International Marketing
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Lecture – 38
Interaction with Practicing Manager

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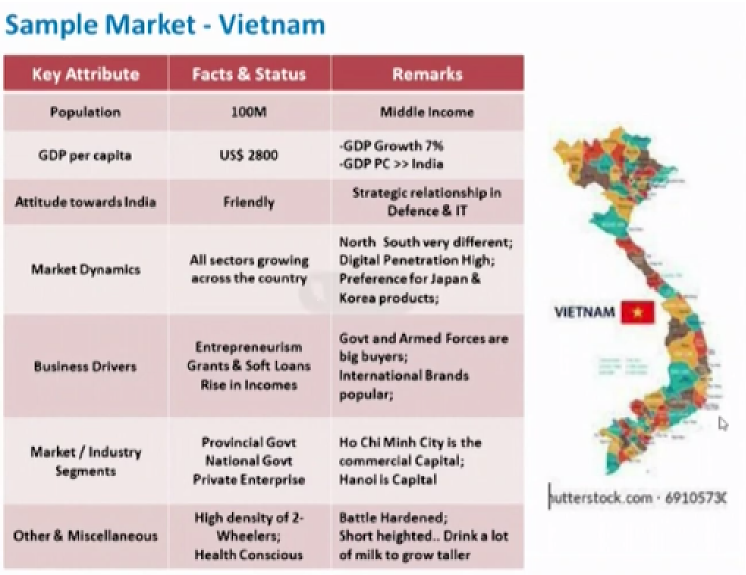
Sample Market - Vietnam

Key Attribute	Facts & Status	Remarks
Population	100M	Middle Income
GDP per capita	US$ 2800	-GDP Growth 7% -GDP PC >> India
Attitude towards India	Friendly	Strategic relationship in Defence & IT
Market Dynamics	All sectors growing across the country	North South very different; Digital Penetration High; Preference for Japan & Korea products;
Business Drivers	Entrepreneurism Grants & Soft Loans Rise in Incomes	Govt and Armed Forces are big buyers; International Brands popular;
Market / Industry Segments	Provincial Govt National Govt Private Enterprise	Ho Chi Minh City is the commercial Capital; Hanoi is Capital
Other & Miscellaneous	High density of 2-Wheelers; Health Conscious	Battle Hardened; Short heighted.. Drink a lot of milk to grow taller

So, we discussed about Bangladesh. Now, let me give you example of another country that is Vietnam, again, one of my favourite countries and not an element of bias, I just see the way that countries grow. Look at the per capita GDP. It is 2,800 dollars, a country which was ravaged by war, longstanding war, I think the war lasted two decades. Of course, they were also under French occupation. Just like India was under English occupation, British occupation, they were under French occupation for a long time.

And after they got freedom from the French, then they had this north south war, which was fuelled by other superpowers and they had a torrid time. But what has happened as a result of that, just to give you an example, because I am from the healthcare industry. I have never seen, of course India also has that. Vietnam has even a more robust armed forces healthcare network, the kind of hospitals that they have at the nook and corner of the country is all because they were fighting wars.

They had injured soldiers, and they had to be taken care of. So, they built that infrastructure. Amazing, very dynamic people. GDP growth 7%. So, these are all countries where GDP is growing pretty decently and consistently, 7% per capita GDP, much higher than India. India and Vietnam have a very good strategic relationship in both defence and IT and they are fairly friendly countries. But I am just saying you have to be conscious about that country, what are the common factors?

What is the common brotherly factors that you can find between the two countries to be successful over there, yes. But you should also remember more than loving India, they love Japan and Korea for a variety of reasons and we also know that, both Japan and Korea make quality products. But why Vietnam loves Japan and Korea is because both these countries have invested a lot of money in Vietnam.

There are Japan aid projects and Korea aid projects in Vietnam and quite a few of them are grants and some of them are soft loans. Japan and Korea do not do that. Japan does charity in many parts of Asia, in many parts of Africa, so does Korea and they respect the Korean and Japanese product, but they also respect India. Indian people are welcome there. Then all sectors are growing. But north and south are very different as I mentioned a little while ago.

Digital penetration is very high. They have some very interesting concept plus tourist traffic is very high in Vietnam. You will find a lot of European tourists over there, a lot of Indian tourists are started going there. Indians usually prefer going to either let us say Malaysia, Singapore, Thailand or they will go to Europe and those kinds of places or Kenya. But a lot of Europeans come to Vietnam, especially those who love the sea, those who love greenery and wildlife you will find a lot in Vietnam.

By the way, Vietnam has one of the largest caves in the world, huge cave. So, people come to see there and since a lot of foreigners come their hotel industry is very vibrant. Big international brands are sold in Vietnam. So, if you go to Ho Chi Minh City commercial area, you will find the best of brands and some of the models that you find there are not even available in India. I have experienced it myself.

So, Vietnam is a very interesting country. The income as I said is constantly rising. People want to buy. It has one of the largest numbers of two wheelers in the world. In terms of density, it will probably be the number one in the world. If you are in Ho Chi Minh City and if you are standing very close to traffic signal, you will only see two wheelers in front and practically every member in the family has a two wheeler in Vietnam.

So it is very popular. You know a typical image of a Vietnamese person with a straw hat on the bicycle is very traditional, it is symbolic, it is the signature picture of Vietnam and I have seen it myself. Bicycles, mopeds, motorcycles for everyone, And another important part of Vietnam as compared to Bangladesh if you go to any office, do not be surprised in most offices you find 50% women workers, very interesting.

I mean Philips Vietnam had women workers. I have been to at least 50 other offices where you will find more women than men or an equal ratio, very encouraging, very interesting because every individual in that country is contributing to the country's growth that is the beauty of that place that is why I love that. Great place, great market for any damn thing, for any product. Again, two different just like Bombay and Delhi.

Ho Chi Minh City is the commercial capital, Hanoi is the political capital or the capital of the country. Hanoi is up north, Ho Chi Minh is down south. The neighbouring country is Laos and in Thailand, so culturally very similar. Again, they are very battle hardened people, very interesting. They are short heighted people and they think by drinking more milk, they will grow taller, you need to understand these cultural realities.

It is also very famous for roadside cafes. I never expected that Vietnam would be known for small coffee shops across the country. Why? Because they grow coffee, Vietnam grows coffee. Where did they learn growing coffee from? From the French and you will find all kinds of coffee varieties over there. These are not fancy coffee shops, these are typical like how in India we have the roadside tea shops, these are like that, a little more structured, a little more disciplined.

You will have these small chairs on the pavement, you can sit there, small tables and they will serve you coffee, fantastic. So you need to understand these cultural differences that will help you to bond with people there and to do business there. They are also very health conscious as I said. So that is about it. You need to do a very thorough study of any country that you want to go to or when you are shortlisting the countries.

I have said that enough and I do not mind sounding like a parrot, but the more study you do, the more data you gather about the variety of things that we spoke about that much more clarity you will have as to whether to go into that country or to not go into that country. And if you do decide to go there, then how do you need to run your business? How do you need to start? Where do you need to start? What resources do you need? Thank you so much.

Sanjay, thank you very much. Sanjay, I have couple of questions for you. Sure. The first thing Sanjay, you have worked in such a large territory in Asia Pacific region, do you have any conflict while establishing a direct network in a country where you had previously a distribution network? And how do you migrate from the distribution network to the direct network or you had a hybrid network?

So, can you explain to the practicing manager as well as the students, what are the challenges for you? So sure. Now, I was the CEO of Bangladesh and Sri Lanka. And I am taking this example and then I will come to the Southeast Asia example. So, but let me restrict myself to South Asia for the moment. Bangladesh, there was no issue, most welcome. Then I decided that I must shift to Sri Lanka, I was managing both the countries.

So I had to make base in one of the places, I could not be in India because as per the law if I am India and doing business in Bangladesh and Sri Lanka, the business from both these countries will become taxable in India, so I had to go to one country. So, I decided to move to Colombo. Now, I was already running in and out of Colombo. So, I would spend 15 days in Colombo in 15 days in Dhaka and I was traveling there.

But to be able to make a base there and sit there and operate from there, I had to apply for a permit which called the work permit. The work permit took 11 months to get, why? Because they want to be sure that the local country has advertised the position, readvertised it and again advertised it and when they did not find any local candidate worthy enough to handle that position, therefore they chose to go for an Indian gentleman to run Phillips over there in Sri Lanka.

So, this is I am just talking about for me itself number one. Number two, you spoke about to have direct and indirect, while we had direct presence in Sri Lanka our entire business was done through a distributor, you cannot do business directly, now in spite of the fact that we had Sri Lankan employees in the company, other than me everybody else was a Sri Lankan. But we still could not do business directly. It had to be through a partner.

It is something similar to Malaysia where you have a Bumiputera concept. If you are not a Bumiputera or if you do not have a Bumiputera or a local in your company, very difficult to do business in those countries, so that is Sri Lanka. But Bangladesh, very open. And we had to keep the balance in Sri Lanka between the distributor and us and he would know his importance so he would play his cards accordingly and we had to balance those cards.

So it was an interesting battle, but we grew. The fact is that we grew and we grew profitable. Yeah, Sanjay when I used to work for one of those large US company in these countries, the government tenders typically were all submitted in Sri Lanka directly by the distributor, we are not allowed to really submit the quote directly, yes. And we did local registration also to quote there as a product registration.

And coming back to Bangladesh, you had a totally different; there you have established your direct network and then you had distributors also. So how do you manage this hybrid network in Bangladesh? Did you do give some national accounts or the large accounts like Apollo or Square with directly with Philips and then the smaller accounts to the distributor or the consumables to distributors, how was the mode? So I would put it like this.

So big capital equipment costing multiple crores or half a million dollar, 1 million dollar would be; so the Bangladesh customer would open a foreign currency LC in US dollars and buy. And then they will be shipped from the factories into Bangladesh and the Indian team or the in the subcontinent or South Asia team would manage it along with the local Bangladesh team. So that is how we did the business.

We had distributors for different products, I was managing both healthcare and the consumer business of Philips for Bangladesh and for Sri Lanka. And we had modern retail partners, we had big business houses as partners. For example, Transcom was our distributor in Bangladesh. Where is Transcom, yeah, here Transcom. Transcom was our partner. Pran wanted to be our partner, but we thought Pran was too big for us.

Not that Transcom was small in any which way, but there was a traditional relationship from lighting which we carried forward and did that. They were not doing our medical business. Our medical business partner was somebody else. We had more focused small professional partners who were from the industry, had the relationship with the medical customers, and then we chose them, but as I said the Apollo's of the world, the Square hospital of the world, the Popular hospital.

Popular is a brand of hospitals there, they will all import open a foreign currency LC, they will not buy local currency. But if they had to buy small products and they wanted it quickly, then our local partners would have a stock of items costing 5,000 dollars or 2,000 dollars or 10,000 dollars. So they will have the local stock, they will buy from us and then they will put their margin and sell it to these customers, so they could, it was a hybrid operation.

Actually, even in India most companies have a hybrid operation simply because you cannot be everywhere in the country here also. Physically you need partners to get you the reach and you need your presence to build the relationship, build the brand, marketing, communication, those kinds of things. Sanjay, what is your suggestion to the practicing managers regarding giving the credit to the distributors or credit to the customers.

Instead of getting a letter of credit, maybe in form of irrevocable letter of credit or a revocable letter of credit instead of that giving a three months credit and then typically on the sight draft payment and all those. So, how risky this proposition from your experience or what you suggest? So wonderful question and this is a challenge that we faced everywhere in many countries. And we took business calls. I will put it this way.

Sometimes you have to take risk if you want to grow, but calculated risk with a mitigation plan. If you are taking, I will give it very generically. You cannot have a binary answer to this that you do not take risk or you take risk. If you are taking risk, you will have to see how stable is the banking system there number one, number two what is your comfort level? What guarantees do you have from where?

What is the mitigation plan that you have? In case if this guy defaults or this entity defaults, what is your mitigation plan or what is at stake here? You have to factor in all those things. If you are asking my personal suggestion, if you are dealing with a private entity and you are a new entrant in that country do not give unsecured credit, do not give unsecured credit at all. Because you are still new in the country, you cannot bring in.

You already have challenges, you can add your number of problems by having a bad debtor who has not paid you on time because if you have not secured it, in India PDC post-dated check can be an instrument, may not be the case in the other countries. So, you have to secure, you can give a credit LC. You see one thing that worked very well in Bangladesh was a credit LC because international credit was available at 4 to 5%.

Whereas local credit rate was maybe 14-15%, so they could do that. And if the currency was stable, it did not matter much. Yeah. So, I would say, yeah take a conscious call on that. Yeah. Sanjay like I have seen during my roughly around 10 years in international marketing in various Asian countries, see that typically a distributor will try to not accept say that like I am a Bumiputra from Malaysia, I am being there for last 10 years or 15 years.

I deal with so many large companies and I am typically talking about the healthcare distributors, yeah, and they say that we do not go to bank for opening LC and the LC we have to make 100% upfront payment to the bank and all those. So, we prefer to have a sight draft and all those and then payment after maybe after 30 days or 60 days credit. Then maybe after insisting they will open letter of credit and then they will continue for a couple of years.

And they will say now I have established enough credibility with your companies, why do not you give me typically on business credit and for 30 days or 60 days. I have seen, I had taken some calculated risk, but I had seen that this distributor has taken the advantage and not made the payment and you know the legal options are so critical. Yeah. So, what do you think? What is your view?

Should we should we go into this type of a trap say the distributor really makes a very good relationship with you, builds a very good trust with your company and then finally after 2 years and they do not decide not to make payment, buy large quantity of equipment's and not to make payments. So, what is your view? You know a business manager at the end of the day becomes responsible for complete financial loss, whatever you the gained in last couple of years. That is true.

So what is your view? What do you suggest? Take a ruthless call, not to give any credit. Yeah, I mean, if you can, again as I said you have to make the choice. See suppose if you are already there in Malaysia and let us say a significant portion of business comes like in this fashion, and I know Bangladesh all these Datto's, Datto series these are the guys who own the distribution companies, right.

And these are the private contractor companies who bid to hospitals and bid to healthcare systems. You have to take a balanced call, we have taken risks. I would say as far as Malaysia is concerned or as far as Vietnam is concerned, we did not lose money but our payment did get delayed because there were situations where as you rightly said the relationship was established, and they were getting more aggressive and they did not want to play with their money.

What we will do is we will make them sign some contracts, fine you are not giving banking thing, we would first find out their financial history. We will find out their credit rating through third party, like I would say financial detectives as you have over there, we will find out from that. You may use international people, we will get them to sign some guarantees. I am not saying bank guarantees, but some kind of guarantees and many times we will say you want items worth 100 dollars give us guarantee for 50.

It is a question of negotiation. It is a question of how desperate is he for your brand to sell to make his business and how desperate you are to get in services to do business and find a balance in that somewhere. Yeah. There is no standard answer for it. It will change from situation to situation and entity to entity. And Sanjay in which country you will think is the most challenging for you to get the regulatory approval apart from China.

Which are the countries where it was very challenging for you to get regulatory approval? Malaysia, in fact most of the countries in Southeast Asia, not so much Bangladesh and Sri Lanka, not know much of Bangladesh and Sri Lanka, but most of the countries in Southeast Asia have upwards of 6 months to get the regulatory approval, which means you can get the first piece in, but you can start promoting the product but you cannot pick an order or you cannot invoice.

You cannot invoice, you cannot quote for a tender. I remember in some country we could quote for a tender because the decision making process was pretty long and by then we would have already got the approval, so there were some places where you are allowed to quote, but in case if the decision happened before you got your approval, you would lose it, but otherwise you could make it.

So Sanjay, what is your suggestion to the Indian entrepreneur starting the operations and where the product registration needs 6 months to 8 months, how they will span exactly? What will be the activities like establishing and network and then spending because there will be no revenue for 6 months to 1 year, there will be only expenses. Yes. What is your solution to them? See my suggestion to them would be if the overall market is big, first of all what is the size of the cake? Yeah. Number one.

Number two how many players are already there? What is it that you are fighting for? And how well is your product placed in that competitive environment? Yeah, and then is there a long term growth potential? Is it something that is going to be there for more than 5 years, 10 years? Can you be there forever just like you are in India and keep growing over there or is there a disruption through manufacturing possible?

I do not know what is the product? What is the consumption level? So for example, if you are selling ECG machines in a country like Philippines, you may need thousands of them, you may need a few thousands of them. So, are you willing to manufacture? Is there a market? Is manufacturing a favourable environment there as compared to getting an important product listed? Because when you have manufacturing, you have a local partner.

So the whole view of the authorities changes to you. So, I think it all depends on, do not flirt in international marketing, it is not a place to flirt, you have to have a serious international plan. So let me share something with you. In my current company, we do international business because we are a software solution company, right. So, we do business opportunistically. We have sold to Africa, we have sold to Bangladesh, we have offered our solution in Sri Lanka and stuff like that.

There is no big hardware that needs approval. So we are in a different scenario, so we can afford to do opportunistic business, we do not even have to go to that country, we can just sit here and do the business. But it may not be possible for the others. If you are into devices, if you are into capital equipment, if you are into appliances, consumer electronics all these would need an approval in that particular country if you are manufacturing something locally.

How difficult it was Sanjay for you to get the approval for the appliances in Sri Lanka or in Bangladesh for Philips? Thankfully, because the Philips brand was already there in those countries present through other partners, we did not have to worry too much about the approval of the appliances and secondly these are domestic appliances, right. So, the approval criteria is not very stringent. What was very stringent was the medical equipment.

Medical Equipment, yes. Yeah. But you did not have any manufacturing of these Philips appliances in Sri Lanka or in Bangladesh, no? No, in Bangladesh we had manufacturing only of lighting products, bulbs and some tubes, not all the lighting, not the fancy lights, but the basic lights, fluorescent lamps and those kinds of things. But otherwise, yeah they were all; so India is a big manufacturing base for Philips appliances. So is Indonesia.

So we used to import from there. So, we used to take from India as much as possible because we had a favourable duty on made in India products in Bangladesh because of the bilateral relationship between the two countries. So, we focused more on that and we were thinking when I left we had already submitted a business plan for manufacturing these goods in Bangladesh and then we could actually supply from Bangladesh into Sri Lanka also, so get the volumes of two countries and manufacture in Bangladesh.

We found there were some interesting calculations on taxes, these we could save a lot and increase our margin at the same. Why did you do it? Why cannot you supply it from your India factory to Sri Lanka, was there any taxation advantage for supplying from Bangladesh to Sri Lanka? So the funny part is in Sri Lanka it did not make any difference whether you are bringing from India or you are bringing from Singapore because the duty was zero on many appliances. Many of them, it was zero.

So category, there duties go from category wise. So if it is a mixer grinder whether somebody brings from Singapore or somebody brings from India, the cost would be zero. So, what had happened was when we entered the Sri Lankan market, they were only used to getting products from Singapore. When we entered, we stopped that flow because if we were to compete with Singapore we would have never been able to establish our business.

So, we focused on first trying to close that pipeline and improving the distribution network, providing local people, doing a lot of local shows, and exploring all kinds of channels. So, there is a very interesting direct marketing channel in Sri Lanka, very interesting direct marketing channel. These guys have those Tata Ace kinds of vehicles and they have warehouse space. What they do is early morning they will stock goods in this warehouse.

In this Tata's small commercial vehicle and go out door to door, retail outlet to retail outlet, even home to home. And there will two guys, a driver and another guy. They will do all kinds of things. They will do demos of the product. They will pick up orders. They will collect cheque and come back to the warehouse in the evening like a milk run. Very interesting concept. So, every time the van goes out it is either collecting money or giving a demo or delivering the parcel or delivering goods.

Very interesting concept, direct marketing. And then multilevel marketing, which is there in India also, which was there also just like your Amway, what works, they have their own local multilevel marketing. So, there will be a warehouse and there will be an army of these family people who are doing this as a part time job or doing sales and they will sell to their friends and to their community, to their network.

So, Sri Lanka had this. This was not present in Bangladesh. But this was there in Sri Lanka. And Sanjay, the last question from my side about which country in Asia Pacific region you had the most challenging regulatory process to get the approval to start a direct entity of Philips or any company there? Which country requires very stringent guidelines for opening a direct operation, direct sales, 100% own sales subsidiary?

So, I do not know if I can pick one, but one country where we had a very typical issue was Malaysia because suddenly what happened is they said even if you could open a shed and call yourself manufacturing without actually manufacturing anything, just importing the goods, putting it in that shed and giving it a different brand. So, some companies started doing that and that became competition.

We never expected that a mature country like Malaysia would operate in that fashion, but for a brief while we were faced with that kind of a competition and they would suddenly get concessions and they were doing nothing. They were importing from some place, maybe China or somewhere, get it into Malaysia, rebrand it and show it as made in or maybe they will change the cover which is made locally or some other things that will be made locally and then do it.

So, it was a crazy scenario. But otherwise, there is a very well-defined process in most countries and I would not say that regulatory wise, there was a delay in the time factor we had to put in our business plan, it was as simple as that. Right, thank you Sanjay. Thanks a lot. I think I had an excellent interaction with you and you have really given very deep insight about your to all our students.

And I am sure the students and the practicing managers whoever is participating in this course will get immense benefit from your knowledge. So, thanks a lot Sanjay. Thank you very much. Thanks for accepting our request to be a part of our team and I wish you all the best. And maybe we have some questions from the students. I will get back to you for the answer. Thanks a lot Sanjay.

Thanks for your time. Thank you so much. Thanks to all students and thanks for the opportunity and I hope you can get a few senses of knowledge and help from this presentation. Thank you so much. Bye. Thanks a lot. Namaste.