

Business Development From Start to Scale
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Week - 03
Industry Structure and Company Analysis
Lecture - 11
Industry and Business

Hi, friends. Welcome to the NPTEL course Business Development from Start to Scale. We are in Week 3 with the theme of Industry Structure and Company Analysis. In this lecture, the 11th in the series, we consider the topic of Industry and Business.

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Business and Industry

Each business comprises different but similar products or services. A business spans a full value chain from design to deliver, and from pre-design visualization to post-marketing support in each case.

Business is the activity of developing, producing and selling products or services to make money (revenues as well as profits). Business can be carried out by a single person or a group of persons.

An industry is a group of companies that conduct the same or similar businesses (meaning also that the industry is characterized by same or similar products, services and activities).

Individual businesses can be built around single or similar products or activities, with expanding scope.

Similar industries would constitute together an economic sector. The economy of a nation thus comprises several economic sectors with several industries in each. Industries vary in attractiveness.

Different industries are impacted differently by different economic and social factors. Industries vary in attractiveness but firms within each industry may have different capabilities to benefit from the industry.



Let me give you some definitions of business and industry. Each business comprises different, but similar products or services you may be selling consumer electronics. However,

you may adopt different business models to sell the consumer electronics. You may be in the oils business crude oil as well as refined oils, but the way you conduct your business could be quite different.

A business spans a full value chain from design to deliver, and from pre-design visualization to post-marketing support in each case. Every business requires a product or a service for it to happen. Business is the activity of developing producing and selling products or services to make money. Money in this case means revenues as well as profits.

Business can be carried out by a single person or a group of persons. Every business is conducted to generate wealth. We have seen in the previous case of Marico how business has created value not only for the Marico founders and the investors, but also for all the stakeholders.

Individual businesses can be built around single or similar products or activities, with expanding scope. As compared to business industry is a much wider term and it is also broader in concept and somewhat difficult to pinpoint in terms of an exact scope. An industry is a group of companies that conduct the same or similar businesses – meaning also that the industry is characterized by same or similar products services and activities.

Similar industries when they are grouped together, they become an economic sector. The economy of a nation thus comprises several economic sectors with several industries in each. Industries vary in attractiveness. When you look at the Indian economy the transportation sector is an economic sector.

In the transportation sector you have got road transport as a service which is an industry by itself; you have got commercial vehicle manufacture as a product based industrial segment; you also have passenger cost as another industrial segment; two-wheelers as another industrial segment and so on.

We have seen product lines aggregating towards industrial segment and industrial segments aggregating towards an economic sector. This is how business and industry are seen in

practice. Different industries are impacted differently by different economic and social factors. The factors that influence automobile industry are not the same as the factors that influence consumer electronics industry or telecommunication industry.

That is the reason why during the COVID-19 times when the automobile industry came to near shutdown for a few months and then had a very slow recovery. The other sectors such as food delivery, such as telecommunications and computers saw a significant demand boost.

So, the economic and social factors vary depending on the nature of the industry. So, this is the practical appreciation of business and industry.

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Market View of Business

Philip Kotler provided the early foundations of defining business in terms of market, rather than product.

| Product-Oriented versus Market-Oriented Definitions of a Business | | |
|---|--------------------------------------|--|
| Company | Product Definition | Market Definition |
| Union Pacific Railroad | We run a railroad | We are a people-and-goods mover |
| Xerox | We make copy equipment | We help improve office productivity |
| Hess Corporation | We sell gasoline | We supply energy |
| Paramount Pictures | We make movies | We make entertainment |
| Encyclopedia Britannica | We sell encyclopedia online | We distribute information |
| Carrier | We make air-conditioner and furnaces | We provide climate control in the home |

In today's context, the definitions are even broader – for example, an automobile manufacturer views itself as a provider of mobility rather than as a transporter provider. When the emerging market spaces for firms are very broadly defined, firms would have opportunities to position themselves with flexibility, in business and industry.




When you look at a business you can take two types of views – one type of view is that every business is built around a product therefore, there is a product-oriented view of business. On

the other hand, we can say that the business is being conducted essentially to fulfil the market demand or to satisfy the customers who constitute the marketplace.

So, that could be the market definition of business. Philip Kotler the famous marketing guru provided the early foundations of defining business in terms of market rather than product. So, let us compare the product definition as well as market definition of businesses here.

The company which he cited was union pacific railroad. So, the product definition era said that the objective of the business or the nature of the business is running a railroad, but the market definition he said was to be we are a people and goods mover. Xerox – the product definition is we make copy equipment. The market definition is we help improve office productivity.

Hess Corporation – we sell gasoline versus the market definition – we supply energy and today, the market definition could be we supply clean energy. Paramount Pictures – we make movies; market definition is we make entertainment.

Encyclopaedia Britannica – we sell encyclopaedia online is the product definition; we distribute or disseminate information is the market definition. Carrier, the famous white goods company – the product definition would be we make air conditioner and furnaces; the market definition would be we provide climate control in the home.

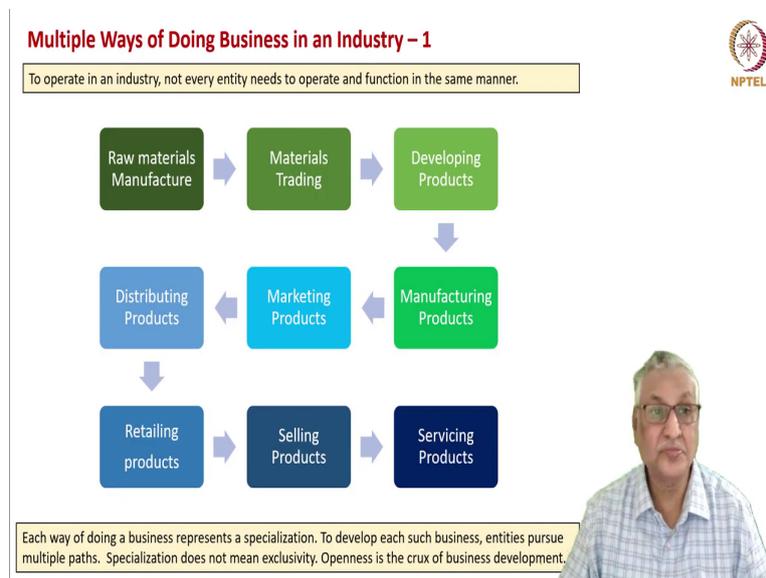
Again, an emerging market definition could be we provide climate control in the home with net neutrality because every air conditioner as we know generates carbon impact on the planet. So, in today's context the definitions are even broader and more complex. For example, an automobile manufacturer views itself as a provider of mobility rather than as a transport provider.

The moment you think of the automobile industry as a mobility industry, then the options become innumerable. And, also the way you can segment the markets and the way you can

define the products and the way you can construct business models and businesses around the products becomes infinitely more complex.

When the emerging market spaces for firms are very broadly defined, firms certainly would have more opportunities to position themselves and that would provide flexibility in business as well as industry. It is always better to have a broad definition of industry and a specialized definition of business.

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There are multiple ways of doing business in industry. I will give you some structure as well as some examples. To operate in an industry, it is not necessary that every company needs to operate and function in the same manner, but the general way business is conducted with reference to a conversion industry is as follows.

Raw materials manufacture – if it is steel, it even goes back to the iron ore and the basic materials and which are extracted. Raw materials manufacture leads to materials trading that leads to development of products. It could also lead to manufacturing of products then marketing of products takes place distribution of the products is the next step.

Then the products are retailed and the products are sold to the customers at the point of sale and there would be servicing of products. If you see this value chain each of these blocks by itself could constitute a business that is extraction of raw materials and refining of raw materials could by itself, be a business. It could also be an industry itself.

Mining of coal for example, is an industry and a business by itself. Vedanta is a business by itself being in the metals and mining sector. Similarly, trading of materials is a business. Straight trading corporation deals in the trading of products. MMTC – Minerals and Metals Trading Corporation, deals in the trading of materials.

Developing products that is doing only R and D is a business by itself you know it need not be part of a value chain starting from raw materials manufactured to manufacturing products, just R and D of product itself could be a business. Similarly, manufacturing products could be a business because somebody could manufacture products for others as a business line.

Marketing of products generally is tied to manufacturing of products, but there could be contract marketing organizations which do marketing for other companies. As we have seen in the previous case study distribution and retailing constitute two other post manufacturing, post marketing business lines.

So, there are distributors whose business is to take in products from different manufacturers and sell them to retailers. And, similarly retailers are all in one shops for displaying and selling a whole range of products. The fact of selling products however, is related to a specialized domain and a specialized sales force.

Servicing of products could be by yourself as the manufacturer or by special selling companies or by separate servicing companies. So, each way of doing a business represents a specialization in itself. So many specialized blocks of business become one unified value chain of business and that constitutes the industry.

To develop each such business entities pursue multiple paths. Specialization does not mean exclusivity. You are being in raw materials manufacture does not exclude you from selling other products as franchisee. Similarly, marketing of products does not mean that you would not do material trading.

So, any number of combinations are possible in the nine blocks I have indicated here. Therefore, openness to doing business is the crux of business development.

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Multiple Ways of Doing Business in an Industry - 2

Here are some examples of how different business entities exist in a singular industry – pharma example



Each way of doing a business represents a specialization. To develop each such business, entities pursue multiple paths. Specialization does not mean exclusivity. Openness is the crux of business development.



I will give you some examples related to how businesses are conducted in multiple ways even within an industry. Let me take the example of a pharmaceutical business development approach. The pharmaceutical industry itself is very varied. Dr. Reddy's is a business which is fully integrated considers global and India as one total market and has got different business lines product verticals and organization structures for different parts of the globe including India.

Orchid Pharma is a company which is now focused only on bulk drugs, active pharmaceutical ingredients and the focus is global. It has no formulations worth mentioning. Syngene A Biocon company is a specialist in contract R and D for global clients. It does not market its products like other formulators market. It is no Dr. Reddy's.

Similarly, Dr. Reddy's is not in to contract R and D business. Sentiss pharma an ophthalmology company manufactures sterile eye drops for Russia and CIS. It conducts its business by focusing strongly on Russia and CIS countries. Let us look at the digital space as well as other spaces. PharmEasy is an online pharmacy.

Its business is to take orders or take prescriptions online and supply the medicines to the patients through the physical come online methodology. Suvel life sciences is a company which is a contract developer as well as manufacturer for big pharma. Dr. Vijay Pharma private limited is an out and out pharmaceutical distribution and exporting company. Orbicular is a company established by Dr. Mohan to conduct R and D for Indian pharma.

You can see therefore, that whatever I have stated earlier as part of the theoretical construct is proven by the practical examples that we have. So, while each way of doing a business represents a specialization and while each business requires multiple paths or enables multiple paths, we need to be cognizant of the fact that it all represents one integrated value chain if you take a helicopter view.

Therefore, for businesses which are there in particular segments of the business value chain there is always scope not only to specialize in those businesses, but also to integrate forward

or integrate backward in the business value chain. As an example, sun pharmaceuticals was an out and out distribution company or a distribution entity. But then it moved into manufacturer and marketing.

Similarly, Sentiss pharma was once called promat and was an exporter of pharmaceutical products to Russia. It moved backward into manufacture of eye drops and then into the R and D of eye drops. So, the movement across value chain based on certain core businesses that are set up at some point of time is also a fact of life.

One of the important takeaways for you in this course is that I try to apply practical constructs to theoretical concepts that are available. Similarly, I try to take the practical examples and evolve them into academic constructs. It is this fusion of academics and practice that makes this course extremely relevant for students and practitioners as well.

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Businesses get Built over Simple Foundations

Most businesses are built based on a small, specific business activity – for example, trading or broking.

- In pharma, distributors became evolved and diversified companies, step by step. Some became manufacturers.
- In auto, companies started with one component and diversified manufacture into multiple components.
- In chemicals, people started with imports first, and moved into import substitution later.
- In finance, people started with simple lending and evolved into investment houses or commercial banks.
- In infrastructure, companies began with one road-laying project and became infrastructure majors in due course.

Most first generation enterprises have grown based on simple, single business drivers. Even big companies use a similar approach when moving into new domains. The origins of most business or industrial conglomerates can also be traced to this simple principle of business evolution.

Creative ways of doing business, consistent with aspirations and resources, lead to different developments.



Businesses get built over simple foundations. Most businesses are built based on a small specific business activity for example, trading or broking. Again, taking the Marico example you have seen how in the 18 hundreds or late 18 hundreds the business was set up as a trading business, then it moved into manufacturing then it evolved into highly diversified Marico.

In pharma as I mentioned through the example of sun pharma distributors became involved and diversified into companies step by step. Some became manufacturers. Captain point to this manufacture of bulk drugs as well as formulations and that too in sterile as well as oral formulation was at for at one point of time an individual distributor or marketer of products.

And, the expansion into business became possible because of the entrepreneurial passion and also the market space that has been rightly targeted. In automobiles company started with one component and diversified manufacture into multi component portfolio. TVS is a example. (Refer Time: 15:47) is another example.

In chemicals, people started with imports first and moved into import substitution later. In finance people started with simple lending and evolved into investment houses or commercial banks or some companies started with investment advisory services and moved into the banking space.

In infrastructure, companies began with one road laying project and became infrastructure majors in due course. You can look at constructing companies which are in the mid time and they are all having their origins in this manner. Most first-generation enterprises have grown based on simple single business drivers.

Even big companies use such an approach when moving into new domains. The origins of most business or industrial conglomerates even can be traced to this simple principle of business evolution. Start with the germination of a seed, make the seed grow into your business and use the fruits of that business that is the cash proceeds to invest in other businesses and keep growing those businesses.

We have seen that company is an intermediate frame of reference between a conglomerate and a single product based single business. Creative ways of doing business consistent with aspirations and resources, lead to different kinds of business development.

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India's Established Leaders Reflect Business Development

Several of India's established leaders of the Indian industry reflect this business development philosophy.



| | |
|--|--|
|  Sterlite/ Vedanta <ul style="list-style-type: none">• Founded in 1979, for mining• Now, a diversified USD 17 billion mining and metals conglomerate |  Tata Steel <ul style="list-style-type: none">• Founded in 1907, for pig iron production• Now, an integrated US 31 billion iron and steel behemoth |
|  MMTC <ul style="list-style-type: none">• Established in 1963 for export-import of ores and metals in public sector• Now, a USD 4 billion, highest foreign exchange earning company |  Tata Motors <ul style="list-style-type: none">• Established in 1945 for manufacturing railway locomotives• Now, a USD 35 billion global automobile giant |
|  NALCO <ul style="list-style-type: none">• Established in 1981, for bauxite mining• Now, a USD 2 billion end-to-end bauxite to aluminium company |  L&T <ul style="list-style-type: none">• Established in 1946, for representing Danish dairy equipment• Now, a USD 20 billion construction and infrastructure giant |

Specialization in the core area with end-to-end integration with more offerings drove business development.



Many of the India's established leaders of today reflect business development approach that reflects this fundamental principle. Let us take Sterlite, previously it was Sterlite, but today it is Vedanta. It was founded in 1979 for mining. Now, it is a diversified 17-billion-dollar mining and metals conglomerate with interest in several countries.

Minerals and Metals Trading Company MMTC it was established in 1963 for export import of ores and metals in public sector now. It is a 4 billion dollars company highest foreign

exchange earning company in India. NALCO established in 1981 for bauxite mining is now a USD 2 billion end to end bauxite to aluminium company.

Tata Steel was founded in 1907 for pig iron production. Today it is an integrated US 31-billion-dollar iron and steel behemoth with operations in India as well as in European countries. Tata Motors established in 1945 for manufacturing railway locomotives is now a 35 billion US dollars global automobile giant. It includes JLR based in London and Europe.

L and T was established in 1946 for representing Danish dairy equipment, today it is a 20 billion us dollar construction and infrastructure giant. So, specialization in the core area with end-to-end integration progressively with more offerings drove business development in these cases.

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India's New-Gen Start-ups too Reflect Business Development

Over the last two decades, many new age companies developed their businesses with similar philosophy.



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|  Route Mobile <ul style="list-style-type: none">Established in 2004 as cloud communication platform (CPaaS)Now, a USD 40 million company, listed in India, and with presence in 15 countries |  Aavas Financiers <ul style="list-style-type: none">Founded in 2012, for providing home loans in semi-urban and rural areasNow, a USD 165 million home loan company with multilateral funding for green homes |
|  Affle <ul style="list-style-type: none">Established in 2006 with a proprietary consumer intelligence digital platformNow, a USD 51 million company, with leadership in mobile advertising |  Galaxy Surfactants <ul style="list-style-type: none">Established in 1980 by five friends to manufacture an ingredient for toothpasteNow, a USD 333 million diversified chemicals company for homescare and personal care, and exporting to marquee clients globally |
|  Dixon Technologies <ul style="list-style-type: none">Established in 1993, for manufacturing televisionsNow, a USD 950 million globally competitive contract manufacturer for all electronic goods |  Zerodha <ul style="list-style-type: none">Established in 2010, as a bootstrapped startup attempting to change stockbroking landscapeNow, a USD 544 million leading stock trading platform and online brokerage that brought millions of millennials into stock trading |

A business USP in each case has helped companies such as the above find their unique niches and develop their businesses successfully.



Even start-ups have this approach of business development. Over the last two decades many new age companies developed their businesses with similar philosophy. Let us take the example of route mobile it was established in 2004 as a cloud communication platform CPaaS as may be called. Now, it is a USD 40 million company, listed in India and with presence in 15 countries.

Affle is another company which is an interesting case study of proprietary consumer intelligence digital platform it was established in 2006, but it has moved into a broader role in mobile advertising and clocks a revenue of 51 million dollars. Dixon Technologies was established in 1993 for manufacturing televisions, but it has changed its business line as well as business model.

Now, it is nearly a 1 billion dollar globally competitive contract manufacturer for all electronic goods. Aavas financiers was founded in 2012 for providing home loans in semi-urban and rural areas. Now, it is a 165 USD million home loan company with multilateral funding specializing in green homes.

Galaxy Surfactants was established by five friends and their idea at that time that is in 1980 was to manufacture an ingredient for toothpaste. Now, it is a USD 333 million diversified chemicals company for home care and personal care product ingredients and is exporting to marquee clients globally.

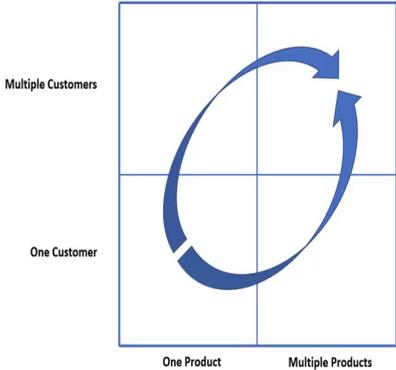
Zerodha was established in 2010 as a bootstrapped start-up attempting to change the stock broking landscape in India. Now, it is a 544 million dollars leading stock trading platform it is an online brokerage that brought millions of the new generation millionaires into stock trading more particularly during the COVID times.

A business USP in each case has helped companies such as the above find their unique niches and develop their businesses successfully.

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Diversification Pathways

The story of Galaxy Surfactants illustrates how a humble beginning well-executed can lead to business growth.



Multiple Customers

One Customer

One Product Multiple Products

Whether the move is through 'one product-multiple customers' or 'multiple products-one customer', successful business development can progressively lead to 'multiple products-multiple customers.'



So, the diversification pathways are many the story of Galaxy Surfactants illustrates how a humble beginning well executed can lead to business growth. It started with one customer and one product that is the toothpaste ingredient. Then it moved into multiple products and also began quoting multiple customers.

Whether the move is through one product-multiple customers or multiple products-one customer, successful business development can progress to multiple products and multiple customers. This needs to be a structured exercise rather than a random exercise; structured exercise because as you move into strategic adjacencies whether of manufacturing or marketing you get better synergies.

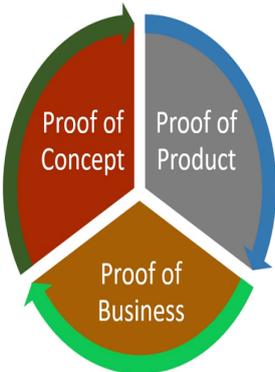
On the other hand, if you start from let us say a chemical and then move on to aluminium, then move on to apparel then that kind of diversification is unlikely to lead to any synergy in fact, it would be negative synergy and severe testing of the managerial bandwidth.

So, diversification pathways move from one product one customer to multiple products and multiple customers, but the logic should be one of strategic adjacency to provide the required strategic synergies.

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The Three Essential Proofs for the First Success

Successful business development rests on multiple drivers. Innovation and management, however, are critical.



Co-creation with customers in terms of design thinking or one's own core competence can lead to a product concept whose time has come. Focused innovation and systematic management shape it into business success.



When you do business development there are three proofs that are required successful business development rests on multiple drivers, but innovation and management are critical and how do innovation and management help a start-up or a big company. First the concept

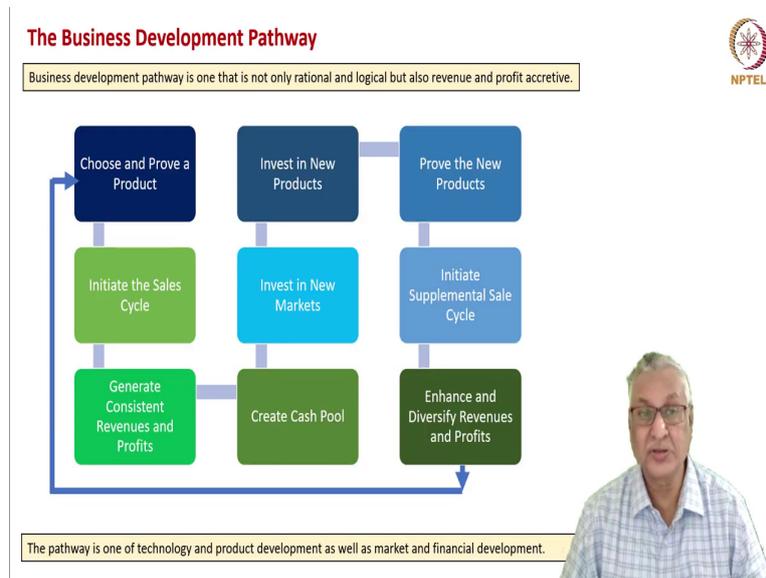
with which you have started the business must be proven through a product or service concept.

When you develop that product to a level by which it can be tested as a concept it is ready as a conceptual construct or framework. Next is the proof of product that is you translate the concept into a viable product in terms of technical feasibility and hopefully economic viability as well. That is the time when you say that the proof of product has arrived.

But, proof of concept as well as proof of product, by themselves do not assure that there would be business for the product. It is therefore, important to top up these two proofs with proof of business when a product or a business has gone through the three stages of proof-of-concept proof of product and proof of business that business will be successful and will be sustainable.

To be able to do this effectively one has to co-create these concepts these products and establish these businesses along with the customers or those who represent the customers that requires several methodologies of which design thinking is one. If a company has design thinking as one of its co-competencies developing products and businesses to fulfil the customer needs will be the part of their day-to-day DNA. Focused innovation and systematic management therefore, help shape business success.

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So, let us look at how the business development pathway works we have talked about how a business value chain works and how each ingredient or each block or each stepping stone in that development pathway could be useful. But today we are talking about business development itself as something which has a pathway.

To do business development successfully you got to be logical, you got to be rational, but also choose a pathway that is revenue and profit accretive. So, amongst the several products which the company has, you got to choose and prove a product as being capable of accepted by the customers.

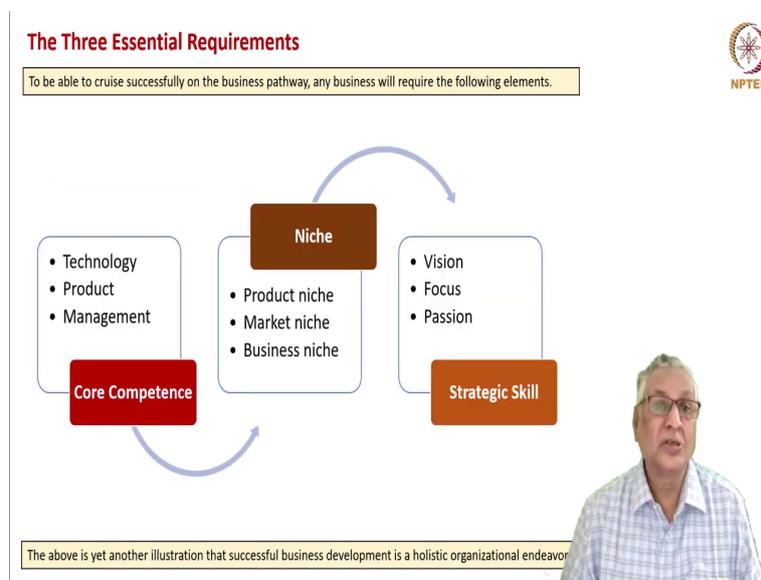
For that you have to conduct what you have already done in the previous slide that is proof of concept proof of product and proof of business. Then you initiate the sales cycle. Generate consistent revenues and profits. Then you create a cash pool for the company, you take that

cash pool and invest in new markets so that with the same product you can create other markets and probably broaden the cash pool.

Then you take that cash pool and invest in new products. Again, prove the new products. Initiate the supplemental sales cycle. Enhance diversify revenues and profits. This is a virtuous cycle which keeps on happening as long as the core products are defended and enhanced, as far as the emerging products are brought into the core.

And then made into profitable products this kind of business development goes on an in an iterative and cyclical fashion. The pathway therefore, is one of technology and product development on one hand and market and financial development on the other.

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The three essential requirements to successfully cruise on the business pathway are as follows: one a core competence with reference to the business and that comprises the core technology of the product, the product itself and the management. Why would I say that technology and product are different? Because technology is the underlying substrate.

Let us say you have got superb technology in computer-aided design, but that would not mean that automatically you have a passenger car which can be seen as a fully tested and tried product. That requires a whole number of different activities building on the base of technology, but a lot of more engineering.

A lot of more science and a lot of more homologation and various other activities including manufacturing. And, then management that also is the co-competence that is required. In this set of co-competencies manufacturing could be as much a core competence as product includes manufacturing whereas, management includes the entire value chain management activities including marketing.

The second requirement is the niche. The product should have a niche to be the anchor for business development. Similarly, the market with which you start selling the product should have the niche that would be the core market for you and when you have a product niche and a market niche you need to supplement with a business niche.

That is this business must be capable of growing based on the socio-economic demographic and other factors. But, to achieve this core competence to find the niche you require strategic skill and that strategic skill comprises some of the elements which we discussed earlier: vision, mission, and goals, focus and specialization, passion and gumption. All these are required.

The above framework is yet another illustration that successful business development is a holistic organizational endeavour because strategic skill is something which is related to the top leaders of the company. Finding out the niche is the CXO job. Establishing core

competence is an organization wide requirement, but managers and leaders to some extent make this a realizable competence for the organization in their respective functions.

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Changing Hues of Business Development

As India began partaking in the industrial revolution, business development began taking different hues.

| | | |
|------------------------|--|---|
| 1900 to 1949 | <ul style="list-style-type: none">Exports of Indian itemsImports of foreign items |  |
| 1950 to 1989 | <ul style="list-style-type: none">Technology inflowsIndustrial development |  |
| 1990 to 2019 | <ul style="list-style-type: none">Indigenous developmentExport development |  |
| 2020 and Beyond | <ul style="list-style-type: none">Start-up developmentEconomic competitiveness |  |

The elevated paradigm of India's industrial and business development is evident from the above changing hues.



Business development has been having different views over the last several decades. As India began partaking in the industrial revolution, business development also began assuming several colours. Between 1900 and 1949, export of Indian items towards its countries and import of foreign items from the overseas countries into India constituted the business development that is how many trading houses got established during this period particularly the pre independence period.

Between 1950 and 1989 both years inclusive technology inflows and industrial development constituted business development. Companies were liberally importing technologies and different schemes and establishing manufacturing capabilities or marketing capabilities.

That is how these steel plants were set up all over India. That is how automobile plants were set up in many parts of the country. Referring to the previous one the way the spices herbs and various other India specific goods were exported reflected the trend. Between 1990 and 2019 indigenous development of products and development of exports business became the thrust for business development.

You can see Indica car being unveiled by Ratan Tata. That was the biggest proof of indigenous development that at that point of time and as a result the export intensity of products also has been going up. In 2020 and beyond, development of start-ups has become the new way of business development.

Achieving economic competitiveness global competitiveness all across the industries and businesses became the next vista of growth for the Indian business. So, the elevated paradigm of India's industrial and business development is evident from the above changing views the unicorns were 37 in 2001 to 2020 period, but in 2021 alone we had 44 unicorns making the total unicorn count from inception of the start-up movement to over 100.

So, that is how the changing hue of business development occurred with reference to the start-up era.

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India's Business development Will be Multifarious

India has many conglomerates which have taken different paths to become what they are, as illustrated below.

Established Multi-industry Conglomerate: TATA, TYA BIRLA GRC

Oil, Chemicals, Energy, Telecom, Retail Conglomerate: Reliance Industries Limited

Diversified infrastructure-driven conglomerate: adani

Established Auto, IT, Real Estate Group: Mahindra

Established Auto Component Group: TVS

Infrastructure Conglomerate: GAR

BFSI Conglomerate: ICICI Ban

The above is an illustration that infrastructure focus is now a key driver of conglomerate diversification in India.

Certainly, India's business development will not be confined to a single product single market pathway it will be multifarious. We can see that many conglomerates the established old age conglomerates which have become more modern or the new age conglomerates follow this kind of multifarious routes.

Tata Group is the most respected most established multi-industry conglomerate stating to be SR 2 software conglomerate with lots of interest in engineering as well as automobiles. Aditya Birla group is another established multi-industry conglomerate which is into cement apparel and various other goods.

Mahindra established Auto, IT, Real Estate and Financing group. TVS is an established auto component group manufacturing virtually every component of automobile except the automobile itself. The new age conglomerates are as follows Reliance Industries Limited

started with textiles, moved into oil and chemicals moved into telecom and retail and now is moving into energy in a big way.

Adani Group is a diversified infrastructure driven conglomerate. Many of the companies it has under its belt such as Adani Ports, Adani Transmission, Adani Gas, Adani Cement all of these are reflective of the infrastructure focus that the Adani Group has.

GMR is an out and out infrastructure conglomerate whereas; ICICI bank is a BFSI conglomerate. The above is an illustration that infrastructure focus is now a key driver of conglomerate diversification in India.

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Acquisitions Drive New Entry and Business Growth: Reliance Example

Many companies have developed businesses by resorting to acquisitions to fast-track new entry and growth.

| | | |
|---|--|---|
|  Reliance Industries Limited |  Acquired IPCL in 2002 to expand its chemicals footprint |  |
|  Urban Ladder |  Acquired Urban Ladder in 2020 to enter into the furniture retail segment |  |
|  Jio |  Acquired several brands over the last three years (2020-2022) to expand and diversify the retail brand portfolio |  |
|  nfminds |  Acquired JustDial in 2021 for its vast trade channel database and relationships |  |
|  DUNZO |  Invested in Dunzo in 2022 to leverage the quick delivery potential |  |

Strategic adjacencies and the potential to acquire additional capabilities drive such acquisitions.

For every company as also for every conglomerate acquisitions add value, they add techno economic value. Many companies have developed businesses by resorting to acquisitions to

fast track, new entry and growth. Let us take the example of Reliance. The company acquired IPCL in Indian Petrochemicals Limited a public sector undertaking in 2002 and that helped the company expand its chemicals footprint.

In 2020, it acquired Urban Ladder to enter into the furniture retail segment. It has also acquired over the last few years several brands to expand and diversify the retail brand portfolio and as it has announced its entry directly into FMCG it is buying up several other brands to have reliance labelled FMCG products.

It is also moving into various other information related spaces. It acquired just dial in 2021 for its vast channel database and relationships. Invested in DUNZO in 2022 to leverage the quick delivery potential. Besides this there are at least 20 to 30 start-ups basically technology based artificial intelligence based digital start-ups that have been invested in by reliance to support diversification by the group.

Strategic adjacencies and the potential to acquire additional capabilities based on such acquisitions drives the acquisition led growth.

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Acquisitions Bring New Capabilities

Some acquisitions tend to be game changing for the acquiring company in terms of depth and reach.

Google's acquisition of YouTube and Android completely redefined the company as a technology giant

Facebook's acquisition of WhatsApp and Instagram substantially elevated its social media presence

Microsoft's acquisition of Activision Blizzard fast-tracked entry into the Metaverse

Disney's acquisition of Pixar and Marvel positioned Disney as the most successful blockbuster movie corporation

Acquisitions boost growth by adding new products, therefore new markets, or directly extending market reach.

NPTL

Certainly acquisitions bring new capabilities if the acquisitions are managed well. They could even be game changing for the acquiring company in terms of depth and reach. Google's acquisition of YouTube and Android completely redefined the company as a technology giant. Facebook's acquisition of WhatsApp and Instagram substantially elevated its social media presence.

Microsoft's acquisition of Activision Blizzard first tracked entry into the Metaverse universe. Disney's acquisition of Pixar and Marvel positioned Disney as the most successful blockbuster movie corporation. So, acquisitions clearly boost growth. They add new products, therefore new markets and therefore new businesses and directly extend the business canvas as well as the market reach.

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Pharma Benefits from Collaborative Technological and Business Development

In the wake of Covid, intense collaborative actions helped companies serve mankind while boosting revenues.



Pfizer Revenue Boosted by Covid-19 Drugs

Pfizer's annual revenue since 2016

| Year | Revenue (billion USD) |
|-------|-----------------------|
| 2016 | \$38.7b |
| 2017 | \$38.8b |
| 2018 | \$40.8b |
| 2019 | \$41.2b |
| 2020 | \$41.9b |
| 2021 | \$81.3b |
| 2022* | \$98b - \$102b |

* official guidance given February 8, 2022
Source: Pfizer

How COVID-19 Vaccines Changed Pharma Company Profits

Net income/profit of selected pharma companies for Q1-Q3 in 2020 and 2021 (in billion U.S. dollars)

| Company | 2020 | 2021 | % Change |
|-------------------|-------|-------|----------|
| Johnson & Johnson | 12.98 | 16.14 | +24% |
| Pfizer | 8.31 | 18.59 | +124% |
| AstraZeneca | 2.14 | 0.46 | -78% |
| Moderna | 0.55 | 0.40 | - |
| BioNTech | 0.40 | 8.16 | + |

AstraZeneca/BioNTech declare profits, not net income.
BioNTech converted from Euro on Nov 15, 2021
Source: Company reports

Most vaccines have been a result of past, present and futuristic collaborations in technology and business.



Pharmaceutical industry benefited from collaborative technological and business development intensely and immensely. Generally, the pharmaceutical firms are loners. They would like to focus on their own R and D and bring potentially blockbuster molecules into the market all by themselves.

But COVID changed all that intense collaborative actions have helped companies serve mankind while also boosting revenues. If you see the revenue profile of Pfizer, one of the largest pharmaceutical global giants, the chart represents the revenue actual as well as the guidance since 2016.

It was a 39 billion dollars company in 2016 and it remained with modest growth at 42 billion dollar company in 2020. But, in 2021 it became almost double its size. It became an 81 billion dollar company with 37 billion dollar coming from COVID-19 vaccine. And, in 2022

it is estimated to be a 100 billion dollar company with COVID vaccines becoming 32 billion dollars.

But Paxlovid of it the in house generated COVID-19 antiviral drug contributing 22 billion dollars. And, that is how the collaboration with bio and tech helped Pfizer boost it is revenues. Similarly, various other companies have seen their revenue profiles as well as profit profiles getting changed because of the vaccine entry.

Johnson and Johnson up from 12.98 billion to 16.14 billion 24 percent increase; Pfizer as I said 8.31 in respect of co-pharmaceuticals to 80.59 in between quarters 1 to 3 and AstraZeneca saw a decline whereas, Moderna saw a tremendous increase in the net income and profit from minus 0.5 to 7.3 and BioNTech again saw a maximum increase from minus 0.40 into 8 8.16.

So, the net income profit of selected pharma companies received a thundering boost because of the inter company cooperation. Most vaccines have been a result of past present and futuristic collaborations in technology and business the collaboration between Pfizer and BioNTech did not happen overnight after COVID came.

They had collaborative routes even 10 years earlier with the collaboration being aimed at development of anti cancer products using BioNTechs unique MRNA technology, but that technology and that relationship became useful for Pfizer to collaborate with BioNTech and vice versa to bring out the vaccine.

And, the collaborative routes were so strong that they did not wait to sign an agreement before launching on the development and manufacturing path. So, benefits of collaborative technological and business development in holistic business development are very obvious.

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Ownership of Businesses and Companies

Businesses can be run independent of ownership of the business value chain. Businesses can, therefore, be either asset-light or asset-heavy, with varying degrees of ownership.

Applicable for

- Raw Material and Basic Industries
- Intermediate Industries
- Final Product Industries

Slayback Pharma
Connecting the Dots...

SAGENT

VERTEX

The above successful examples from the global pharmaceutical industry demonstrate how largely virtual companies (with significant offshoring and outsourcing) can be value drivers too.

While looking at business development we also have to look at the ownership of businesses and companies. Businesses can be run independent of ownership of the business value chain. Businesses can therefore, be either asset light or asset heavy with varying degrees of ownership.

R and D manufacturing and marketing are the basic core line functions, but there are several supportive functions which make this value chain function from information technology to procurement to secretarial services. And, this value chain is applicable for every type of company raw material and basic industries, intermediate industries and final product industries.

Let us take some examples here again of companies which are not physical, but are rendering value chain services as per the above. Slayback Pharma is a company that is established in the

United States. What it does is to take the R and D efforts of Indian pharmaceutical companies or independent pharmaceutical laboratories and submit those dossiers or acquire the ANDAs that are already available and create a portfolio of approved drug dossiers or ANDAs.

And, these are licensed to other companies to manufacture the products or market the products. So, it is a virtual company, but doing fiscal business. SAGENT has been an injectables company in the generic space and it grew its portfolio by sourcing very significantly products as well as finally, manufactured products from Italy other European countries and China.

Vertex is a drug discovery company, but it does not own drug discovery labs that are required for the kind of objectives it has in mind. It has its core R and D personnel. It has got its core leadership. However, much of the discovery work and development work is conducted virtually. So, the businesses can be independent of the ownership of companies.

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Acquisitions for Market Expansion and Diversification

Acquisitions and collaborations help companies expand market breadth immensely. Some examples are as below.

The diagram illustrates three examples of acquisitions leading to market expansion and diversification. Each example is represented by a plus sign between two circles (representing the companies being acquired) and an equals sign followed by a larger circle (representing the outcome). The first row shows Tata Motors (orange circle) plus JLR (brown circle) equals Globalization for Tata Motors (red circle). The second row shows PharmEasy (light blue circle) plus Thyrocare (dark blue circle) equals Diagnostic Value Chain for PharmEasy (dark blue circle). The third row shows Sony (yellow circle) plus Zee (olive green circle) equals Expanded Market Reach (purple circle).

Organic growth which takes years to deliver in terms of results gets delivered quickly with well thought-out acquisition



There are also acquisitions that clearly explain market expansion and diversification. When Tata Motors took over JLR it became a globalized company. When PharmEasy acquired Thyrocare this start-up became a diagnostic value chain with basic capabilities being intact.

When Sony Entertainment take has taken over Zee Television it has reached nooks and corners of the country because of the vast network of Zee. Similarly, Zee has the access to the vast content library of Sony. Organic growth which takes years to deliver in terms of results gets delivered quickly with well thought-out acquisitions. So, the acquisitions have got a great role in diversification and business expansion.

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Industry

Michael Porter proposed a working definition of the industry as the group of firms producing products (including services) that are close substitutes of each other. 'Substitutability' is subject to interpretation in practice.

Every industry requires investments characteristic to the industry

The industry needs profits net of all expenses to sustain and grow

The rate of return in an industry is determined by the level of competition

If the rate of return is below a benchmark rate, investments may dry up

Investments

- Equipment
- Facility
- People
- Materials etc.,

Returns

- Revenue
- Net of Expenses
- Net Return to Shareholders
- Net Return to Company

Companies and investors may accept a return below the floor rate in the short term if they anticipate that the returns in the medium and long term will be above the floor rate of return. The force and threat of competition influences this.

NPTTEL

Michael porter proposed a working definition of the industry where we discussing this in the beginning of this lecture, I said that while a business can be easily defined or relatively more easily conceptualized and practically implemented. Defining the industry has it is challenges.

So, Michael Porter the eminent author who has proposed the competitive strategy and various other frameworks, proposed a working definition of the industry. He said the industry is a group of firms producing products including services of course, that are close substitutes of each other. So, for him the substitute ability is the subject to interpretation in practice.

So, if you have a fountain pen and it can be substituted by a gel pen or a multi flexibility pen, then it is a similar industry. If you have a company which manufactures jeans and markets it, but also has got other kinds of readymade apparel all of that belongs to one industry. Every

industry requires investments characteristic to the industry. The industry needs profits that of all expenses to sustain and growth.

The rate of return in an industry is determined by the level of competition and if the rate of return is below a benchmark rate investments may dry up. So, industry is the overall cluster of companies, overall cluster of activities that is products and services that determine certain important characteristics one the level of investments required to operate in the industry.

The structural facts of that industry in terms of the number of competitors, the scale of competition and the profitability of the industry, then the profitability that can be generated out of the industry to be able to reinvest or expand or diversify. And, the comparison of the industries rate of return with the other opportunity rates of return that are available.

So, investment into the industry and returns from the industry constitute the two balances for judging business decisions. Investments are typically required in industry for equipment, facility, people, materials etcetera. The investments can be classified into capital expenditure as well as operating expenditure.

The returns from these investments come essentially in terms of the returns of revenue which are net of expenses therefore, the net return to the shareholders and net return to the company. So, the gross margin EBITDA, EBIT, EBT and all adjusted net profit that is returned to the shareholders are the dividends that are returned to the shareholders.

These constitute the cascade of returns companies and investors may accept at times a return below the flow rate in the short term, if they are reasonably confident that in the medium term and the long term the returns from the industry beat the floor rate of return. Today, any investment into green energy will not yield any profits.

Any investment into electric vehicles may not yield the same kind of return that the internal combustion in automobile industry is generating. However, people do make such investments in such new areas when they believe that is the way to go because those products are going to

take over the entire product space and the cost price equation is going to improve in favour of the new industries and new product lines.

That is why the definition of the industry, the substitutability of the industry becomes very important.

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Returns are Just One Factor

While returns are one critical factor, there are other factors as well that determine an industry's importance to an economy. The automobile industry, buffeted by various factors slips on returns time to time. It, however, continues to have strong investor interest.

Speed Breaker Ahead?

| BSE Auto Index Cos | 5Yr Avg P/E | P/E | OMP | YTD Chg % | % Fall From Lifetime High |
|--------------------|-------------|-------|----------|-----------|---------------------------|
| Cummins India | 28.67 | 23.20 | 546.25 | -35.79 | -38.28 |
| Exide Industries | 18.42 | 18.69 | 188.75 | -29.49 | -31.11 |
| Ashok Leyland | 10.35 | 12.28 | 74.90 | -26.96 | -39.08 |
| M & M | 12.98 | 22.45 | 580.00 | -25.03 | -28.75 |
| Motherson Sumi | 16.92 | 25.76 | 126.50 | -23.61 | -29.45 |
| Apollo Tyres | 7.65 | 18.10 | 180.25 | -23.12 | -26.40 |
| Bosch | 37.05 | 31.96 | 15681.25 | -19.81 | -21.53 |
| TVS Motor | 29.72 | 30.70 | 458.40 | -18.90 | -22.83 |
| Hero MotoCorp | 17.21 | 14.65 | 2663.70 | -14.86 | -21.26 |
| Eicher Motors | 38.43 | 27.94 | 21279.50 | -8.21 | -15.89 |
| Balkrishna | 14.16 | 22.76 | 856.90 | -7.75 | -17.70 |
| MRF | 12.74 | 24.50 | 63819.35 | -4.44 | -8.68 |
| Maruti Suzuki | 23.10 | 36.70 | 7385.30 | -1.23 | -6.86 |
| Tata Motors | 4.35 | -1.67 | 1192.00 | -0.92 | -28.12 |
| Bajaj Auto | 18.98 | 18.19 | 3246.35 | 19.15 | -1.31 |

Compiled by : ETIC Database

As the data shows, the returns may vary at industry level as well as at firm level. That is the essence of competitive strategy.

Interestingly, players in an industry display different economic characteristics (P/E)

| Company | Sector | 5 Yr Avg |
|------------------|------------------|----------|
| Ashok Leyland | CV | 10.35 |
| M&M | CV, SUV, Tractor | 12.98 |
| TVS Motor | 2-Wheeler | 29.72 |
| Hero MotoCorp | 2-Wheeler | 17.21 |
| Eicher Motors | 2-Wheeler, CV | 38.43 |
| Tata Motors | CV, SUV, Car | 4.35 |
| Maruti Suzuki | Car, SUV | 23.10 |
| Bajaj Auto | 2-Wheeler | 18.98 |
| Cummins India | Engines | 28.67 |
| Exide Industries | Batteries | 18.42 |
| Motherson Sumi | Auto Parts | 16.92 |
| Bosch | FIE | 37.05 |
| Apollo Tyres | Tyres | 7.65 |
| Balkrishna | Tyres | 14.16 |
| MRF | Tyres | 12.74 |




But, in assessing this everything cannot be only based on the returns. If you look at different industries and different companies you will find that there are disparate trends. Returns are one critical factor, but other factors determine the importance of the industry to an economy. The automobile industry is frequently buffeted by the economic cycles.

It slips on returns from time to time; however, it continues to have strong investor interest because no economy, no society can afford lack of mobility. Mobility is the core driver of

development. Goods may be produced, services may be offered, but they need to be transported.

So, transportation is the core of modern social development. So, automobile industry will remain essential in spite of the fluctuation in returns. However, even within the overall industry when you classify companies according to the segment and the sector they operate in, you will find that their returns vary.

So, in the commercial vehicle segment you will find that Tata Motors is at the lowest level at 4.355 year average of return whereas, Eicher Motors which operates in 2-wheeler and commercial vehicles has as high as 38.43, 5-year average return. Auto parts vendor the Motherson Sumi is at 16.92.

Whereas, Bosch which supplies technology driven fuel injection equipment has more than twice the rate of return which Motherson Sumi gives. So, it does not mean therefore, that diversification by itself provides superior returns. Motherson Sumi is far more diversified compared to Bosch.

But Bosch has got specialization and core power in its basic product line. Therefore, it enjoys higher level of profitability. Apollo Tyres which is an essential ingredient of all types of passenger cars should have a rate of return which is at the average level of all the automobiles instead it is probably nearer the commercial vehicle rate.

Tata Motors has been essentially a commercial vehicle manufacturer, but its commercial vehicle margin is no better than its overall average, but Ashok Leyland has a superior rate of return within the commercial vehicle space. Again, within the tyres industry Apollo Tyres has got 7.65 rate of return whereas, Balkrishna Tyres has got double the rate; MRF has got slightly lower level.

Maruti Suzuki is a passenger car leader. It has got 23.1 percent, 5 year average rate of return whereas, TVS motor in the 2-wheeler industry has superior average rate of return of 29.72

percent followed by the previous and existing market leader Bajaj Auto at 18.99 percent. We may write off internal combustion engines.

But comings in India which specializes in only engines has 29 percent, 5 year average and it is not threatened because it is switching over to superior fuel efficiency and electric and other clean energy engine options. So, players in an industry display different economic characteristics based on the way they position their products.

The way they position their businesses, the way they develop their business models and finally, the way they manage their operations. So, the earlier three part point I gave that is the strategic skill, the niche positioning and the core competencies together act as the determinants of the overall capability of a firm, not only to give returns to the investors.

But also to put the company on the path of expansion or diversification. A company can move from a business level to a company level to a multi company level and finally, to a conglomerate level based on these three factors which are strategic skills, then the niche capabilities and the core competencies. With this, we come to the end of this lecture. I hope to see you in the next lecture.

Thank you very much for your kind attention.