Mr. Bo Rasmusson, Session Chairman

Our second speaker of this session, Mr. Partha Bose, leads the Electronics Industry for IBM Global Business Services (GBS), Global Delivery, based out of Bangalore, India. In this capacity, he leads a large team to deliver services to companies like Ericsson, Intel, Sony and Medtronic. Partha brings 17 years of experience across India, USA, Europe and Asia Pacific. Before joining IBM, Partha was a Director in the High Tech Industry Business Unit of SAP in Palo Alto, California. He holds an MBA from the University of Rochester, an MS from Virginia Tech and a BTech from Indian Institute of Technology, Bombay. Mr. Bose, please take the floor.

Mr. Partha Bose

Good afternoon. I will talk about the Indian market, including the growth story and the corporate leverage, followed by some information on IBM in India.
Here you can see some of the things, that are interesting, when you think about India: The world's largest producer of movies, Indian Railways being the largest employer in the world, the growth of the Indian telecommunication in the last 10 years. When you come over here, the one thing that strikes you immediately, is scale. The scale of India; the scale in which things get done; the scale of the problems that face India is astounding. Consider the last elections in India in 2009, the electorate was 714 million, that is more than the combined electorate of the US and of Europe.

Think about the opportunities and challenges in India!
Four different factors are driving the economic development in India. The first one is the boom in consumption and what is called the demographic dividend. The second one is the corporate sector, especially in the last 10 to 15 years. The Aditya Birla Group is obviously a flagship example of that vibrant corporate sector. The third one is the broad based growth. It happens not only in the big metropolitan cities. Now growth happens in the tier two and three cities and in the rural areas. You have to be aware of that, when you want to expand in India. The fourth one is strong political commitment and action.

Whenever you open a newspaper in India, you may see stories about scams and corruption, but there is a lot of political will to make things go forward.
Let us talk about consumption and demographic dividend. India has a very young population with a median age of 25. In the 1970's the large population used to be a bad thing in India. There was a government program that forcefully tried to reduce population by certain governmental actions, that were obviously not well received. The Indian government lost the congress elections in 1977 because of these policies. Now, the tide is reversed, the high percentage of young people is considered an advantage. If you give these young people the right opportunities, the next years hold a lot of promise for us. If you are interested in this topic, I urge you to read the book: Imagining India by Nandan Nilekani, who is one of the founders of Infosys Technologies, a big IT services company in India.

It is interesting to experience how the young people of today are different from a generation ago. It is that irreverence and confidence, that was not there a generation ago. I think that is something we really have to leverage. Of course the rise of the middle class, the increase in consumption and discretionary spending will drive the future growth.
Now let us talk about the second aspect, which is the vibrant private sector in India. In 1998 there were only about 32 companies in India, that had revenues of a billion dollars or more. In 2009 there are about 79 companies, that have a billion dollars plus and they are growing.

On the right-hand, you see a lot of the acquisitions (M&A) deals, that have happened since 2007. Mostly, Indian companies went abroad and acquired foreign companies, significantly increasing their footprint. Some of the big deals were: Tata acquiring the Anglo Dutch steel producer Corus Group, Bharti Airtel buying Kuwait-based Zain Telecom's African business, Aditya Birla Group acquiring Novelis. These are examples of the new ambition of the Indian multinational corporations. They are not afraid to make these large acquisitions. The private sector companies are driving a lot of the growth. They are all publicly held and they have to adhere to certain levels of governance.


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The third aspect that I want to talk about is the growth, which happens across all parts of India. So it is not the tier one cities, but the tier two and three cities. There are 40 to 45 cities in India, which have a population of a million or more right now. Then it goes into the rural areas as well. We have to take advantage of that from a market perspective and from a talent base perspective. A lot of employees in my company come from tier two and three cities. 30 years ago it used to be that most of the business leaders, even successful sports people, came from the 4 or 5 metro areas. That has changed.
If you look at these cities and towns you see certain centers of competence. In the national capital area (NCR) you see competence in infrastructure, power, chemicals and petroleum. In the Ahmedabad-Baroda-Surat region you see chemicals, textile, gem. In the Bangalore-Mysore region you see electronics, services. So there are pockets of competence, that are developing across India, based on investment and government incentives as well. It is important to understand that and take advantage of that.
The fourth factor has to do with the economic reforms, which came out over the last few years. If you look at the history of India from 1950 to 1975, in 1947 India became independent. In the first 25 years one got to know how democracy works. There was mainly one political party in the national Congress. Then came the socialist regime, when the License Raj had a stranglehold on the economy. Between 1975 to 1990 the rate of growth was very low. It was called the Hindu Rate of Growth, which was 2% to 3%.

From my own experience, this was the time, when it came to buying a car, you had only one choice: the Ambassador, an egg-shaped car, that was based on a 1956 Morris Oxford model, and dominated the Indian roads for decades. It went from a Mark I to a Mark IV model with only small changes. In 1981 the Maruti Suzuki model came along.

With respect to TV, from 1970 to 1980 there was only one channel, now there are hundreds of channels, including 24 news channels. There was been a huge change from the socialist years to what we call the growth years 2000 to 2009. In the 1990’s liberalization happened. Our current Prime Minister Manmohan Singh, who was Finance Minister in 1991, took drastic measures and put the country on a growth path. A lot of things have changed India during the last 20 years and really for the better.
Some of the things that helped India during the downturn in 2008 and 2009 can be seen here. Strong banking fundamentals were essential and some new rules.
In the opinion of some people, the liberalization of the economy has been too slow and we need more foreign investments. In some aspects, the limited foreign direct investments (FDI) in some of these sectors actually helped, when there was a big downturn in the economy, because the money did not flow in and out easily.

Again a lot of the growth in India is driven by domestic consumption. Private consumption drives more than 50% of the domestic GDP.

These are some of the actions the Indian government took, that helped. Of course, I will also talk about the challenges. It is not always a rosy story.

There are a lot of challenges. For instance, the literacy rate stands at about 60%. That is quite low compared to most developed countries, in fact, quite low compared to some developing countries as well. With respect to the quality of education, we have millions of graduates coming out of our universities. A lot of them are unemployable, unless you put them through some crash courses for 3 to 4 months, where they are taught some of the fundamentals, which they should have learned during college. There is a lack of experienced and qualified faculties in college. The Indian Institutes of Technology (IIT), regarded as the best engineering colleges in India, maybe in the world, have shortfalls of hundreds of professors. Imagine what problems the other engineering colleges have!
Primary education is probably the most neglected sector of education. The facilities of most primary schools are atrocious, to say the least, especially in rural India. The government introduced the Right to Education Act. It will probably change the situation a little bit, but it will be slow. Without good primary and secondary education higher education will not come up to standards. That is a big problem!

Governance delivery systems and implementation is another problem, including corruption, scams, scandals. A lot of that happens because of lack of transparency and information; it creates middlemen, who make money by wheeling and dealing in these business deals.

Probably the largest government program that is happening in India is the unique identification authority (UID). It tries to create an identification, like the social security number in the US, for each and every Indian. It will lead to a drastic change in how funds are disbursed and banking will happen. Things like that will bring changes to the national, state and local governments. But it will take time.

I don’t have to tell you about the poor infrastructure, whether it be the roads, power, telecom or water. Poor infrastructure takes a lot out of the GDP growth in India. It is a problem, but also an opportunity. The government deficit stands at about 5% of GDP, but it is improving right now. The expenditures on health and education have to improve and go up very drastically. There is very low public awareness of the environmental quality and sustainability. India must take steps to reduce emissions.
There is the rather mundane action by McDonalds of serving chicken-burgers instead of beef-burgers in India.

But also larger companies like LG from Korea, which completely revamped their distribution system, going to the smaller cities and rural areas and making their products affordable to the Indian customer.

One of the reasons which made these companies successful was the ability to think locally and making the localizations that were needed.
Now let us talk a little bit about IBM in India. IBM was in India right after India’s independence. You can see in the small picture on the left Prime Minister Nehru with Thomas Watson. If you look at the trajectory of growth of IBM in India, you will see that it kind of follows the Indian economic growth. We were there between 1951 and 1978, selling the „big iron boxes“. When socialism came in, we were forced to exit.

In 1992 IBM came back to India, the initial start was a joint venture with the Tata group. We had slow but steady growth in the 1990’s. We set up our research center in Delhi. In the last decade our business really picked up. One-fourth of IBM’s employment base is in India. We acquired PriceWaterhouseCoopers (PWC) globally in 2002. There was a big PWC base in India, which we were able to take advantage of. In 2004, we acquired Daksh, which is a business process outsourcing company. We launched a number of global delivery centers across the area. IBM India is part of IBM’s global integrated capability strategy.
There are three reasons why India is so important for IBM. These reasons are not very different compared with other companies. If you talk to Dupont or GE, any of the multi-nationals, these are the three pillars companies are really interested in India. One of them is the domestic market. So it is extremely important for us, where in mature markets the growth rates are in the single digits, in the growth markets the rates are 20% plus.

We are working in a number of different sectors in India, with the government, with the telecom companies, with the retail companies and we work in health care. When it comes to IT-technology, services and products, IBM is considered the market leader in India.

The second reason, why we are in India, is to take advantage of the global delivery to strengthen the local resources. We are able to scale up much faster in India compared to anywhere else in the world. Even with some of the challenges we face, if we have to deliver large programs in the world, there is no other place in the world, where we can scale up so effectively as in India. Forget about the low cost, the advantage is still there, but this is the place to scale up.

The third reason why we are in India is the innovation hub. Our India research center creates solutions and products for growth markets. One example is the „spoken web“, which is a collection of voice sites based on the language eXtensible Markup Language
(XML), which enables you to create your own voice web site just by using the phone.
This last slide is about talent. Recruiting talents and retaining talents is quite important for us. We hire mostly talents from the market and not so often from universities. We look for people with 2 to 5 year experience in the IT sevice industry. Then we put a lot of emphasis on training, both classroom training and online training, as well as on diversity. Our goal is to get 30% to 35% of our workforce to be women. At the moment we are at about 25%. We really believe that with the diverse workforce we will succeed much better in the marketplace. Thank you very much for your attention.