

Journey towards competitiveness

India's manufacturing industry has all the ingredients for success, but need the right vision.

INDIAN Manufacturing Company has come a long way from a contrived system seen up to the beginning of the '90s. The challenges posed by open international markets recognized cost, reliability and quality as the only mantra, whereas exports during that period lacked competitiveness. It has been a tortuous journey and is still not over.

Five years ago, an Indian manufacturer of engineering goods would have found it difficult, not impossible, to become a major supplier to any marquee global customer, inadequate infrastructure, red tape, delays and a track record of shoddy output.

India was a laggard while other countries in Asia evoked serious interest from the early '90s. With a major chunk of FDI in manufacturing directed towards other low cost destinations in Asia, many Indian companies reworked their strategies. They undertook comprehensive restructuring, including paring costs, revamping inventory, receivables and logistics management and cleaning up their balance sheets. They also consolidated undertook, time bound actions plans in operations, technology and product development, and unlocked human resource capability.

Manpower rationalisation was taken up by major companies like Tisco, Tata Motors, Bajaj Auto and Bharat Forge Ltd. Public sector companies like Sail undertook major restructuring as well. In the past 3-5 years, many Indian companies have emerged focused, lean, with skills and technology in line with

global practices.

India is been looked at with keen interest by global majors, not only to market their products but also as an important hub for outsourcing by value added engineering products. I strongly believe that outsourcing manufacture of engineering goods will be an opportunity, even greater in magnitude than IT enabled services. The auto component industry is poised to benefit. In the next 10 years global outsourcing of components is likely to grow to \$225 billion by 2015.

Sheer magnitude will bring a radical change in outlook from being content in incremental growth in volumes and profits. However, despite changing perceptions, global players will continue to have many concerns. We are still best with a tunnel vision often at odds with global development. The biggest challenge will be to scale up. Global competitors will cash on any laxity on this front. Indeed, timely creation of strong entry barriers through build-up capacities and capabilities will be the key to sustained survival.

The focus would have to be on delivering superior and unique value. Product quality is major issue even in case of

manufacturers with internationally quality certifications. The result is skepticism about delivery capabilities for large contracts. . Clearly, there is still need for an image makeover. Protection of Intellectual Property Rights will have to be ensured to encourage inflow of investment.

Until these issues are addressed marquee clients will prefer to set up in-house facilities in India of outsource their requirements from a select few. The industry will have to build its internal competencies around two strategic themes. One, cost leadership; and two, innovation to build design and engineering competencies for future movement up the value chain. By and large, reduction in fragmentation is critical for this.



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- ▶ **India is attracting global Interest for outsourcing engineering products**
- ▶ **The emerging focus will have to be on delivering superior and unique value**
- ▶ **We need to graduate to intellectual and design-led product leadership**

Further, there is a need to address quality issues and upgrade technology. Economies of scale require consolidation as a necessary condition for meeting these challenges. Many companies are aiming to make their mark globally. Corporate governance as well as best practices in international accounting have been adopted. There is a sense of growing self-confidence, which augurs well.

As far as future challenges are concerned, rising cost pressures abroad and greater awareness of India's advantage will cause global players to set up shop here and threaten domestic manufacturers. In an increasingly competitive market environment like in China, there would be

a shift towards specialization.

Labour arbitrage differential is a mere short-term advantage to attract global investments.

It is imperative for Indian companies to go up the value chain through adequate investment in R&D. Competing with a country like China, which also offers a far bigger domestic market will mean building on technology and value-added products. Indian industry should graduate towards intellectual and design-led product leadership and not focus on costs alone. People development will assume even greater emphasis to enable lock-in with customers.

There are many ways of developing a technology base. Doing it organically takes enormous effort and time. One way to reduce the timeframe is global acquisitions. Many Indian companies are quick to respond to inorganic growth opportunities by acquiring companies abroad. Bharat Forge acquired a reputed foreign company called Carl Dan Peddinghaus (CDP) not only providing complimentary production capacities, but also excellent market synergies.

To attract global capital into the country, it is critical to generate a conducive policy climate. Indian manufacturing industry has all the ingredients of success. We can look forward to becoming a global hub for R&D based manufacturing in automotive and auto components related fields. Sectors such as pharmaceuticals retailing, telecom, automobiles, biotechnology and oil are considered "native" in terms of investment, growth and M&A activity. These hold great promise in the time ahead. It is question of developing proper vision and focus and results will follow

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