported that over 20 or 30 new businesses are incubated by Adani enterprises as the parent company or holding company. When all these businesses are letting to open market with their own listing. Their impact in terms of several industrial sectors can be imagined. It would be very positive and very stimulating for the overall competitive development of industry structure in multiple industries.

The presence of multiple factors as above makes it imperative for new entrants to analyze all the factors in detail. Reliance industries when it is focusing on new energy initiatives, when it is committing 75 billion dollars in setting up new bigger factories, in establishing new partnerships, in driving clean hydrogen, in making 5G available in all the rural areas.

There is going to be a world of difference that is going to happen in the Indian industry and in the Indian infrastructure and energy backbone because of such effort. So, the game plans of major groups, the game plans of the large government corporations and the overall policy framework of the Indian government is actually targeting industries for entry, expansion and diversification and that is a welcome move for the Indian economy.

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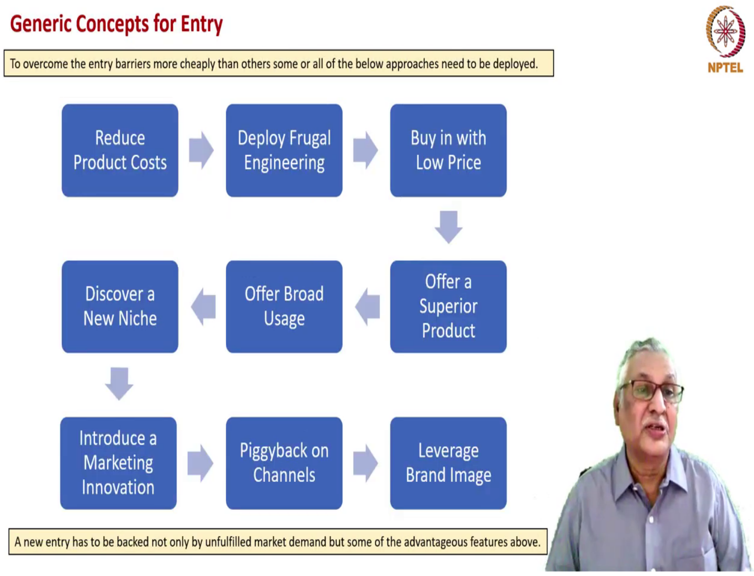


What are the generic concepts for entry? To overcome the entry barriers more cheaply than others, some or all of the below approaches need to be deployed. First you should reduce your product costs. That is what that happened. When this solar energy or renewable energy got established by Adani group and various other energy producers, the module costs have been reduced. Therefore, the renewable energy cost itself has come down.

Deploy frugal engineering. Buy in with low price. Offer a superior product. Offer broad usage. Example 5G to be offered without any premium in both rural and urban locations. Discover a new niche. Data was a new niche that Reliance Jio discovered and penetrative pricing was a new strategy that was adopted to make data to quote Mukesh ambani the new oil.

To be able to power the Indian economy and the Indian social information mobility. Introduce a marketing innovation. We give back on available channels. Create new channels where required and leverage the brand image. A new entry has to be backed not only by unfulfilled market demand, but also some of the advantages features that are mentioned above.

In this, the ability to plan the whole industrial paradigm in an integrated manner. So, that product costs are reduced through design, optimal manufacturing. Engineering of facilities is done in a frugal manner and the manufacturing is done with the lowest possible takt times.

We are able to ensure price leadership not price-war leadership. Price leadership based on cost leadership in the markets provide a bundle of benefits for the consumers. Expand the usage of the new products and services. You would be making an impact in the marketplace.

Along with that, you could discover new niches for new products. You can create marketing innovations. So, that consumer interest is tickled and consumers would adopt new ways of doing activities. You improve the distribution channels that are available. Create new distribution channels including new Omni channels and then leverage the brand image for universal product spread.

Reliance Industries has launched all its FMCG products under the brand name Independence. Evoking a sentiment to nationalism and that is leveraging of brand image. Today the brand may be new, but very soon like Fortune is a leveraged umbrella brand for Adani Wilmar like Saffola is the leveraged brand for Marico.

Independence would be the leveraged brand for Reliance. A new entry has to be therefore, backed by not only singular functional activities or singular value chain foundations, but it also has to be backed by strategic foresight and knitting together of a strategic management framework for the entire industrial foray.

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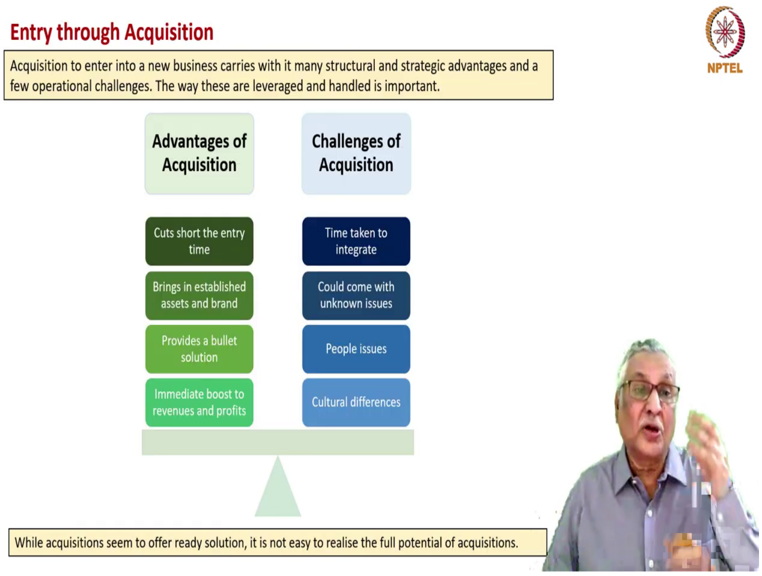


Now, we can use acquisition as I said to accelerate our entry into a new business. Acquisition to enter into a new business carries within many structural and strategic advantages and a few operational challenges. The way these are leveraged and handled is very important.

There are several advantages of acquisition. First it cut short the entry type. Instead of taking years to build a brand you acquire a brand and 5 to 10 years of brand building time is cut immediately. It may take 5 to 10 years to build a plant and get regulatory approvals in the pharmaceutical industry.

By acquiring a plant you advance everything in no time. It brings in established assets and brands provides a one-time bullet solution for the need to enter into a new business and it provides immediate boost to revenues and profits. But what are the challenges of acquisition? There will be time that is taken to integrate. Any acquisition could come with some unknown issues. There could be people issues related to acquisition and there could be finally, cultural differences.

Acquisitions definitely offer ready solutions, but it is not easy to realise the full potential of acquisitions. That is where business development leaders step in with their negotiating capabilities, with their integration capabilities, with their cultural skills and their leadership attributes. They are the bridges that make the acquiring company and the acquired company achieve convergence and derive greater value from the acquisition.

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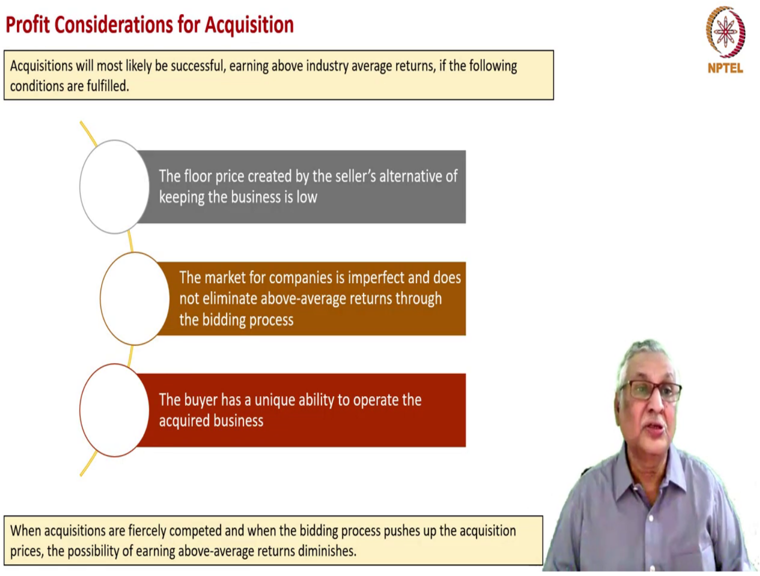


There are several profit considerations for acquisition. Acquisitions will most likely be successful earning above industry returns if the following conditions are fulfilled. The floor price created by the seller's alternative of keeping the business is low. That is the seller does not have any advantage by continuing in the business. Therefore the floor price will be low.

The market for companies is imperfect and does not eliminate above average returns through the bidding process. The buyer has a unique ability to operate the acquired business. This is one of the reasons why some high technology companies are available at attractive prices because the existing management having created the enterprise do not know how to run the enterprise or take it forward with new investments.

And that imperfection is an opportunity for acquiring companies to acquire that business or technology. However when acquisitions are fiercely competed and when the bidding processes push up the acquisition prices, the possibility of earning above average returns diminishes.

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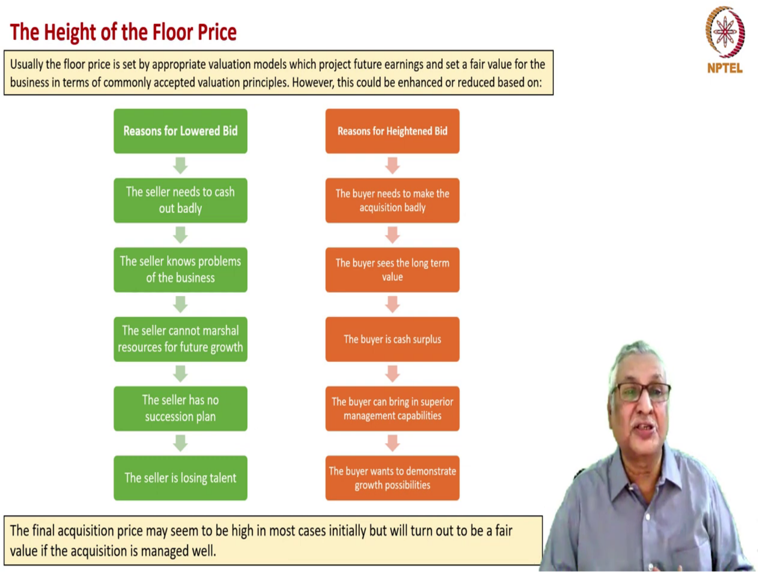


What is the height of the floor price? Usually the floor price in any acquisition is set by appropriate valuation models which project future earnings and set a fair value for the business in terms of commonly accepted valuation principles. However this could be enhanced or reduced based on several reasons. There could be reasons for a lowered bid, there could be reasons for a heightened bid.

The reasons for lowered bid are in terms of the seller needing to cash out badly. The seller knowing problems of the business therefore, wanting to get rid of the business early. The seller not being able to marshal resources for future growth. The seller having no succession plan especially if it is a promoter led company and the seller is losing talent because of the uncertainty of the business. Under all these conditions the bid prices or the floor prices will be low.

In all the cases that have gone to the insolvency and bankruptcy court process in India, the acquisition prices for companies what is considered as the liquidation value have been lower than what is normally understood. However the actual bids have been even lower than the liquidations values that have been presented by the resolution professionals. How does that happen?

Because of all the conditions. The need for the banks to cash out or reduce their cash burn quickly. The buyers not knowing all the problems of the new business that they are acquiring. The inability of the resolution professional to run the business beyond a particular point of time.

The dead end that is faced by a company under the IPC process and the risk of losing further talent and making the company more down under are the leases for the lower bid in the IPC process. What are the reasons for heightened bid? The buyer needs to make the acquisition badly. The buyers is the long-term value. The buyer is cash surplus. The buyer can bring in superior management capabilities and the buyer wants to demonstrate growth possibilities.

That is the buyer is willing to bet its top dollar on the acquisition because the buyer is seeing the potential which others are not able to see. At times when the entity has value, but the bids are low the selling entities can adopt an auction process. So, that people can be encouraged to bid higher than the bids that have arrived as per the conventional process.

The final acquisition price in any acquisition may seem to be high in most cases at the initial stage, but eventually those acquisitions will turn out to be a fair value if the acquisition is managed well. This has happened for a number of acquisitions. The acquisition of WhatsApp by Facebook was seen to be at a very high level. However the value that WhatsApp brought to Facebook has been substantial even phenomenal.

So, the advantage of the acquisitions at high prices gets proven not immediately, but over the course of time.

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What are the imperfections in the market for companies when the acquisition route is taken? Despite the availability of sound strategic and valuation practice the market for companies has some imperfections. The buyer has superior performance. The number of bidders is low.

The condition of the economy is bad. The selling company is sick. The seller is price driven. And the seller has proved the honest record. All of these things, particularly the last five are going to determine whether the sale is going to be a normal sale or a distressed sale.

Many of the above factors come into the planning of the acquisition of companies under the IPC code as I have said. Many companies were sold at values below the acquisition floor price that have been set due to the governance issues faced by the companies.

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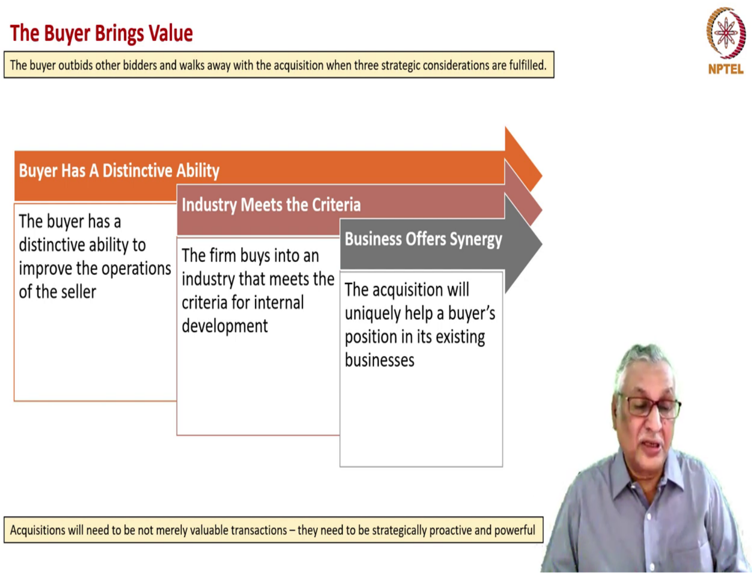

Many times when the buyer brings value the acquisition price could be higher. The buyer out bids other bidders and walks away with the acquisition when three strategic considerations are fulfilled. The buyer has a distinctive ability. The buyer has a distinctive ability to improve the operations of the seller. The buyer knows what it is buying and for what purpose it, how the buyer is going to turn it around.

When the industry meets the target criteria of the buyer, the firm is buying it to an industry that meets the criteria for internal development for the future. And in the business offers energy. The acquisition will uniquely help a buyer's position in its existing businesses. Then also the buyer brings value to the acquisition and the buyer would be willing to pay a higher acquisition price.

Acquisitions will lead to be not merely valuable transactions, they need to be strategically proactive and powerful. Again, that is where the business development leader with his strategic sense will be helping the company leadership taking the right decisions in terms of acquisitions and entry into new businesses.

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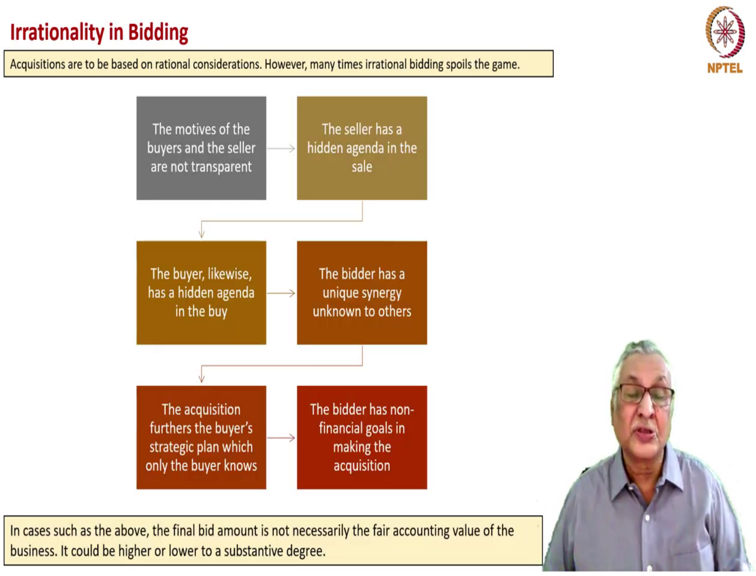


At the same time, irrationality in bidding cannot be ruled out. All acquisitions have to be based ideally on rational considerations. However, many times irrational bidding spoils the game. The motives of the buyers and the sellers are not apparent. The seller has a hidden agenda in the sale.

The buyer likewise has a hidden agenda in the buy. The bidder has a unique synergy, which is unknown to others. The acquisition furthers the buyer's strategic plan, which only the buyer knows. The bidder has non-financial goals in making the acquisition. When all of these things happen, there will be seeming irrationality in the bidding, essentially in terms of excessive price.

In cases such as the above the final bid amount is not necessarily the fair accounting value of the business. It could be higher or lower to a substantive degree.

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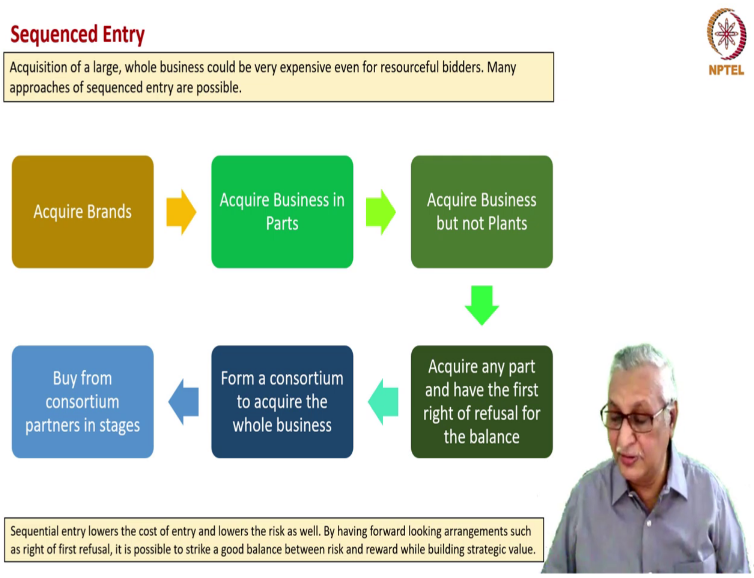


At times, when the acquisitions are very costly and they would prove to be expensive, a sequenced entry would be desirable. Acquisition of a large whole business will generally be very expensive, even for the resourceful bidders. Many approaches of sequenced entry are possible. First, you acquire brands. Then, you start acquiring the business in parts. Acquire the business, but not the plants or acquire the plants, but not the business.

Acquire any part of the business, but have the first right of refusal for the balance. Form a consortium to acquire the whole business buy from consortium partners in stages. This kind of sequential entry plans lower the cost of entry and lower the risk as well. By having forward-looking arrangements such as right of first refusal, it is possible to strike a good balance or golden mean between risk and reward while building strategic value progressively.

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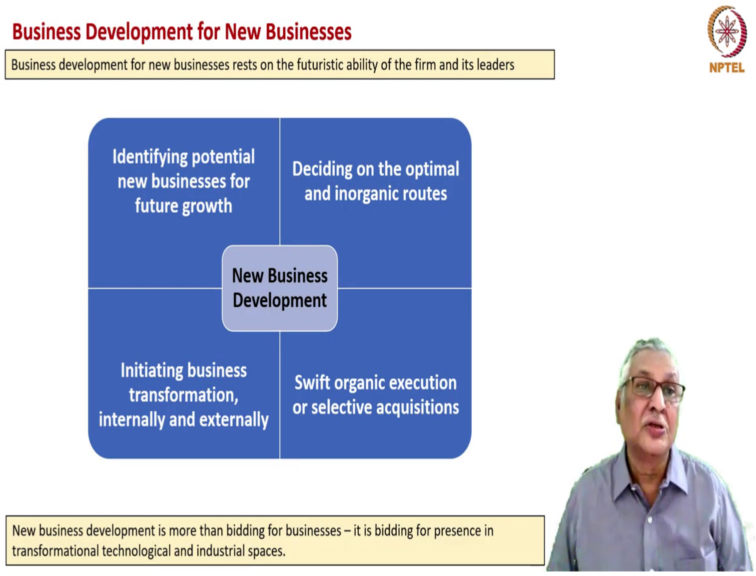


In such a complex tapestry, how do you do business development for new businesses? Essentially, business development for new businesses rests on the futuristic ability of the firm and its leaders. New business developers, while targeting new businesses, have to be futuristic, proactive and convection based. They have to identify potential for new businesses for future growth.

As I kept saying throughout the course, they should be able to identify the mega trends or even shape the mega trends. They should have the ability to analyze the pros and cons of optimization between organic and inorganic routes. Deciding on the optimal organic and inorganic routes is one of the important ways in which business development for new businesses can take off. Third, swift organic execution or selective acquisitions. That is, you should be able to do if organic execution very fast and very swiftly or to compress the timeline, you should be able to do selective acquisitions very quickly.

Initiating business transformation internally and externally, because no acquisition will be successful unless it is accompanied by business transformation, integration, optimization, harmonization and transformation or several of the steps that are involved in taking the acquiring business and the acquired business together to newer heights.

New business development, therefore, is more than bidding for businesses. It is bidding for presence in transformational, technological. That is where the ultimate test for business development leaders lies. So, with this, I come to the end of this lecture. I hope you enjoyed this program.

Before I sign off this lecture, I had to place on record my special thanks to Professor Michael Porter for his influential works on structural analysis of industries and competitive strategy on which the video lectures 53, 54 and 55 are substantially based.

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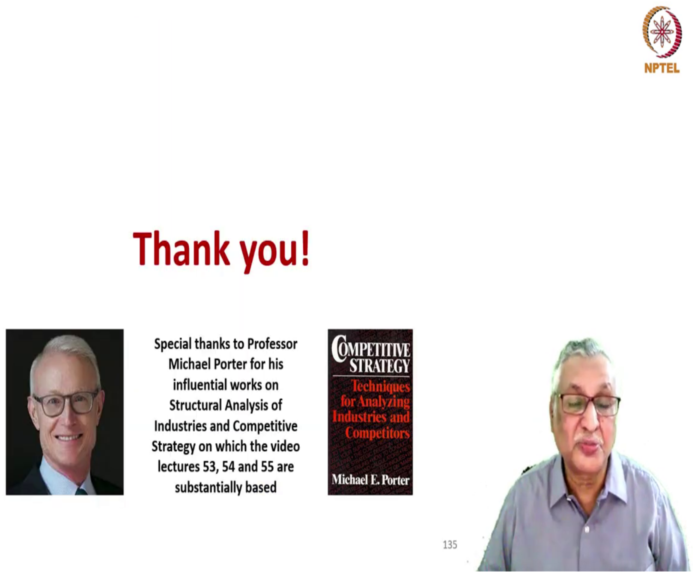


Thank you Professor Porter and thank you all for listening to this lecture. Hope to see you in the next lecture.