

India's Big Opportunities for Little Companies

Western small- and medium enterprises find openings in one of the world's fastest-growing economies.

By [ANIL KUMAR](#)

The Indian economy is expected to quadruple over the next two decades, adding more than 500 million people to its middle class, building more than 50,000 miles of highways, and investing more than \$2 trillion in building power plants, airports, hospitals, factories and research centers. Large Western companies have long recognized the opportunities this growth presents, and General Electric, Honeywell, IBM, Pepsi and the like are already operating in India in force. But now there are a bunch of new kids on the block, too: Western small- and medium enterprises.

These smaller companies find it increasingly difficult to generate income in their home base as consumer spending decreases, population ages and competition increases. India offers them a population of 1.1 billion people that is young and growing younger; a savings rate that is high and rising; and an economy that is expected to sustain growth rates above 8% per year for a long time. As India grows, its requirements for equipment and services in fields such as energy, environment, health care, infrastructure, transportation, high-tech and defense will exceed tens of billions of dollars.

Despite their smaller size, these SMEs bring several valuable offerings to India. They're typically experts at highly specialized advanced technologies that are hard for local companies to match. For instance, Delhi's plan to invest \$1.2 trillion in electricity generation during the next 25 years will rely on a steady supply of power transformers, high-voltage power cables, relays, conductors, capacitors and circuit breakers. No Indian company is currently capable of producing these components in the necessary quantities. But Western companies, many of them with 500 employees or fewer, have mastered this kind of manufacturing. They are also able to sell the advanced computer and other systems that utilities will need to operate the infrastructure smoothly.

This pattern will be repeated across many fields. The Jawaharlal Nehru National Urban Renewal Mission, aimed at accelerating urban infrastructure development for 63 key cities in India, is another example. Local firms are severely limited in their capabilities to design specialized technologies required for larger-scale water treatment plants. This allows Western small and medium enterprises to sell their products in sanitation, urban water-supply improvement and municipal waste treatment, along with providing consulting and design services to the Indian water industry. Several other industries such as food processing, medical equipment, pollution control, mineral processing and

homeland security will lean on Western SMEs for products, services and project development skills lacking in India.

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An electrical linesman repairs cables in Allahabad, India.

For the SMEs, India is an even more attractive proposition than its large size and strong growth would suggest. A major benefit is India's proximity to the Middle East, Africa and other Asian markets. India's knowledge pool and proven ability to engineer products at a low cost will encourage Western SMEs to establish operations not just for the local market but also for export markets nearby. This was the case for Astonfield, a New York-based renewable energy company, which has not only increased its sales in India in the last few years but also used its India operations as a launching pad for projects in East Africa and South East Asia.

While the opportunities are immense, there are several challenges. Selling to a customer base that is value-conscious and diverse in business requirements requires customization of products and innovation in marketing campaigns that is learned through experimentation. Competing with local companies willing to operate on razor-thin margins and a low-cost structure can be daunting. In addition, while the macroeconomic factors point to a need for a company's products and services, that might not necessarily translate into actual demand. For instance, modern voltage regulators are a need for India's electricity industry, which still relies on old-fashioned capacitor banks to manage its widely fluctuating voltage levels. Yet bureaucratic delays in approving new projects mean that in practice the demand for the new technology lags.

Meanwhile, SMEs moving into India need to be sure they exercise the same due diligence they would when they find partners in any other market. Cultural factors, especially the common use of English among Indian businessmen, are both a blessing and a curse. While this spares Western companies the language difficulties they face in other developing markets, it can also breed a false sense of security precisely because it makes doing business in India seem so much easier. This was the case for a U.S. machining and casting company that set up its India operations with local partners just three months after their first meeting, only to realize later that the local partners lacked basic

capabilities in handling materials and keeping track of orders. The venture could not deliver a single order and had to close its operation a year later.

Despite these caveats, India's economic growth is an opportunity that will be hard to ignore for any Western small and medium enterprise. That's a reminder that development can breed prosperity in many corners of the world, and also that you don't have to be a huge multinational to profit.

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