Convergence & Differentiation

What is success in a connected world?*

Interview transcripts of Ratul Puri,
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India

*connectedthinking

PricewaterhouseCoopers

Ratul Puri is Executive Director of Moser Baer India Limited

PwC: What makes you confident about your revenue growth prospects?

Ratul Puri: We have new businesses that should generate significant revenues. The existing core business of optical storage media, is a cyclical business, and is currently at the bottom of a down cycle. However, the next generation disks – Blue Ray - should drive significant revenue growth. The industry is waiting for this technology and, for us, it will be a big driver for revenue growth. We are in a unique and strong leadership position as we are the only company outside of Japan which is shipping Blu-ray discs. This leads us to believe that as Blu-ray emerges as the next generation format, we will have a strong and competitive technical edge and a larger share of the global Blu-ray pie than we have had in the CD/DVD market.

PwC: How are the other two new businesses – photo-voltaic and entertainment – performing?

Ratul Puri: We are doing well. Getting into entertainment was an interesting shift. We are going to see a fundamental shift in the home entertainment marketplace. Our entry into this business has already brought about significant changes in the industry. But, as of today, we have only implemented 20% of our overall business strategy. There are a series of things planned for the next four to six quarters.

The case is similar with photo-voltaic. At the macro level, issues like climate change and the need for green energy triggered our entry into this business. The cost of solar energy is coming down and we have a very clear roadmap for this business. Our attempt is to drive costs down to grid parity levels. I believe that an increase in the cost of conventional energy, a decrease in the cost of solar energy generation cost and the right government framework will drive significant growth for this business.

As costs come down to grid parity levels, we will see explosive growth in this sector. By 2010, solar energy should be a significant global industry. Globally, this industry is set to see a ten-fold increase over the next two to three years – from $10bn in 2006 to $80-100bn in 2010.

We have plans to make a investments, of $3.2bn, in expanding our manufacturing facilities for solar cells and panels in India. Our recent announcement of investing $1.5bn in a 600 MW Thin Film photo voltaic capacity is part of that plan. Thin Film technologies are playing an increasingly significant role in meeting peaking power requirements. And we plan to be a significant player in this arena.

PwC: Today, what percentage of your total revenue comes from the Indian market? And do you see that proportion changing over the next few years?

Ratul Puri: It's only the home entertainment business where our strategy is purely India-centric. We are heavily dependent on the overseas markets for our optical media business. Overall, around 20% to 25% of our total revenue comes from India, and the remaining comes from outside of India.

In the optical disc business, our global share has increased from 0.5% in 2000 to 16-17% today. We are looking at global leadership in all product categories. You can't rely only on the Indian market to achieve global leadership.

PwC: In future, what will be a bigger driver for growth – the Indian market or the export markets?

Ratul Puri: It varies from business to business. In the optical storage media business, India is a significant growth opportunity for us and here growth rates will be much higher than in the global markets.

In other sectors, such as solar energy systems, the growth rate in India may be slower in the next few years than in other markets. But as the Indian market develops, we will see much higher growth rates here.

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PwC: What about other emerging markets? Are they a part of your strategy?

Ratul Puri: We have never focused on countries like China and Latin America, because pricing in these markets tend to be lower than the developed markets of Europe and Japan. But as the developed economies are slowing down, we are increasing our focus on the emerging markets. For us, Europe today is the largest market, followed by India and the US. In the blank optical disc business, India has become a very important market for us. It's always good to have a strong local market.

PwC: What makes your workforce unique from global competition? Are there any elements that stem from the Indian culture?

Ratul Puri: We Indians are overtly critical of our own culture. But if you stroll around an Indian office at 8pm and an office in the UK at the same time, you will see the difference.

People in India are much more work focused than their peers in the developed world. Here, work comes first. From a development perspective, Europe is much more evolved. It would be a challenge in Europe to tell someone to work over the weekend. In India, people do it all the time.

As Indian companies have forged alliances with global players, they have picked up the good aspects of their cultures and blended them with the Indian culture. For instance, we have picked up facets like attention to detail and the importance of a disciplined work culture from the Japanese, but not their relatively slower decision-making approach.

PwC: Are there any areas where improvement is needed?

Ratul Puri: There are many areas where improvements are possible. We need to build a much more responsible work culture. If you look at the responsibility quotient, you will find challenges. Most managers in Indian companies end up pushing decision-making to the top. That must change.

Sometime back, HR consulting firm Gallup Consulting undertook an internal survey that gave us interesting feedback. I had always thought that our employees believed that they could make mistakes. The findings of the survey told us quite the contrary.

Culturally, most people believe that they can't make mistakes, and therefore, they don't want to take a decision in case they make one. We need to make people accountable for their actions. Indian organisations need to become more decentralised. We must allow people to take decisions and make mistakes.

PwC: What about your organisation? Is Moser Baer hierarchical? Or does it tend to be flat?

Ratul Puri: Again, it varies across our businesses. We have a flatter structure in the new businesses. In our legacy business or the optical disc business, we are more hierarchical.

PwC: Why is that so? And how do you bring about agility in the decision-making process?

Ratul Puri: It is due to the nature of these businesses. The optical disc business is manufacturing-centric and therefore requires a lot of discipline. There is less scope for employees to be innovative.

In our other businesses, a higher degree of innovation is possible, especially in areas such as marketing and business development. Therefore, in our new businesses – photo voltaic and home entertainment – the structure is flatter.

I think as a group, we are pretty agile. That's because only about half-a-dozen people are involved in the strategic decision-making process. When it comes to strategic decisions, we are fairly centralised. I think most organisations of this size would not have more than half-a-dozen people taking strategic decisions.

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PwC: What is your perspective on the need to change your internal organisational structure, skills or culture in order to be successful in a connected world? What are some of the complexities that you face?

Ratul Puri: The answer to this again varies for each of our businesses. For instance, our entertainment business is not impacted much by the connected world. Our photo-voltaic business is heavily dependent on the connected world. It's a fast-changing business that relies heavily on the supply chain.

If we didn't have a culture that quickly adapts to changes in the global environment, we would have been at a significant competitive disadvantage.

There are several aspects we need to look at when we operate in a global environment. Even while dealing with customers and suppliers, we have to adapt ourselves to their culture. For instance, we deal with our Korean customers very differently from our Japanese customers. Our Japanese customers still physically examine each consignment. The Americans, on the other hand, have a far more less stringent approach.

Similarly, when one company acquires another, it needs to adapt itself to the culture of that company's country in general, and the acquired company in particular. Dealing with the local staff is also a big challenge.

PwC: What role does cost structure play in determining Moser Baer's competitive advantage? Is it confined to low wages?

Ratul Puri: Our cost structure is driven by many factors. Lower wages certainly help. But cost advantages come from various other factors such as processes, the skill-base and the cost of physical assets.

Innovation is another critical factor that drives our costs down. We use innovation to lower costs and drive growth. As a result, our cost structure is 15% to 20% lower than that of the competition.

PwC: How would you sustain these cost advantages?

Ratul Puri: Whenever there are inherent advantages, other players will also come in to exploit them. Very few things are IP-protected. Therefore, you have to work on maintaining your cost advantages. Innovation is an important means of sustaining them.

If you effectively exploit the cost advantages, you will drive competitors out of business. Or they will relocate to other cheaper locations. Therefore, you start by leveraging the cost advantages and as you obtain size and scale, you start leveraging innovation. From then onwards, it's a continuous process.

PwC: In your businesses, do you expect to advance up the value chain closer to the end-consumers?

Ratul Puri: We are always studying the value chains we operate in. Moving closer to the customer doesn't always offer the maximum value. Sometimes, there is more money to be made at the back-end, as opposed to the front-end and visa versa. Therefore, the risk-reward dynamics vary across the value chain. To figure out which part of the value chain one must operate in involves a strategic decision.

There are competitive pressures throughout the optical disc business. Therefore, I don't see our company moving up the value chain in this business, except in India. But then, we moved up the value chain in India by launching Moser Baer-branded discs back in 2003. This has helped us garner a 55% to 60% market share in the domestic market.

PwC: Isn't your home entertainment business a natural progression up the value chain – from a blank CD/DVD manufacturer to selling movie DVDs?

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Ratul Puri: The entertainment business has its distinctive risks and rewards. While we have leveraged our disc manufacturing heritage, it's a differentiated business as opposed to our blank DVD business.

In India, the home video business is a small proportion of the theatrical business (in terms of revenue). Globally, it's the other way round – home video revenues are in multiples of theatrical revenues. So the opportunity in India is huge.

PwC: Is new product and service development a core differentiator for your company?

Ratul Puri: Absolutely. Take the entertainment business as an example. It's a distinctive differentiator for us. We are selling at unique price points. Even the manner in which we are taking home videos to the market is unique. We have recently introduced innovative new distribution models – like selling home videos in carts and at neighbourhood grocery stores.

So far, we have deployed 300 carts that would sell home videos door-to-door, just as an ice-cream vendor sells ice-creams. Over the next 12 months, we plan to introduce 6,000 to 7,000 such carts across the country. This strategy will eat into the market of pirated movies.

There is a huge potential for home videos in rural and semi-urban India, where theatrical releases of new films happens months after these movies hit theatres in the larger cities. In rural India, we are deploying the direct sales approach.

We also have a different model to sell home videos in retail malls and small grocery stores. We are urging retailers to look at the velocity of sales, as opposed to their mark-up per DVD or CD.

PwC: Hasn't the home video business given more visibility to the Moser Baer brand?

Ratul Puri: Yes. Before we launched blank optical discs under our brand name, no one knew us. And that visibility has certainly increased with our entry into the entertainment business.

PwC: Are there any disadvantages associated with being a low-cost manufacturer?

Ratul Puri: Yes, there are. People tend to associate low cost with low quality. We have forayed into the consumer electronics business. And this is one of the challenges that we are facing in this business, where we want to position ourselves as a top-end player.

PwC: So is the focus at Moser Baer on launching new products and services or on the adaptation of existing ones?

Ratul Puri: It's a combination of both. In the optical disc business, we are not typically establishing a new standard or product. We did not invent the Blu-ray format. But we are adopting new technologies to get into that business. In the solar energy business we are offering new products and services. We have invested in Thin Film technologies which will create significant benefits for our customers when sold as a packaged solution.

PwC: Talking about regulation, do you think government activities can affect your core competencies in a positive or negative way?

Ratul Puri: I feel there are some areas where government needs to play a more active role and visa versa. Look at what regulation has done to the power sector in India. A small positive step has led to so much participation by the private sector. We have projects lined up with more power capacity than all those set up over the last 60 years.

We need to look beyond tax concessions in order to encourage investment. Every country in the world gives tax concessions. But what's important is to look at other factors – such as infrastructure, cost of capital, education (which will improve the supply of skilled manpower) and regulation.

Labour laws in this country don't allow companies to be flexible in terms of their labour force. This is not an area of concern for us since we are expanding. But for companies that want to downsize, labour regulations are certainly a stumbling block.

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PwC: What about infrastructure? What role must government play in this sector?

Ratul Puri: Infrastructure is a significant challenge. Barring telecommunications, the plight of other infrastructure in the country – be it roads, ports, power or railways – is appalling. No state in India has sufficient power. The road quality is very poor, as is our rail infrastructure. The rail freight cost in India is three times that of the US, when actually it should be a third. The quality of airports is poor. All this is a big challenge and a considerable source of disadvantage for Indian companies.

It's actually surprising that the Indian economy has grown at such impressive rates despite such poor infrastructure. In other countries – be it Taiwan, Malaysia, China or Vietnam – governments first invested in infrastructure and then growth took place due to increased domestic and foreign investments. In India, it's the contrary. In fact, non-physical connectivity (telecommunications) is better than physical connectivity.

PwC: What are your views on entrepreneurship in India?

Ratul Puri: Indians have a strong risk-taking temperament. Entrepreneurship is a culture in India.

PwC: Across the world, talent appears to be a top priority. India and China have demographic advantages over developed countries. Despite that, skilled manpower is scarce. And with growth, this shortfall is only widening. What role do you think government should play in people development?

Ratul Puri: Education is a very critical area where government can play a big role. We need to focus on primary, secondary and higher education. Primary education needs to be subsidised and maybe even outsourced to private players who can do a better job at imparting quality education.

I firmly believe that government does not need to regulate education. Let the free market decide. If 10,000 new management institutes come up, the market forces and the quality of these institutes will decide which ones survive and which ones do not.

The Indian School of Business (Hyderabad) is a case in point. Today, the institute has attracted the best faculty staff from across the world. It is offering world-class salaries. ISB's tuition fee is also benchmarked against the best management institutes in the world. Government must create the right framework for the private sector to operate effectively.

Having said that, I also feel that the education sector can't be completely driven by the private sector. Government must also play a role. The Government and the private sector must co-exist in the education sector, much as they do in other countries.

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