

Market Entry Strategies of German Companies, Opportunities and Challenges

India remains an attractive trade and investment location for German companies. Bilateral trade, both on the export and import side, grew at a double digit rate in 2010 and continued to do so in the first six months of 2011. German new investments in India declined, as the total investment inflows did, however not taking into account all the reinvestments made by German companies already active in India. Further liberalization steps were taken by the Indian government like the abolishment of the Non-Objection-Certificate of Joint Venture partners that previously was considered to be a major obstacle when planning to engage in new activities on the subcontinent. Taking all this into account, last year's performance as well as the future perspective of India as a trading partner as well as an investment location is quite positive.

The majority of German companies already active in India or just entering the subcontinent are eyeing the huge domestic market and the sales potential they expect in the future. With a population of more than 1.2 billion and a growing middle class, one can predict the chances the market will offer in the long run. In order to get a feeling of the market and to meet potential partners, a first personal visit is essential before starting activities on the subcontinent. Various trade fairs on special sectors offer the ideal platform to get to know companies active in the targeted industries and to analyse the stage of development of ones' sector in India.

Once decided to enter the market, German companies tend to found a Private Limited in form of a subsidiary or of a Joint Venture depending on the companies' policies and targets. Since the binding clause of the Non-Objection-Certificate has been abolished now, one might take into consideration the option of a partnership more easily. Establishing a liaison office for market observation might be a first step into the market as well, which however limits the possible activities to such an extent that many companies decide to skip this form of activity. Similar experiences are made with the branch office where production activities are not allowed and higher tax rates are applied.

Concerning the location, German companies usually focus on one location first and then slowly expand their activities throughout the subcontinent. Since India almost has the geographical size of the European Union, it might be hard to tackle the whole market at once, especially when considering the different regulations and rules applying in each state.

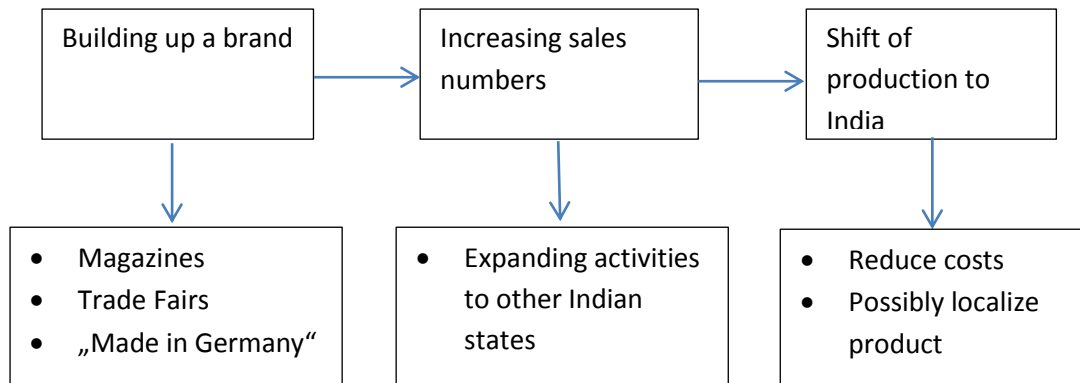
Shift of production to the domestic market

After the establishment of a presence, the core activity lies in building up a brand and increasing the sales numbers. Since the average custom tariff is still around 25 percent, many companies decide to set up a production facility for the domestic market in the medium term to remain price competitive. Unlike in other Asian countries, production for export in India is usually not a viable option for various reasons. One is certainly the low production productivity. The lack of a modern and efficient physical infrastructure is another reason why it is unlikely that India takes over the role of China, long known as the "factory of the world".

As a positive side effect of domestic production for cost reasons, quite a few companies use the opportunity to adapt – with the help and input of local staff – the characteristics of the product to the Indian taste. High-tech versions of a product could be downgraded in the domestic production line by leaving special functions not needed in India out or to slightly change the product by adding new features to it that might make it more attractive to local customers. In case of consumer goods,

a customization to the Indian market might be the offering of smaller packages to also reach out for people not able to afford a big size package of the product.

Typical Market Entry Steps

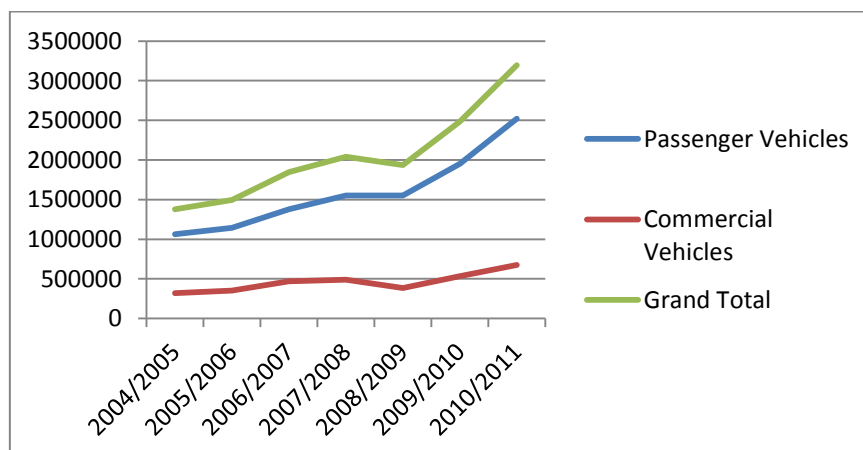


Sector-specific opportunities

India offers vast chances in nearly all kind of sectors, ranging from traditional industrial sectors to consumer goods and lately clean technologies.

One very promising sector certainly is the **automotive sector** that was able to increase sales numbers again in 2010/2011 by nearly 30 percent up to 3.2 million cars. All major German car manufacturers as well as suppliers have already entered the market to secure their future share of one of the most promising markets in Asia besides Japan, China and South Korea. Driven by rising incomes and the continuous improvement of the physical infrastructure, particularly small cars that can also be afforded by the Indian middle class have the highest sales numbers. Since most components are still imported, there is a huge sales potential for German automotive suppliers as well. Even though e-mobility is just beginning to spread throughout the Indian market, sales numbers have drastically risen throughout the last year and the government offers fiscal incentives for manufacturers. According to estimates, 100.000 e-Two Wheelers were produced in 2010/2011.

Domestic Automobile Sales (Passenger & Commercial Vehicles)

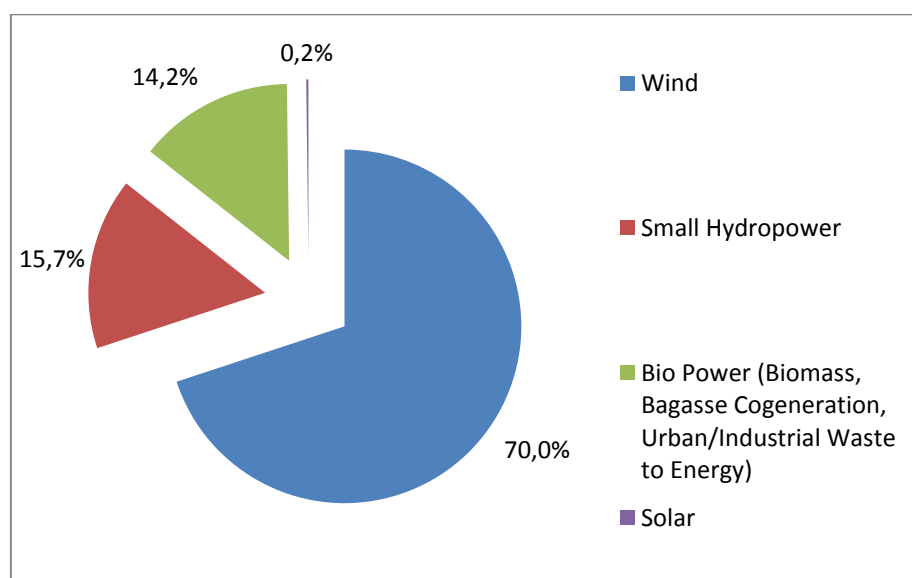


Source: SIAM

The physical **infrastructure** of India still remains poor, even though there has been drastic improvement throughout the last few years in all infrastructure sectors. Infrastructure development in roads, railways, ports and airports therefore continues to top the government's priority list with an estimated investment need of around one billion US-Dollars during the next five year plan (2012-2017). Since large parts of this amount have to come from private investors, the government is trying to offer incentives and create an attractive investment environment in most of the infrastructure sectors. Against this background, moving goods from one place to another still remains a big challenge in India that needs to deserve special attention. Particularly in case of perishable goods **logistics services** are not sufficiently available and up to 40 percent of the transported foodstuff still goes to waste while on the road. The potential especially in rail, ports, warehousing and cold chains is vast, even though various renowned logistics companies from Germany already work closely together with Indian partners in order to tackle this problem and try to offer their customers an adequate way of goods transportation in India.

In the area of **clean technologies**, the government increasingly encourages investment ranging from waste management to renewable energies. As a consequence of the dynamic urbanisation and industrialisation process, the quantity of waste especially in the urban centers has increased dramatically over the last years. According to estimates, the urban population in India produces more than 50 million tons of solid waste annually which under the terms of the Municipal Solid Wastes Rules published in 2000 has to be prepared and disposed of in proper facilities. The production of energy out of waste ("waste to energy") is certainly a promising field of waste preparation where foreign know-how is more than welcome and the government shows efforts to introduce attractive incentives. In the field of renewable energies, the focus apart from the wind energy sector is on the development of solar energy. With more than 300 sunny days a year, India is predestined as a location for the production of solar energy power. According to the "National Solar Mission" adopted by the government in 2009, the aim is to produce up to 20 gigawatt of solar energy by 2022 (31 January 2011: 32 megawatt).

Mix of Renewable Energy (31 January 2011)



Source: Ministry of New and Renewable Energy

The **healthcare sector** poses another field of vast chances for foreign companies. Whereas the government mainly covers the primary care, it is mostly private hospitals that offer care for well-to-do Indians and for the growing number of medical tourists from abroad. Since state-of-the-art equipment is required by these patients, most of the medical technology is imported from abroad – local production mostly focuses on simple instruments like injection needles or bandages. Even though the medical expenses per head in India are still relatively low compared to other countries, one can however witness the continuously growing willingness of middle class-Indians to spend more money on medical treatment. In the field of pharmaceuticals, India benefited from the shift of the global industry to generics and due to cost and quality reasons has become one of the leading manufacturing hubs for generics worldwide.

Considering the fact that the average age in India is only 25 years, its demographics is certainly a major advantage of the location. With such a large pool of young people, there is however a tremendous need for **education** programmes in order to make efficient use of this huge potential workforce. The government plans to spend five per cent of the gross domestic product in the next five years in the field of education. Besides higher education programmes at universities, there is a special need to train workers at blue collar level. Whereas most German companies active in India have already started to establish in-house trainings, there is a continuous exchange between Germany and India on a political level in order to further discuss the possible co-operations in various fields associated with education.

Despite the promising outlook and possible co-operation possibilities in all kind of sectors, the challenges of the Indian market remain. Apart from the common operational and strategic obstacles like insufficient qualification of the workforce or infrastructure bottlenecks – that at the same time can be seen as chances as described above –, the attractiveness of the location still suffers from the slow movement of reforms and recently from the corruption cases carried out in public. Yet, the majority of German companies active in India would by no means withdraw from their nonetheless successful engagements on the subcontinent.

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