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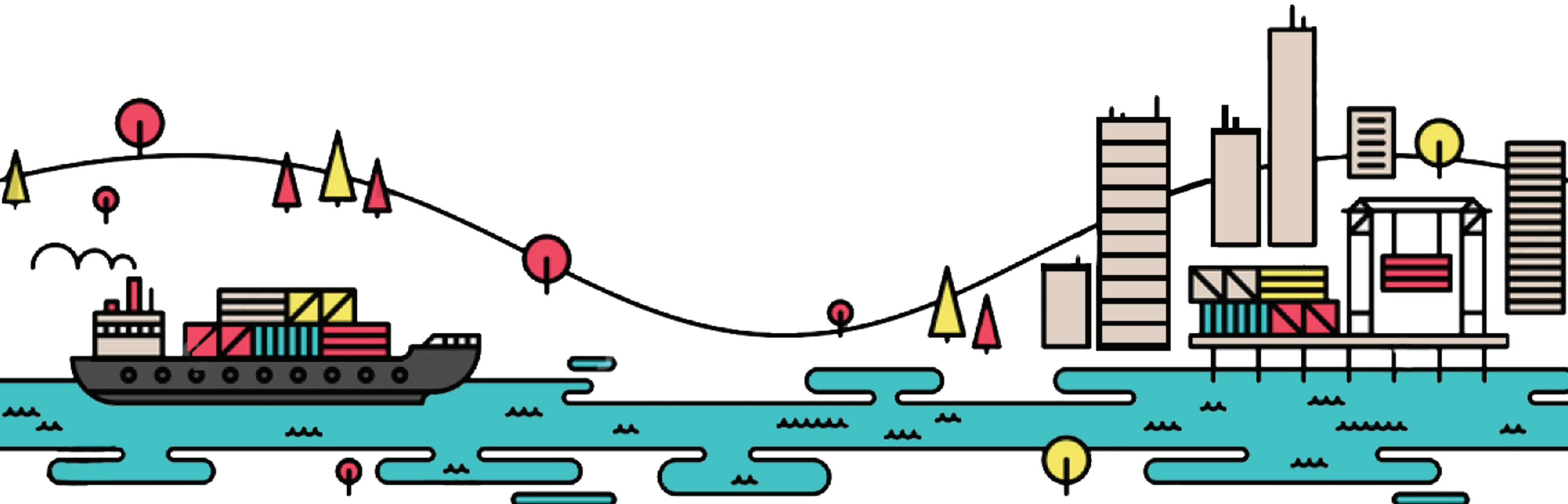
EXPORTS:
Opportunities Beckon The Enlightened

- Raj Nair

ABOUT THE AUTHOR

As a strategy consultant, Raj has helped companies across diverse industries in India, USA, Europe, and the Middle East to develop strategies, align strategy to vision, grow in competitive markets, restructure to make companies more customer focused etc. In his current role, Raj serves as - Chairman: Avalon Consulting, Ugam Solutions Pvt Ltd., AGR Knowledge Services Pvt. Ltd. and Germinait Solutions Pvt Ltd. He is currently President of IMC Chamber of Commerce & Industry, Mumbai. In his previous roles, Raj has worked as a Merchant Banker with Grindlays Bank and has also worked in the Consumer Durables industry. Raj holds an engineering degree from the Indian Institute of Technology, Bombay and an MBA from India's top business school, IIM Ahmedabad.



At first glance it is paradoxical that India's exports sank 2.15% in September at a time when the Rupee plunged 11% in the 6 months of FY 18-19. Compounding this misfortune is the report that exporters are succumbing to demands from buyers for a lower dollar price since the exporter is now getting more Rupees to the Dollar. What this points to, is the uncomfortable fact that India's inability to substantially raise exports has less to do with the value of the Rupee and more to do with the adverse power balance between the buyers and Indian exporters. It is also instructive to recognise that India's exports rose only 62% over the past 10 years even as the Rupee plunged 82% from a high of Rs 39.4 when the US interest rates were at rock-bottom. Exports should have grown over 100% with that kind of descent of the India Rupee.

The other common refrain is that interest rate is killing exports. It surely adds to the costs and makes the Indian exporter less cost competitive but for almost all goods exported from India, be it tea, coffee, textiles, apparels, jewellery or engineering goods, there are corresponding goods exported from a few other countries that command a higher price. That price differential in most cases, is high enough to more than offset the additional interest cost in India. Hence, interest rate is not the main culprit.

Many suggest rightly that productivity improvements, increasing the efficiency of the supply chain using digital technologies, going up the value chain, cutting delays at ports, removing distortions in the trade policies of the Government, access to capital and that too at competitive rates, etc. will significantly boost India's exports. Many exporters beg for a weaker rupee as a lazy macro level substitute for many of their inherent weaknesses.

My submission is that there is a much bigger and effective solution. The success stories of those who have adopted that approach are very compelling.

When you think of premium coffee, you think of Colombia and vice versa. When you think of a place with many factories with huge capacities producing things at low cost, you automatically think of China. When you think of dairy, you think of New Zealand and vice versa. When the world thinks of outsourcing IT services, it thinks of India.

That is what I call country branding. Whenever a country has been branded, all the producers in that country have done well. None of this has happened by chance. It called for a lot of thought, integrated action and investment.

Brazil was the dominant coffee producer of the world, but Colombia's half a million small and individually weak coffee growers had their own ambitions. The National Federation of Coffee Growers of Colombia was formed as non-profit business association, and it created a hugely popular brand image for Colombian coffee with its "Juan Valdez" marketing campaign from 1957 onwards, first in the US and then in Europe. The best coffee became associated with Colombia, irrespective of which grower exported Colombian coffee. They went on to spend over $ 750 million over the next 50 years to make the world believe that Colombian Coffee was the best in the world. These efforts enabled Colombia to not only become the 2nd largest coffee producer in the world but also enabled its growers to get a higher price due to the unquestioned premium image.

China decided to become the factory to the world and hence created massive capacities and low-cost structure, to dominate the world of manufacturing. China had no history of manufacturing at scale, and little did their fledgling manufacturing sector know how to compete in the capitalistic world from which it was isolated by decades of communism. Yet, China won the game. What they did is too well documented elsewhere to warrant a repetition in this article.

New Zealand stands for everything good in the global Dairy business inspite of being a very small country, inspite of being only the 8th largest milk producer in the World, and inspite of producing less than a third of the milk that India produces. Their 10,500 dairy farmers got together under the umbrella of a co-operative called Fonterra which marketed New Zealand as the Dairy Queen of the world.

New Zealand couldn't even have dominated the Australian market, let alone the whole world, if their dairy farmers had chosen to fight in the global markets individually and if their joint ambition wasn't to dominate the market segments they chose to play in.

One thing all these success stories have in common is a collective decision to join hands to dominate the world. How else could India's own IT Services industry completely dominate the world of IT outsourcing? The IT companies created a body called NASSCOM in 1988 and it focused on building architecture integral to the development of the IT BPM sector through policy advocacy and help in setting up the strategic direction for the sector to unleash its potential and dominate new frontiers. The key word is Dominate. It did things to dominate and not just grow. That is why today, India gets more than half the IT global outsourcing business and about 38% of the outsourced BPM business. Together they decided to offer things that have a comparative cost and skill advantage. They started with software services because there were plenty of skills available at low cost. They did not start with IT products because they did not have high-end product development skills or the risk-taking capability.

Under the leadership of the visionaries from the newly born IT sector, they developed a strategy to dominate the world and in order to execute the game plan, they created a secretariat headed by an energetic and "never say die" young rookie named Devang Mehta to evangelise the advantages that the western world could gain by engaging with companies in the Indian IT sector. Everyone is familiar with the legendary success of the IT sector.

This strategy is also reflected in nature. Bees attack in swarms. Small fish gain strength by moving in shoals.

India's exports have been dominated by SMEs with nearly 40% of India's exports coming from them. However, they hunt individually, often not evaluating how and where in the global supply chain they ought to play and what the interim steps ought to be, in order to get there. They are often too small to conduct market research by themselves or to engage consultants to develop the strategy which they should follow. Consequently, the buyers are often stronger than the exporters even in the sectors in which Indian exporters have traditionally grown significantly, like jewellery, apparel, etc. They dictate terms and Indian exporters, barring a few, are reduced to almost performing job-work; not that it is not profitable to do that. An SME cannot be expected to be able to stand up and dictate. But like fish, they could defend together or like bees attack jointly. For that they need to band together and attack the target markets with the power of the group rather than fight individually with exposed flanks. The need to create national branding to make key exporting sectors from India, the most coveted, the most reliable, and the most consistent in the world seems obvious given the overwhelming evidence in its favour. However, this appears to have eluded Indian exporters by and large. Creation of such a national branding will require Indian exporters to develop enlightened self-interest to co-operate and adhere to certain commonly agreed standards and customer management principles, invest in essential shared processes and activities, and to act with one voice, thus creating digital supply chain management systems and processes, etc. The importance of the last-mentioned point was highlighted during my recent visit to a diamond polishing factory in Surat. This successful exporter whose B2B revenue exceeds $ 1 billion per annum, does nearly 80% of his business online. It clearly shows where the world is heading.

Marketing of key export sectors under the umbrella of a compelling national image complemented by a shift to digital marketing and sales, will constitute a winning platform for Indian exporters.

AVALON Consulting

Founded in 1989, Avalon Consulting is part of the 2,200+ strong Avalon Group with operations across the entire knowledge spectrum covering Consulting, Business Research and Analytics. At Avalon Consulting, we provide solutions to business problems related to Strategy, Performance Improvement, Organisation Transformation and Transaction Support to companies across the globe. Our practice areas include among others Agri and Food Processing, Automotive, Chemicals, Engineering & Capital Goods, Metals and Infrastructure.

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