

India Opportunity



NEXT STOP INDIA: A GUIDE FOR NEW ZEALAND BUSINESS

A report to the Asia New Zealand Foundation from
the School of Marketing and International Business

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A SNAPSHOT OF THE STUDY

"India is an assault on your senses – you need a pioneering spirit and patience and tolerance... huge contrasts and extremes, but you can't let this put you off, and this shouldn't be an impediment to doing business. Accept what you find, go with it and enjoy it."

Gallagher Group & Cardax

DOING BUSINESS in India is not like doing business elsewhere – New Zealand managers either love it or hate it. Enjoying the characteristics that make India so different is seen as crucial for success. And while India may be perceived as a huge market with great potential for New Zealand exporters, it is actually a difficult market to succeed in, and interested businesses will need experience in international markets before going there. It is therefore important to learn from those who have been there and succeeded.

Our study covers top performing New Zealand businesses across a range of industries. Companies include Gallagher Group, Fisher and Paykel Healthcare Ltd, Vista Entertainment Solutions, Cadmus Electronic Systems, and others. We have also included matched pairs including their business partners in India. In this way, it is possible to learn from New Zealand businesses as well as gain insights from their Indian partners.

What you need to do to get into India:

We found that successful companies follow four key steps and embrace three important influences:

STEPS	INFLUENCES
Planning and Preparation	Attributes
Entering the Market	Representation
Developing and Sustaining the Business	Connections
Thinking about the Future	

Commit long-term – this may include training local staff to meet your skill expectations, and don't expect great growth rates initially, it will take time.

Here are some helpful tips:

- Find a reliable business partner, such as a master agent or distributor, to help you gain knowledge of the Indian business environment and to draw on connections with relevant decision-makers and influencers;
- Build credibility and reputation quickly – leverage from reputations developed with customers and leverage off the strong New Zealand brand;
- Visit frequently – regular face to face contact with your Indian contacts can motivate them and ensure they are committed to you;
- Have an in-market presence – this can be via agents or distributors, not necessarily an office;
- Commit long-term – this may include training local staff to meet your skill expectations, and don't expect great growth rates initially, it will take time;
- Learn about India – this paper may help: *India: A Rising Power* at www.asianz.org.nz/files/india_risingpower.pdf;
- Think ahead – getting into India now would be a wise strategic move – and brush up on your cricket knowledge!

What you need to be aware of:

- The bureaucracy – it is heavy and burdensome, but you can get around it and our companies have some tips for you on this;
- India is not one market – but 14 (states) or even 28 (linguistically);
- Infrastructure: it is generally underdeveloped and may not exist where you need it;
- The middle class: it is growing and increasingly demanding quality.

Contributors:

A number of people were consulted and contributed to this study, these included: New Zealand business people involved in doing business in India sharing their successes and mistakes in the market; experts from the New Zealand High Commission in India; the Ministry of Foreign Affairs and Trade; New Zealand Trade and Enterprise and the project advisory board in conjunction with the Asia New Zealand Foundation.

EXECUTIVE SUMMARY

THE FINDINGS OF THIS study highlight four key steps that are important for New Zealand companies undertaking and sustaining business in India. These are:

- Step 1: planning and preparation;
- Step 2: entering the market;
- Step 3: developing and sustaining the business;
- Step 4: thinking about the future.

In addition, there are three influences that impact on these steps: *attributes* (e.g. credibility and reputation), *representation* (e.g. agent and distributors), and *connections* (e.g. relationships and networks). Barriers to doing business in India are also noted, as well as mistakes that have been made by companies in the study in their entry into the Indian market.

Overall, the perception of the New Zealand companies is that India has enormous and growing potential for New Zealand exporters in a range of industries and across both manufacturing and service sectors. The findings of the study indicate, however, that India is not an easy market in which to do business. Although sharing many similarities to New Zealand, such as language and legal systems, differences in culture and business environments are very marked. All the companies in the study have successfully entered, and have either developed, or are developing, their businesses there.

Among the recommendations made by the managers of these companies, the following appear to be particularly important.

- Companies should gain a reasonable level of experience in international markets before entering India.
- Companies need a strong commitment to the market, and a willingness to endure long lead times and payback periods after the initial investment in starting business in India.
- It is critical for companies to find a reliable business partner, such as a master agent or distributor, in order to gain knowledge of the Indian business environment and to draw on connections with relevant key decision-makers and influencers.
- Companies must build credibility and reputation quickly – ideally, by leveraging from reputations developed with customers or other business connections.
- Managers must be knowledgeable about cricket!

Given the scope and pace of development in similar large economies, many see the window of opportunity in India now opening.

The main barriers to business in India are the bureaucracy involved in many parts of the business process, and poor infrastructure. Bureaucracy results largely from a high level of government involvement in business. The regulatory environment is complex, and time-consuming to manage. Infrastructure in India is under major redevelopment, itself presenting many business opportunities. At the same time, the poor quality of much of India's infrastructure is an impediment to doing business there. Many liken the bureaucracy and infrastructure, and overall ease of doing business in India to China some 10 to 15 years ago, but expect substantial improvements over the next few years.

Conclusions that can be drawn from the report include the following:

- There is little doubt that India presents enormous opportunity for niche players in many industries, and this is well recognised by the companies in the study.
- There is evidence that New Zealand companies can successfully undertake business in India, although prior international experience is important.
- Good preparation and research are essential before venturing into the Indian market, as is a long term commitment to the market.
- Companies in the study have confidence in their own future in India, and believe that doing business there will become easier as the country becomes more efficient and its infrastructure improves.

Given the scope and pace of development in similar large economies, many see the window of opportunity in India now opening, developing rapidly over the medium term, and remaining open for some considerable period of time into the future.

India is one of the big emerging markets that offer huge potential for trade. It is widely anticipated as being the next major market after China.

BACKGROUND TO THE PROJECT

¹ Members of the project team are listed in Appendix 1.

² Qualitative data analysis methods were used to interpret the data. Information and insights were coded from each interview, and these were summarised to capture the main themes appearing across all the cases. The qualitative data analysis software package, Atlas.ti, was used to assist the analysis process.

³ The report includes italicised inserts from the interviews undertaken with the companies and agents in the study. These are a range of verbatim quotes and points taken from the interview notes.

⁴ E.g. NZTE (2006) *An Investigation of the Indian Economy to Identify Opportunities for New Zealand Firms in India*, Asia Institute Research Series: Number 4.

THIS REPORT IS THE result of a study commissioned by the Asia New Zealand Foundation into the opportunities for New Zealand companies in India, using a case study methodology.¹ The study involved four main components: a brief overview of the Indian business environment and New Zealand's trade with India; interviews with people knowledgeable about New Zealand companies doing business in India, such as government officials in New Zealand and India; interviews with managers of companies and agents in India; and interviews with managers of companies in New Zealand that are doing business in India.

The report draws on the analysis of the interviews with managers of 12 New Zealand companies and six companies and agents in India, largely those suggested by the New Zealand Trade and Enterprise (NZTE).² Interviews with people knowledgeable about doing business in India informed both the questionnaire used in the company and agent interviews, and the interpretation of the results from these interviews. The six agents in India were directly associated with six of New Zealand companies, acting as their agents or partner companies. This enabled the perspectives of both participants in the business dyad to be considered.³

The industries represented by the New Zealand companies in the study are: software and integrated software solutions, healthcare equipment, security systems, engineering consulting, tertiary education, energy, and electronic communications. Other studies have examined in detail a range of industries that appear to offer potential for New Zealand trade.⁴ Many of these industries include opportunities in high-value niches, with potential for sustainable business.

This report focuses on the experiences of New Zealand companies and their Indian counterparts in entering the Indian market and developing their business there. Although these companies are involved in a number of different industries, many common themes emerge from the study. These provide an overview of the key considerations for New Zealand companies planning to undertake, or already engaged in, business in India, and for supporting organisations, such as New Zealand government agencies.

India

India is one of the big emerging markets that offer huge potential for trade. It is widely anticipated as being the next major market after China. New Zealand's trade with India has been relatively small, both in terms of imports and exports. While culturally quite different, India has many similarities to New Zealand, in aspects such as language, legal system, and historical British influence. The stage of India's development is such that there is a substantial consumer base made up of an increasingly affluent middle-class, and major large industrial and infrastructural developments. All of these factors indicate that New Zealand could develop its outward trade with India significantly. Key issues associated with the development of New Zealand trade with India at a broad level include the scale of the opportunity, cultural differences, variation across the states in India, and the different stages of economic development of the two countries.

India has developed world-class status in the information technology industries. It is investing substantially in the creation of world-class capability in the areas of biotechnology and biomedicine. In many other sectors, skill levels are relatively poorly developed, but are likely to escalate with the inflow of foreign technology and expertise. Many argue that now is a good time for firms to be preparing for business in India, taking advantage of the country's receptiveness to foreign knowledge, technologies and product and services. The opportunity for New Zealand companies has to be considered in the light of the sectors offering long-term opportunity, where price points are acceptable, and where high-value solutions, rather than low-value components, are sought. The major opportunity for New Zealand companies in India thus appears to be in high-value niche areas across a range of product and service sectors.

Like China, India is becoming increasingly important in the global value chains of major industries. Apart from information technology, other substantial industries include apparel, timber, food processing, engineering, pharmaceuticals, and a range of technology services. There are few industries that are not represented at some level of the value chain in India. New Zealand companies appear to have considerable potential to tap into parts of these global value chains, positioning themselves as innovative suppliers at critical steps in the value-adding process. There is also increasing opportunity for New Zealand companies to draw on the Indian market for subcontract manufacturing to support their global business, as local skills develop to the same world-class level as those already seen in software and computer programming. In areas relating to information technology, the scope for outsourcing R&D (research and development) has also been noted.

Government contracts and tender processes seem to dominate entry into much of the large-scale business associated with infrastructure development and government-owned services, such as health and education. As in most countries, bureaucracy associated with government business is generally seen as a barrier to doing business. Over time, as privatisation increases, and business processes in India become more efficient, these barriers are likely to diminish.

Behind the growth and value of India's imports lies the sheer size of its economy.

BACKGROUND TO INDIA AS A BUSINESS DESTINATION FOR NEW ZEALAND COMPANIES

⁵ WTO database [accessed 22 December 2005].

THE END OF THE Second World War saw India securing quite a strong position in world markets. In 1949, according to World Trade Organization data, India held 2.9 percent of world imports, far above its 2004 share of 1.0 percent. However, developments at home and abroad quickly eroded India's trading position. Domestically there was a policy of import substitution, with various barriers also erected against foreign inward investment. Internationally pre-war traders who had been devastated by the war (especially Western Europe and Japan) recovered and were then joined by emerging economies, especially in East Asia. India's share of world imports fell to 1.6 percent for the 1950s, 1.4 percent in the 1960s and 0.6-0.7 percent in the 1970s, 1980s, and 1990s.

In the 1990s, partly spurred by China's example, India embarked on an economic programme of liberalisation, opening the economy to trade and FDI. India's imports have grown rapidly, both in value and share. In 1990 Indian imports were US\$23.6 billion; by 2004 they had risen to \$97.3 billion.⁵ Despite fierce competition from China, India's share of world imports has begun to rise (Figure 1).

Relative to the size of its population, and economy, India is still quite a small performer in world import markets, ranking 22nd in 2005, but it is still a substantial market, especially for small economies such as New Zealand (Table 1).

TABLE 1: MAJOR IMPORTERS, AND INDIA, 2005

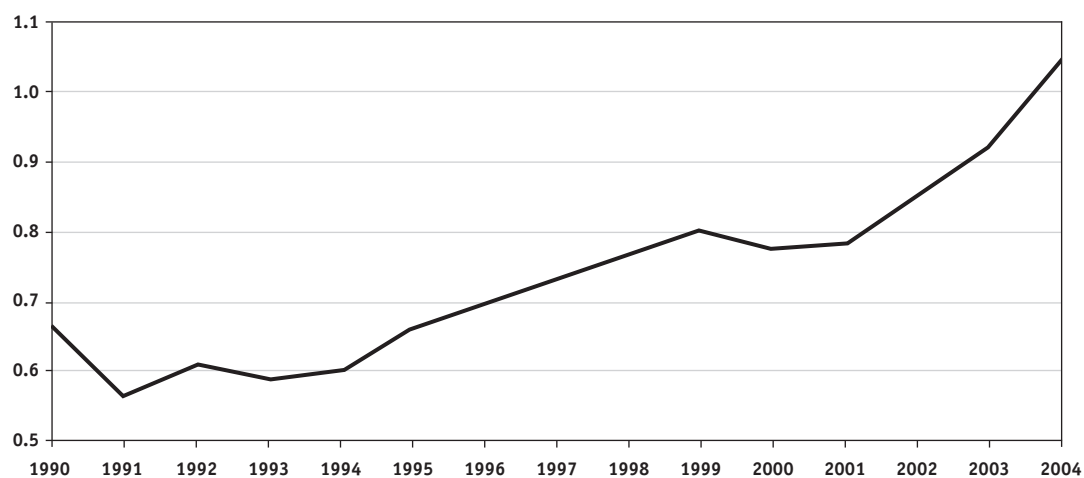
RANK	PLACE	VALUE \$b	SHARE %
	World	10,270	100.0
1	United States	1,727	16.8
2	European Union	1,402	13.7
2	Germany	801	7.8
3	China	632	6.2
4	United Kingdom	484	4.7
5	France	473	4.6
6	Japan	451	4.4
7	Italy	369	3.6
8	Netherlands	327	3.2
9	Canada	318	3.1
10	Hong Kong	292	2.8
22	India	113	1.1

Source: CIA World Factbook, updated 29 March 2006 [accessed 11 April 2006]

Behind the growth and value of India's imports lies the sheer size of its economy. Based on a purchasing power parity (PPP) calculation of Gross Domestic Product (GDP), India's economy is the fourth largest of any country in the world, and fifth if we consider the EU (Figure 2). India is quite a bit smaller than the US, EU, or China, but is not far behind Japan and is bigger than any of the individual European economies.

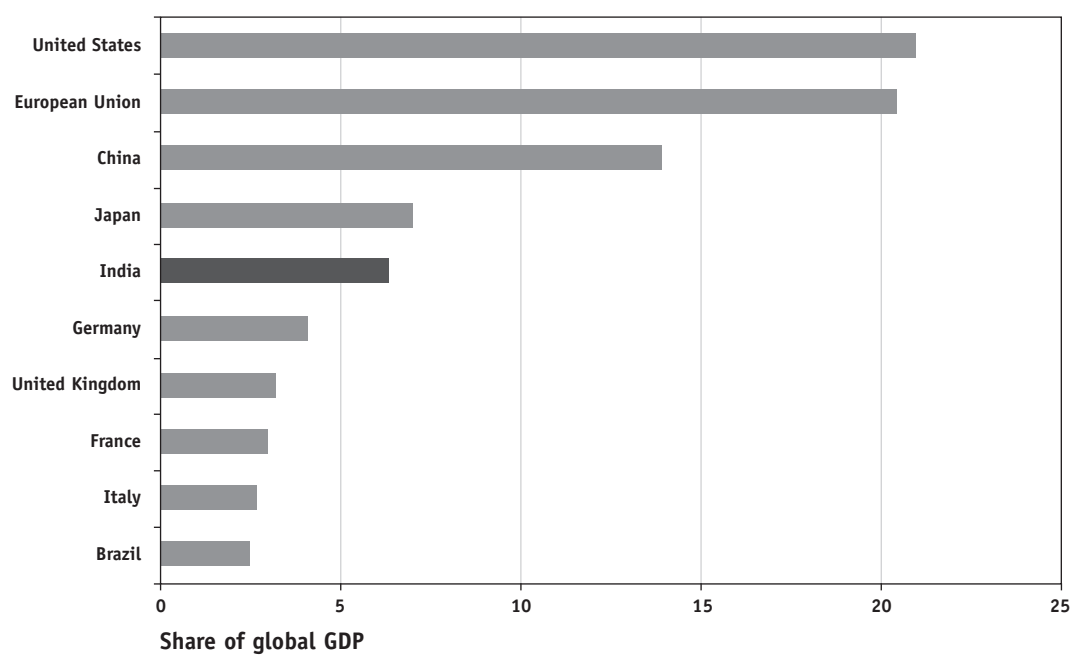
FIGURE 1: INDIA'S SHARE OF WORLD IMPORTS, 1990-2004

% of world imports



Source: WTO trade database, accessed 22 December

FIGURE 2: COMPARATIVE GDP, 2005



Source: CIA World Factbook, accessed 11 April

Indications are that New Zealand is not doing quite as well as it might.

⁶ CIA World Factbook, updated 29 March 2006 [accessed 14 April 2006].

⁷ Thirlwell, Mark P (2004), *India, the Next Economic Giant*, Lowy Institute, p.108.

⁸ Australian Department of Foreign Affairs and Trade (2006), *Australia's Trade*, February www.dfat.gov.au

⁹ Statistics New Zealand (2005), *NZ External Trade Statistics*.

¹⁰ 1 crore = 10 million. Rupees have been converted to NZ\$ at the rate 1 rupee= NZ\$0.0355846.

Growth in GDP is another indicator of obvious interest. Table 2 shows that while India lags behind China, in 2005 it had the second highest growth rate of any major economy in the world. By comparison, New Zealand's growth rate was 2.5 percent.

TABLE 2: REAL GROWTH RATE OF GDP, 2005, SELECTED COUNTRIES AND AREAS

RANK	COUNTRY	GROWTH %
10	China	9.3
26	India	7.6
	World	4.4
118	United States	3.5
155	Brazil	2.4
157	Japan	2.4
175	European Union	1.7
176	United Kingdom	1.7
177	France	1.6
196	Germany	0.9
204	Italy	0.2

Source: CIA World Factbook, updated 29 March 2006 [accessed 11 April 2006]

Per capita GDP remains low, even by PPP calculations. In 2005, according to CIA estimate, it was US\$3,400, nearly half that of China (US\$6,300).⁶ However its huge population of just over one billion, combined with very uneven wealth distribution, means that it has a substantial middle class, as well as large numbers of rich, and super rich. Just how large these segments are is a matter of much dispute, and figures vary considerably; one Australian source remarks that 'estimates of India's middle class [range] from 200 million to 300 million'.⁷

New Zealand in the Indian market

New Zealand's trade with India has grown from a very low base of NZ\$1.3million in 1970 to NZ\$232 million in 2005 (Appendix 2). However, in contrast to Australia, India does not capture much attention in New Zealand. In 2005 Australian exports to India were AUD\$7.0 billion, making India Australia's sixth largest market, behind New Zealand at fifth position (A\$9.0b).⁸ For New Zealand, India came in at 24th place in 2005, with this position having remained fairly static over recent years.⁹ Low prices associated with New Zealand's export of commodities to India, such as coal, and relative proximity are part of the reason. Moreover, indications are that New Zealand is not doing quite as well as it might.

As Table 3 shows, while Australia's share of India's imports has increased in recent years, from 2.5 percent to 3.3 percent, New Zealand's has fallen, from 0.16 percent in 2001-2 to 0.10 percent in 2004-5. The actual value of imports from New Zealand did, in fact, rise from 392 crores of rupees (NZ\$139m) in 2001-2 to 481 crores (NZ\$171 million) in 2004-5.¹⁰ However, imports in general rose faster, leaving New Zealand with a diminishing share of the India market. This may have been due to factors quite outside of New Zealand's control. Much of the increase is accounted for by China, whose share has outstripped the others, moving from sixth largest import source in 2001-2002 to first in 2003-2004. Most Chinese exports are in mass consumer markets in which New Zealand companies would find difficulty competing.

TABLE 3: INDIA'S IMPORTS: IMPORT SHARE FOR THE FINANCIAL YEARS (FY) 2001-2005 BY COUNTRIES IN RANK ORDER

RANK IN FY 2004-2005		FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
1	China	4.0	4.5	5.2	6.3
2	United States of America	6.1	7.2	6.4	5.9
3	Switzerland	5.6	3.8	4.2	5.4
4	United Arab Emirates	1.8	1.6	2.6	4.3
5	Belgium	5.4	6.0	5.1	4.3
6	Germany	3.9	3.9	3.7	3.6
7	Australia	2.5	2.2	3.4	3.3
8	United Kingdom	5.0	4.5	4.1	3.2
9	South Korea	2.2	2.5	3.6	3.0
10	Japan	4.2	3.0	3.4	2.8
53	New Zealand	0.16	0.12	0.10	0.10

Note – Numbers are percentages of India's total imports

Source: Reserve Bank of India trade database <https://reservebank.org.in>

Downloaded 23 December 2005

Calculations by Tim Beal

India presents a fast growing, and exciting, market for New Zealand companies, but it is important to analyse their successes and failures dispassionately, identify strengths and build on them, and recognise where things could be done better.

BUSINESS OPPORTUNITIES IN INDIA – PERSPECTIVES FROM NEW ZEALAND AND INDIA

¹¹ The New Zealand companies and their managers interviewed in the study are referred to in the report as the New Zealand companies. The term 'agent' is used in this report to refer to agents, distributors and partners, unless otherwise noted.

THIS SECTION PRESENTS a summary of the interviews with the New Zealand companies and Indian agents included in the study (see Appendix 3 for a list of companies and agents, and for the case studies see the companion report at www.asianz.org.nz/research).¹¹ It also includes insights gained from discussions with various officials associated with doing business in India. Excerpts from the interviews are shown in italics.

A number of themes emerged from the interviews with New Zealand companies and Indian agents, relating to doing business in India. These are shown in Figure 3. Four main steps are identified: planning and preparation, entering the Indian market, developing and sustaining business in India, and thinking about the future. Three key influences impact on these steps to doing business in India; they are: attributes representation, and connections.

The following discussion first outlines the main findings from the interviews in relation to these steps and the influencing factors. Second, the barriers to doing business in India are discussed, and finally, the conclusions and recommendations of the companies and agents are noted.

Step 1: Planning and Preparation

Entering the Indian market requires a substantial amount of preparation and patience, and takes a considerable period of time to accomplish. Time and other resources need to be invested in developing knowledge of the institutional environment. Generating credibility in the market before entry is also beneficial.

"Successful market entry needs to be well planned and requires investment in learning about the institutional environments."

Beca Carter Hollings and Ferner

Most companies suggest entering the market cautiously, allowing time for knowledge to be acquired and substantiated, and for experience to be gained, before making any significant investment.

"One needs to acquire experience in how this environment operates."

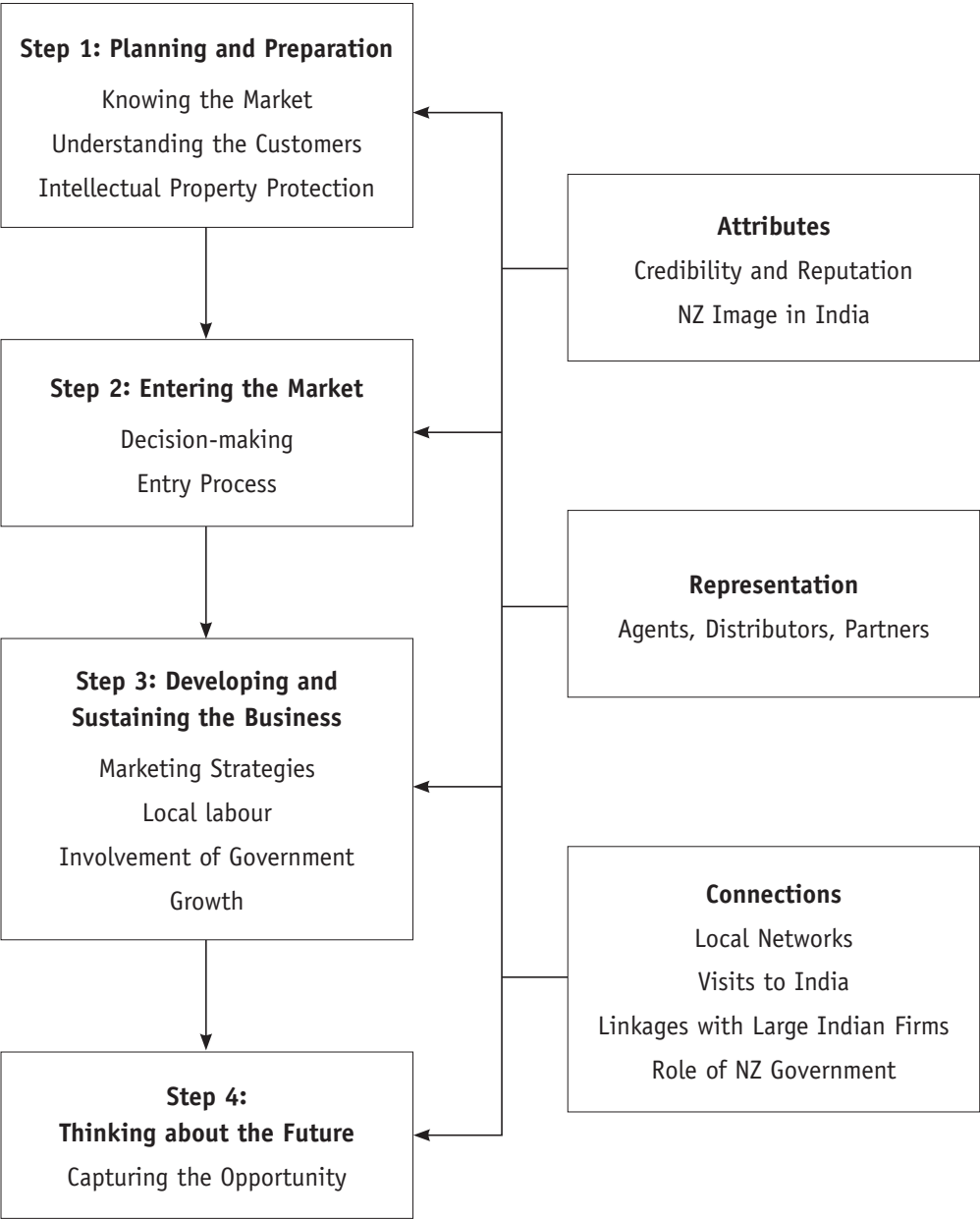
Beca Carter Hollings and Ferner

"In a country like India, there's a lot of preparation, a lot of credibility needs to be developed over time." **Glidepath Ltd**

Tenders and competitive contracts require considerable background work, not only with regard to the content of the tender request, but also on building relationships with key decision-makers and people able to understand the tender process.

"The work really starts well before the tender comes out." **Glidepath Ltd**

FIGURE 3: STEPS FOR DOING BUSINESS IN INDIA



New Zealand companies are more likely to succeed in an appropriate market niche, recognising that they do not have the scale or price competitiveness to operate in broader markets.

Finding the right person to manage the business in India is an important decision. Ideally, if an Indian, this should be someone with experience in New Zealand, and, if a New Zealander, one with experience in India, or in similar large emerging markets. Some companies have been able to employ such managers. One company employed an Indian manager in New Zealand to manage the Indian business, and this has been very successful.

"I have experience at working in both places (India and New Zealand). My experience with the general business practices there and dealing with the people there and, you know, the process that is followed in terms of entering and the various intricacies of that... assessing the time it will take for decision-making, particularly with the public sector and government sector, yes that does help a lot." **Glidepath Ltd**

Appropriate and sufficient infrastructure must be in place in India to support the business. In many cases, it is necessary to wait until infrastructure has been developed, or else invest in developing local infrastructure to a level sufficient to accommodate the products or services being offered.

Knowing the Market

New Zealand companies are more likely to succeed in an appropriate market niche, recognising that they do not have the scale or price competitiveness to operate in broader markets. For this reason, local Indian competitors find it difficult to produce similar quality or level of product or service specialisation. Many of the New Zealand companies have a technological advantage over local and international competitors in relation (including systems integration capability), and some are able to occupy market niches that are too small for large international corporations to compete efficiently. However, the capability of Indian firms to compete in some areas is developing rapidly, and several companies expect a more competitive market to emerge within the next five to 10 years.

Currently, customers and consumers in India are often strongly driven by price, and, in many situations, will generally choose low price over quality. However, things are changing, and Indian consumers are starting to demand better quality of products and services, and are increasingly prepared to pay more for these.

Marketing approaches of some New Zealand companies include changing customer perceptions to recognise value for money, emphasising the importance of quality and standards, and promoting the uniqueness of their offering. In order to capture business, however, some New Zealand companies adopt a lower price strategy for the Indian market, compared with other international markets. This is considered economically worthwhile, given the potential size of the market.

"We have been willing to lower the price somewhat in recognition of a lower cost economy and to encourage volume in what we see as a market with huge potential."

Vista Entertainment Solutions Ltd

Understanding the Customers

The companies' customers tend to be central or state government agencies customers, or large Indian corporations. While the former are usually monopolistic buyers, the latter may provide a number of advantages, including offering large scale business, providing credibility from which the company can leverage for future orders elsewhere. Disadvantages include the substantial amount of time involved in competing for tenders, where, in many cases, the selection process is not particularly transparent, the need to influence key decision-makers in order to gain business, and the high level of bureaucracy associated with gaining a tender and fulfilling its requirements. Having a local representative (agent, distributor, partner etc) able to influence the decision-making and management process is a critical part of gaining business in India, particularly with government and large corporations.

"It's really important to have contact and influence with customers. A key thing to pick in a dealer is: can they influence the tender process?"

Tait Radio Communications

The New Zealand companies note how customer demands have been changing. In many areas of technology, customers now seek complete integrated systems, rather than components or 'boxes' of technology. Operating in a range of niche areas, many of the New Zealand companies are able to provide such an integrated approach. However, the associated infrastructure is not always developed to the level required for the successful implementation or roll-out of integrated solutions, representing a significant challenge for the companies working in these areas.

"Customers are now very smart and know exactly what they want." **Gallagher Group & Cardax**

The involvement of the Indian government in facilitating the development of infrastructure and standards that enable consumers to access better quality products is important, although these developments are slow.

Intellectual Property Protection

In general, intellectual property concerns are not an issue for companies doing business in India. Most companies have copyright or patent protection, but there have been a few instances of breach of intellectual property. The technology and integration of technologies applied by most companies are difficult for competitors to copy. Such innovation provides both competitive advantage and protection of intellectual property for the companies concerned. However, this advantage may not always be the case, as Indian companies are rapidly improving their technological capability beyond their existing base of world-class information technology. The New Zealand companies note that it is easy to be carried away by a large order, and forget about protecting intellectual property.

"Intellectual property protection is a problem on a global scale, really. The only real way to protect intellectual property is the total integration of knowledge and knowledge of how to set up solutions, systems etc."

"Companies must not rush in and give away intellectual property."

Cadmus Electronic Systems

Some companies attempt to integrate their product or service into whole systems that are hard to copy. One manufacturing company notes that they get to know their customers well, and ensure that they are not a "front for another manufacturer."

Others avoid intellectual property issues by retaining their intellectual property in New Zealand, while manufacturing or assembling their products in India. However, some companies note that the influence of globalisation is improving the intellectual property protection environment for foreign companies in India.

"The intellectual property is all controlled here in New Zealand. They make the low-end (components) in India, and the top-end (components) is still made here."

Gallagher Group & Cardax

Long-term Commitment

All the New Zealand companies stress the importance of a long-term commitment to business in the Indian market from the beginning, since success relies heavily on relationships and networks.

"Another success factor... is to take a long-term commitment early because of the importance of relationships and personal networks."

Beca Carter Hollings and Ferner

Success in India may take longer to achieve than in many other international markets. It requires a lot of preparation and investment before gains are realised, and there is a relatively high level of risk. However, the potential of the market is such that the New Zealand companies studied have made a commitment to develop the market over the long term.

Step 2: Entering the Market

Entering the market involves understanding key decision-making processes, and factors influencing entry.

Decision-making

Decision-making in India is slow, particularly with the public and government sectors, and it is important to assess the amount of time that obtaining an initial order is likely to take. One company noted how inertia and the lack of decision-making capabilities of people at lower administrative levels in government led to inactivity, which prolonged project planning and execution for many years. Sometimes, an initial order may take several years to come to fruition.

"The first successful bid took about four years to be realised and required development with local consultants, and an intensive phase of learning about the institutional environments in India. In addition, finding a suitable county representative with the support of the New Zealand High Commission was a decisive factor for a positive market entry into India."

Beca Carter Hollings and Ferner

Decision-making blockages are sometimes overcome by drawing on the influence of network links of New Zealand companies in India, including their agents, and organisations like NZTE and the New Zealand High Commission.

"The New Zealand High Commission has provided an excellent service by introducing us to politically well-connected people who are able to influence decision-making on the highest levels."

**Beca International Consultants Ltd
& Robinson Seismic Ltd**

While the reforms in India since the early 1990s have been instrumental in encouraging market entry, these are not always translated to readily obtainable business.

Entry Process

Many companies had more than one attempt to enter India. For example, one company had a small export business there approximately 20 years ago, but the market was restricted by import licences. Only when these lessened did the company adopt a serious effort to strategically develop the market. In several cases, earlier low-level business activity in India was abandoned, because of pressures on exchange rates and strategic reprioritising. The companies' second entries were strategically planned, and drew on their earlier experiences and mistakes.

With respect to their current business in India, the New Zealand companies were exposed to a range of triggers for market entry. Importantly, the companies have entered India with a strategic commitment to develop the market. A number of information technology-based companies note how the Prime Minister's delegation to India in 2004 acted as a catalyst for business. Of particular value were the linkages developed with high-level officials, and the credibility built for New Zealand and its technology companies.

"The Prime Minister's visit created a wonderful opportunity – it made a big impact."

Cadmus Electronic Systems

Notwithstanding this positive influence, the companies also note the importance of having other critical factors, such as initial relationships with customers, solutions to bureaucratic barriers, and a period of time becoming familiar with the Indian market, in place, in order to capitalise on the opportunity afforded by the Prime Minister's visit.

Some companies deliberately targeted large Indian corporations to facilitate market entry, and leverage further business. These associations are expected to provide significant influence on market and regulatory changes in India that will favour business development in the future. One company gained its first order in India through one of its large New Zealand clients that was already doing business there.

Another company drew on the earlier experience and contacts in India of one of its New Zealand-based managers; this manager had worked with other organisations in related areas. The same company also notes the assistance of NZTE in gaining entry into the Indian market.

Initial entry for one company was attributed to the intervention of luck, although entry to India had been part of their strategic plan for some time. The entry opportunity arose from the activities of a large Australian company in the Indian market that generated interest in their product.

While the reforms in India since the early 1990s have been instrumental in encouraging market entry, these are not always translated to readily obtainable business. Despite the reforms, the market opportunities are still hampered by a number of factors, including a high level of bureaucracy and poor infrastructure (see Barriers). Among the New Zealand companies studied, two benefited directly from changing regulations and the liberalisation of particular sectors. One company notes that the relaxation of foreign currency regulations has made it easier for them to be paid directly by their customers.

With the assistance of an Indian agent, another company entered India approximately 20 years ago, but did not experience much business growth until it changed its operational mode about 10 years later. The company now uses representation in India, and this provides a much deeper understanding of the market and more control over its operations.

“Now that we have found the appropriate operational mode (own representative and staff, and a warehouse in the market), the company is, after a number of years, experiencing rapid growth in India. Our business there is becoming significant.” **Fisher & Paykel Healthcare Ltd**

New Zealand’s strong reputation in certain areas of innovative technology has been a positive factor for one company’s Indian entry.

“...this factor can be very supportive, especially in projects that have a high political prestige factor, where paying a premium for New Zealand services is possible.” **Beca International Consultants Ltd & Robinson Seismic Ltd**

Although some companies have taken five years or more to gain a foothold in India, often after a failed first attempt, entry for one company was accomplished in a relatively short period of time.

“It has been about 12 to 18 months from the time of first thinking about going to India – quite a quick time to have scored the first order – although this was assisted by recommendations from a global company in the industry, and our existing and extensive knowledge of the product environment.” **Cadmus Electronic Systems**

Step 3: Developing and Sustaining the Business in India

Once companies have gained entry into the Indian market, a number of factors influence the development and sustainability of their business.

Marketing Strategies

Since they are generally involved in niche markets, branding is important for the New Zealand companies doing business in India. In many cases, providing high quality and added value to their agents earns the company orders and customer loyalty.

“Generally, we get good brand loyalty, as our products are of high quality.”

“Know your customers well, help them make money, and they’ll be pretty loyal.”

Hayes International Ltd

Pricing is key to gaining orders, and there is little doubt that Indian customers will negotiate prices aggressively.

“Indian business people are very hard negotiators and will argue every point of a contract.

New Zealand business people need to accept this, and go along with it. But once the negotiation is done, then that’s it.” **Vista Entertainment Solutions Ltd**

In some industries, the use of trade fairs is helpful in building new links and consolidating a company’s reputation in the marketplace. Agents are often encouraged to attend trade shows to build their links with customers – in most cases, the New Zealand company managers will also attend.

Local labour is necessary for a number of the New Zealand companies doing business in India.

In order to limit the risk associated with government orders, some of the companies currently reliant on government tenders are developing private sector business.

“Part of our long-term strategy is to shift the focus from governmental projects to privately funded projects, which tend to be less bureaucratic and where decisions are made faster.” **Beca Carter Hollings and Ferner**

Local Labour

Local labour is necessary for a number of the New Zealand companies doing business in India, for tasks such as assembly, installation, and implementation. The companies generally rely on their agents or distributors to assist with hiring and managing local labour, in particular, with monitoring performance and dealing with local labour laws.

In some cases, difficulties have arisen from companies over-estimating the quality and efficiency of Indian labour. This has created difficulties for these companies in meeting their customers' requirements of quality and on-time delivery. As a result, New Zealand managers are often used in India for key aspects of the work, such as project management, supervision and quality assurance.

“We weren't prepared for the skill level and the productivity level. We expected too much out of what was available locally. We didn't have the right project management on site to get the best out of resources that we had locally.”

Glidepath Ltd

In some cases, high levels of technical expertise are required, and some of the New Zealand companies experience difficulty in accessing local people with the requisite skills. Two approaches are used to counter this problem: training local people, either in India or in New Zealand, and using expatriate staff from New Zealand to conduct or supervise the skilled work.

Both of these approaches add significant cost to the operation (with expatriates costing four-six times as much as local staff), but are considered necessary until local skills develop to higher standards. One New Zealand company that manufactures specialised equipment is concerned about the quality of labour in India, noting that it does not employ local people for this reason.

“We wouldn't employ local people in India – only New Zealanders, or Europeans. The reason – we feel that the work ethic is poor, labour laws v restrictive (can't sack people), graduate-level education not very good; if you get the wrong person, you can't do anything about it – high risk!” **Tait Radio Communications**

Another company, looking towards growth over the next few years, will be implementing a training system for local labour, aiming to employ local Indian people in the medium-term future, instead of using New Zealand expatriates.

“In South America, we have permanent staff who are all locals. There are no longer any Kiwis there. It's all local people employed and they've either been to New Zealand for training or had training there on the job. We will take these steps in India, and some of them will be implemented this year.” **Glidepath Ltd**

On the other hand, several companies note the extremely high level of skill and expertise in some sectors in India, most notably in information technology and software development. One company is planning to shift development to India, where it plans to utilise highly skilled labour, at costs around one-fifth of those for equivalent skilled labour in New Zealand. Another company operating in the engineering sector indicates that there are *“very bright people, including PhD qualified”* in India – in this case, these people are overqualified for the job required, but demonstrate that high-level skills are available in India. The key success factor with respect to labour, is finding the right people, and, where necessary, providing specialised training.

As in many countries, the tertiary education system in India includes institutions that meet a wide range of quality standards, with some very high quality universities and institutes of technology, and, equally, some poor quality institutions. Understanding the quality of a degree obtained in India requires knowledge of the tertiary institution involved.

Local competition is likely to increase if labour rates remain low and skill levels increase across the main sectors in India. Rather than perceiving this as a threat, some New Zealand companies see it as an opportunity to shift some of their supply chain activities to India in the future, in order to be more competitive globally.

Involvement of Government in India

Government involvement is considered to be both a help and a hindrance to doing business in India. State- and nationally-funded projects have led to business opportunities for many of the New Zealand companies. For example, roading, telecommunications and energy and airport projects, developments in the health, financial and education sectors, and the overall upgrading of utilities and infrastructure have provided business opportunities for many of the companies in the study. On the other hand, most companies find that dealing with government-driven bureaucracy can be extremely slow and difficult, and the processes not always transparent. Companies also have to be aware of differences between different states in India.

“One of the entry barriers to the Indian market is the biased public procurement procedure and the process of short-listing companies.”

**Beca International Consultants Ltd
and Robinson Seismic Ltd**

“There are complex requirements, often varying between states that have to be dealt with.”

Vista Entertainment Solutions Ltd

Growth

Few of the New Zealand companies have experienced growth rates in India that are as fast as in other international markets. After initial orders have been obtained, the growth of their businesses has generally been slow. Even though the signals for business growth have often been positive, growth has not been as fast as expected.

“Even an experienced exporter like us, has taken at least 10 years to get up to speed there... New Zealand companies must adopt a long-term view of market development.”

Fisher & Paykel Healthcare Ltd

As part of their future business development, most of the New Zealand companies identify the need to increase their investment and representation in the country.

One company invested a substantial amount of time and other resources in developing its market, but still found progress very slow.

"In the 1990s, we went there eight times in two years - it kept looking like it would go – a bit frustrating. It's never come on as fast as we liked." **Gallagher Group & Cardax**

Step 4: Thinking About the Future

Part of the process of doing business in India involves strategies for future options in that market. The New Zealand companies are committed to the long-term development of their businesses in India, and this involves planning for the future.

Capturing the Opportunity

As part of their future business development, most of the New Zealand companies identify the need to increase their investment and representation in the country.

"In the future, we will have our own person there." **Cadmus Electronic Systems**

Although the opportunities for future growth in India are well recognised by the companies, not all of them anticipate this market becoming a substantial part of their business, at least in the near future. At this stage, it is still considered relatively high risk and uncertain, with considerable change needed in the country to encourage further investment.

"We see India really kicking in say two to three years, but certainly not now. It's not part of our immediate budget hopes... it will be a slow growth... we certainly won't be hanging on India as our mainstay... too much risk at this point."

Glidepath Ltd

"We're still not confident to bank on the Indian market as a certainty." **Tait Radio Communications**

Nonetheless, all the New Zealand companies are optimistic about the future in India, predicting a lot of positive change. For example, they believe that infrastructure development will continue, itself providing substantial opportunity for New Zealand companies. Also, as regulatory changes continue, bureaucracy is likely to diminish, and the market opportunities will increase. Most New Zealand companies believe that the Indian labour force will improve in skill level; this may create local competition, but the likely benefits for New Zealand companies are considered to outweigh this. Consumers in India are growing in affluence, and the willingness to pay higher prices for higher quality and higher value products and services will increase.

"New Zealand companies do have opportunity in India. They will have to look at niche markets – we are not very good at large scale anything – the market is vast! There is a huge middle class, but still an underdeveloped middle class."

Tait Radio Communications

"Given the country's emergence into the similar high growth cycle as China, and the consequent burgeoning of project development, usually in the hands of private enterprise, we see great potential for the future." **Solid Energy Ltd**

However, the opportunities created by these changes are not expected to arise in the near term.

"I think there is a wave of coming prosperity for India, but it certainly won't be in the immediate future... I think that business will come slowly, but then certainly I think that in five to ten years, it will be quite a different economic picture there." **Glidepath Ltd**

"The race to build infrastructure is the thing that will determine India's growth rate."

Cadmus Electronic Systems

When considering India's position relative to the rest of the world, one of the Indian agents proposed that New Zealand should utilise India as a stepping stone to other big markets, because of India's strength in IT. Some New Zealand companies suggest that India will present more opportunities for manufacturing outsourcing, and for wider collaboration through the supply chain.

Companies note the importance of businesses in New Zealand starting to prepare for the future opportunities in India now – given that, in their own experience, preparation can take as long as five years.

Attributes

Credibility, reputation and New Zealand's image in India are all attributes that influence the New Zealand companies' business in that country.

Credibility and Reputation

New Zealand companies believe that establishing credibility and reputation before entering the Indian market, or early in the entry phase, is an important success factor.

"You need to prove your value if you're new in the market – you need to establish credibility. We're still waiting to see if our first order will translate into substantial business"

Cadmus Electronic Systems

This may involve a substantial initial investment of time and money, often before any payback is realised.

"We are still investing in building credibility – no payback yet – it will take a couple of years."

"Building credibility at the top level before getting sales is very important."

Cadmus Electronic Systems

Investment in this aspect of business is also an ongoing commitment, as companies attract new customers and new market areas.

Credibility and a strong reputation are achieved by the companies in a number of ways: building on links with a large Indian corporation or government customer (for example, one company has endorsement from one of the largest banks in India); using the links of a credible or reputable agent (or distributor/partner) or opinion-leader; leveraging from an international reputation (e.g. with world funding agencies); becoming part of a wide professional network that provides legitimacy in the market; drawing on links with

Getting the right agent for a company is critical to success.

international partners that conduct business in India; and leveraging from customers' experiences with the product or service in New Zealand – such as professionals returning to India.

New Zealand Image in India

New Zealand has a positive image in India that is generally valued by the companies' business partners there. New Zealand appears to be known throughout Indian society.

"New Zealand image – very positive – pretty neutral." **Tait Radio Communications**

Many agents in India comment on the beneficial impact on New Zealand's image associated with films, both New Zealand films, such as Lord of the Rings, and Indian films shot on location in New Zealand. Other factors that contribute to this image are the perceived independence of New Zealand on the world political stage, Sir Edmund Hillary, the friendliness of New Zealand people, the clean green image, and the country's involvement in cricket. The latter factor appears to be very significant in building relationships with Indian people.

"New Zealand's independent stance helps us – and they respect it. Need to know about cricket – very important". **Gallagher Group & Cardax**

"The big thing for New Zealand is cricket – all the barriers break down".

Hayes International Ltd

Representation (Agents, Distributors and Partners)

New Zealand companies all stressed the importance of having local representation in India – in the form of agents, distributors or partners (e.g. joint venture partners) in order to tap into local knowledge.

"The appointment of a good on-the-spot agent is crucial, and this process must be given detailed attention by each and every exporter."

Solid Energy Ltd

An Indian agent also noted,

"Because of the extent of the red tape and bureaucracy, it is essential to have an Indian partner to assist in navigating through it."

Bigtree Entertainment Pvt. Ltd

The aim for many companies is to blend their technology with the Indians' knowledge of the market. To obtain widespread distribution across India, some companies use a master distributor, whose primary role is to generate business, and then on-sell to sub-distributors in the relevant local markets. This means that only one main point of agent contact is necessary for the New Zealand company, enabling a high level of interaction and relationship-building to be achieved.

Getting the right agent for a company is critical to success. A key attribute of successful agents or distributors is their connectedness with political representatives and officials, as well as with potential customers and decision-makers. Agents' are also instrumental in sourcing skilled labour.

"The appointment and maintenance of our agent was perhaps the most critical step that company has taken". **Vista Entertainment Solutions Ltd**

Treating the whole of India as a single market can be overwhelming, in terms of scale and complexity.

According to one company manager, a good Indian agent will have high social status, be well educated, and ideally have lived in New Zealand for a period of time. A high level of integrity and good business ethics are also important agent attributes. Mutual trust is perceived to be an important factor by the companies and their agents in India. In the tertiary education sector, a trusting relationship and mutual commitment between New Zealand education providers and the Indian agents is critical, since the agents have a strong influence on students' decisions.

Power and size symmetry between company and agent was also noted by one Indian agent to help engender trust. According to the manager of the Indian agency, the relationship should be "...a marriage of equals..." and "...size does matter."

Strengthening links with agents is best done gradually. For example, some companies developed agency relationships with key clients or customers, once they gained confidence in their ability, reputation and integrity. At the other extreme, some New Zealand companies have, over time, invested in distribution, warehousing and sales and marketing in India. After an initial period working with an independent distributor, one company established it as a master distributor, in which it later took a minor equity stake, ensuring a higher level of control and mutual commitment to growing the business in India. This distributor also manufactures under licence for the New Zealand company, producing components for use in the company's products around the world. Another company eventually developed its own warehousing and sales and marketing operation in India, after moving from an initial agent relationship some 10 years ago.

One company first developed formal links with a Singaporean company that was also doing business in India. After gaining experience in Singapore, the New Zealand company then used this connection to generate business in India. The credibility and reputation of this association was very helpful in gaining the first order, and subsequently developing the Indian business.

Regardless of the level of direct involvement in India, regular face-to-face contact between the New Zealand company managers and their agents is very important. This enables greater control over the agent's activities in the Indian marketplace, coordination with activities in New Zealand, and, most importantly, acquisition and transfer of knowledge relating to the business. For example, competitor activities can be monitored, face-to-face interaction with customers can take place, meetings with key decision-makers, including policy officials can occur, and insights from the agent can be gained. Regular visits by a New Zealand manager also signal the commitment and support of the New Zealand company to its agent and customers.

It is important to recognise that India is not just one market. One company indicates that India is 14 different markets – or, in linguistic terms, 28 markets – and it is, therefore, necessary to have agents or distributors serving each of these distinct markets. Treating the whole of India as a single market can be overwhelming, in terms of scale and complexity. Another company suggests that India is best considered in terms of a single-customer market, rather than a single country market, especially where the customer may be a large Indian corporate, or a state or central government body.

Selecting the right agent is a crucial part of ensuring the company's representation in the market. A variety of strategies are used, including: encouraging customers to become agents or distributors; selecting from a range of agents suggested by NZTE, or from those that approach the New Zealand company; trialling agents for a short period of time; and seeking advice from trusted customers. In the tertiary education sector, one New Zealand organisation stated:

"Rather than signing any agent, we attempted to find a number of highly reliable and active agents, which we found in close cooperation with NZTE and NZIS (New Zealand Immigration Service)."

Manukau Institute of Technology

Agents perform best when they are working as 'partners' with the New Zealand company, rather than merely as traders. They need to feel that they are important in planning and building the company's business in India, and be motivated to perform well. Motivating and retaining agents requires work and commitment on the part of the New Zealand company. The New Zealand companies apply a range of approaches to achieve this, including: ensuring that the company's products form a significant part of the agent's business; training agents in New Zealand; taking a minority equity stake in the agent's business; aiming to be the agent's best supplier, in terms of support and commitment; building a shared vision between the New Zealand company and its agent/s; leveraging from their credibility with highly regarded companies or customers operating in India.

After making a commitment to doing business in India, one New Zealand company first established a local representative there. This led to the opening of a warehouse in India five years later, which greatly assisted their many distributors operating in the regions. Now, the company has nine of its own staff in India.

"Our representative has developed into a significant asset for us, having great technical capability, and a great work ethic."

Fisher & Paykel Healthcare Ltd

The company brings their representative to New Zealand two to three times a year to ensure that he is up to date with the company's product development and wider strategies.

"Sales staff are also brought to New Zealand, as we find that this develops their loyalty. We get our money back in spades."

Fisher & Paykel Healthcare Ltd

The responsibilities of agents vary, depending on the business relationship concerned. They will generally involve a sales and marketing function, generating business and selling to customers or sub-distributors, client liaison, technical and service support to customers, and locating local labour. In general, most New Zealand companies find that capabilities across many of these areas are limited, and do not often meet the standards that the agents claim. But, where agents show potential, the New Zealand companies are usually prepared to invest resources in training them, in many cases in New Zealand.

Linkages and connections in the Indian market are critical to the success of the New Zealand companies doing business in India.

The monitoring of agent performance is very important. This is achieved in a number of ways, such as: checking with end-customers on the quality of service provided by the agents; requiring comprehensive monthly reports from the agents; assessing agents' commitment and performance during visits by New Zealand managers. One company has released a number of its agents on the basis of poor performance.

Only one company does not use agents in India or in any of its international markets. The reason for this is the high degree of specialisation of the company's product, and the need for regular, face-to-face communication with its customers. Another company works largely through its New Zealand-based Indian business manager. This enables the company to draw on his knowledge of the Indian market, negotiating ability, and linkages into important networks. This manager does not have relevant product knowledge, but this is considered less important than general knowledge of the business modalities of the Indian market.

Connections

Linkages and connections in the Indian market are critical to the success of the New Zealand companies doing business in India. Advantages of connections include access to knowledge about the market, and links to key decision-makers.

Local Networks and Connections

Being linked to a local network is critical for success in the Indian market. New Zealand company's access networks through their agents, distributors or partners, and, over time, build relationships and become part of the local network involved in their business. The networks include a range of stakeholders, but of primary importance are the decision-makers (often policy officials) and customers.

"We can only be successful in winning projects in India because of having agents who are very well connected politically and who can introduce us to the right officials." **Beca International Consultants Ltd & Robinson Seismic Ltd**

An example of a successful agent network in India is one that has arisen from the entrepreneurial activities of the agent company. This agent's business has grown as a direct result of its links with New Zealand company.

"The agent, although starting from scratch in 2000, has developed excellent contacts within the industry in India, and is well respected. It has now built a healthy business from their involvement with our company."

Vista Entertainment Solutions Ltd

Other channels for successfully connecting New Zealand companies and their stakeholders in India are NZTE and the New Zealand High Commission.

In the education sector, the New Zealand and Indian organisations in the present study are well connected, and work effectively together to match student needs with placement options in New Zealand. One of the Indian agents provides a website that enables prospective Indian students to link with other Indian students who have experienced education in New Zealand, helping them to decide on their education destination.

None of the New Zealand companies are aware of a New Zealand diaspora or expatriate community, and most believe that these would be valuable links for New Zealand companies doing business in India.

Visits to India

Few companies have their own staff located in India, with most having a New Zealand-based business manager responsible for maintaining business and relationships in India.

Frequent visits to India are critical, in order to build relationships, and stay informed about the business and customers there.

“It is absolutely necessary to build trust and a cooperative atmosphere, which includes frequent visits in order to build personal relationships.”

“We also make very frequent visits to the market, meet all the relevant people there and that’s how we keep the relationship. To keep us informed about what’s going on.”

Manukau Institute of Technology

The frequency of visits for the New Zealand company managers varies, ranging from 2 to 8 times per year, depending on the particular needs at the time. At critical times during a tender process, for example, the New Zealand manager may need to make numerous visits over a short period of time.

“Our Business Development Manager visits India every six weeks for two to three weeks – we have to be there a lot. We also have New Zealand-based technical experts who visit India frequently to provide technical support to our customers.”

Tait Radio Communications

In the tertiary education sector, relationships with agents in India are critical and face-to-face visits very important.

“In order to get these agents’ high commitment, it is absolutely necessary to build trust and a cooperative atmosphere, which includes frequent visits in order to build personal relationships.”

Manukau Institute of Technology

Linkages with Large Indian Firms

While some New Zealand companies prefer to work with agents of similar size, others note the advantages of working with larger organisations in India. Apart from providing a large customer base, linkages with large Indian corporations sometimes provide substantial opportunities for New Zealand companies. These arise from a range of factors: the reputation of the large company, the opportunity to tap into their business networks, including customers, and access to markets, and technical and political knowledge. In many cases, large corporations have influence at government level, and are able to lobby for industry-based regulatory changes, access tender information, or negotiate with key decision-makers.

A number of the New Zealand companies work with some of the largest corporations in India, in banking, construction, retailing and telecommunications.

“Working with top construction firms provides the basis for working on the Indian market, because their construction engineers would have an understanding of how to manage a project and the complex engineering behind it.”

**Beca International Consultants Ltd
& Robinson Seismic Ltd**

Some New Zealand companies recommend focusing on only one or two large Indian corporations, rather than the entire Indian market, given the scale on which the corporations operate.

“Companies can’t go into a whole of India approach – too big and complex. Far better to take a whole corporation in India view.”

Cadmus Electronic Systems

While the benefits of working with large corporations are noted by the New Zealand companies, one of the larger Indian companies had a different perception. This company noted the unease with which New Zealand companies tend to work with larger Indian corporates, and their hesitancy to develop trust and build a ‘partnership’ relationship. They attribute this to insecurity about the size difference between the companies, and note that this may ultimately work to the disadvantage of the New Zealand companies.

“We feel that New Zealand firms tend to be worried about dealing with big conglomerates like (us), over size differences. They worry about whether we will try to acquire them or acquire their IP. So there is a need to work on getting the relationship to a ‘partnership’ level, based on trust and good faith. The New Zealand companies are not used to the size of the contracts and that the terms of payment and timeframes in dealing with us are different to what they’re used to.”

Larsen & Toubro Ltd

Role of New Zealand Government

Most of the New Zealand companies have used the services of NZTE in India, generally in supporting roles. NZTE has undertaken market research on behalf of many of the New Zealand companies, and provided comprehensive reports for them to consider before entering the market.

“We used NZTE services in India, and got a very, very, valuable market research report. NZTE did a really good job – they understood our business and our potential customers – an outstanding report.” **Hayes International Ltd**

NZTE is also skilled at tapping into local networks, facilitating connections both for New Zealand companies and for Indian agents or companies looking for New Zealand partners.

“The Trade Commissioner is also facilitating looking for possible New Zealand partners for us in our area of business.”

Bigtree Entertainment Pvt. Ltd

“We obtained from the New Zealand Trade Commissioner’s office in India, a list of six potential agents. We travelled to India and met with all the potential companies, and after careful analysis and consideration, appointed one of them as its agent in India, a relationship that continues to this day.” **Solid Energy Ltd**

NZTE and the New Zealand High Commission provide valuable support to New Zealand companies by arranging networking opportunities with Indian customers and government officials. This casts New Zealand in a positive and professional light to the Indian business community.

The Prime Minister's visit to India has been instrumental in securing a number of important business opportunities for New Zealand companies.

"A success factor for the company has been our maintenance of close links with the New Zealand High Commission and the Trade Commissioner in New Delhi. The ability to host functions at such premises, which are prestigious in Indian eyes, has been most useful." **Solid Energy Ltd**

NZTE also facilitates linkages that are initiated by Indian companies. For example, a large Indian company engaged in business with a number of New Zealand companies, through the assistance of NZTE. This was initiated by the Trade Commissioner researching the range of businesses in which the Indian company was involved, and looking for matches with companies in New Zealand.

"There are now formal arrangements with four New Zealand firms, which are producing product that is sold in India under our brand."

Larsen & Toubro Ltd

The Prime Minister's visit to India has been instrumental in securing a number of important business opportunities for New Zealand companies. Subsequent to this visit, NZTE has invested resources in identifying suitably capable New Zealand companies to pair with the Indian ones that the Prime Minister visited, as well as other large Indian corporations. This has involved working with both sides to translate the good relationship at the top level into practical business arrangements. From the perspective of an Indian company that has developed business relationships with a number of New Zealand companies, the Prime Minister's 2004 visit created a larger opportunity than before.

"There had been a relationship with a few New Zealand companies prior to the Prime Minister's visit, but this visit took things to a new level."

Larsen & Toubro Ltd

New Zealand tertiary education organisations in the study have benefited from support provided by NZTE. However, they note that an inconsistent interpretation of immigration policy by changing staff in NZIS has not always been helpful for their reputation in India.

BARRIERS TO DOING BUSINESS IN INDIA

THE MAIN BARRIERS facing New Zealand companies doing business in India relate to India's infrastructure and bureaucracy.

Infrastructure

Poor and underdeveloped infrastructure is a substantial barrier to doing business in India. Many of the New Zealand companies have developed products that contribute to India's infrastructure development, which provides significant business opportunity. However, in most cases, business processes across most sectors are impeded by inefficient or poorly developed infrastructure.

A number of the New Zealand companies provide products and services that require a certain level of infrastructural development, such as in communications, transport, and ICT environments. In order to establish a market for these kinds of products and services, it is often necessary for the New Zealand company to invest in upgrading parts of the infrastructure to a level that can accommodate its offerings.

"We cannot build the market until the infrastructure is present. We need to invest in order to integrate our systems into the financial systems in most places. We have spent approximately \$1M on software development and marketing in India to get the market ready."

Cadmus Electronic Systems

Because of poor infrastructure and the high cost of internal transport, some costs (for example, raw materials) in India are high by international comparison. This has led one New Zealand company that outsource manufacturing in India to source raw materials elsewhere.

However, business travel and accommodation within India is considered to have improved markedly in recent years.

"A barrier to the development of sales to India used to be the poor state of communications with and within India. Telephone calls and e-mails were difficult, telephone conferences were impossible – so, visits to the marketplace had to be frequent. Even through to 2001, faxes were the main means of communication. However, all that has now changed." **Solid Energy Ltd**

Bureaucracy and Corruption

Corruption is recognised as being a part of doing business in India. New Zealand companies are aware of corruption occurring, but, in all case, leave it to their agents or representatives in India to deal with. As with intellectual property protection, globalisation is likely to limit corrupt business practices in India.

All the New Zealand companies have experienced high levels of bureaucracy, but most accept it as a fact of life that can be dealt with, when prepared. However, when bureaucracy is paired with corruption, it becomes a difficult issue. New Zealand managers are generally not experienced in dealing with corruption. New Zealand companies therefore look to their agents or local managers to manage both bureaucracy and corruption, and try to keep their New Zealand managers at arms length from these.

Having representation in the market, through agents, distributors or partners, is essential for dealing adequately with bureaucracy and regulatory issues. In particular, their knowledge of key influencers and decision-makers in these areas is essential.

A perception held by some large Indian companies of New Zealand firms' is of an inability to build trusting relationships due to asymmetries of size.

"We could not have bridged the huge gulf of understanding with respect to the intricacies of the market, cultural sensitivities, the numerous regulatory hurdles, or been able to deal with the red tape. The agent company has worked hard in lobbying the Federal and state authorities on relevant matters. There would have been major cost issues in trying to deal with such matters with seconded or visiting New Zealand-based staff." **Vista Entertainment Solutions Ltd**

One of the Indian companies acting as an agent for a New Zealand company has been able to assist the New Zealand company to tailor their technology to the requirements of different states in India – an undertaking that would be very difficult without local knowledge and influence.

"The political and legal environment and various state requirements for reporting and maintaining registers are such that we (the Indian company) are able to tailor the (New Zealand company's) technology to able to comply with local reporting requirements." **Bigtree Entertainment Pvt. Ltd**

An example of bureaucracy that slows the process of doing business in India is the requirements of Customs to itemise and check everything in a shipping container that contains an order - in the case of one New Zealand company, even spare nuts and bolts that were included in the Customs check. Another situation relates to the long period of time taken for Indian clients and banks to raise letters of credit.

Other Barriers

Other barriers include difficulties associated with locating and hiring qualified personnel, particularly in some aspects of engineering. Where New Zealand staff are based in India, they do not often stay for long, and there is a high human and financial cost associated with this. Slow decision-making, and difficulty in accessing key decision-makers are also factors that tend to impede doing business in India. One New Zealand company perceives public procurement procedures to be biased and non-transparent, and often exclude foreign companies.

Tariffs and duties are generally thought to be high, but most companies do not regard them as a barrier to doing business in India.

A perception held by some large Indian companies of New Zealand firms' is of an inability to build trusting relationships due to asymmetries of size. This has the potential to make the large Indian companies reluctant to do business with smaller New Zealand companies.

Indian tertiary education agents indicate that long delays in processing student applications by New Zealand tertiary institutions is a barrier to doing business. Agents and students are often reluctant to apply to New Zealand institutions for education opportunities because of these delays. In addition, New Zealand education websites are not widely accessed, and need to be more prominently publicised. The Indian agents also note that students perceive greater difficulty in gaining admission to New Zealand universities than Australian, United Kingdom or United States universities. The limited availability of course-based Masters Degrees in New Zealand is an additional barrier to Indian students seeking admission to New Zealand tertiary institutions.

Mistakes

India is a challenging market, and New Zealand companies have made mistakes, particularly in earlier attempts to enter the market. One New Zealand company attempted to trade in India before doing any research on the market.

"We attempted to see if we could trade in India, before doing the market research."

Cadmus Electronic Systems

Another company notes that they should have put stock into the market – they subsequently rectified this by opening a warehouse. Cultural mistakes have not been uncommon – for example, holding meetings during working hours is not generally appropriate in India, as it disrupts the working day.

"Indians prefer evenings – they don't want to take time off during office hours."

Gallagher Group & Cardax

Inadequate supervision over project work, and overestimating the skill levels of Indian labour were mistakes made by one company in its early foray into India. Dealing with the bureaucracy was a challenge for another company in the early stages of its involvement in India. Another company succeeded with its first order, but had no commitment to the market and failed to get further business.

"I think we learned enough from that to know that it wasn't going to be easy and we needed to get some strategies right." **Glidepath Ltd**

In order to succeed, New Zealand managers must enjoy India, the country, with its own brand of culture, politics, and social values.

CONCLUSIONS AND RECOMMENDATIONS FROM NEW ZEALAND AND INDIAN COMPANIES

A NUMBER OF conclusions and recommendations are drawn from the interviews with the New Zealand companies and agents in India. These are discussed below.

Characteristics of India

Doing business in India is not like doing business elsewhere – it has its own characteristics that New Zealand managers either love or hate. In order to succeed, New Zealand managers must enjoy India, the country, with its own brand of culture, politics, and social values. Managers from the New Zealand companies make the following specific points:

Because of the similarities of India to the British system, there is a perception that it should be an easier market in which to do business. On the contrary, the New Zealand companies generally find it one of the harder countries to succeed in, and caution other New Zealand firms against developing this perception.

“For many New Zealanders, it appears at first sight an easy environment to operating in, based on similar administrative heritage from the British system, English as an official language, similar educational models etc. In practice, however, these assumptions are not correct, and one needs to acquire experience in how this environment operates.” **Beca Carter Hollings and Ferner**

Many New Zealand companies refer to the complexity of India, and the need to be prepared for dealing with differences and extremes.

“India is a very complex marketplace.”

Cadmus Electronic Systems

“India is an assault on your senses – you need a pioneering spirit and patience and tolerance ...huge contrasts and extremes, but you can’t let this put you off, and this shouldn’t be an impediment to doing business. Accept what you find, go with it and enjoy it.”

Gallagher Group & Cardax

Nonetheless, New Zealand and Indian companies believe that India has huge potential as a place for New Zealand companies to do business.

“I think India has a lot to offer. It’s certainly got its own special chaos about it and I tend to treat that sort of thing as an adventure – and in India, it’s certainly more so. You have to be a little more adventurous to get in a three-wheeler rickshaw – these are quite common in the central city – and you’ve just got to climb aboard and hold your breath.” **Glidepath Ltd**

India Compared With China

Most of the New Zealand companies have had experience doing business in China, and are able to compare this with their India experiences. Both countries are experiencing rapid growth, and have enormous economic potential, with significant implications for other economies. Yet, New Zealand’s exports to China are several times those to India, and four times as many New Zealand companies appear to have export business there.

Most of the New Zealand companies in the study perceived that India is behind China developmentally, based on their experience either exporting to, or manufacturing in, China. However, they see India following a similar economic path as China, over time.

“India is about the same as China was around 15 years ago. There are too many people employed and the country is relatively inefficient – like China used to be.” **Hayes International Ltd**

There are differences in opinion as to the relative ease of doing business in India compared with China.

In many respects, India has more factors that should make it easier to do business. However, there are differences in opinion as to the relative ease of doing business in India compared with China.

Some New Zealand companies are of the view that China is easier than India, noting the slow development of infrastructure in India, and difficulties in getting decisions made.

"China can build infrastructure very quickly. India's Achilles heel is its inability to build infrastructure quickly – unless by foreign multinationals." **Cadmus Electronic Systems**

"Any firm deciding to enter a big emerging market would find it easier to establish in China... decisions are made a lot faster in China."

**Beca International Consultants Ltd
& Robinson Seismic Ltd**

New Zealand companies note that government involvement in China tends to be less than in India, making business easier in China.

Others find that India has features that make it easier for doing business, compared with China. For example, the English language and legal systems are helpful, and India's high capability in software development is an advantage for some of the New Zealand companies.

"The English-type law system there (India) has meant that the process (for IP protection) has been satisfactory to date. Certainly it is easier to deal with in India than in China."

Fisher & Paykel Healthcare Ltd

"When I go to China, I can only communicate through my interpreter. But when I go to India, I can speak to an operator on the factory floor."

Fisher & Paykel Healthcare Ltd

Similarly, the quality of manufacturing equipment and basic engineering is perceived to be higher in India than China. One New Zealand company also noted that the overall quality of labour in India is higher than in China, and inexpensive.

"...doing business in India is like driving along an old, dug up, detoured, speed-bumped road, but one which, if you persevered, would ultimately get you to your destination. Much patience is required, as there is a huge amount of red tape and bureaucracy, but it is a country with progressive policies and subsequent governments that view progress and democracy favourably. This is unlike China, for example, which is like a super highway that allows people to get on and go fast, but with no certainty that there won't be total blocks ahead at some point."

Bigtree Entertainment Pvt. Ltd

A number of companies propose that New Zealand companies in general are more inclined to do business in China, because it has been more widely promoted as an export destination in New Zealand. They suggest that measures be introduced to promote the opportunities in India as well.

Recommendations of the Companies in the Study

Companies in New Zealand and agents in India offered a number of recommendations for doing business in India, as follows:

- Make a commitment and have a long-term orientation;
- Do a lot of homework first – understand the size of India's markets, and market dynamics, and identify the major customers, and potential partners;
- Learn about the institutional environments;
- Partner with local people and firms that are able to influence local networks (including policy-makers and key decision-makers), and deal with bureaucracy;
- Build trusting relationships with agents and ensure frequent face-to-face contact with them, their customers, and other stakeholders;
- Get a clear sense of the scale of the Indian market – do not take a whole-of-India approach – break it down to smaller sub-markets or even to individual customers (e.g. large corporates);
- Segment and find the right market in India – the right price points etc;
- Have a clear focus on the business strategy – do not be diverted by other opportunities in India;
- Do not rush in and give away intellectual property;
- Develop solutions wanted by customers and work to improve the business of agents and/or customers;
- Carefully assess the amount of resources needed to sustain business in India;
- Make a full commitment to doing business in India - cannot succeed with a half-hearted approach;
- Build credibility and reputation at the top levels before seeking sales;
- Consider involvement in the huge infrastructure developments in India (if appropriate);
- Realise that Indians are very good traders and negotiators – thousands of years of experience;
- Be aware of corruption, but do not get involved;
- Go to India with an attitude of adventure and accept the differences;
- Do not underestimate the capital investment needed to develop the market and don't expect quick returns;
- Be knowledgeable about cricket;
- Encourage the New Zealand government to promote India as a business destination;
- Be patient in developing the Indian market;
- Be prepared to walk away or turn away business;
- Get experience in other international markets before going to India – become streetwise first.

The New Zealand High Commission should be facilitated to encourage the development of the New Zealand Diaspora represented in India.

PROJECT CONCLUSIONS

CONCLUSIONS FROM THE project are twofold:

Firstly, there is a combined awareness from participating companies around the potential for New Zealand companies in India. Secondly, there are processes necessary for these companies to succeed within the market in order to develop and sustain business there.

In addition to the recommendations of the companies in the study the project team notes a number of implications for the New Zealand government in assisting companies to do business successfully in India.

- The potential of India as a business destination for New Zealand companies should be promoted more strongly by New Zealand's government and its agencies. One of the reasons for more New Zealand companies exporting to China than India may be the high level of promotion of China as a business destination compared to India. In particular, the key role played by NZTE staff and the New Zealand High Commission in India, in supporting New Zealand companies and hosting their customers should be enhanced.
- Mentoring through sharing of experiences of New Zealand companies that have both succeeded and failed in the Indian market, through forums such as the India New Zealand Business Council, and the Asia New Zealand Foundation, should be encouraged.
- It is evident from the study that very few of the New Zealand companies worked collaboratively with others in New Zealand to assist with entry into, or subsequent business development in India. The benefits of exporter networking are well known, and this may be an area that could be promoted to the business community interested in doing business in India.
- The enhancement of linkages between tertiary institutions in the two countries would be of value in supporting the export endeavours of New Zealand companies into India.
- The New Zealand High Commission should be facilitated to encourage the development of the New Zealand Diaspora represented in India.

ACKNOWLEDGEMENTS

This study has highlighted a number of key factors associated with New Zealand companies successfully doing business in India. The results indicate a number of areas requiring further research. For example, differences are likely to exist across different industries, particularly in relation to specific regulations and market requirements. Also, the opportunities for New Zealand companies to become involved in global value chains across a number of industries will increase. These, and other aspects of business developments in India, need to be better understood. As the opportunities for New Zealand business in India unfold, the requirement for research and policy support will become paramount.

ASIA NEW ZEALAND Foundation and the Project Team are grateful for the participation of the companies and other organisations in the study, and for the knowledge and experience that they have shared. The guidance and insights of the Project Advisory Group (Judge Anand Satyanand, Rajen Prasad, Athol Mann, and Ifor Ffowcs Williams) are also greatly appreciated.

APPENDIX 1: PROJECT TEAM

Associate Professor Val Lindsay *Head of School of Marketing and International Business*

Val Lindsay has a long involvement with the New Zealand exporting community, as a practitioner and as an academic. She worked with New Zealand Trade Development Board in the area of export education and strategy, and has undertaken research into the drivers of, and constraints and barriers to, exporting, particularly in relation to small-to-medium sized firms. Val has presented numerous seminars to companies and industry associations on exporting, and undertaken training workshops for SMEs on exporting and international expansion.

Mr Fergus McLean *Executive Director, India New Zealand Business Council (INZBC)*

Fergus McLean has been the Executive Director of the INZBC (the only business organisation in NZ solely focussed on trade between the two countries) since 1998. In that time he has gained knowledge of many New Zealand companies dealing with India. He was previously employed by the New Zealand Trade Development Board and its various predecessor organisations. He spent 12 years as a New Zealand trade commissioner in three different locations. He visited India twice on trade-related work.

Dr Tim Beal *School of Marketing and International Business*

Tim Beal has had a long-standing interest in India, spanning 30 years. He has written two book chapters and given a number of presentations on the Indian economy. This complements other work undertaken on the business environment of a number of other Asian countries, such as South Korea, Japan and Hong Kong. Over the last few years Tim has, in cooperation with Dr Michel Rod, interviewed a number of business people in Asia as part of their 'Doing Business in Asia Project'. Details at www.vuw.ac.nz/~caplabtb/w_dbia/

Dr Michel Rod *School of Marketing and International Business*

Michel Rod is a senior lecturer in marketing in the School of Marketing and International Business. He has worked on a number of joint projects with Dr Beal, studying how New Zealand and Australian firms do business in various parts of Asia, including Japan, and South Korea. This involved video-interviewing New Zealand and Australian business people as well as relevant government personnel working in South Korea and Japan. Details at www.vuw.ac.nz/~caplabtb/w_dbia/

Dr Peter Zettinig *School of Marketing and International Business*

Peter Zettinig is lecturer in international business in the School of Marketing and International Business, with special research interests in internationalisation strategies. Peter brings to the project his experience as a former management consultant with a track record of internationalisation and export projects on four continents. Details at www.vuw.ac.nz/smib/staff/peter-zettinig/index.aspx

APPENDIX 2: NEW ZEALAND – INDIA TRADE FIGURES (1970-2005)

NEW ZEALAND MERCHANDISE TRADE WITH INDIA (NZ\$000 CIF)

YEAR	1970	1980	1990	1997	1998	1999	2000	2001	2002	2003	2004	2005(P)
Exports	1,316	10,968	90,723	123,254	166,238	171,366	183,975	164,319	191,161	156,362	193,140	232,682
Imports	-	-	48,196	135,972	143,754	159,679	174,499	188,410	192,258	180,515	202,529	223,383
Balance*	1,316	10,968	42,527	-12,718	22,484	11,687	9,476	-24,091	-1,097	-24,153	-9,389	9,299

*exports minus imports

Source: Ministry of Foreign Affairs and Trade, and Statistics New Zealand

APPENDIX 3: NEW ZEALAND AND INDIAN CASE LIST

LIST OF NEW ZEALAND & INDIAN COMPANIES / AGENTS PARTICIPATING IN THE PROJECT

NEW ZEALAND COMPANY	INDUSTRY	INDIAN AGENT / 'PARTNER'
Beca Group	Construction engineering	
Beca International Consultants Ltd	Engineering consulting	Larsen & Toubro Ltd.
Robinson Seismic Ltd	Seismic engineering	
Cadmus Electronic Systems	Electronic financial systems	
Fisher & Paykel Healthcare Ltd	Healthcare equipment	Fisher & Paykel Healthcare Ltd.
Solid Energy Ltd	Energy	Gupta (TransAsia Consultant Pvt Ltd) (written case study not available)
Glidepath Ltd	Baggage handling and security systems	
Gallagher Group & Cardax	Electronic security systems	iMetrix Technologies Ltd.
Vista Entertainment Solutions Ltd	Electronic ticketing systems	Bigtree Entertainment Pvt. Ltd.
Manukau Institute of Technology	Tertiary education	Dilinger Consultants
Tait Radio Communications	Radio communications	
Hayes International Ltd	Engineering equipment	

LIST OF EXPERTS INTERVIEWED IN NEW ZEALAND AND INDIA

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New Zealand Trade and Enterprise
New Zealand Trade and Enterprise
New Zealand High Commission
Asia New Zealand Foundation
Ministry of Foreign Affairs & Trade

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