

Leveraging the **Dragon** III



How Global and
Indian Businesses
are using the
Principles of Judo to
exploit China's
Strengths

December 3, 2005

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- Background
- Sleeping Tiger, Flaming Dragon
- Taming the Dragon
- Judo Moves by Global & Indian Companies
- Judo Strategy for Indian Businesses

Background



- We first prepared this report in April 2002, which was updated in September 2003 receiving numerous requests for an updated version. In the past year, we received similar requests and so, we present **Leveraging the Dragon III**
- With a view to developing a perspective on how Indian companies can convert a perceived opponent into an “opportunity”, a team from **Universal Consulting’s** Mumbai and Singapore offices **visited China**
- We met a cross-section of business professionals from both the manufacturing and service sectors, Indian and Chinese government officials, CEOs of Indian, Chinese and Taiwanese companies, local entrepreneurs, Chinese Management Consulting firms and also visited high-tech manufacturing facilities as well as Biotechnology / Software Parks
- From these discussions, we developed a subjective perspective of the business environment in China, following which, a Mumbai-based team conducted research on specific actions taken by **Indian companies to co-operate or compete** with the **Red Dragon**

Background



- Universal Consulting hosted a **Chinese delegation in India**, comprising the Shanghai Municipal People Government Economic Commission and Shanghai Foreign Economic Relations and Trade Commission. The visit was organized in order for the delegation to understand the Indian IT industry and identify potential alliance/ business opportunities with Indian software companies. On this visit, the delegation discussed the attractiveness of Shanghai as a center for IT businesses
- With these perspectives in mind, **we turned to the principles of Judo**, known for its philosophy of leveraging an attackers strength, to determine generic strategies that Indian companies can use to piggyback on the Red Dragon
- Our objective in developing this paper was to provide not only a descriptive view of **how Indian businesses are responding to the Chinese challenge**, but also to provide some prescriptive guidelines that Indian businesses can use to develop an action plan to respond to the potential opportunity



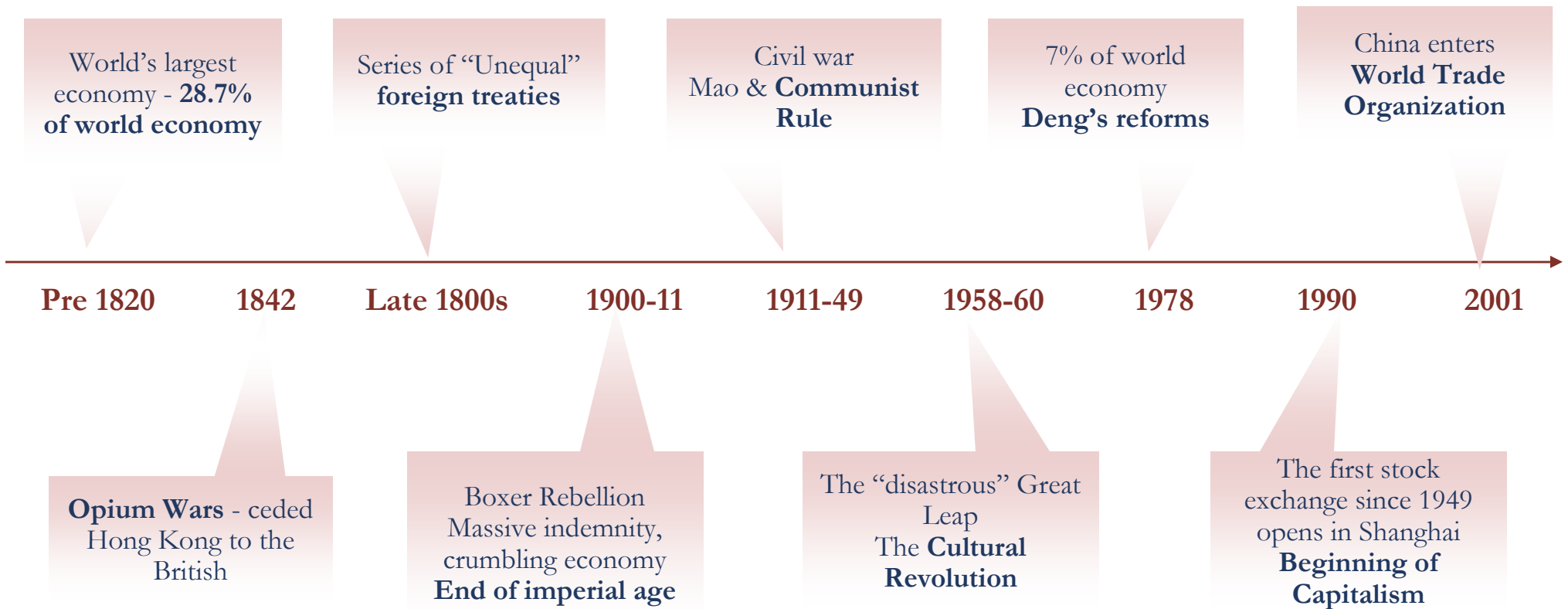
Sleeping Tiger, Flaming Dragon

“When China wakes, it will shake the world”, warned the Great French General, Napoleon, hundreds of years ago.



The fall and rise of the Dragon

Given the historical perspective, it is remarkable that China has been able to achieve its current position in the global economy



Economic Reforms in China...



After Mao's death in 1976, the economic reforms began to unfold in Deng Xiaoping's leadership

Greater Autonomy

- Decollectivization of agriculture, replacing commune approach to farming by household responsibility system
- Greater control to state owned enterprises over productive activity
- Greater tolerance towards private businesses, leading to an explosion of individual businessmen
- Open-door policy in international trade, setting up of SEZs. Foreign trade grew at annual rate of 13-15% between 1978-87
- Cities such as Shanghai, Beijing, and Guangzhou were transformed into modern industrial and commercial centres

...Economic Reforms in China



Inflation Control

- Taking Deng's ideology forward, the first moves of the current leadership were aimed at consolidating growth and curbing hyperinflation
 - By 1994, consumer prices were rising more than 20% annually, which Zemin and Rongji managed to bring down to 7.8% by 1998
-

Infrastructure Development

- Growth was stimulated through heavy investments in infrastructure and housing
-

Privatization

- Superior infrastructure such as roads, telecommunication lines, sewage systems, web switches, electric power supplies, port facilities have now been built across China
 - Privatization of industry and restructuring of State Owned Enterprises was initiated
-

Productivity improvement initiatives actioned



Productivity Improvement Initiatives

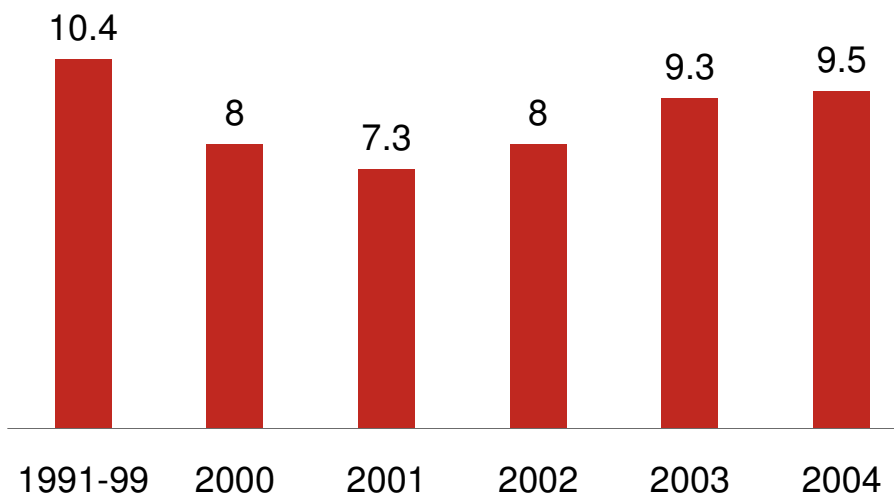
- Chinese government has been investing to develop better managers. They are fired if they don't perform
- The number of state firms has tumbled from over 300,000 to 150,000 in the past decade
- Private companies accounted for 63% of China's business-sector output in 2003 (94% of GDP), compared to 54% in 1998 and virtually nothing in the 1970s
- The government also sought to contain the level of bad debts of Chinese Banks and International Trust Companies
- China is transferring the decision-making responsibility to semi-autonomous region-state level, which compete against each other for capital, technology and human resources
- Regional Chinese governments set stringent targets for their officials (e.g. attain 7% of more economic growth per annum, improve quality of environment, build better infrastructure)

Economic Growth...

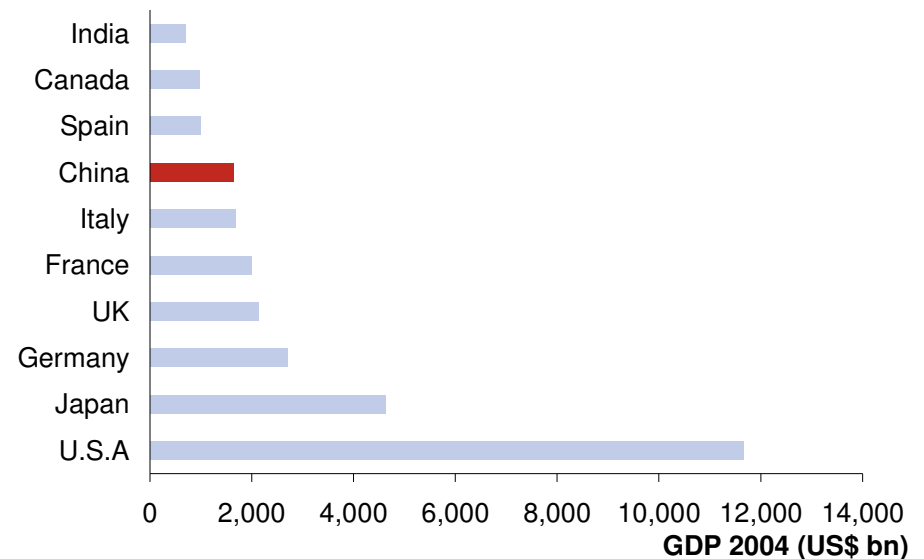


China's economy has grown impressively since Deng Xiaoping initiated reforms in late 1970s

GDP growth (%)



World's largest economies

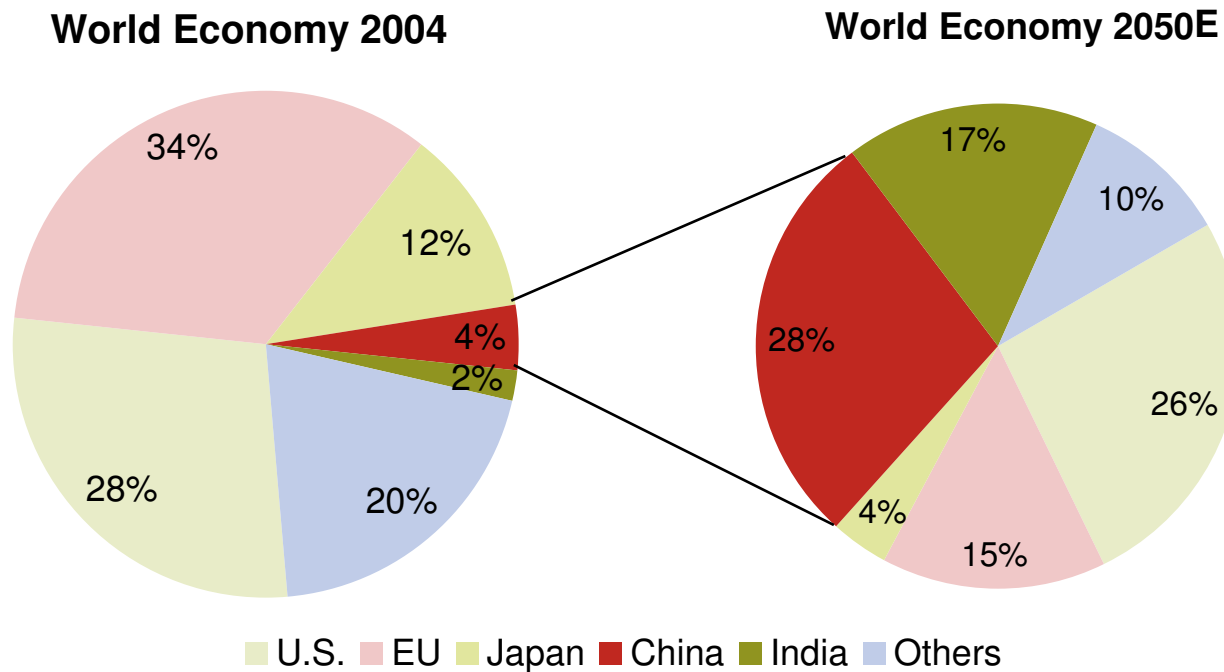


- Real GDP has increased on an average of 9.3% every year
- China is the world's 7th largest economy as per real GDP 2004
- China is the second largest economy in terms of purchasing power parity

...Economic Growth



China's share of world GDP stood at 4% in 2004, which is expected to go 28% in 2050

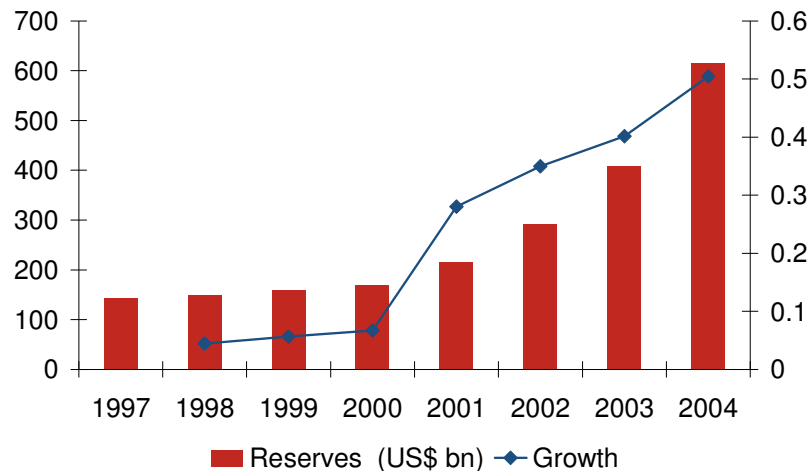


...Economic Growth

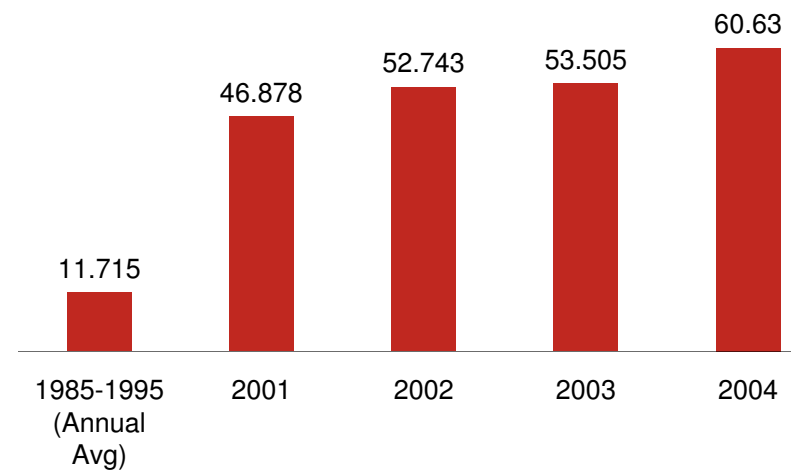


China received about 40% of all net portfolio investment inflows to developing countries in 2004

Forex Reserves



FDI in China (US\$ bn)



- Forex reserves reached over US\$ 600 bn by the end of 2004 as a result of robust trade and investment growth
- Forex reserves grow at a CAGR of 23% in between 1997 to 2004

- In 2003, China surpassed the US to become the world's largest recipient of FDI
- Total accumulated FDI reached more than US\$ 560 bn in 2004

In 2004 China accounted for about 11% of the growth in world exports by value

China's Share of World Trade is Soaring

China's trade in goods and services (2004)			
	US\$ bn	% of World Total	Rank
Merchandise Exports	593	6.5%	3
Merchandise Imports	561	5.9%	3
Comm. services Exports	60	2.8%	9
Comm. services Imports	70	3.3%	8

- China's share of world merchandise exports has jumped from less than 1% in 1980 to around 6.5% by 2004
- Its share of merchandise imports has increased from 1% to almost 6% over the same period

China's Consumer Market



Thanks to rocketing economic growth, the Chinese are spending a lot more than they used to

- There are now 59 washing machines per 100 households, up from one in 1985
- The number of Chinese travelling abroad rose by 43% to 29mn in 2004
- World's largest mobile phone market with nearly 330mn users
- World's second largest internet population with 94mn internet users in 2004
- The market for toiletries and cosmetics has passed US\$ 3bn and is expected to reach US\$ 22bn by 2013
- Retail sales broke RMB 4,000bn in 2002, a growth of 8.8%
- Over 70% of the World's top retailers – Wal-Mart, Carrefour, Metro, etc are now in China

China as an Investment Destination



Starting a Business

- Number of procedure to start a business are 13
 - It takes 48 days to start a business
-

Dealing with Licenses

- It takes 30 steps and 363 days to complete the licensing process, and costs 126% of income per capita
-

Hiring & Firing Workers

- Less rigid labour laws compared to neighboring countries
-

Registering Property

- It takes 3 steps and 32 days to register property
 - Cost of registering property is 3.1% of overall property value
-

Impact of China on world economy...



China's ascent will affect the outside world not only because of the potential size of its economy but also because of its distinct features

International trade

China's exports and imports of goods and services was 75% of GDP (2004), far more than in other big countries

Cost

Chinese manufacturers have access to an almost unlimited supply of cheap labour. By some estimates, there are almost 200m underemployed workers in rural areas that could move into industry. This surplus labour may take at least two decades to absorb, helping to hold down wages for low-skilled workers

Inputs and raw material

China has become the World's largest consumer of steel and cement. It has overtaken Japan as the second-largest consumer of petroleum, and Chinese trade representatives are making deals anywhere there are untapped resources

...Impact of China on world economy



“WHAT you cannot avoid, welcome,” says an old Chinese proverb

Consumer Market If China's real income grows by 8% a year and its income distribution remains unchanged, by 2020 the top 100m households will have an average income equivalent to the current average in western Europe. That will open up a vast market for consumer goods

Imports In the long term, China could give supply side stimulus to developed economies' growth. China is likely to specialise mainly in relatively low-skilled labour-intensive manufacturing, whereas developed economies will concentrate on activities needing higher skills

...Impact of China on world economy



Prices and improved terms of trade

The prices of products that China makes will fall; the prices of goods that it needs to import will rise. China is already pushing down the prices of labour-intensive manufactured goods, thereby boosting the real incomes of consumers in developed countries. For example, average prices of shoes and clothing in America have fallen by 30% in real terms over the past ten years

Role Model

China's success could encourage other emerging economies to speed up reform. Its reliance on imports and exports could well make it a champion for free trade

Individual countries can maximise their gains from Chinese integration and minimise their losses by making their own economies more flexible, increasing mobility between sectors and improving education

The China challenge for U.S

Why competition from China is different from competition US faced from Japan, Korea, and Europe

Alliances

Unlike Japan or Korea, China welcomes foreign investment in Key industries. Foreign ventures accounts for 60% of exports and a big share of local sales

Speed

Chinese competitors often arrives en masse and seizes share rapidly with unbeatable prices, leaving little time for U.S companies to adjust

Size

China is becoming the world's biggest market for cars, appliances, cell phones, and more. That gives China, unparalleled economies of scale

Breadth

China is gaining share in low end world such as garment and simple assembly, at the same time its advancing into higher volume areas such as digital electronics

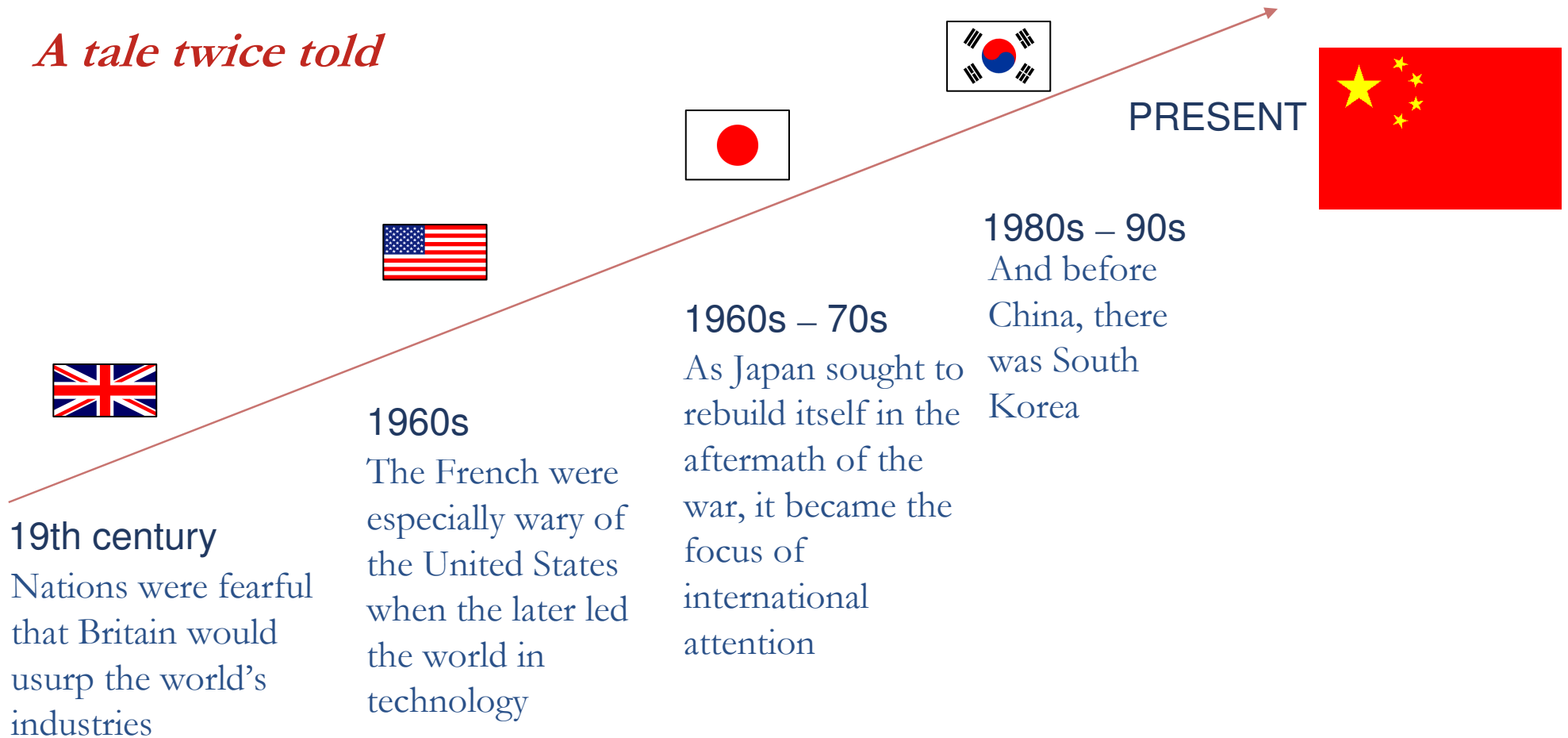
Access

Retail giants such as Wal-Mart that imports directly help Chinese electronics makers build up U.S market share without the need to spend as much on distribution and promotion

We have seen this before



A tale twice told



Where India stands compared to China...

Economic Indicators



Population (mn) 2003	1288	1064
GDP (PPP) (US\$ bn) 2003	6090	2908
Manufacturing (% of GDP) 2003	39	16
Inflation	-0.8%	5.4%

...Where India stands compared to China



External Sector Indicators



Merchandise Exports (US\$ bn) 2004	593.4	80.8
Service Exports (US\$ bn) 2004	62.4	51.3
Forex Reserves (US\$ bn) 2004	614.5	135.2
FDI (US\$ bn) 2004	60.6	5.5
Tourist arrivals (mn) 2003	33.0	2.4

...Where India stands compared to China



Living Standard Indicators



Per capita GNP US\$ (PPP) 2003	4980	2880
Life expectancy (yrs) 2002	71	63
Female adult literacy rate (%) 2003	87	45
Under 5 mortality (per 1000 in 2003)	37	87
Poverty ratio (% below US\$ 1 a day)	16.6	34.7

...Where India stands compared to China



Infrastructure Indicators



Electricity production (bn kwh)	1640.5	596.5
Goods hauled by Railways (Ton-km bn)	1508.7	333.2
Container traffic at ports (Mn)	61.62	3.9
Air freight (Ton-km mn)	5650.6	580.0
Telephones (land + Mobile) per 1000	424	71

...Where India stands compared to China



Business Costs



Raw Materials	30% less than India	Expensive
Average Wages (\$)	87.50 / month	31.25 / month
Administrative Costs	30% less than India	Expensive
IT Costs	20% less than India	Expensive
Interest Rates	6.5%	12%
Taxation	VAT – 17%	VAT



Taming the Dragon

Challenges ahead of Dragon



Financial Crisis

- Bailouts and the banks' near-monopoly over China's vast domestic savings have kept them solvent despite mountains of bad loans to state firms
 - China is starting to loosen its currency controls a bit. If Beijing can't whip its banks into shape, there's a danger that financial market liberalization will go wrong, leading to a crash
-

Growing unemployment and income disparity

- About 200mn workers are unemployed or underemployed in rural areas
 - Unless the economy grows at a rate high enough to create new jobs, there could be waves of social unrest
-

Challenges ahead of Dragon



Environment

- China has paid a steep ecological price for rapid industrial and population growth, with millions of deaths attributed to air and water pollution each year
 - China is one of the world's most wasteful users of oil
 - A growing scarcity of water could slow industry within two decades
-

Political Backlash

- Virtually each week brings new reports of big protests in cities and villages over corruption, pollution, or worker abuse
 - Serious challenges to Communist rule can still erupt, especially if the economy stalls
-

Challenges ahead of Dragon



Health

- China's biggest worry over the long term is inadequate medical care for its rapidly aging population. In 20 years, China will have an estimated 300 million people age 60 or older
- Could face full-blown crises with AIDS, tuberculosis, avian flu, and other infectious diseases, and the health systems have been slow to mobilize
- The U.N. estimates the number of Chinese with HIV could hit 10 million in five years. Some 200,000 Chinese also die annually of TB

Challenges ahead of Dragon



War

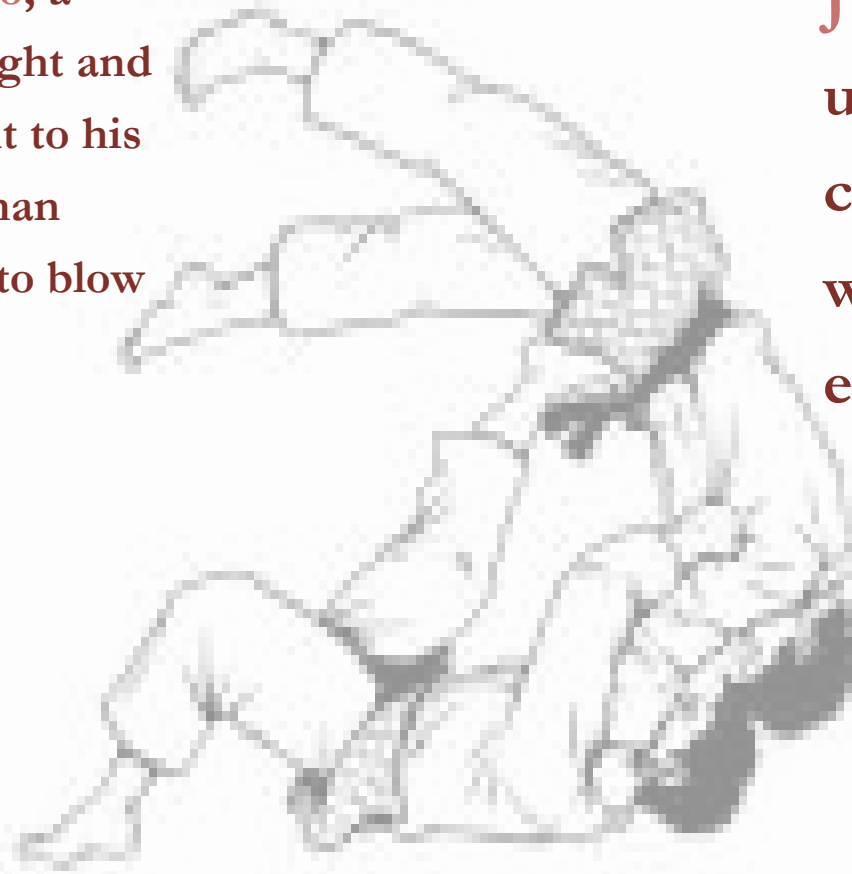
- China's biggest flash point remains Taiwan. Beijing has cooled its fiery rhetoric lately, but is still serious about being willing to risk war to prevent Taiwan's secession
- Any war in the Taiwan Strait would likely involve the U.S. and possibly Japan -- China's two biggest trade partners -- and paralyze shipping in and out of China's southern ports
- It also would likely result in long-term Sino-U.S. tensions that would spill into trade



Judo Strategy

Judo Strategy

In the martial art of Judo, a combatant uses the weight and strength of his opponent to his own advantage rather than opposing blow directly to blow



Judo Strategy is a useful mindset for any company competing with a larger, better – established one

Judo is based on three principles

1

Rapid Movement

Move rapidly to uncontested ground to avoid head-to-head conflict



2

Flexibility

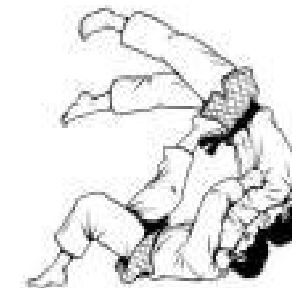
Be flexible and give way when attacked directly by superior force



3

Leverage

Exploit leverage that uses the weight and strength of opponents against them



Judo principles

Global and Indian businesses are adopting a strategy based on the Principles of Judo, to leverage on the strengths of the Red Dragon

1

Rapid Movement

Move rapidly to uncontested ground to avoid head-to-head conflict

- Move to new products that redefine the competitive space
- Move to new pricing models that competitors are unable to emulate
- Move to new testing and distribution models that avoid competitors' strengths

2

Flexibility

Be flexible and give way when attacked directly by superior force

- Avoid sumo matches unless the company is bigger and stronger than the competitor
- Embrace and extend rivals' smart moves
- Mesh flexibility and tactical adjustments with long term strategic plans

3

Leverage

Exploit leverage that uses the weight and strength of opponents against them

- Turn competitor's strategic commitments and investments to own advantage
- Co-operate with those who are threatened by the competitor's success



Judo Moves by Global & Indian Companies

Judo moves by Haagen-Dazs

JUDO PRINCIPLES

- 1 **Move rapidly to uncontested ground to avoid head-to-head conflict - Move to new pricing models that competitors are unable to emulate and new products that redefine the competitive space, and new testing and distribution models that avoid competitors' strengths**



JUDO MOVES

- Haagen-Dazs, first entered China in 1996 with 3 shop on Shanghai's Nanjing Road
- While oversupplies forced successful early entrants such as Unilever, to cut prices by as much as 15% in order to maintain market share, Haagen-Dazs kept its pricing high
- Key to Haagen-Dazs' success is its positioning as a luxury brand. Haagen-Dazs is very selective in shop location. They follow a city for several months to a year and analyze official government data, independent data, and consumer index data
- It targeted the Chinese consumer from the beginning and never designed China-based Haagen-Dazs shops specifically for expatriates. Haagen-Dazs has created new products for the China market. It serves green tea ice cream, and lychee and red bean flavors
- For marketing, the company has more than 50,000 VIP club customers in China that it contacts regularly with newsletters and e-mail promotions. It also advertises in high-end movie theaters and specialty women's and airline magazines

Judo moves by PalmSource

JUDO PRINCIPLES

3

Exploit leverage that uses the weight and strength of opponents against them - Turn competitor's strategic commitments and investments to own advantage



JUDO MOVES

- PalmSource, Inc., provider of operating system for handhelds and smart phones entered into a licensing agreement with Legend Group Ltd., a leading computer brand in China to incorporate Palm OS software in a new line of Legend products
- With unique understanding of the Chinese market and users, Legend can tailor make the most suitable and user-friendly products for Chinese customers
- With its worldwide popularity, ease of use, and open platform, the Palm OS will help promote faster development and adoption of handheld access devices in China

Judo moves by Shiseido

JUDO PRINCIPLES

- 1 **Move rapidly to uncontested ground to avoid head-to-head conflict - Move to new pricing models that competitors are unable to emulate and new products that redefine the competitive space**



SHISEIDO

JUDO MOVES

- Shiseido entered China in 1980s, aiming at a small but growing number of women in Beijing and Tianjin with cosmetics priced way above local products
- Shiseido's approach has been to build brand recognition only among the affluent. It concentrated on marketing through the most prestigious department stores using its own, company-trained Chinese staff
- As it learned more about the market, it introduced a local brand, Aupres, selling at a discount of more than half to its imported product, although still pitched at the top end of the beauty products market
- It set up a beauty centre in Beijing to promote Aupres with advice about make-up and skin treatment
- The firm also organised promotions at department stores in the capital and advertised heavily in local fashion magazines--and the strategy paid off

Judo moves by P&G

JUDO PRINCIPLES

- 1 **Move rapidly to uncontested ground to avoid head-to-head conflict - Move to new pricing models that competitors are unable to emulate and new products that redefine the competitive space**



P&G

JUDO MOVES

- P&G entered China in 1988, invested well over \$1 billion and spent an estimated \$404 million in media in 2002
- Looking at failure of same approach applied in U.S, P&G's Guangzhou-based managers took a hard look at their own marketing and production methods in China
- They resolved to slash production costs, streamline distribution channels and expand market research
- P&G also established an R&D center in Beijing to develop new products

Judo moves by Colgate

JUDO PRINCIPLES

3

Exploit leverage that uses the weight and strength of opponents against them - Turn competitor's strategic commitments and investments to own advantage



JUDO MOVES

- Colgate became China's top oral care company, in large part by cutting production costs and passing those savings on to consumers
- Colgate began manufacturing its toothpaste in China arriving in 1991, and eventually started sourcing the ingredients locally
- The result: The price of a 55-gram tube of toothpaste dropped almost 63% from 4-8 renminbi in 1996 to 1.8 renminbi in 2003 (or from about 59 cents to 22 cents)
- The price differential between Colgate and local brands fell even more dramatically from 270% to just 44%

Judo moves by Coca Cola

JUDO PRINCIPLES

3

Exploit leverage that uses the weight and strength of opponents against them - Turn competitor's strategic commitments and investments to own advantage



JUDO MOVES

- Back in 1979, Coca-Cola began offering its soft drink in China
- Coca-Cola reduced expenses by manufacturing locally, setting up 34 bottling plants and forming partnerships with three bottling groups to create a low-cost, efficient distribution network
- With a bottling system that now covered 28 cities across the country, Coke was able to harness system economics to cut production, marketing, and distribution costs
- Coca-Cola then added products, selling everything from Modern Tea Workshop herbal tea drinks to Coke Light
- It sells more than 20 different drinks for about 25 cents a can and 12 cents a returnable glass bottle, only slightly more than local brands
- As a result, Coke sells more than half of all carbonated soft drinks in China and generated more than \$2 billion in revenue in 2003

Summary of judo moves by global companies



Most of the global players are moving up the value chain (Rapid Movement) or exploiting China's domestic market (Leverage)

		1	2	3
Company / Industry		Rapid Movement	Flexibility	Leverage
	Food Products	✓		
	Communication Devices			✓
	Cosmetics	✓		
	FMCG	✓		
	FMCG			✓
	Soft drinks			✓

Judo moves by Indian software firms

JUDO PRINCIPLES

3

Exploit leverage that uses the weight and strength of opponents against them - Turn competitor's strategic commitments and investments to own advantage



Infosys[®]



TATA CONSULTANCY SERVICES

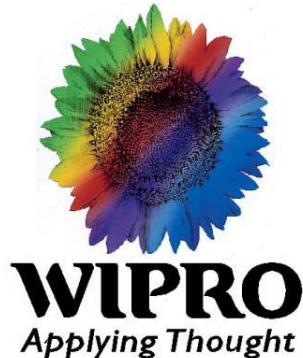
JUDO MOVES

- Infosys Technologies is setting up two development centres in China
- New facilities expected to cost \$65 million will ramp up the number of software engineers employed by Infy's Chinese subsidiary from the current 250 to 6,000
- China will be the second largest software hub for Infosys, after India
- Infosys strategy is to become a global company by setting up hubs in countries where the relevant skill sets are available
- TCS is moving ahead with a clutch of Chinese partners to set up a joint venture services company in China
- The new facility - in which TCS has a majority stake - will employ 1,000 engineers
- The aim is to create a role model for the Chinese IT industry
- TCS also plans to use China as an outsourcing base to address the requirements of Japan, South Korea and Taiwan

Judo moves by Indian software firms

JUDO PRINCIPLES

- 2 **Be flexible and give way when attacked directly by superior force- Mesh flexibility and tactical adjustments with long term strategic plans**



JUDO MOVES

- Bangalore-based Wipro Technologies is sticking to the needs of its global customers having presence in China
- It has only a small development centre consisting of 25 engineers, which could go up to 150
- Wipro have a skeletal presence and wants to see how it will develop before it makes more investments

Judo moves by Indian software firms

JUDO PRINCIPLES

- 2 **Be flexible and give way when attacked directly by superior force- Mesh flexibility and tactical adjustments with long term strategic plans**



JUDO MOVES

- Zensar Technologies formed a joint venture with a Chinese software firm in Shenzhen to become a major global outsourcing centre
- Zensar decided to share most of its valuable software outsourcing management experience, global sales network and client resources with its new joint venture
- While transferring part of its outsourcing business from American and European clients to the Chinese joint venture, Zensar will develop new clients such as big foreign firms, multinational companies in China and some government departments with the joint venture
- The company expects 50 percent of its overall business to come from its Chinese operations

Judo moves by Indian telecom software firm

JUDO PRINCIPLES

3

Be flexible and give way when attacked directly by superior force- Avoid sumo matches unless the company is bigger and stronger than the competitor and Mesh flexibility and tactical adjustments with long term strategic plans



JUDO MOVES

- Bangalore-based telecom software company, Subex Systems, tied up with Beijing-based Boco Inter-Telecom to hawk its fraud management solution, Ranger, to Chinese telecom companies
- That's the first step in Subex's strategy to enter the second biggest telecom market in the world with revenues of \$50 billion and a fraud management software market in the region of \$400 million
- As per Subex chairman, a Chinese partner is absolutely necessary to make a dent in the market that has the world's biggest mobile service providers China Mobile and China Unicom

Judo moves by Indian Electricals Firm

JUDO PRINCIPLES

3

Exploit leverage that uses the weight and strength of opponents against them - Turn competitor's strategic commitments and investments to own advantage



JUDO MOVES

- Bajaj Electricals realised the benefits of China's mass production capability and used it to their advantage
- Bajaj started looking at Chinese products in 2000 when they started flooding the local market
- Wasting no time, Bajaj put in place a China outsourcing strategy. The company also tied up with one of the largest fan manufactures in China - GD Midea Holding Company - for joint branding of products for the Indian market
- Today Bajaj outsources several products such as steam iron, toasters, microwave ovens, sandwich toasters, room-heaters etc to China

Judo moves by Indian logistics firm

JUDO PRINCIPLES

- 2 **Be flexible and give way when attacked directly by superior force- Mesh flexibility and tactical adjustments with long term strategic plans**



JUDO MOVES

- AFL Private Ltd, the express cargo service operator, is floating a joint venture in China to take advantage of the growing bilateral trade between the two countries
- The joint venture is a part of a major global expansion plan being chalked out by the company
- As it is difficult for foreigners to get freight service licences in China. AFL is entering into a strategic alliance with a local partner
- The Chinese operations would handle traffic between China and India as well as intra-Asia trade where there was an India linkage

Judo moves by Indian steel firm

JUDO PRINCIPLES

3

Exploit leverage that uses the weight and strength of opponents against them - Turn competitor's strategic commitments and investments to own advantage



JUDO MOVES

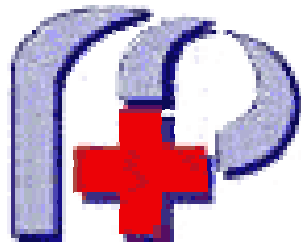
- Ispat Company use to import 10m lakh tonne Coke every year, for its plant at Dolvi in Raigad (Maharashtra) District
- Now the company supplies 20,000 tonnes Hot Rolled Coils and Galvanised Iron every year
- It supplies 50% of its exports only to China. Its four high level officers are camping in Beijing and are coordinating with the customers
- China and hence its demand for steel is increasing at the rate of 20% as work is going on war footing for the Olympic Games scheduled to be held in 2008. Ispat has planned to take full advantage of this need

Judo moves by Indian pharma company

JUDO PRINCIPLES

3

Exploit leverage that uses the weight and strength of opponents against them - Turn competitor's strategic commitments and investments to own advantage



JUDO MOVES

- Aurobindo Pharma is among domestic drug majors who have given China a prominent slot in their export strategy evolution
- Aurobindo Pharma commissioned a major penicillin facility in China, as China is an ideal low cost manufacturing base
- Even for Indian markets, Aurobindo use the facility in China
- Its domestic facility at Vizag for production of penicillin intermediate 7ACA will also cater to the Chinese plant

Judo moves by Indian Moisture solutions company

JUDO PRINCIPLES

- 1 **Move rapidly to uncontested ground to avoid head-to-head conflict - Move to new products that redefine the competitive space**



JUDO MOVES

- While the most manufacturers in India are trying to stem the flow of Chinese low cost, high quality products to protect their markets in India, Bry-Air (Asia) has taken on Chinese manufacturers as well as International players in dehumidification, and Indoor Air Quality (IAQ) equipment in China on their own turf
- Bry-Air started its operations in China in 1999 with a representative office in Shanghai
- In a short span of three years, Bry-Air established itself in China and now is the preferred option over local Chinese as well as International brands in most projects

Judo moves by Indian garment firm

JUDO PRINCIPLES

3

Exploit leverage that uses the weight and strength of opponents against them - Turn competitor's strategic commitments and investments to own advantage



JUDO MOVES

- Raymond Ltd set up a manufacturing unit in China in a joint venture with a local Chinese manufacturer to make garments
- The key reasons for the decision are:
 - Costs are substantially lower in China
 - Conditions in China are more suitable for doing business
- The company started operating in China by opening a representative office in Shanghai called Raymond China. Raymond's entry into China is part of its overall strategy of making China an outsourcing base
- Raymond China, Raymond's representative unit in China, buy and outsource garments such as suits, jackets, trousers and waistcoats, from Chinese manufacturers and sell them into the European markets

Judo moves by Indian Leather garment firm

JUDO PRINCIPLES

- 2 **Be flexible and give way when attacked directly by superior force- Mesh flexibility and tactical adjustments with long term strategic plans**



JUDO MOVES

- BHARTIYA International Ltd (BIL) entered China through a toll manufacturing arrangement in as many as three facilities in order to de-risk its business operations and give the company cost advantages
- The Chinese foray help the company access the huge leather fashion market in the West
- Such an arrangement reduces BIL's direct interference with labour in China and thereby helps in enhancing internal strategic efficiencies

Judo moves by Indian picture tube manufacturer

JUDO PRINCIPLES

3

Exploit leverage that uses the weight and strength of opponents against them - Turn competitor's strategic commitments and investments to own advantage



JUDO MOVES

- For Samtel India, China has proved a good opportunity to provide quality at lower prices, which has even allowed Samtel to make a dent in the Chinese market
- The picture-tube manufacturer follows an interesting strategy: it imports glass shells from China and exports finished picture tubes to the country
- China has a glass-shell manufacturing capacity of 40 million annually and its prices are at least 5 percent cheaper than India
- Samtel claims that it offers equivalently reliable quality at lower prices - about 3 percent cheaper than the Chinese-made picture tubes

Judo moves by Indian power equipment firm

JUDO PRINCIPLES

- 2 **Be flexible and give way when attacked directly by superior force- Embrace and extend rivals' smart moves**



JUDO MOVES

- Indian electrical equipment major Bharat Heavy Electricals Ltd (Bhel) is developing boiler technologies that would compete directly with cut throat prices offered by Chinese majors
- Thus Bhel would be able to erect thermal power plants at costs less than Rs 2.7 crore per mw — the price offered by Chinese, against the current cost which runs around Rs 4 crore per mw
- The Chinese equipment manufacturer Dongfang Electric Corporation (DEC) has bagged the 2x300 mw Sagardighi project
- In response, Bhel decided to develop technologies and processes that would allow it to drastically lower costs
- Bhel is gearing up to meet Chinese competition with better products at competitive prices. Bhel engineers are looking into possible areas which could provide economy and are in the process of finding out ways and means of competing with China

Judo moves by Indian chemical industry

JUDO PRINCIPLES

- 1 **Move rapidly to uncontested ground to avoid head-to-head conflict - Move to new products that redefine the competitive space**

JUDO MOVES

- The predominantly small and medium sized Vadodara-based chemicals units have not only survived Chinese competition to tell the tale but are also in the midst of a turnaround
- Having studied the way Chinese competitors operate, they anticipate their moves and try to stay ahead of them by changing their product offerings frequently. They target niches where Chinese are not present. Today most units here have switched to speciality chemicals from bulk chemicals, where Chinese dumping is prevalent
- The result: Almost half of the 300-odd units in the Nandesari GIDC chemical hub have survived the double whammy of Chinese dumping and the economic downturn of the past 2-3 years

Summary of judo moves by global companies



Most Indian players are predominantly applying principles of Flexibility and Leverage

Company / Industry	1 Rapid Movement	2 Flexibility	3 Leverage	
	Software Consulting			✓
	Software Consulting			✓
	Software Consulting		✓	
	Software Consulting		✓	
	Telecom Software			✓

Summary of judo moves by global companies






Most Indian players are predominantly applying principles of Flexibility and Leverage

Company / Industry	1 Rapid Movement	2 Flexibility	3 Leverage
			✓
		✓	
			✓
			✓
	✓		

Summary of judo moves by global companies



Most of the global players are moving up the value chain (Rapid Movement) or exploiting China's domestic market (Leverage)

Company / Industry	1	2	3
	Rapid Movement	Flexibility	Leverage
 Textile			✓
 Leather Garments		✓	
 Electronics			✓
 Power Equipment		✓	
Indian Chemical Industry	✓		



Judo Strategies for Indian Companies

Judo Strategy

Moving up the value chain, exiting uncompetitive businesses and exploiting the Chinese market should be the cornerstone of Indian companies strategies

1

Rapid Movement

Move rapidly to uncontested ground to avoid head-to-head conflict

Action Plan

- Move Up the Value Chain
- Internal Restructuring

2

Flexibility

Be flexible and give way when attacked directly by superior force

- Productivity improvement and internal restructuring
- Sourcing from China
- Exit businesses which are no longer cost competitive
- Build distribution strength

3

Leverage

Exploit leverage that uses the weight and strength of opponents against them

- Set up base in China
- Exploit Chinese Market
- Exploit far east/other markets from China
- Increase exports of Raw Materials to China
- Don't ignore Indian Market

Industry Examples

Solutions provider, chemical producers

Software Development, Logistics, Leather garments, Power Equipment manufacturer

Software Development, Electrical, Steel, Pharmaceuticals, Textile, Electronics

Lessons learnt



Learning from the examples of their peers, Indian businesses could use some of the generic strategies set out below

Manufacturing Companies

- Reduce cost as much as possible
- Attempt to move up value chain
- Build strong regional presence and distribution strength in India
- Initiate sourcing from China
- Outsource production to China (may be even acquire Chinese companies)
- If exports are key, then it is important to build presence in China (a small office, maybe) and export directly from there

Services Companies

- Large IT Companies would require to move up the value chain to further increase the distance between India and China. IT Outsourcing, BPO and Research & Development could be the key opportunities
- IT and IT Enabled Service companies could consider building presence in China as a low cost offshore delivery center
- Professional Services Firms could set up base in China in alliance with local companies. Chinese companies would require assistance from professional services like Consulting, Market Research, Executive Search etc

Indian companies should not ignore their backyard



C. K. Prabhad and Stuart L. Hart in their essay, "Raising the Bottom of the Pyramid" opine that real market opportunity is the billions of aspiring poor who are joining the market economy for the first time

The Arvind Mills Limited
SINCE 1931



- Arvind Mills realised that few villagers could afford its \$40 jeans. So they introduced a sew-it-yourself package branded as Ruff & Tuff, that sold for \$6. It soon became India's top selling brand of jeans. Economies of scale made it possible for them to dispense of with the kit and introduce ready made jeans for \$9
- HLL realised that families economically at the bottom of the society, could not afford large packs of shampoos or lozenges, therefore they introduced sachets wrapped for one at a time sales
- Encore software, a Bangalore based company produced a "Simputer," a low cost hybrid of a internet connected computer and a personal digital assistant sells for \$200. The innovation came from a rural banker who wanted to secure transactions between a farmer and his bank as deposit collectors cheated illiterate farmers by issuing doctored receipts. One Simputer typically sell to groups of ten villagers for \$ 20 per person and for an additional \$2 each co-owner receives a smart card which helps in money transfers, email, etc

Leveraging the Dragon



- The success of India's software and IT services industry is well known and contributed to a significant change in the economic climate and global perception of India
- The forces of globalization – the search for more cost effective locations for production – make a compelling argument that India should be able to achieve something like the transformation that China has over the past decade. Indeed, in some respects, the initial conditions in India are better than they were in China
- India today is rather similar to China a decade ago. Exports are 16% of GDP, per capita GDP is just shy of \$638 and it has just over one billion people. It is a relatively closed economy without much foreign investment but great potential
- Only India can compete against China on both Labour costs and domestic market potential. India has some important advantage over China – including a more familiar and predictable (if slow) system and judiciary, better protection for intellectual property rights, and string English language skills. Hence, the demand for foreign firms for access to Indian land and labour – and eventually its market – will force the country open

Leveraging the Dragon



- The case studies presented in this report already indicate that proactive **Indian companies** view **China as an opportunity**, rather than threat and are reaping benefits
- The **focus, for Indian companies should be on great benefits of China's growth**. Millions of consumers in other countries are gaining from the low prices and high quality of Chinese goods. Businesses across the globe will profit from supplying a vast new market
- As China grows it becomes a bigger market for other people's goods, as well as a bigger exporter of its own. If there is nothing to distort this process, everybody benefits
- **China is a wonder and an opportunity** to be celebrated, not a threat to be agonized over

Indian Companies should use the Principles of Judo to truly leverage the Dragon!





Our Publications

Leveraging the Dragon III

How Global and Indian Businesses are using the Principles of Judo to exploit China's Strengths

1 December 2005

Leveraging the Dragon II

How Global and Indian Businesses are using the Principles of Judo to exploit China's Strengths

16 April 2003

Leveraging the Dragon

How Indian Businesses can use the Principles of Judo to exploit China's Strengths

20 February 2002

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