

OUTSMARTING THE MNCs BY FITTING STRATEGIC MANEUVERES TO NATIONAL FRAMING: EVIDENCE FROM INDIA

Swati SINGH

*Vivekanand Education Society Institute of Management Studies & Research
495/497 Maharashtra, 400074 Mumbai, IN
swati.singh@ves.ac.in*

Ralf WAGNER

*University of Kassel
Möncheberg St., 34125 Kassel, DE
rwagner@wirtschaft.uni-kassel.de*

Abstract. *This paper focuses on how Indian home-grown companies captured MNCs market in India with the help of strategic maneuvering and understanding their own capabilities. Seizing the framework of Porter's National Diamond this research follows a caselet approach for illustrating these strategies. The study's originality springs from understanding changes in demand pattern brought by home-grown companies in the Indian market. A key implication of this paper is that the demand conditions and firm strategy (by means of targeting and developing the customers systematically) are the key components of success as learned from Porter's Diamond. The study provides insights into understanding Indian middle class perception and behavior towards MNCs offerings and later for home-grown companies.*

Keywords: *home-grown; MNC; Porter Diamond Model; emerging economies; India.*

Introduction

Indian companies have revolutionized their business models and, in doing so, created a benchmark for emerging economies in the globalized world economies. Liberalization brought transformation leading to customer upliftment in the Indian market with MNCs at the helm of market change (Enderwick, 2012).

Affiliated with its adaptable nature, Indians learnt a new style of living from MNCs and their product offerings (La Ferle et al., 2013) making Indian market a growth haven for both MNCs and home-grown companies wishing to get maximum share of Indian market. This revolutionized competition in Indian markets and changed consumer's perceptions.

This also gave a huge boost to innovation centers and incubation cells and in turn empowering home-grown companies to offer better products more suited to market needs (Subramanian & Gopalakrishna, 2001). Thus, India not only provided a fruitful ground to established MNCs but also emerged as a paradise for innovation, resulting in its growth and stability.

Kim et al., 2011, stated that born-global companies, especially from India and

China, are emerging as forerunners in international marketplace armed with a high degree of customer orientation, flexibility, and innovative product offerings. India shares many similarities in a socio-cognitive perspective with other emerging economies rather than transition economies making it easier to understand its growth pattern (Rosa et al., 1999; Wagner, 2005). Resultantly it makes it one of the leading market for MNCs to get interested and invest a substantial amount to capture it.

The literature related to emerging economies focus majorly on MNCs contribution in changing demand patterns of these countries (La Ferle et al., 2013; Wagner 2005). But a gap was found in understanding the contribution of their home-grown companies in understanding this demand pattern and rebuilding their potential to capture the Indian market. Our study builds upon this gap by identifying Indian home-grown companies' contribution in identifying and meeting an actual set of needs rather than superfluous need met by MNCs for that segment who only want societal projection and are willing to pay any price irrespective of value derived from it.

The structure of the paper is as follows: a review of the literature provides an understanding of emerging Indian middle class with their new found aspiration and different style of living. Then a caselet of Patanjali bring forth the nuances that helped home-grown company give tough competition to market leading MNCs. The conclusion is mapped using Porter's diamond model to understand the winning strategies in the Indian market.

Tussle of Home-grown and Multi-national Companies (MNCs) in Indian Market

Post liberalization, there has been no stopping for Indian consumer who became more aware of their needs and desires the best available products and brands (Bharadwaj et al., 2005). Indian consumers have grown and changed with increased-disposable income, changing consumption patterns and increased brand consciousness (Mukherjee et al., 2012).

A set of new antecedents have marked a dramatic change in Indian demographic profile. Major factors leading to this change are improved educational structure, more working women, urbanization, tech-savvy consumers, more international exposure, and extensive media exposure (Ghosh, 2010).

These factors gave substantial impetus to MNCs to woo India and helped in providing a haven for them to extend their fading products, declining product life cycle or to launch new offerings as per market conditions (Enderwick, 2009). But these offerings were solely designed to cater elite class and upper middle class, vastly ignoring the lower strata of society which was served majorly by home-grown companies. Notably, over the period, the home-grown companies emerged as big winners encapsulating all the social classes. They have made a turnaround from poor quality association to being radical innovators equipped with better offerings thus emerging as big players amongst a host of different MNCs.

Indian Middle Class: Growing Aspirations and Desires

One of the key antecedents for an incandescent change of emerging economies is the growth of their middle class (Varma, 2007) with better spending power and changing lifestyle (Shukla, 2010). With the increase in GDP, there has been a conscious shift in buying pattern and willingness to pay (Shukla et al. 2004). India's middle class is characterized by a blend of divergent perceptions, heterogeneous beliefs, interests and most importantly—buying patterns. This led to the emergence of social ladders within this middle class.

Earlier research brings out a pattern in the understanding of Indian middleclass based on their consumption pattern, lifestyle and behavior in respect to their income parameter. They are aspirational and have a fondness for organized retail. Though Indian middle class looks for value for money products they also love the western ambience which gives high satisfaction especially in terms of social upliftment and self-esteem (Jayasankara Prasad & Ramachandra Aryasri, 2011). Tata's Nano made its mark by foraying in MNCs dominated automobile market with the best offering for this segment especially lowers middle class, keeping in mind their aspirations as well as value for money product (Singh & Srivastava, 2012). Brand loyalty for this genre of customers is tenuous as new product offerings easily divert them.

Most of the MNCs want to capture the Indian middle class, especially the upper segments who have high disposable income, more western exposure and easily understand brands. They also provide a huge opportunity to home-grown companies as it is easy to lure them away from cheap-quality locally made products and a poor version of MNCs offerings (Sinha, 2011). However, now many home-grown companies strive to create a price-value-quality product and keep them attuned to current market offerings.

This study focuses on Indian middle class where both MNCs and home-grown companies are at loggerheads to get maximum share of the pie and acceptability by the consumers for Indian vs. international products/services. The major comparison comes in terms of better product offering by Indian brands or low frill version with basic offerings of MNCs. MNCs have more enduring effects on these consumers whereas home-grown companies work hard with their positioning and service offerings to gain a stronghold in this segment.

Emergence of India's new societal structure

In the last few decades, increased GDP, better educational pattern, growing nuclear families and young population changed the demand structure in terms of different consumption patterns, increased brand consciousness and the acceptance of everything international. India's middle class had better spending power and reflected the world-wide changing lifestyle. India's social structure is based on its societal identity leading to various social ladder with a different set of attitudes, behaviors, and perceptions (Bandura, 1986). These, in turn, leads to new sets of social innovations sparking a new range of needs and desires for each social ladder (Cajaiba-Santana, 2014).

These newly found desires played an important role in buying and consumption pattern of consumers reflecting their choice of products and brands (White & Argo, 2009) thus, reflecting consumer's identity. As a consequence, new industries entered the Indian market with their global brands and we could register a growth of malls in this emerging economy. The home-grown companies could not avoid a change in their own strategies, declining products life cycles or launch new and better offerings. They also needed to improve supply chain management, to keep up with the technological innovation.

There is no demarcation/border in understanding these social ladders and every level has aspirations to merge into the higher level of society, thus marking a huge change in their lifestyle projection and consumption pattern (Marjit et al., 2015). A gap is recognized in terms of these middle class Indian consumers' behavior and attitude towards different product offerings and how they nurture their core or make-believe identities through various consumption patterns.

Research methodology

To understand the growth pattern of home-grown companies the paper builds upon the diamond model proposed by Porter (1990). The framework ensures completeness of the description and avoids overemphasizing of focuses elements while neglecting the other facts of the cases. In the study, we embed the caselet with the reflection of India's psychosocial functioning leading to social ladderling.

Matching the managerial perspective this study seizes results of Ni & Wan (2008) who compared how MNCs with their competitive advantages establish their dominance in the emerging markets like China and how home-grown companies took them head-on with their specially designed offerings through critical evaluation of their branding capabilities. The research design adopts an eclectic approach in identifying changing consumer behavior and their adaptability pattern. Earlier literature focused on changed demand pattern brought by MNCs in emerging economies and not on later part whereby home-grown companies carve a space for themselves with specially designed improved products and innovative strategies.

The caselet is selected to understand a holistic view of the changing face of Indian middle class. The case of "Patanjali" is selected as it is the most talked about company in India today for its take on MNCs and making them relook their strategies to capture Indian market.

Patanjali

Patanjali came into being in 1997 as a pharmacy. Ramkrishna Yadav (popularly called as Baba Ramdev), a yoga instructor started it with Acharya Baklakrishnan, an Ayurveda practitioner. Later in 2006, Patanjali Yogpeeth, was founded which re-connected India to Yoga and provided an ayurvedic healing solution. It also started selling ayurvedic medicines and herbal and mineral enriched over-the-counter products in various categories like personal care, food & home care.

Liberalization led to major shifts in Indian economic scenario resulting in both increased purchased levels and indulgence for everything new and better. But gradually Indians started understanding the harsh side of this new lifestyle. Processed food, MNC-fast food chains, and beauty industry also lead to many health disorders and skin diseases bringing them back to their roots as they realize the concept of health and wellness with “Yoga” acting as the biggest mediator.

After a slow start, Patanjali showed phenomenal growth to become Rs 5,000-crore (US\$670 million) company in 2015. The competition from Patanjali made decades old Colgate-Palmolive rework its product offerings to tap the newly evoked need of Indians. It launched toothpaste with natural ingredients to counter Patanjali’s toothpaste which is its flagship product. It also forced HUL into foraying in natural segments by reworking on its market strategies.

By 2015, Patanjali manufactured and sold 400 SKU’s including medicinal, cosmetic, and food products. Their strength lies in offering high quality, competitively priced products in FMCG market. Patanjali started posing a threat not only to Indian FMCG companies like Daabur, Godrej, and Emami but also to multinational FMCG companies such as Colgate, P&G, and HUL.

Patanjali shied away from strategies used by other companies to create their own novel approach to the market. With telecast on Sanskar channel of Ramdev’s yoga in 2002, millions of people across the country connected with him. The company ignored the biggest promotional tool of having brand ambassadors to create a fake image for its brands. They also relied on a direct method of advertising using yoga camps and Baba Ramdev’s appearances to create brand awareness. These in turn also helped in cost management for the company.

Patanjali created its own identity with novel strategies like its “*Made in Bharat*” tag and invoking “*Nationalism*” in terms of economy and banked on ethnocentric consumer groups to connect with upper middle class. Its product portfolio also includes western food like pasta, oats, muesli to stay relevant with today’s style of living. In order to venture deep into the market, it has successfully created its e-commerce presence and has also partnered with Future Group and other home-grown companies for promotion and distribution of its products.

With its numerous distribution outlets and international presence with centers in the UK, the USA, Nepal, Canada, and Mauritius, Patanjali is at the pinnacle of glory. Its vociferous approach towards Indian ethos successfully made connect with the societal levels. Baba Ramdev has now become “Baba Cool”, especially among upper class due to their latest aficionado towards health and wellness industry. The lower class is also able to understand this brand as it is priced lower than MNC products and is desired by upper class segment.

With his plans to launch 30 lakh shops by 2018 and venturing into new arenas like baby care, education, “Paridhaan”-casual-wear (Swadeshi jeans) / office wear / sports-wear (yoga wear), religious items, “Parakram” (security agency), fast-food retail and many more, industry is skeptical of these moves and the success of these new offerings are still speculated.

Patanjali's connect with Indians was majorly due to the fact that though Indians adapted westernized style, they still nurture their traditions and values. Connecting Indians with their roots and making them realize the power of their culture lead to a new wave of self-actualization, empowerment, and contentment.

Summarizing the case in Diamond Model Framework:

Demand conditions

- High disposable income
- Indulgence for everything new and better
- Balance between healthy products and Western offerings
- Yoga- the biggest connect with middle class
- Ethnocentric consumer groups
- New market adapted consumerism but never forgot their traditions

Factor conditions

- Yoga and provided ayurvedic healing solution
- Herbal and mineral enriched offerings
- Indian ethos

Related and supporting industries

- Health and wellness and fast food industry are growing
- Yoga centers in the UK, the US, Nepal, Canada, and Mauritius
- Ventures like baby care, education, casual-wear, sports-wear, religious items...

Firm strategy, structure, and rivalry

- Partnership with Future Group
- Differentiation of products: personal care, food, home care products and medicines
- Use of nationalism (keeping our money in our country) to foster ethnocentrism
- Brand priced lower than MNC products
- Focus on natural products
- E-commerce and distribution outlets

Conclusions

The study highlights the power of home-grown companies over MNCs in terms of better market understanding and realistic offerings best suited to their needs. The paper focus on changes in Indian middle class post-liberalization, especially in terms of its consumption patterns, changing lifestyle, and aspirations.

With the help of a caselet, we identify how home-grown companies understood the changed mindset of people and won back MNCs' developed markets. Patanjali shows that home-grown companies can successfully create products and at the same time maneuver the positioning to become more identifiable with targeted group thus, bringing an impact on changing demand patterns. We identify its potential to explore the unknown terrains of various market segments and rework with unique local solutions.

Our results are mapped with Porter's National Diamond model. The determinants of the diamond are meant to find out which factor conditions composed the pool of resources that help the country's economy, and therefore the company, to develop innovative businesses (e.g. technology, infrastructure, human capital etc.). Jointly with the demand conditions, that is the nature of the customer which pushes firms to innovate faster and better, the companies could change their business models so that the markets could stand international competition. Indeed, we also look at the related and supporting industries that produced positive inputs in facilitating the Indian innovation and internationalization.

These factors are supported by the firms' strategies, structures, and rivalries that needed to be adapted at the international competition, to enhance production and technological innovation. As an additional component, the government influenced the determinants through some interventions that surely made possible a big change in the market outlook. For instance, the liberalization of 2000 and the growth of urbanization can be considered fertile terrain for the home-grown businesses development.

Patanjali indicates a conducive to change in buying pattern of Indian consumers. It showcases indescribable market upheaval created by a home-grown company in MNC ruled Indian market through innovative strategies of self-preservation and ethos. It successfully maneuvered the entire middle class from lower to upper levels to rethink MNC offerings and adapt health and wellness as the new style of living.

Contribution of this study

The study contributes to understanding social-psychological component and the role it plays in capturing the market. Also, study brings out how core competency can be mapped internationally for the home-grown companies with the successful maneuvering of the market conditions. *Patanjali* showed us the way to connect with the world is to ride on health and wellness wave which has created an elusive power.

Implications and limitations

This study helps practitioners in understanding changing behavior of Indian middle class. An indication of social acceptance and individual well-being helps in changing consumer's perception thus giving a new identity to brands. A key implication of this paper is that the demand conditions and firm strategy (by means of targeting and developing the customers systematically) are the key components of success as learned from Porter's Diamond. The study provides insights into understanding Indian middle class perception and behavior towards MNCs offerings and later home-grown companies. An extension to the explanation of home-grown companies in foreign markets using the Double Diamond approach is straightforward.

The basic limitations of a caselet are that it bends towards positive angels of the case. The use of Porter's (1990) National Diamond facilitates a systematic description taking a national perspective. For describing and analyzing the

internationalization success of the home-grown business models the Double Diamond extension (Rugman & D´cruz, 1993; Li & Oh, 2016) provides researchers with a suited framework. The study opens up various avenues for further research in terms of nationalism in emerging economies and its power in changing customer's perception, thus creating new horizons for the market.

References

- Bandura, A. (1986). *Social Foundations of Thought and Action: A Social Cognitive Theory*. Englewood Cliffs, NJ: Prentice-Hall, Inc.
- Bharadwaj, V.T., Swaroop, G.M., & Vittal, I. (2005). Winning the Indian consumer. *McKinsey Quarterly*, Special edition, 42-51.
- Cajaiba-Santana, G. (2014). Social innovation: Moving the field forward. A conceptual framework. *Technological Forecasting and Social Change*, 82(1), 42-51.
- Enderwick, P. (2009). Large emerging markets (LEMs) and international strategy. *International Marketing Review*, 26(1), 7-16.
- Enderwick, P. (2012). *Understanding emerging markets: China and India*. London, UK: Routledge.
- Ghosh, J. (2010). Poverty reduction in China and India: Policy implications of recent trends. DESA Working Paper No.92. Retrieved from https://www.researchgate.net/publication/237529223_Poverty_reduction_in_China_and_India_Policy_implications_of_recent_trends.
- Jayasankara Prasad, C., & Ramachandra Aryasri, A. (2011). Effect of shopper attributes on retail format choice behaviour for food and grocery retailing in India. *International Journal of Retail & Distribution Management*, 39(1), 68-86.
- Kim, D., Basu, C., Naidu, G.M., & Cavusgil, E. (2011). The innovativeness of born-globals and customer orientation: Learning from Indian born-globals. *Journal of Business Research*, 64(8), 879-886.
- La Ferle, C., Kuber, G., & Edwards, S.M. (2013). Factors impacting responses to cause-related marketing in India and the United States: Novelty, altruistic motives, and company origin. *Journal of Business Research*, 66(3), 364-373.
- Li, J., & Oh, C.H. (2016). Research on emerging-market multinational enterprises: Extending Alan Rugman's critical contributions. *International Business Review*, 25(3), 776-784.
- Mukherjee, A., et al. (2012). Are Indian consumers brand conscious? Insights for global retailers. *Asia Pacific Journal of Marketing and Logistics*, 24(3), 482-499.
- Ni, N., & Wan, F. (2008). A configurational perspective of branding capabilities development in emerging economies: The case of the Chinese cellular phone industry. *Journal of Brand Management*, 15(6), 433-451.
- Porter, M.E. (1990). The competitive advantage of nations. *Harvard Business Review*, 68(2), 73-93.
- Rosa, J.A., Porac, J.R., Runser-Spanjol, J., & Saxon, M.S. (1999). Socio cognitive dynamics in a product market. *Journal of Marketing*, 63(Special Issue), 64-77.
- Rugman, A.M., & D´cruz, J.R. (1993). The "double diamond" model of international competitiveness: The Canadian experience. *MIR: Management International*

- Review*, 33(2), 17-39.
- Shukla, R. (2010). *How India Earns, Spends and Saves: Unmasking the Real India*. New Delhi: Sage and NCAER.
- Shukla, R.K., Dwivedi, S.K., Sharma, A., & Jain, S. (2004). *The Great Indian Middle Class: Results from the NCAER Market Information Survey of Households*. National Council of Applied Economic Research Report (in association with Business Standard). Retrieved from www.ncaer.org/Downloads/PublicationsCatalog.pdf.
- Sinha, D. (2011). *Consumer India: Inside the Indian mind and wallet*. Hoboken: Wiley.
- Sinha, D. (2016). *India Reloaded: Inside India's Resurgent Consumer Market*. Berlin: Springer.
- Singh, S., & Srivastava, P. (2012). The turnaround of Tata Nano: reinventing the wheel. *Vision: The Journal of Business Perspective*, 16(1), 45-52.
- Subramanian, R. and Gopalakrishna, P., 2001. The market orientation–performance relationship in the context of a developing economy: An empirical analysis. *Journal of Business Research*, 53(1), 1-13.
- Varma, P.K. (2007). *The Great Indian Middle Class*. New Delhi: Penguin Books.
- Wagner, R. (2005). Contemporary marketing practices in Russia. *European Journal of Marketing*, 39(1/2), 199-215.
- White, K., & Argo, J.J. (2009). Social identity threat and consumer preferences. *Journal of Consumer Psychology*, 19(3), 313-325.