

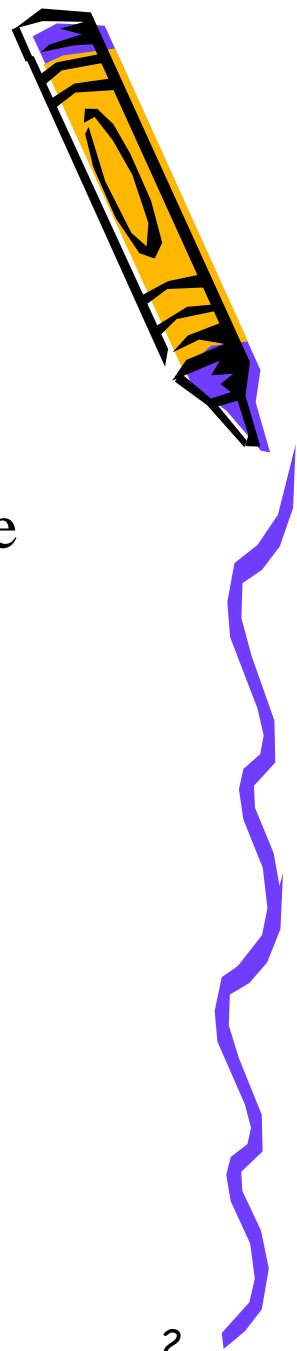


Fine tuning Latecomer Strategy: Japanese Investment in India's Consumer Electronics sector

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Points for Discussion

- The Eclectic Model of FDI
- Ownership and Internalization: a Japanese perspective
- India's Location Characteristics
- The Early mover advantage (and disadvantages)
- Latecomer Strategies for catch up and to leapfrog
- Some preliminary findings
- Future agenda and research questions



Eclectic model

- What motivates a firm to invest overseas?
- Ownership advantages: deep pockets, technology, scale economies, brand name recognition, experience in large scale marketing. (Hymer 1960)
- Why does a firm invest abroad as opposed to exporting or licensing?
- Tariff hopping, reduction in transaction costs, being close to the customer, reduction of asymmetric information.
- Location advantages as offered by the host country.



Ownership & Internalization: A Japanese Perspective

Ownership

- Clear advantage in the possession of cutting edge technology,
- Huge scale economies due to the country's centrality in regional production networks in East and South East Asia
- Deep pockets (though resources are being dissipated due to the rise of other emerging markets),
- Brand name recognition (due to a long established tradition of reliability)



Ownership & Internalization (contd.)

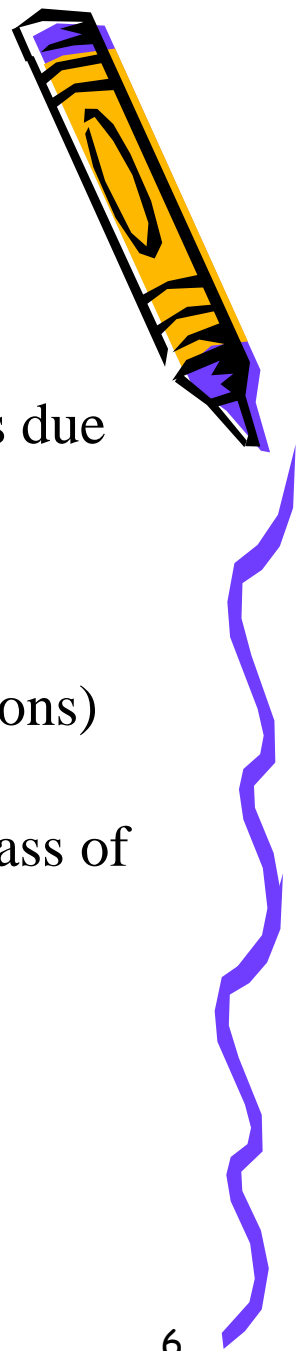
INTERNALIZATION

- Tariffs still high (though they have come down)
- Rapidly improving manufacturing ecosystem in emerging markets helps pare costs. In the process provides opportunities for both horizontal and vertical FDI.
- Fragmented markets mean 'One size fits all' strategy is sub-optimal.



India's Location Characteristics

- Large Market (albeit fragmented), declining poverty levels due to increasing per capita income and increasing levels of disposable income across income .
- Until recently, macroeconomic fundamentals in place.
- Poor quality of physical infrastructure (with minor exceptions) and generally weak manufacturing ecosystem.
- Labor force mobilization hard due to absence of critical mass of educated human capital.
- Administrative and regulatory framework confusing.
- Wide inter-state variations.



Early mover advantages (and disadvantages)



- Study draws on a well-established corpus of work on “entry order” in the industrial economics literature.
- Early movers have opportunity for image building (helps build brand loyalty). Consumers base preferences on heuristic judgements. Induces a non-trivial cost of switching. (**market based advantage**)
- **Competition based:** Predation of natural resources, real estate, suppliers, employees with appropriate skills.
- **Firm based:** Incumbent firm has advantage by learning by doing. Moving earlier implies more time to experience the process of value adding activities. Accumulated experience helps movement along the learning curve



Early mover disadvantages (opportunities for latecomers)

Market based

- Non-static market means direction of change is not entirely predictable. Latecomers can take advantage of the disruptive changes, particularly due to incumbent inertia.
- Change in technologies. Newer firms with cutting edge technologies can set net industry standards and eclipse incumbents.
- Information spillovers can significantly reduce R&D costs



Latecomer Opportunities (contd.)

COMPETITION

- High sunk costs committed to fixed assets increase if there are significant economies of scale. These can act as constraints to change (“exit barriers”, Porter).
- Organization gets “hardwired” due to established traditions of processes getting routine.

FIRM SPECIFIC

- Firm views initial market response to initial movements of competitors and enters with less uncertainty. Even better if firm has deep pockets.



Preliminary Findings



- Japanese firms are increasingly positive on India but doubts persist as to the true depth of India's market.
- Slow to develop sales channels, after sales service networks, local production facilities, developing products for local market.
- Advertising costs are low. Hence low brand awareness among consumers.
- Focus on high value added products for high income consumers, but such a market is very fragmented in India.
- Reasons for higher price not well communicated.



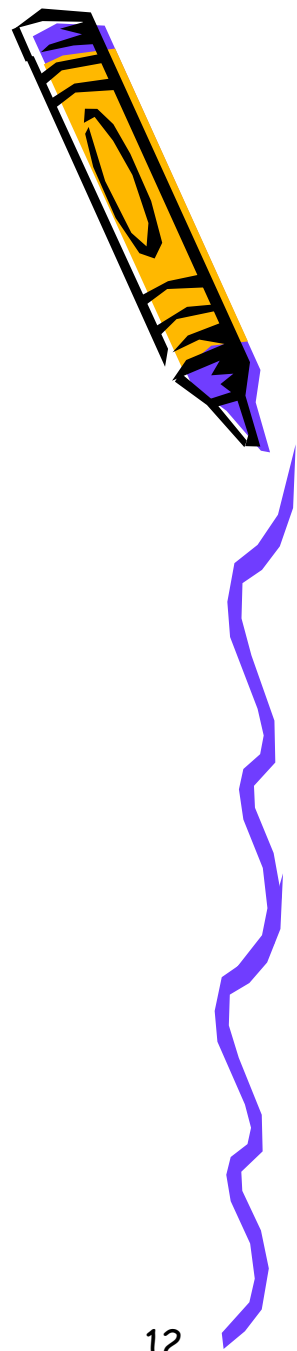
Preliminary Findings (contd.)

- Hierarchical organizational structures mean local representations are not as nimble as necessary.
- Ownership advantages for Japanese firms in the high value added segment may not be as clear because several MNCs are increasingly targeting this segment.



Future research Agenda

- Largely involves interviews with senior representatives of Japanese firms in India in the consumer electronics space.
- Fundamental question is about the constraints Japanese firms face in setting up manufacturing facilities in India. Has it to do with the level of technology to be absorbed.





Thank you for your time and
Attention!!!!

