

German Companies on the Road to Success in India

by Carsten M. Stammen

Investments and joint ventures in India promise good business prospects for German medium-sized companies. “The cooperation between German and Indian medium-sized companies has a particularly high potential in the new global economic architecture,” said the Indian Commerce and Industry Minister Kamal Nath at the 4th Handelsblatt Annual Conference “India”, which took place in Berlin from 8th to 9th September 2008. He said that the combination of German and Indian strengths was “unbeatable”. Germany’s strengths included technology and innovation, India’s demographics and the local market.

About 200 entrepreneurs and foreign trade experts discussed the economic constraints, market entry strategies and forms of cooperation at the Handelsblatt Conference. The strong synergies between medium-sized companies in Germany and India became evident as they often operate in similar sectors.

Meera Shankar, Indian Ambassador in Germany, confirmed the increasing cooperation opportunities, especially in the field of technology and finances. Germany is India’s second largest trade partner worldwide. Bernd Mützelburg, German Ambassador in India, emphasised the economic growth in India, which was three or four times higher than in Germany. “You can make many mistakes when you are dealing with India. But the biggest mistake you can make is not dealing with India,” he told the participants of the conference. Problems including infrastructure and education should be seen as opportunities. Many speakers at the event agreed that investments in the Indian infrastructure were particularly promising for German companies, especially due to tax breaks.

German medium-sized businesses as a role model for India

Shekhar Datta and Ramesh Datla of the Confederation of Indian Industry (CII) confirmed a “robust growth” in India. Germany is India’s largest European trade partner and a role model in technology and industry. That was particularly true for German medium-sized companies with their productivity, efficiency and innovative strength, which Indian entrepreneurs consider to be a role model. The medium-sized businesses in India were flexible, reliable, quality conscious and adaptable, said Datla.

Datta pointed out parallels in medium-sized businesses in both countries. There were cooperation opportunities especially in the automotive, chemical, metal and textile industries as well as in mechanical engineering and logistics. A study of medium-sized businesses by the Deloitte business consultancy named further strong sectors in India: food, pharmaceuticals

and biotechnology, textiles, electronics and telecommunication. The study, also involving the CII and the Department of Industrial Policy and Promotion (DIPP) of the Indian Ministry of Commerce and Industry, was handed over to Minister Nath at the conference.

Competition encourages cooperation

Handelsblatt chief editor Bernd Ziesemer, one of the Chairs of the event, remarked that German medium-sized businesses were often 'lone fighters' and not necessarily interested in cooperation. The distance, dealing with unknown partners and a foreign culture as well as the bureaucratic effort might prevent German entrepreneurs from operating in India. When asked about the Indian mentality, CII managing director Chandrajit Banerjee explained that Indian medium-sized businesses were anxious to acquire technologies and enter into long-term partnerships. Datla, expert in medium-sized businesses, added that increasing competition encouraged medium-sized businesses to cooperate.

Economic growth four times higher than in Germany

"Indian economic miracle", that is what Ambassador Bernd Mützelburg called the development of India in the past 15 years. Although growth has decreased from 9.6 to 7.8 percent, it was still better than economic growth in Germany, which was below two percent. Indian companies have a good financial base and invest worldwide. India's orientation towards competition and international markets could not be reversed. "Economic success in India depends on an innovative product and entrepreneurial commitment, not on political relations," specified Mützelburg as one of the advantages of the country.

Ambassador Meera Shankar stated that the development of the infrastructure had highest priority. In the coming five years, 490 billion US dollars would be invested in supply and traffic projects, almost a third by private investors. That would open new opportunities for German investors.

Advantages of India: young population, entrepreneurial spirit, property rights

Commerce and Industry Minister Kamal Nath thanked the German government and business for the support so far. He mentioned the 500 year old tradition of the German-Indian foreign trade, which dates back to Fuggers' time. Siemens and Bayer were the first German companies to operate in India in the 19th century. The Indo-German Chamber of Commerce was the first of its type. German medium-sized companies were a role model and help for the Indian economy, said the minister. He referred to India's strong fundamental data and "the ability to adopt and adapt". Advantages of the Indian economics included demographics, entrepreneurship and respect for institutions. "India is the world's biggest 'producer' of entrepreneurs," said Nath. More than half of the Indian population was younger than 25 years and the legal system protected intellectual property. Growth was driven by the local market, not by export. India faced globalisation and global competitiveness. Nath, however, pointed out that there were 300 million people in his country living below the poverty line.

Growth market tourism

According to Ashwini Kakkar of Mercury Travels, dualism was characteristic of India. Kakkar also dwelled on the economic potential, which was characterised by the young population, the number of 150 million employees and workers as well as English as an informal language. The tourism sector grew by 9.4 percent per year. Five million people

travelled to India every year, with 97 percent of all entries by air. 400 million people travelled around India every year, with 65 percent on pilgrimages. The number of people travelling abroad amounted to eight millions. Kakkar supported direct investments in the tourism sector, increased tourism marketing of India and cooperation with Indian tourism providers: "India offers exceptionally high, double digit growth rates with good opportunities for profit."

Anglo-Saxon influence makes entry easier

Dr. Roland Kern of Lapp Holding and Detlef Ganz of Bito-Lagertechnik reported on the experience of their companies operating in India at the Handelsblatt Congress. Lapp produces cables, lines and plug connectors, Bito rack and container systems.

Kern as well as Ganz named democracy, the legal system and communication in English as arguments for India. Further incentives included the dynamic economic development, the workers' qualifications and the mentality. "India is closer than China," summarised Ganz. He emphasised the "thrilling" dynamics in the country and predicted an "enormous purchasing power of the future middle class".

Both managers praised "the well trained and motivated personnel" in India. Fluctuations in sales were very high, reported Kern. But employers in the administrative field remained longer in the company as long as the employers showed their appreciation. Kern advised to offer seminars to potential customers about the company's products and services before the products are sold: "Indian people are eager for knowledge". On-site visits by the German management could also enhance business relations.

Downside of dynamics and tax jungle

But Kern also warned: "Corruption is still an issue in India". If demands for payment were met once, all official services afterwards would have to be paid. His advice: "Perseverance, and do not pay. This takes longer, but also leads to the objective." Ganz gave the advice to consider the complex administration and formal procedures, the social and economic differences in the Indian social system as well as the "very bad" infrastructure in case of an expansion to India. "Things are on the move, but take their time," was his comment on the infrastructure.

He expected "a fairly good improvement" in a couple of years. High dynamics on the one hand meant little substance on the other, said Ganz. The growth euphoria sometimes comes at the expense of the "daily details". The "key problem" management and the complicated, federal tax system were furthermore difficult. Kern also pointed out that there were different tax regulations in the 28 Indian states. Hansjoachim Köhler and Ketan Dalal of PricewaterhouseCoopers reported on tax advantages through "special economic zones" and other exceptions.

Check form of cooperation and personnel policy

Bito manager Ganz described that his company had agreed on an equal joint venture with an Indian company despite the great concern of the Indo-German Chamber of Commerce (Außenhandelskammer, AHK). The Indian partner contributed the knowledge of the local market and a sales network to the cooperation, the German partner the product and the production know-how. In advance, Bito had got thorough information from the AHK, market researchers, legal and business consultants and had exchanged experience with German

companies operating in India. “It only took nine months from the foundation of the company and the start of construction until the first item was produced,” reported Ganz.

He also dwelled on personnel policy since the Indian employees had to be trained and instructed. That required continuous support: “Individual trainings have no effects. Good employees and managers from Germany have to be available for several months.” Kern, member of the Lapp supervisory board, rated joint ventures of medium-sized companies as “very problematic”. He pointed out that “you have to know the partner very well, including the private and family background.” His company had made positive experience with a sole company, and Lapp India was one of the most profitable companies in the group. “If you do it right and everything works out, you can make a lot of money in India”, stated Kern, and Ganz agreed: “You cannot stop India.”

Solar technology successful in India

Deepak Puri of the solar system manufacturer MoserBaer talked about the effects of global warming in India, which had “severe economic consequences”. The temperature of the Earth would increase by six degrees by 2100, which would affect the human race in terms of energy, water, food and diseases. Puri gave an example, the Himalaya region: “The glaciers melt, rivers run dry and the people living at the rivers are deprived of a basis of existence.”

He promoted renewable energies: water and wind power, tidal, geothermal and biomass power. Solar power was particularly advantageous since it was available without limits and could be directly converted into electric energy without heat loss. It did not cause environmental pollution and advanced technologies would reduce costs. “In the year 2100, the percentage of solar energy will be the highest in the world,” predicted Puri. In 2012, more than 15 percent of the energy in the North Indian Himalaya region would already be from renewable sources. India offered good opportunities for solar energy: “The potential amounts to 20 megawatt per square kilometre.”

MoserBaer cooperates internationally in different fields of solar technology: in addition to cooperating with Germany in the crystalline silicon sector, there is an Indo-European cooperation in the field of concentrated photovoltaics. For German-Indian cooperations, Puri advised his fellow countrymen: “You have to be precise when cooperating with German companies, then your partnership will be great.”

Remarks:

Opinions expressed in this contribution are those of the author.



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