

The baffling wait for ‘demand visibility’

All commentary on India’s economic situation is in agreement that private investment must perk up for gross domestic growth (GDP) growth to accelerate or even be maintained, and that there is only so much that a fiscally responsible government can do. Keeping aside investment for export businesses, which has its special set of challenges, such as cost competitiveness in manufacturing and the availability of high-end human talent for services, on the domestic business front, the refrain from economists for a while now has been that companies are not seeing the necessary “demand visibility” in order to invest.

What exactly is this “demand visibility” that companies are in search of and need to see before they can decide to put money behind any aspect of India’s domestic demand?

Corporate India’s public and private utterances show strong belief and confidence in India’s economy and domestic consumption story. Reports pointing to the runaway positive fundamentals of today and drivers of the future, on both economic and consumer indicators, are routinely put out by large public and private financial-market players, echoed and amplified by media majors, and affirmed by companies. There is enough validation from India analysts abroad that the country is indeed a very bright spot in the world, economically and politically speaking.

Does Main Street, deep down, not actually feel the same enthusiasm as D-Street? Or are there other sentiments killing animal spirits that explain this feet-dragging investment behaviour, such as confidence in policy stability, or the ease and fairness of doing business, or excessive regulation, or an unspoken worry about jobs or rising household debt for consumption — that, like Voldemort in *Harry*

Potter, must not be named?

Corporate results are not bad either, once companies acknowledge competition and the inevitable environmental challenges of the new world. Are companies waiting for a return of the old days (which are over) of high growth from nascent markets with low competition, where 20 per cent revenue growth annually was “normal”? Are they not confident of making the kind of returns they are used to (and disappointing the stock market) at a larger scale, given the structure of Indian demand?

Perhaps it is company strategy that needs more analysis. Companies need to recalibrate what they see

as the role of firm strategy vis-a-vis the government’s role in driving revenue growth. The same applies to the argument that capacity utilisation is still only moderately high in manufacturing — what is the role of strategic choices versus that of the demand environment? Since most large companies, by stated strategic choice, prefer to define their addressable market as the creamy layer of India — even more so as it gets creamier and “premiumisation” becomes the strategy lodestone — they are, in effect, serving 50 per cent of the gross domestic product (GDP) and 20 to 30 per cent of India’s households.

The consumption patterns of these households are now at a different stage of maturity and their incremental incomes are not being invested in more of the same consumption, even as the household sizes shrink and investment avenues burgeon. Value may have migrated disproportionately to specific categories of spend like children’s education, travel overseas, luxury housing, experiences, and perhaps traditional large firms we hear and track as bellwethers need to reassess the dominant



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logic on which their strategy is based.

Does foreign direct investment (FDI) then need to come to the rescue in a much bigger way? The history of the past three decades with big western Multinational Corporations is that they have invested tepidly relative to India’s overall demand opportunity because of ideas that C K Prahalad once described as “corporate imperialism”, or — wanting the worlds they entered to behave their way instead of adapting their ways to the new worlds.

They wanted an extension market for their already existing strategies, product design, and research assets at price points that would not dilute global margins. Their India was a small, though rich, sliver of the total India. The Koreans and Chinese, for example, have shown far more “make for India” flexibility in their approach and have seen the rewards. Western MNCs, still large and attractive FDI sources, may yet change their thinking in this new world that is neither borderless nor flat and hence demands a more granular, tailored multi-country approach.

However, we need to solicit FDI by honestly selling the idea of a long-term, patient, made-for-India strategy where high investments upfront deliver consistent, high-certainty returns over the decades to come, accelerating over time. A recent article in *The Economist* says Germany’s Mittelstand (small and medium enterprises) are looking at India as the next big thing after China. Getting them to partner and invest in India’s larger small businesses may be a strategically great place to get FDI, strengthening them through money, learning and more compatible partnerships. India Inc, on its part, must not let the stock market drive its business strategy but have the vision and conviction to build itself for the long term.

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