

INDIA

The New Outsourcing Destination

From toothpaste to printing machinery, from Christmas presents to colour televisions, global companies are sourcing a range of products from India. What is the India allure? **Darrel Philip** finds out

While the issue of Business Process Outsourcing has been grabbing media attention, what has largely gone unnoticed is that India is quietly becoming the source for several quality wares. Given the country's skills in design and knowledge-based manufacturing, it is becoming a sourcing hub for a slew of products — from consumer durables to FMC goods, such as toothpastes and toiletries, and even manufactures, such as printing machinery. And, drawn by the other advantages, India is now the preferred source for several raw materials for many MNCs.

Not so long ago, cost pressures were the main reason that drove multinationals to low-cost manufacturing destinations in the developing world. The products that were sub-contracted to the Far Eastern subsidiaries of MNCs were largely consumer durables. The emergence of the Asian Tigers in the eighties, with their double-digit growth rates, was the result of such outsourcing. These days, China is the new and very visible source for such manufactures.

But many megacorps, today, are looking for more than mere cost-compression. They are looking at several parameters and various efficiencies as well. A recent study by the India Brand Equity Foundation bears this out. According to Ajay Khanna, CEO of IBEF, India is now being recognised for cost competitiveness in knowledge-based manufacturing. "Global corporations are leveraging India's strengths in product design, customisation with creativity, quality and value addition. This is the beginning of a vibrant manufacturing activity..." says Khanna. The Confederation of Indian Industry, an apex industry association, predicts that the quantum of outsourcing, which is currently growing at over \$ 1 billion annually, will gross \$ 10 billion within the next three years.

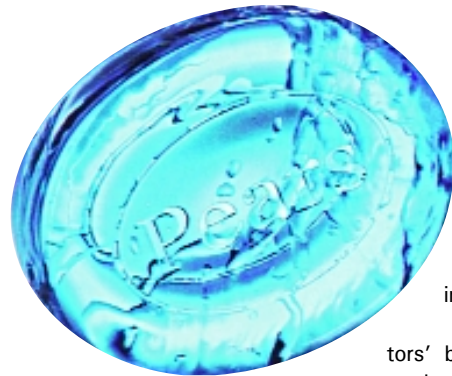
Procter & Gamble, the \$ 43 billion

FMCG major, has many plans for tapping into India's varied skills. It is currently sourcing the cold remedy Vicks and also Psyllium, which is used to make a laxative, from India. P&G is now considering making the Psyllium-based product in India to save on costs of shipping it to the US. A plan to export Whisper sanitary napkins from India to the ASEAN region is on the anvil. P&G, which currently sources over \$ 80 million worth of products and services from India, is examining opportunities in outsourcing in engineering, fabrication and research and development.

If P&G has been here, Unilever will have been doing it before. That is because the Anglo-Dutch giant, decades ago, was by far the first foreign company which perceived the importance of India to its global operations. Its Indian arm, Hindustan Lever, is currently the largest subsidiary of a foreign company in India. For Unilever, Hindustan Lever has turned out to be not just a source for quality supplies but also a major HR resource as it has provided not only managers for Unilever's global operations but also board members.

Based on manufacturing cost-benchmarking studies across Unilever globally, Hindustan Lever emerged as one of the most competitive production centres for its home and personal care products. It currently exports a wide range of products, such as soaps, detergents, oral care products and skin care products to Unilever subsidiaries. Lux, the soap modelled by filmstars, and the macho Lifebuoy soap, go to the Middle East and Africa. Pears, the legendary glycerine soap, goes to the US.

Currently, an estimated 50 per cent of Hindustan Lever's \$ 260 million exports go to Unilever Group companies around the world, and that proportion is fast growing. Encouraged by this trend, Hindustan Lever is setting up a new export-oriented unit in Pune, an industrial city 100 km southeast of Mumbai, to cater exclusively to the



needs of this burgeoning Group business. "Hindustan Lever's vision is to build a billion dollar sourcing business out of India," says M S Banga, chairman of Hindustan Lever.

As in the other cases, Hindustan Lever's sourcing business has not been led by mere cost-compression. There is a larger footprint to it. "Our engineering design, set-up and project management skills have

enabled us to set up production facilities at one-fourth to one-third of capital costs in developed countries," says Banga. He sees great potential even in raw materials for detergents, soaps and shampoos, whose exports could quintuple to \$ 500 million in a few years.

Picking up a leaf from its competitors' book, Colgate-Palmolive has also started taking India seriously as a sourcing hub. Its Indian subsidiary has built a new \$ 11 million factory for toothpaste — which actually consolidates two facilities in one — in the ecologically sensitive state of Himachal Pradesh in northern India at the foothills of the Himalayas.

Significantly, this plant has been established at a time when the parent company is cutting back on the number of manufacturing locations worldwide and there are

indications that India could likely emerge as one of the 15 sourcing destinations, post-restructuring. When that happens, it would mean a huge growth opportunity for Colgate-Palmolive India, which has been languishing for a while from low-category growth and increasing local competition in the domestic market.

Just like the competition, raw material sourcing also figures in a major way with Colgate. Ian Cook, the company's executive vice-president who was recently in India said that, in the area of procurement specifically, Colgate had taken an aggressive experimental stance. "We have established sourcing organisations in China and also in India and we believe we can take the same across regions for raw materials, product materials and indirect materials too." Colgate procures \$ 1 billion of indirect materials every year and expects 10-15 per cent savings from this initiative.

Dilip Chhabria: Designing a legend



OUTSOURCING to India is not confined to manufactures; the citadel of design and preparing of prototypes in the glitzy automobile world too has been breached. Mumbai-based auto designer Dilip Chhabria, who is currently designing for Ford and Toyota in India, is also designing for some major European carmakers, but is bound by confidentiality clauses not to speak about his work. What is, however, documented is his making of

the prototype of the legendary car marque readily associated with James Bond — the Aston Martin. The sporty and muscular Aston Martin V 8 Vantage, built by Chhabria, was unveiled at the Detroit Motor Show in January 2003. *Autocar India* hailed it as a major breakthrough in the automotive field. The £ 70,000 luxury sports car is slated to roll out in the European and US markets in 2005.

Ford Motor Company, owners of the Aston Martin brand, had signed a contract with Chhabria for producing a new Aston Martin, which is admired for its impeccable styling and thoroughbred performance. Faced with the challenge of lending a new look to the car while maintaining its classical appeal, Chhabria and his team of 40 technicians from DC Design, Chhabria's firm, delivered a sportier and tauter vehicle with short front and rear hangs.

Made from sheet metal, the Aston is powered by an all-new V8 engine and the interiors of the Aston Martin have also been created by DC Design, with an all-vegetable hide interior and machined aluminium accents. "The hard work and relentless efforts put in by every member in the DC Design team to establish ourselves as a world class automotive design house have been vindicated. This is the first time that an international auto major has outsourced design to an Indian company for designing a prototype. In addition to cost benefits, we have proved that India also offers design capabilities that are at par with European design houses," says Chhabria.

Incidentally, cost of developing a car in India is one-fifth compared to other developed markets. According to Chhabria, India was probably the eighth country in the world, and second in Asia after Japan, to design cars.



In the rush to source from India, predictably, the first movers have been companies — such as the MNCs listed above — which have established manufac-



turing bases in the country decades ago. They have been quick off the block as they enjoy many advantages.

They have Indian subsidiaries that are conversant with the lay of the land; they are familiar with local vendors and business practices and they are already producing, under Indian conditions, products that match international standards. Another locked-in advantage is that they have a management team in place that is conversant with the company's global manufacturing processes and has been in touch with company HQ.

In the case of Tetley, the tea company, the situation has been a bit different. The company was bought over by Tata Tea, an India tea company, and now the largest in the business. The buyout provided Tetley with a leg up on the competition when it came to its Indian operations.

In the wake of a restructuring, the US manufacturing has been completely outsourced to an Indian joint venture company, while its Australian manufacturing facility has been closed and tea for that market is being sourced from Tata Tetley, the joint venture company between Tata Tea and Tetley in Kochi, in southern India.



To be sure, the India lure goes beyond just FMCG companies. Engineered products are also among those being envisaged to be sourced from India. Among such initiatives:

- ◆ GE has entered into an OEM deal with Thermax India to supply chillers for GE's power systems in the US.

- ◆ Bobst Group, the world's leading maker of packaging and printing machinery, has decided to set up its

facility near Pune to export peripherals for flexible packaging and reconditioning.

- ◆ Matsushita has decided to source Panasonic colour TVs from India for the global market.

The retailing business has caught on too. After Bloomingdale's began sourcing from India in a big way about two years ago, other US retail-



ers have joined the bandwagon. And, while Wal-Mart has a buying office in Bangalore, JC Penney and Target have buying offices in Mumbai and New Delhi respectively. Other global chains are also setting up buying offices in India. And Macy's, Selfridges, Neiman Marcus and many more are currently busy checking the wares that are going to be displayed in their stores at Christmas. Their Christmas shopping list includes scarves, cushions, beaded mats, X'mas tree hangings, etc.

Now the \$ 3.5 billion Littlewoods of UK

has set up its second office in India. It is in the southern city of Bangalore, more renowned as the prime BPO destination, in addition to its New Delhi office. The new office is to handle the spurt of outsourced products from south India and neighbouring Sri Lanka.

Explaining the heightened interest of his company in India, Jon Wragg, trading director of Littlewoods Home Shopping said, "Everybody is talking about China, which is good for big production runs. But India fits my business better because we buy small lots."

Small lots are a big draw among apparel makers, especially for high fashion wares sought after by boutiques. But, to other manufacturers, especially in industry, the lure is in the all-important comfort factor. As Procter & Gamble's VP, R&D, Larry Huston, summed up during his recent visit to India: "Global corporations

trust India for its competence in manufacturing process, quality and design skills. When multinationals outsource from Indian companies through the OEM (original equipment manufacturer) route, they feel secure because they deal with companies that have the necessary legal and financial systems that are regularly audited."

There may be something fitting in that. Because the very legal and financial systems that MNCs find comfort in, were introduced in India more than two centuries ago by the East India Company. That company, which came to trade in India and later stayed on to create and rule the Jewel in the Crown, was reputedly the world's first MNC....