CHINESE SMARTPHONE
2,000 Yuan Battle

INDIAN AUTO
Tata Is Not Saying Bye-Bye

BRAZILIAN MARKET
It's Time to Deliver

Emerging Markets Insight

BY MIRAE ASSET FINANCIAL GROUP
Q1 2015

THE BEZOS WAY

JEFF BEZOS

Special Interview

Bezos has a tough no-nonsense business style and is willing to think outside, inside and underneath the box to make his business model work for both Amazon and its customers.
Bezos talks about his Amazon philosophy and establishing the Amazon formula in India and other emerging countries.

MIRAE ASSET
Building on principles

Q1 2015

CONTENTS

Emerging Markets Insight

EDITOR-IN-CHIEF DUNCAN PARK
EDITORS KIM KUK HWA, JUNG KIYEON, MARC SICHEL

ART YANG YOUNG HEE, LEE HOO SHIM, PARK SOL, LEE HAE RIN

MIRAE ASSET RETIREMENT INSTITUTE

PRESIDENT KIM GYUNG ROK
EXECUTIVE DIRECTOR LEE SANG GEON
RESEARCH FELLOW YOON CHI SUN
RESEARCHERS OH EUN MI

MIRAE ASSET GLOBAL INVESTMENTS (USA) LLC

CEO & HEAD OF MARKETING PETER GRAHAM

MIRAE ASSET GLOBAL INVESTMENTS (UK) LIMITED

HEAD OF SALES ELLIOT BERMAN

MIRAE ASSET GLOBAL INVESTMENTS (HONG KONG) LIMITED

SALES DIRECTOR SABRINA KWEK

MIRAE ASSET GLOBAL INVESTMENTS (INDIA) PVT.LTD.

MARKETING HEAD VAIBHAV SHAH

MIRAE ASSET GLOBAL INVESTMENTS (BRAZIL) LIMITED

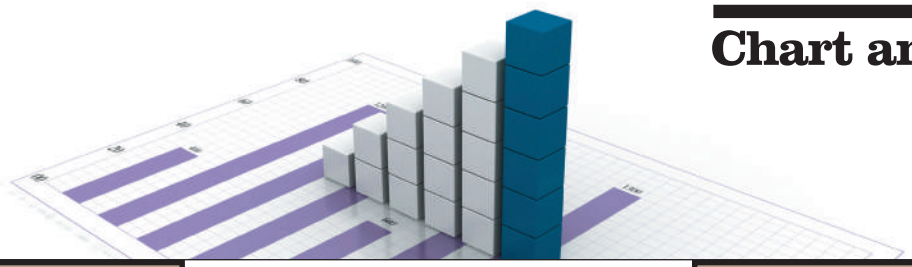
COMMERCIAL & PRODUCT DIRECTOR RICARDO VENTRILHO

PUBLISHED BY MIRAE ASSET FINANCIAL GROUP

PUBLISHER & CHAIRMAN HYEON-JOO PARK

Emerging Markets Insight is a quarterly, on-line publication of Mirae Asset Financial Group. Our editorial mission is to provide timely and actionable information about economics, finance, and business opportunity to key stakeholders in emerging market investing, particularly financial professionals, strategists and academics.

Contact us for further information on subscriptions:
EMmagazine@miraeasset.com

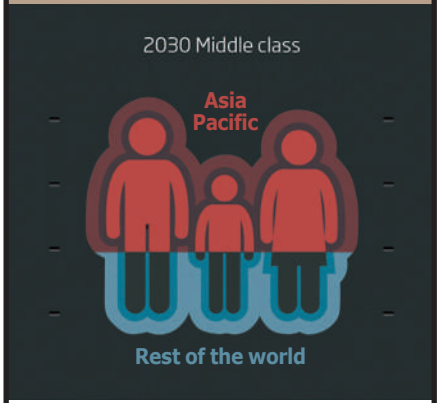


LOOKING FOR PATTERNS

Numbers worth remembering. You can find more at "Chart of the Day" in our iPhone app, *EM Experts,* that provides unique info-graphics about emerging markets, or follow us on Twitter (@emexperts).

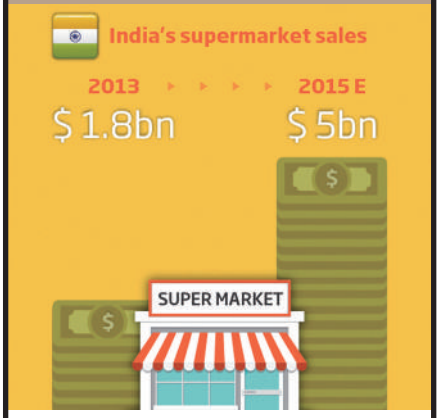
Source : Mirae Asset Research

ASIA, THE NEW HUB FOR GLOBAL CONSUMERS



According to research forecasts, Asia-Pacific will comprise two-thirds of the entire global middle class by 2030. The growing number of Asia's middle class, that will earn a higher income and convey a strong demand for higher living standards, may be able to provide new investment opportunities.

INDIA TO POST RAPID GROWTH IN SUPERMARKET SALES



In the recent past, India's supermarket sales have been lagging behind that of other emerging countries. However, supermarket sales in India are expected to pick up going forward. According to research forecasts, supermarket sales in India are expected to increase from $1.8 billion in 2013 to $5 billion in 2015.

EM PROVIDES OPPORTUNITIES FOR CONSTRUCTION MARKET

By 2020, the construction market in the emerging markets is expected to grow by 110% and become a $7 trillion market, representing 17.2% of the region's GDP. On the other hand, developed countries will only grow by 35% from $4.2 trillion in 2013 to an estimated $5.7 trillion market by 2020.

CONCERNS OVER SECURITY FUEL BRAZIL'S BULLETPROOF CAR MARKET

In Brazil, the market for bulletproof cars posted rapid growth amid a stagnant auto market, recording a 21% year-over-year growth in 2013. The South American nation now has more than 120,000 bulletproof cars owned by its citizens.

EM ARE RESHAPING US INBOUND TRAVEL

Over the past few years, the main profile of visitors to the US have changed, with emerging markets such as China overshadowing developed markets including Canada and Western Europe. Not only are more Chinese traveling to the US, but they are also spending more. In 2013, the average Chinese traveler spent around $6,000 on a trip to the US, which is 50% higher than travelers from developed markets.

THE BOSS THAT IS JEFF BEZOS

Jeff Bezos
CEO, Amazon

The mercurial Amazon boss talks about his leadership style, expectations of employees and putting the customer before everything else.

Interview by Rajeev Dubey & Chitra Narayanan

For Jeff Bezos, doing things his own way has turned out pretty well so far. The New Mexico native left a successful Wall Street career in the mid-1990s to move to Seattle and stake a claim in online retailing.

From a garage office, Bezos created online bookstore Amazon.com, which after a booming start navigated the dot.com bust and has continued to expand, offering almost anything one can think of for online shoppers.

Bezos has a tough no-nonsense business style and is willing to think outside, inside and underneath the box to make his business model work for both Amazon and its customers.

Bezos recently spoke with Business World on his Amazon philosophy and establishing the Amazon formula in India and other emerging countries.

As founder and leader of Amazon, what is it that worries you the most about the future of your company?

I sleep very well. But that is just because I sleep very well! The thing that would worry me a lot—and thankfully, I see no sign of it yet, but I look for it and watch for it—is if one of the deeply held principles of doing business, those cultural principles, start to fade at Amazon. For example, we have a long history of customer obsession. Starting with the customer and working backwards. So if I start to think that people (at Amazon) are not as customer focused, that would worry me.

Similarly, are we being inventive, are we pioneering, are we taking bold bets? We are. And I am excited about it. I don't think these principles are fading, but if they ever were to fade, that would worry me. Or, if we started being short-term oriented. That's another one.

So, the big three ideas at Amazon are: customer centricity, passion for invention and willingness to be patient (for) long-term thinking.

What is leadership?

It probably means a bunch of things. You can be a fantastic mother, and be a leader. Leadership is not just about managing a large number of people. In fact, you can be a manager to a large number of people and not actually be a leader.

What good leaders do is identify ideas that are important. They have the conviction to fulfil those ideas. They then bring other people along and align them to those ideas. That's the most important function of

Bezos's Unique Style

Gladiatorial. Relentless. Unconventional. Jeff Bezos's management style has become a case study of sorts as he defies rules to create a nimble, efficient company.

Escalation email

When Bezos forwards a customer complaint or query with just a question mark and nothing more, it spells trouble. It means he wants the customer complaint resolved instantly and wants answers.

Empty chair at meetings

During meetings, Bezos insists on leaving a chair vacant. That is to represent the customer. It is always customer first at Amazon.

The culture of intense

There is no pampering of employees, no handholding, no words of praise. Instead, shouting, slanging, feisty debates are encouraged, and the person who can prove the numbers or metrics wins.

The two-pizza rule of meetings

Bezos feels that the more people there are in a meeting, the less productive it will be. So his rule—never have a meeting where two pizzas won't feed the group.

Thinking outside the box

Employees are urged to work outside the scope of their duties and experiment. Bezos has a willing ear for anyone with ideas. And employees with the best ideas are rewarded with an old Nike shoe! The symbolism being, "Just Do It!"

a leader. Individuals can be leaders. And managers can be leaders. And everything in between.

Can leaders be democratic? Or, do they have to be autocratic?

Good leaders have to listen. It is not the same as being democratic. Good leaders do not make every decision. They figure out who is best positioned to make that decision and listen very carefully to that person.

Good leaders have to be right, frequently. They cannot be wrong a lot (guffaws). The only way to be right 'frequently' is to listen to people who know what they are doing. Listen very hard. So you could be the smartest person in the world and still not necessarily be the best. Somebody may be better at flying an airplane, but you should not tell the pilot what to do (laughs out loud).

The humility of a good leader is in saying that I am the guardian of these principles and that I have the conviction to give shape to these ideas, but I am not the one who knows how to do everything.

Have you changed as a leader in these 19 years. How have you mellowed?

I have changed in many ways, but in some ways I haven't changed at all. Some ideas I believe in deeply have remained the same. Like the focus on customers has remained (the same). I am a better operator than I was. I have had the great luxury of hiring my tutors at Amazon. All of the senior executive team at Amazon had way more experience than I did in operating a large-scale company, and so, they were my teachers. I have become a much better operator as a result of that.

What are the areas where your decision on a situation today would be vastly different from what it was when you started?

One of the things I have gotten more clear about is just how situational business decisions are. You have to match patterns, but it's never one size fits all. Sometimes you need to be very fast and sometimes slow in delivering. Twenty years ago, I would always try to be fast. But now, I think if this is the kind of thing where we need to be fast or is this the kind of thing where we need to be slow. So sometimes, I am our chief slow-down officer. That's a kind of a change. You can only get that through experience.

Good leaders do not make every decision. They figure out who is best positioned to make that decision and listen very carefully to that person.

You talk a lot about "customer first," but we hear many organisations talk about "employee first." Can you be both?

I visualise Amazon as the host of a party. All our customers are our guests. A good host does not put himself first. The guests come first. In some senses, it is just a semantic difference. If you put customers first that means better progress for the company. And, as a result, you have more wherewithal to treat employees well. Things are a circle. And when things are a circle, it is always hard to know which one comes first. But to me, the right visualization is to put customers first. Treating them like guests, for me, is the right visualization.

Why has Jeff Bezos never tried to soothe the nerves of Wall Street as it fretted about what you were up to?

The most important thing in terms of interaction as a publicly traded company with investors is clarity. Just be clear about your approach and then investors can self-select. Warren Buffet has a great quote on this. He says, "You can hold a rock concert, that's okay. You can hold a ballet and that's okay. Just don't hold a ballet and advertise it as a rock concert." So, at Amazon, if you go back and read our 1997 shareholders' letter, it is clear what our approach is.

People talk about Wall Street, but Wall Street isn't just one thing. It is about thousands and thousands of investors with different investment horizons, different investment approaches and different investment theses. So, if you are clear about who you are and what your principles are and what you are trying to accomplish as a company, then they decide if the company is right for them.

How do you handle failure?

I embrace it. It is part and parcel of invention. If you want to be a pioneer, you are going to fail sometimes. You need to inoculate everyone in the organization to say it is okay to experiment. If you know ahead of time that it is going to work, then it's not an experiment. There are times when we do those things. We also do a lot of things that we know are going to work.

We do a lot of improvements in our customer service that are very incremental. Those things are super valuable and super important. But a lot of things we do, we have no idea if they will work. We plant seeds, some seeds grow into big trees, and some go nowhere. That has to be okay with you if you want to be a pioneer.

What if India disappoints Amazon?

If we had this interview a year ago, I

FROM THE CEO'S DESK

"Are you lazy or just incompetent?" (to employees when angry).

"This document was clearly written by the B team. Can someone get me A team? I don't want to waste my time with a B team document."

"I'm a big fan of all-you-can-eat plans because they are simpler for customers."

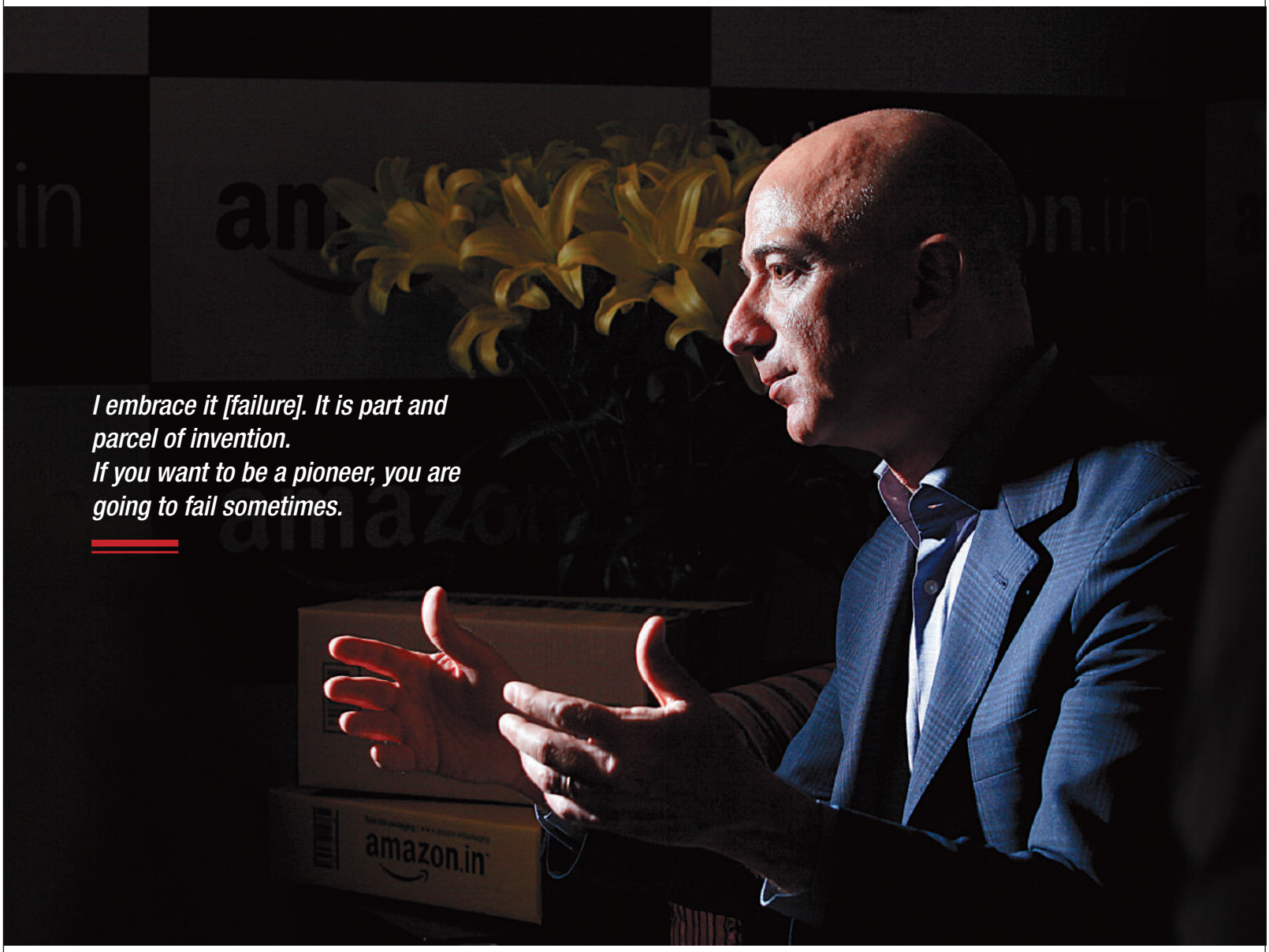
"If you are competitor-focused, you have to wait until there is a competitor doing something. Being customer-focused allows you to be more pioneering."

"The one thing that offends me the most is when I walk by a bank and see ads trying to convince people to take out second mortgages on their home so they can go on vacation. That´s approaching evil."

"Frugality drives innovation, just like other constraints do. One of the only ways to get out of a tight box is to invent your way out."

"All businesses need to be young forever. If your customer base ages with you, you are Woolworth´s."

"In the old world, you devoted 30 per cent of your time to building a great service and 70 per cent to shouting about it. In the new world, that inverts."



I embrace it [failure]. It is part and parcel of invention.
If you want to be a pioneer, you are going to fail sometimes.

would have said, "Look, I'm optimistic, but let's see how it goes." Today, I am happy to report it's already working.

You often forward customer emails with just a question mark. Have you sent one to the Indian leadership as yet? And, in what context?

I get several emails from Indian customers every day. The most common, which is the same from every country we do business in, is: "Where's my stuff? It's late." We ship billions of packages every year. The percentage of defects is very very small and it is getting better every single year. Nineteen years in a row, we have improved our defect rate. And we will keep doing that. That's our goal. India is totally normal in that regard. The key is what do you do with that defect. You want to find the root cause of that defect. You want to turn it into a little case study—find why it happened and fix it at the root. Because then you are fixing it not just for that one customer but for all customers.

How do you retain employees you really value?

The main reason you lose a good employee is because he does not have the right opportunity. The very best people don't just come to work for the paycheck. They come to work because they like a mis-

sion. So, when we have lost good people, it's probably because of a bad boss or the person did not have the resources.

If I tell you that you have to build Amazon India and here's 10 dollars, go do it, it will be a hopeless job. It will be so de-energizing. So, if you under-resource something, that could be a reason for a builder to leave. Or, because you did not provide the right tools.

In Amazon's history—I'm taking you maybe 15 years back—we would hire these buyers. They were senior people and very sophisticated buyers—people who would negotiate with other manufacturers. The attrition rate was very high in the buying group. I didn't understand why. It was because we gave them bad tools. They had to do everything in Excel spreadsheets and export them in common separated value formats and then import them into a Linux tool. It was so clumsy. Imagine, if you were a master carpenter, and I asked you to build a beautiful staircase in my house, but I gave you no hammer, no saw and asked you to use your teeth to gnaw the boards and pound the nails with your forehead. You just can't have a master carpenter and provide no tools. It doesn't work.

How do you handle rogue employees?

I haven't really had that experience. We have good alignment on the fundamentals. We do have disagreements on the base among Amazon executives every day, but not on issues of alignment. The principles are so firmly established that people are very good at self-selecting. If you come to Amazon, you are not motivated by competitors.

If you wake up every morning thinking how am I going to defeat this so-and-so company, it will probably get a little boring for you. Some people really do that. They have that conqueror mentality, and that's where they get their energy from. At

Amazon, it works much better and you thrive much more if you have the explorer mentality. If a person comes and is misaligned with our culture, he is probably going to leave.

You often ask people to reinvent the wheel rather than go by conventional wisdom. What do you have against conventional wisdom?

I am a big fan of process. Sometimes, you don't want to reinvent the wheel. There are some things you want to think fresh. I think of that as the beginner's mind. You want to say, people who can be stuck are experts because experts already know how it works. But they can be very bad at inventing new ways. What is really powerful is to be an expert, but with a beginner's mind. Have a child-like freshness about you. It's almost as if you are seeing the world for the first time. In that sense, you want to reinvent the wheel.

There's another sense in which you don't want to reinvent the wheel. If you are going to do anything that you are going to do multiple times, you want to hone that into a process and then, you want to follow that process so that you are not reinventing the wheel. Say, if you are going to hire. We hire thousands of people every year at Amazon. So you want to have a hiring process because you don't want to figure out how we should hire somebody every time you hire. Sometimes I talk to young people and they confuse process and bureaucracy. Bureaucracy is bad process. Good process is super-helpful.

But can't you become a prisoner of process…?

You can become a prisoner of process and you can become a prisoner of being an expert.

Where do you get your ideas from?

Almost all our good ideas are team efforts. When someone has a germ of an idea but it doesn't quite make sense, we start talking about it and then one person

embellishes the idea, another person embellishes that embellishment and then over time it sort of gels. Business, in general, and certainly in the case of Amazon, is a team sport.

Who's the greatest tech inventor? Jeff Bezos or Steve Jobs?

Oh, God! I would never ever answer that question (laughs and laughs).

Why do you continue to call the Internet chapter one, Amazon chapter one?

I call it day one. People ask me when is it going to be day two. It has been 19 years. Seems like it should be day two. But I think of it as day one because as far as I can tell, the rate of change is still accelerating. When the rate of change slows, maybe then it will be day two. But I have not seen that happen yet.

You are one of the survivors of the dot-com bust. Can you share five survival strategies to do business on the Internet?

The number one thing is customer obsession. When the bottom fell out of the stock market and the Internet bubble burst, we were widely criticized. Our stock went from $113 a share at its peak ahead of the bubble to something like $6 a share. We were called amazon.toast, amazon.con, amazon.

bomb, everything you could imagine. But I noticed a couple of things. I looked at that and said to myself that's the outside view, what I can see is all the internal metrics—and every internal metric was getting better. The number of customers was increasing. The purchases per customer were going up. The profitability per customer was going up faster than our fixed expenses were growing. So all the business metrics were good.

The second thing I noticed was that our harshest critics were amongst our best customers . So I thought: How bad could it be?

If you were to give five strategies for survival, what would they be?

This is for any business. I would say obsess over customers. It's easy to say, but hard to do. You need to really live it. Many companies say that they put customers first, but they don't really do that. And I don't think you can do that unless you are long-term oriented. It is pretty hard if you are feeling a lot of short-term pressure to meet the quarterly targets or something like that. Then it's very difficult to genuinely put customers first. In the long term, the interests of customers and shareholders are aligned. But that's not always true in the short term. So if you have to take a long-term point of view, you don't have to decide whether you should put customers first or shareholders.

They say the epicenter of business is moving to Asia and economies of scale are here. Have you got any lessons from India and China?

One of the things we are starting to see in our business is that there are inventions happening in India that we are going to re-export to the rest of the world. Historically, we have used the US as our test market. Most of the things that we have invented, we have done in the US first. If they work, we repeat them in the rest of our geographies. Easy-ship, for example, is doing so well [in India]. It is especially well-suited for India because there are incredibly large numbers of small and medium enterprises here. But it will work in other places too. So we are taking those techniques, tools and ideas and figuring out if it make sense to do these in other geographies. The invention is going on in both directions.

The criticism from ad agencies is that Amazon hasn't really monetized advertising well…

We have a very good advertising business, but clearly, it is not as big as our consumer e-commerce business. That said, we do have a very good advertising team and that business is of considerable scale. Not comparable, perhaps, to Google or Facebook, but very significant.

But you don't share data...

We are just cautious. We share data to the degree possible without providing information that we worry might be useful competitively to other companies.

Several books have said your management style incorporates fear and intimidation. One of its consequences, perhaps, is a stressed-out corporate culture and high employee turnover. How do you see yourself as a manager?

You should ask the team these questions. Do it when I am not here. I will cover my ears.

Is there a spiritual side to you? Or, are you an always-on-the-edge CEO?

I'm not very good at yoga, if that's what you mean. Although I do exercise a lot. If you use that word in a broad sense, there is a spiritual side to me. I tend to have philosophies and deep convictions about things.

THE STEVE JOBS OF CHINA

"Focus, Optimization, Word-of-Mouth and Swiftness." This four-point motto summarizes the essence of the rich 10-year experience in the Internet industry of Lei Jun, the founder of Xiaomi, who is sometimes called "the Steve Jobs of China."

By Wen Fang

MI is the centerpiece reflecting this motto. From its original mobile phone system, mobile phone to tablet, and from TV set, cable box, and router to smart accessories, Lei Jun has created the unique MI business model of "Apple + Facebook", trying to engage in the full industry chain of "software + hardware + service."

There is another classic case of Lei Jun using the four-point motto. In July 2011, Lei Jun officially returned to Kingsoft. With the beginnings of "Lei Jun premium pricing," the initiative ended successfully with a 10-time surge in Kingsoft's share price and the spin-off listing of Cheetah Mobile.

As Lei Jun focuses more on MI, the core of his ecosystem, "Lei Jun premium pricing" for Kingsoft has gradually weakened. However, holistically speaking, consensus expectations on "Lei Jun's empire" are increasingly high. The "empire," with MI on the top level, Kingsoft, YY, Thunder and Cheetah Mobile as its four supporting pillars, plus another 20-something companies

Few people know that Lei Jun shares a strikingly similar personal experience with (Steve) Jobs.

being invested in as its community, is becoming highly interwoven in terms of both its stock equity and its businesses. MI holds certain equity interests in Cheetah Mobile, Kingsoft, Season Game Studio and Kingsoft Cloud; the Kingsoft Cloud Storage Service for non-commercial personal use was sold to Thunder, and Duokan and Wali were merged into MI. In the future, the full union of Kingsoft Cloud and MI cloud and the further integration of MI and Kingsoft are all possible.

"In the PC era, there were companies that were endangered by the platform strategy of Microsoft, but only two survived, caught up with and later surpassed Microsoft, that is, Apple Inc. and WPS," said a PowerPoint press release from Kingsoft Office.

It is undeniable that Lei Jun is trying to forge a career comparable to Steve Jobs'. The prototype of the MI model is borrowed from Apple, and there are traces reminiscent of Jobs in terms of the release conferences for MI smartphones and even the clothing style and gestures made by Lei Jun. But few people know that Lei Jun shares a strikingly similar personal experience with Jobs.

After leaving Apple, Jobs founded NeXT when Apple hit its low point due to the enormous squeeze it suffered at the hands of Microsoft in 1995. In December 1996, the incumbent CEO of Apple acquired NeXT for a price of $400 million and welcomed back Apple's founder in the capacity of "unofficial consultant." Similarly, after working hard at Kingsoft for 15 years, with his duly unrecognized ambition, Lei chose to leave, becoming an independent investor. After investing in over 20 companies, Lei founded MI but later returned to head Kingsoft.

When returning to Apple in 1997, Jobs was 42 years old. Coincidentally, when Lei turned MI smartphones into a big success and returned to Kingsoft in 2011, he was also 42.

The Meaning of the Internet

On Dec. 25, 2013, at the 2013 Guangdong International E-commerce Conference, Lei Jun delivered a keynote speech titled "How can Internet thinking transform traditional industries?" proposing that the core of the Internet should be summarized in the four-point motto of "Focus, optimization, word-of-mouth and swiftness."

Lei Jun is like a superstar to some Chinese people.

The motto reveals Lei Jun's profound experience fighting for 10 years in the Internet industry. "Initially, we thought that we boasted a high-tech and knowledge-based economy, but when the Internet era really came, we seemed to fall back in a flash into a traditional industry." The advent of the Internet tide in 1999 provoked Lei Jun to ponder the meaning of the Internet.

As a result, he founded joyo.com in 2000 and began to do business using the Internet. In 2004, joyo.com was sold to Amazon, becoming the predecessor of Amazon China today. Lei Jun still believed then that the Internet was a tool, just like electricity, water or the steam engine, a kind of technology bringing about improvements in productivity. "I considered the Internet this way for quite a long time," said Lei Jun.

After selling joyo.com, Lei Jun kept on his thinking hat for a couple of years, and began to realize that "the Internet is more than a tool; if we regard it as a tool our comprehension of it is so superficial. Actually, the Internet is a new way of thinking, which influences our business, with the market and consumers resorting to a totally different concept. Five years ago, I summarized my understanding of the Internet and proposed the [four-point] motto of Focus, Optimization, Word-of-Mouth and Swiftness".

"The Internet is more than a tool; if we regard it as a tool; our comprehension of it is so superficial."
—Lei Jun, MI founder

First of all, it is about focus. When Apple entered the mobile phone market, other manufacturers would launch 50 or 100 new product models each year, which seemingly gave consumers more choices. But consumers would only choose one product model in the end after a difficult sequence of decision making. After all, it is hard to remember so many models. In contrast, Apple focused on producing just one model. This is also the case for MI smartphones and MI TV sets.

Second, it is about optimization. Confronting the extensive questioning of MI's price war strategy, Lei Jun argued, "MI is selling products at cost and there is no such case of a price war." In the current Internet market, almost all the core services are free of charge, for instance, news, web searching, an e-mail box and commu-

nication tools, etc. "In the hardware business, it is simple and we charge as much as others charge us. We don't shift our R&D and operating costs to the consumers." Therefore, when popular sporting bracelets in the marketplace are priced at about $160, MI bracelets are sold at only $12.65.

Third, it is about word-of-mouth. After MI was founded, its first product was MIUI, the MI smartphone system, which had only 100 customers in its first week. Lei Jun said: "Take it easy. It is because we didn't carry out any publicity or advertising campaign." With word-of-mouth, there were 200, 400 and 800 customers in the second, third and fourth weeks respectively, just like a snowball effect. "The spread of word far exceeded our expectations. Word-of-mouth does not reflect what we feel about how good and reasonably priced it is, but instead comes from comparisons made with consumers' own expectations," Lei Jun said.

Last, it is about swiftness. According to Lei Jun, MI's asset-light model determines its quick response and growth. First, MI has no physical production plant of its own, so it can use the best OEMs worldwide. Second, MI has no channels or retail outlets, so it can adopt an e-commerce direct-selling model. No costs for channels, outlets or sales people helps make MI more efficient. Third, without any plants or outlets, MI can fully focus on product R&D and communications and interact with its customers. Out of the 4,000 employees at MI, 2,500 are communicating with consumers and over 1,400 are focusing on product R&D. That's how MI highly focuses on its product R&D and customer service.

"Apple + Facebook"

Undoubtedly, MI is the perfect example of the Lei Jun's four-point motto.

The logo "MI" is an acronym for "Mobile Internet," clearly indicating that MI is a mobile Internet company. By June 2014, the cumulative sales of MI smartphones was up to 52.3 million units, and its sales targets for 2015 and 2016 were 100 million and 150 million respectively. Based on this, the cumulative sales of MI smartphones are expected to reach 330 million-410 million by 2016. It was reported that at the end of October 2014, MI was successfully granted a $1 billion loan from 29 banks, including Banco do Brasil, Bank of Tokyo Mitsubishi UFJ, etc., for its overseas expansion and entry into the Indian and Indonesian markets.

Meanwhile, as MI has engaged in more and more areas from smartphones to tablets, TVs, boxes, routers, activity wristbands and smart accessories, its industrial chain is becoming more visible. According to Lei Jun, MI will primarily focus on smartphones, tablets, TVs, boxes and routers, which clearly reflects Lei Jun's huge ambition: smartphones as the core of the mobile Internet; Cheetah secures smartphone security and debugging; Kingsoft Season Game Studio produces new mobile games; Kingsoft Cloud and Thunder Cloud provide cloud services; Duokan, MiTalk, Vancl and YY apps are embedded into MIUI; the MI box is targeted at the living room market while Thunder delivers TV content, while Huace Film & TV recently invested in content delivery. Finally, MI intends to enter the smart home market using routers to have full access to smart hardware such as wireless sockets, smart switches, smart remote controls, cameras and bulbs.

"The MI model is almost non-reproducible, which is the unique crystallization of Lei Jun's wisdom."
—Liu Chuanzhi, Lenovo founder

For all these, MI needs to build a whole industry chain of "software—hardware—service." Its service shop "MI Life" was launched in 2014 while its hardware shop will soon be launched.

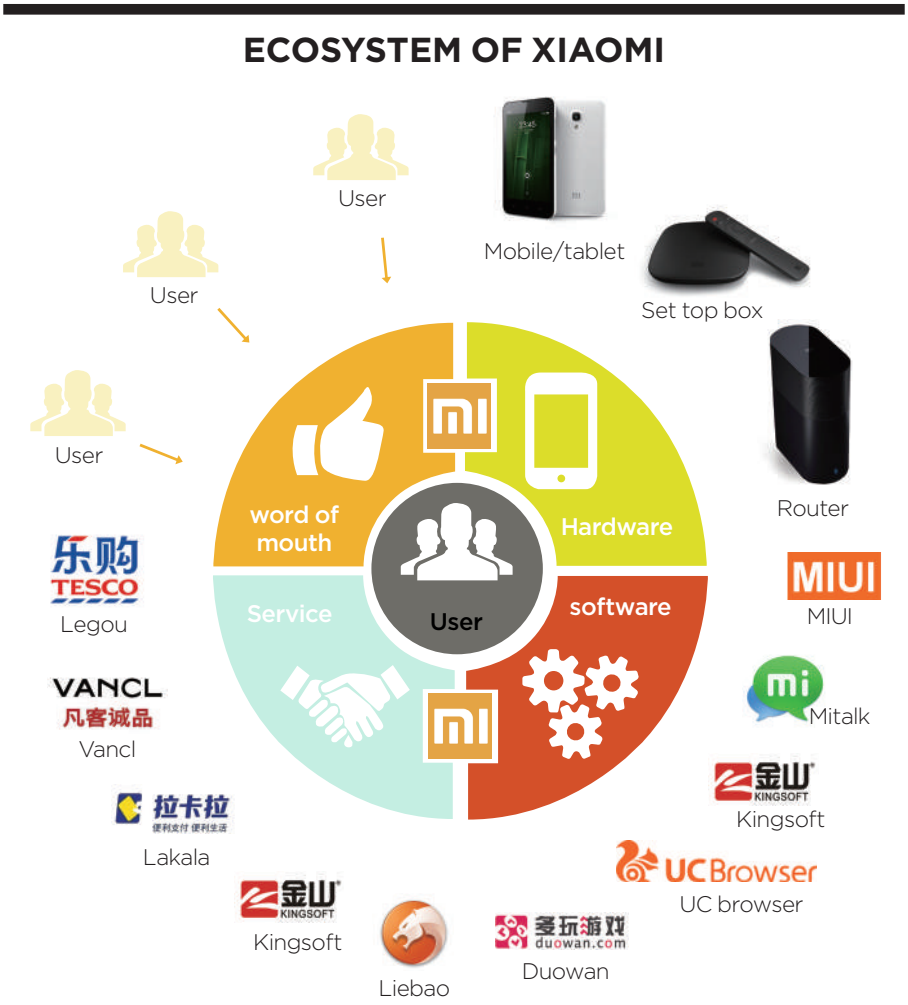
There are various interpretations of the MI business model in the industry. Lin Bin, one of the co-founders of MI, described MI's model as that of Amazon Kindle; while according to Lei Jun, it is more like "Apple + Facebook."

The Apple model is derived from the final iPod product launched by Steve Jobs. Soon, the business model "iPod + iTunes + Music" radically changed the record industry, not the music player's, relentlessly occupying all the market shares by squeezing out MP3/MP4 and top-class Yepp from Samsung. When the iPhone was launched, Apple boasted a large number of fans sharing the same type of lifestyle and tastes. Apple easily defeated the traditional manufacturers Nokia and Motorola with its unique business model "iOS + iPhone + AppStore." Later, Nokia learned to copy Apple's business model, but until it was acquired, its Symbian system only supported 300 apps, while that of Apple's iOS reached over 800,000. At present, Apple is vigorously promoting its new product iWatch. According to financial analysts in the US, if 3% of the iPhone users bought an iWatch, Apple's sales revenue would increase by $2.3 billion, while an 8% purchasing rate would push revenue up to $5.7 billion.

There is no doubt that MI imitated the Apple model, but it did not blindly follow suit like Nokia, launching MI's app store by following the formula of "hardware + software." Instead, it chose to develop fans and user groups before launching the smartphones. Its first product MIUI is ROM-based and was developed using its own operating system, fostering the first group of fans for MI. Before MI smartphones were launched, MIUI had 1.5 million users worldwide. It is precisely with the support of such a user base that MI could successively launch a smartphone, TV, router and other hardware products.

Departing from the Apple model, Lei has

"I believe that the MI model … will undoubtedly continue, regardless of MI's future."
—Lei Jun



improved the MI model by adding "Facebook"—the MI community. With the website bbs.xiaomi.cn, the "word-of-mouth" in the motto of Lei Jun can reach out the farthest and widest as quickly as possible.

How Far Can MI Go?

Liu Chuanzhi, the founder of Lenovo, once commented: "The MI model is almost non-reproducible, which is the unique crystallization of Lei Jun's wisdom. MI has very low operating costs as it has abandons the hierarchical management model."

As to MI's future, Liu Chuanzhi gave some guidance to Lei Jun: "As it develops and expands its product range from smartphones to routers, TVs and so on, Lei Jun will inevitably be stretched to care for all his businesses, otherwise, he may need to build and rely on a sound corporate culture."

Lei Jun himself is surely fully confident of MI's future development. "Some friends began to ask me whether MI can survive in the long term. As an IT veteran with 25 years of entrepreneurial experience, I've witnessed the ups and downs of numerous companies. As the technology industry is changing swiftly, any company lacking aggressiveness will encounter setbacks; this is determined by the laws of industry. But I believe that the MI model created and practiced by MI will undoubtedly continue, regardless of MI's future. In my opinion, the next decade will be a crucial opportunity window for the transformation of Made in China into Created in China, as was the case for Japan in the 1980s and Korea in the 1990s," said Lei Jun.

What is explained above is exactly the logic behind a bet of $160 million between Lei Jun and Gree president Dong Mingzhu that MI's sales will exceed those of Gree within five years. "To be honest, I have 99.999% confidence of winning the bet," said Lei Jun.

However, with the expansion of MI's business scope, there are worries that its rivals will eventually find the soft spots in the MI empire and deliver a death blow.

First, MI smartphones are under pincer attack from rivals like Huawei and Meizu. MI successfully won its large user base with its strategy of low prices but excellent quality, but Huawei and Meizu quickly joined the fray using similar strategies. Huawei in particular has the momentum to catch up with and surpass MI, bringing a huge challenge to the MI empire and its core business of smartphones.

Second, MI has to further enhance its architecture at the content end. In February 2014, MI Technologies wholly held Wali Network and integrated multiple businesses such as MiTalk, game and video to set up a new company, MI Interactive Entertainment. Shanghai Jin, former CEO of Kylin Game, was appointed as general manager. The organizational structure of MI Interactive Entertainment comprises Wali Network, the MiTalk team and some former employees of Kylin Game. Apparently, Lei Jun has started to consolidate, offsetting some of the weaknesses of the MI Empire.

What trump cards will Lei Jun play in the future? Perhaps only Lei Jun himself knows.

2,000 YUAN BATTLE

A fierce competition is taking place in the market for smartphones priced around 2,000 yuan ($320). The new Three Kingdoms, MI, Huawei and Meizu, are fighting hard, while other manufacturers are casting covetous eyes in their direction.

By Li Yating

In China's market for smartphones priced around $300, the competition among smartphone manufacturers can be described as intense.

A careful observer will notice that manufacturers' styles are gradually becoming more similar: Product releases all follow Steve Jobs' speaking style; product performance scores are the key in making comparisons; the smartphones all follow the same trend toward thinner bodies and bigger screens, and most importantly, most of these smartphones are priced at approximately $320. No need mentioning the market dominance of MI three years ago. Compared to even only a year ago, the smartphone market in China was not as bustling as today. On this battlefield, the two major manufacturers, MI and Huawei, refuse to play second fiddle. Several other manufacturers are also keeping an eye on this market, seeking any entry point. Recently, MI founder Lei Jun and Huawei's Richard Yu fought a war of words on microblogging website Sina Weibo. Although MI has engaged in this "whirlpool" of a war of words on Weibo, it rarely responds directly to the comments of other manufacturers. But this time Lei Jun shouted directly at Richard Yu on Weibo.

Despite repeated challenges from Meizu or Smartisan, Lei Jun doesn't bother to respond.

MI has declared that it has no rivals in the mobile Internet smartphone market in China. However, according to analysis by Wang Yanhui, secretary-general of Mobile China Alliance, in terms of shipment volume and strategic layout, Huawei Honor is currently the closest rival to MI. In a sense, MI is so big that its market presence should help other manufacturers improve their own popularity to some extent. Hence, despite repeated challenges from Meizu or Smartisan, Lei Jun doesn't bother to respond.

There are reasons why MI is the target for such attacks. Since the launch of MI 1 in 2011, $320 has become the benchmark price for smartphones. Previously, there was hardly any difference in the prices of smartphones in the Chinese market. Over the following two years, through its aggressive expansion, MI has successfully shown conventional mobile phone manufacturers that it is possible to compete in the smartphone business using an Internet mentality. MI's unit shipments in 2012 were 7.19 million. This number soared to 18.7 million in 2013 and is expected to increase to 60 mil-

lion for 2014. This surge in shipments established MI's market and pricing power in China's smartphone market. Three hundred nineteen dollars has become a reference price for other manufacturers when planning new product launches; both Honor X1 and Honor 6 were priced at $319.84 and OnePlus made this even more precise at $319.99 The other major player in this price war is Huawei Honor. Honor was spun off from Huawei at the end of 2013. Its boldness and aggressiveness in the market is backed by support from Huawei.

Compared with MI, Honor has a competitive advantage—Huawei's HiSilicon chip. Currently, HiSilicon chips are mainly used by Huawei and Honor, which makes Honor independent from chip manufacturers like Qualcomm and MTK.

In a recent interview, Richard Yu said: "As Huawei Honor has far more input in its smartphone R&D, it will surely substantially surpass MI in the future." Facing a powerful latecomer, MI took the threat seriously. MI smartphones boast higher performance at reasonable cost and a perfect MI industrial chain. MI confidently declared that it was not likely to encounter a rival over the short run, due to the fact that there are nearly 70 million users of MIUI (MI's smartphone system).

In addition to Honor, Meizu is another strong competitor in the market for smartphones priced around $320. Despite a large gap in size when compared with MI, Meizu regards MI as its principal rival and role model.

On Oct. 21, Meizu and Alibaba announced their strategic partnership agreement. At the press conference, Li Nan, vice-president of Meizu, called MI a "friendly peer." Li Nan also compared Meizu's new product MX4 to MI smartphones in terms of its performance and screen size.

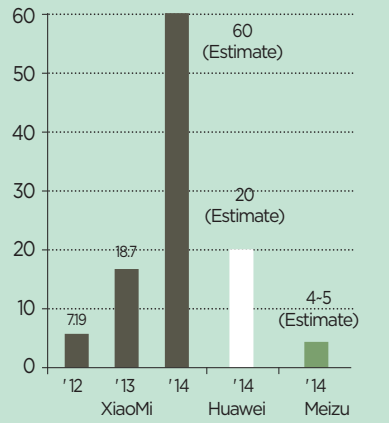
Besides their competitive rivalry, Meizu also regards MI as its role model, with an aspiration to surpass MI. Li Nan was full of praise for MI's unique industrial chain in the mobile Internet phones industry: "Traffic—channel—phones—UI system—added-value income. So far, MI is the only winner in this eco-chain, and it almost monopolizes the total profit [in the system]," said Li Nan.

Several other non-mainstream manufacturers such as VIVO and OPPO are also rolling up their sleeves for this battle.

As Meizu clearly understood that it could not build the entire industrial chain by itself, it sought to achieve a win-win outcome through its partnership with Alibaba. In the industrial chain built by Meizu and Alibaba, Alibaba provides and secures the traffic and channel, and Meizu offers its smartphones, while both sides help create the system in order to bring both parties added-value income. In terms of generating publicity, Meizu is fighting a tough battle with MI. In early 2014, Meizu CEO Jack Wong announced his comeback, and posted on his personal Weibo account that "I'd like to tell more people that Meizu smartphones offer a better alternative to MI smartphones." In its subsequent e-commerce marketing and smartphone strategic plan, Meizu has been imitating MI and periodically commenting on MI's practices.

2,000 yuan smartphone shipments for comparison

(Unit: million)



Source : Company

Lenovo Enters the War

On the evening of Oct. 15, Lenovo Group announced it would establish a new company creating consumer products including smartphones following an Internet-based model. This new company is scheduled to start operation April 1, 2015. Noting that the strategy of Lenovo this time is very well thought out, most insiders remarked that Lenovo is at last making clear moves.

In China's smartphone market, Lenovo is not yet a powerful competitor. Despite its volume shipment of 45.46 million units in 2013, Lenovo did not offer the public a single popular model.

Lenovo also plans to launch smartphones priced around $320, but its offerings are not that different from those of other manufacturers. However, Lenovo could turn out to be a promising competitor with its outstanding strengths and R&D capacities, even if it does not change the smartphone industry over the short term.

In addition to the brands mentioned above, several other non-mainstream manufacturers such as VIVO and OPPO are also rolling up their sleeves for this battle. In the market for $320 smartphones, VIVO and OPPO are following similar strategies: They price their smartphones slightly higher than their counterparts from MI and Honor. "Smartphones priced around [$320] from VIVO and OPPO actually offer configurations like those of Hongmi or Honor 3C. Above all, although this market segment is not the main target for VIVO or OPPO, they will not easily give up this segment," noted Wang Yanhui.

"The mobile Internet smartphone industry is still undergoing radical change. A lot will happen to change the industry pattern in the future," said Li Nan at a press conference.

HUAWEI STEPS GINGERLY INTO THE IT BUSINESS

Huawei is trying to diversify, redefining itself as a comprehensive IT corporation.

By Qin Shan

At present, besides being a great communications company, Huawei is striving to be an IT company as well, according to Eric Xu, the rotating CEO of Huawei. This means that Cisco, HP and EMC have become Huawei's main rivals in addition to traditional telecommunications competitors like Ericsson.

Huawei is trying to make its huge organization function more efficiently. The IT business and communications business have innate differences. The first difference is openness; cooperation is needed to achieve mutual benefits. Second, the IT business ecosystem has more complicated relationships, so it requires both competition and cooperation. Third, the IT industry has different formation processes, as they are mostly de facto standards formed via open-source cooperation.

Adjusting to the above differences, Huawei has gone through a tough adaptation process over the past three years, suffering the confusion and restlessness of a lone wolf suddenly put in captivity with the poultry. Its rivals and even its partners were crowing over Huawei's "mistakes" at that time. "They once deeply doubted whether Huawei had the ability to develop the enterprise market, but now their doubts have been completely eliminated," Eric Xu said.

"They once deeply doubted whether Huawei had the ability to develop the enterprise market, but now their doubts have been completely eliminated."
—Eric Xu

The enterprise business achieved an income of $2.5 billion, while that of its main rival Cisco was $47.1 billion in 2013. Despite the large gap, Huawei was not at all frustrated. From its perspective, Cisco is headquartered in the US and its main market is also the US, while Huawei is deeply rooted in the Chinese market, where Huawei's income is expected to reach approx. $2.1-2.4 billion. In comparison, Cisco's income is only $1.3-1.5 billion in the Chinese market, which is Huawei's strength. By 2017, if Huawei's enterprise business income exceeds $10 billion, it will take a strong foothold in the IT industry.

It has been more than three years since Huawei officially set up its three business units: Operators, Enterprises and Consumers. Throughout this period, the enterprise business went through three stages: large-scale leapfrog development in the initial stage, focus and adjustment in the middle stage, and steady growth on track since the second half of 2013.

The significance of the enterprise business is widely known. When all the industries including telecom operators transfer to the IT business, Huawei has the opportunity to expand its products and services to various fields, building on its previous technology accumulation working with service operators. The up to 1 trillion capacity of the enterprise market is expected to support and rebuild a new Huawei. Based on this, Huawei's business income is expected to grow up to $70 billion in 2018.

In the interview with Eric Xu, he confessed various difficulties in developing the IT business. "Closeness and Openness," "Expansion and Focus" and "Competition

MINI INTERVIEW

Eric Xu: "Huawei's corporate culture needs to be more inclusive"

With the future competitive focus switching to software and service, this poses different requirements for the quality of talent at Huawei. How will the talent structure be adjusted?

In the future, we need more service experts and talents more software architects and designers to improve our software competence.

We also need IT and channel talents as this is the natural process of our business operations. As a great company, Apple Inc. has made its way to today's success in a natural way. Let's take a look at Apple's development history.

It has products like iPod, iTouch, iPhone, iPad and iWatch. The iPhone is basically an iTouch with the phone function, and iPad didn't even have a large screen initially. Apple launched iWatch after iPad's success. There was not much difficulty in its decision making process. During the development process of the company, everything just happens along the way. If we need service talents, it is natural to recruit or train them.

Actually, can the old corporate culture be inclusive enough for the new talents? So far as I know, Huawei recruited many senior experts and managers during its early development stage, but most of them left the company later.

That's Huawei's system and orientation. At Huawei, you need to walk forward step by step and adapt to its operating orbit, consciously or unconsciously. If you fail to align with the orbit, you would feel pain and might choose to leave. But if you managed to adapt to the system, you would feel comfortable and achieve your personal development as well.

Do you think that an inclusive culture is necessary?

Speaking frankly, Huawei doesn't have a very inclusive culture. The biggest challenge for us now is the language. After all, people like me have a deep-rooted Chinese background, and our language skills are inadequate. We can carry out only simple verbal communication with foreign colleagues, but deep communication would be difficult. It is actually a common issue for the multi-national companies; American corporates also face the same challenge in speaking Chinese. Language is just on the surface, the essential issue is culture.

What are the management priorities for Huawei's management, including you?

At present, Huawei has three customer groups, which all seem essential, so we must make the priorities very clear as our efforts and resources are limited and centralized. For instance, the IT industry is very broad and has numerous needs, so we need to keep focusing on certain segments where we have competitive advantages and the potential for success.

Secondly, Huawei now has over 150,000 employees. It is a systematic project to further motivate them to work hard and to contribute. It is not only about performance management but also benefit sharing, cadre policy, payment policy as well as values inheritance.

Thirdly, Huawei needs to avoid administrativization. Administrativization means bureaucracy and inefficiency. We need to maintain the culture of efficiency and quick response. We are implementing change, optimizing the process and emphasizing the IT system in order to maintain our quick response mechanism. Besides, the construction of the supervision system is also crucial, which requires us to resolve the conflict between decentralization to achieve efficiency and secure supervision to prevent any risks. The process involves the corporate organizational structure, procedures, IT system and employees' capacities, etc. Each of them is a big challenge.

Actually, Huawei's businesses have become diversified. Many companies would make mistakes when making these additions, so how does Huawei think of the issue of "business addition"?

How do you know we are not making such mistakes already? We may already have fallen into those traps. It is hard to tell. Maybe as the saying goes: "Those closely involved cannot see as clearly as those outside." So far, the overall profitability is satisfying and each business is growing, but we are not quite sure whether they will have good performance in the future. If the performance turns out to be great in the long term, we may be great; otherwise, we are to blame. Anyhow, we put forward the concept of "giving it a go," i.e. we are aware of the possibility of failure, but we will still try our best for a chance at success, but with no regrets.

and Cooperation" have become the common topics for companies with a business income scale over $16 billion.

A few years ago, the city-wide Internet giant Tencent also encountered similar confusion, but this challenge was finally resolved in the mobile Internet movement by WeChat. Comparatively speaking, Huawei's challenge was more complex yet apparent.

A Complex Ecosystem

This is different from the platform concept in the Internet industry chain, because Huawei is only a player in the IT industry chain, making its ecological relationship subtle and complex.

For Huawei, its ecological chain comprises multiple stakeholders as solution partners, channel distributors and customers, etc. According to the public data, in terms of channel partners, Huawei has developed over 300 exclusive distributors and value-added resellers as well as over 4,000 secondary channel partners.

"As a strategic positioning, 'being integrated' actually defines who we are."
—Zheng Ye, Huawei IT Product Line

It is well-known that the IT industry needs strong distribution channels. It is the same with Huawei as a latecomer. However, under its tight discipline, Huawei Enterprises BG China Region once proposed changes, developing channel distributors that recognized Huawei's culture and values from its original strategy of building pure interest relationships with them.

"From the perspective of the company, the values are experienced during cooperation rather than being chosen. Our values are very clear: customer orientation, striver orientation and persistent hard work. If the distributor can recognize our values as we work together, we will have smooth and pleasurable cooperation leading to a final long-term partnership. But we must uphold our baseline and never destroy it for short-term gains," said Eric Xu. Although there are certain guidelines for the relationships with distributors, the relationship with partners becomes a little confused.

Eric Xu explained: "For instance, in terms of virtualization products, Huawei has a competitive relationship with some of its partners. But sometimes Huawei will provide customers with solutions combining our servers and the partners' virtualization products, creating a competitive and cooperative relationship in this situation—a thorough mode switch.

"In this situation," he continued, "it is more of a challenge for our mentality, because we both have our own interests, and the market is always fierce. Therefore, we have to be magnanimous."

Focus

Initially when the Enterprises BG was set up, the management team including Eric Xu didn't foresee the complex situation seen today. They set the original goal of contractual income of $15 billion in 2015 but reduced it later. "As a practical situation,

"Open source undoubtedly goes against the traditional concept of Huawei and even ICT."
—Eric Xu

Huawei's enterprises business development was one year slower than the expectation. We thought that the enterprises business would develop rapidly after our internal discussion, but there is a big difference between the practical situation and our expectations," Eric Xu continued. The reality is that partners and channel distributors have shown their doubts over the new players after Huawei encountered this complex ecosystem.

The partners and channel distributors doubt Huawei's determination for the business, because Huawei backed out once in 2003, when it joined hands with 3COM to establish H3C but later sold its remaining shares back to 3COM.

But this time Huawei is serious about the business. Soon people will find that those with an operators' market background want to reproduce another success with Huawei, but this time in IT field. "The IT industry is quite huge and the chain is long. There are over 30 companies with business income scale above $100 billion—all are quite successful companies. Even the giant Cisco only occupies the segments of routers and switches," said Zheng Ye, President of Huawei IT Product Line.

"Initially," Zheng Ye said, "Huawei's enterprises business product line is very wide, including various products from hardware to information communication technology, creating the advantage of rapidly developing solutions for its customers. The wide product line greatly motivated us. When our sales personnel signed a contract with a customer, they would share the requirements with the R&D department, which then identified the flaws in the situation. Compared with the operators business, the enterprises business features large quantities and big industry differences, making Huawei incapable of addressing the situation. Each industry has its own distinctiveness, for instance, some customers are engaged in ITS (Intelligent Transportation System) by providing traffic jam forecasts, which is totally new to Huawei.

"The great efforts of our sales personnel and R&D personnel, however," Zheng Ye said, "were in vain as both partners and customers were unsatisfied with Huawei's products until Huawei realized the severity of the issue. After multiple discussions, Huawei finally decided to reduce its product line to focus on three hardware products and a cloud data center solution.

Later, "being integrated" became an important guideline for Huawei's enterprises business. "As a strategic positioning, 'being integrated' actually defines who we are—we are positioned to be an ICT infrastructure provider; we will not go beyond the definition or form competitive relationships with partners in the business field; it also means that Huawei abandoned its original mode of focusing on the whole process from R&D and sales to service, and let the partners sign the contract and provide service in the customer interface," said. Zheng Ye.

After a clear definition of its strategy, when compared with the IT giants, Huawei's talent structure does not have any advantages. After the standardization of the hardware, software and service comes its core competitiveness. People in this field are high-end talents, and Huawei has an urgent need for more of them. Huawei once solicited many high-end talents from industry-leading companies like Cisco and IBM at the early stage of its enterprises business, but these talents left Huawei just one year later. That is exactly Huawei's system and orientation. At Huawei, you need to adapt to its operating orbit, consciously or unconsciously. If you fail to align with the orbit, you would feel pain and might choose to leave, according to Eric Xu.

"Huawei set strict standards for these high-end talents: work insightfully and seek resources internally using Huawei's methods, but most talents can't accept these requirements," said one former Huawei employee. "Huawei's corporate culture needs to be more inclusive," Eric Xu said.

The Open Source Challenge

"At present, the IT industry is changing quickly. Otherwise, it would be hard for us to make a breakthrough, but the IT industry is at a stage of rapid change with emerging technologies like big data, cloud computing and software-defined solutions. This is favorable for us as we are a big company and have abundant resources," said Xu Wenwei, Huawei's Strategic Marketing President. The situation today has brought opportunities as well as seemingly elementary confusion to these newcomers.

"We are still exploring the topic of open source, and we haven't figured out how to address it or to change our concepts. Open source undoubtedly goes against the traditional concept of Huawei and even ICT," concluded Eric Xu.

As early as 2003, Huawei was engaged in a lawsuit with Cisco over intellectual property. Cisco filed a lawsuit charging infringement of its intellectual property in a dispute over source codes. At that time, both Cisco and Huawei implemented strict closed-source environments because they both considered source codes to be their core secrets. There was even a rule inside Huawei prohibiting anyone from carrying mobile phones with cameras inside their R&D facilities. But in recent years, open-source software such as Apache Web server, Linux operating system and Open Office suite have emerged and implemented commercial applications.

"Open source brings huge challenges to various aspects of Huawei's management concept, procedure and system, especially over the source codes. It is most difficult to persuade ourselves to implement open source policy as we need to figure out its true purposes," Eric Xu said.

TATA IS NOT SAYING BYE-BYE

Armed with a $3 billion war chest and a plan to launch 10 new car models, it is do or die for Tata Motors

By Vishal Krishna

FOUR-MAN ARMY: Pratap Bose, head of Design; Timothy Leverton, president and head of Product Engineering; Ranjit Yadav, president of the Passenger Car Division; and Girish Wagh, vice-president and head of the Small Car Project, form the core team that is driving Tata Motors' HorizonNext strategy

WHY TATA MOTORS SUFFERED

- Focus on one product for success
- Platforms were at least a decade old
- Joint venture with Fiat failed
- Bad designs
- Unreliable service

"The board stood by our proposed plan because it understood the situation … and that we needed a new direction."
—Girish Wagh, Tata Motors

It is not often that the fortunes of a company can be linked to the script of an Akira Kurosawa movie. In Seven Samurai, desperate villagers assemble seven heroes to revive their faith in life and instill in them courage to take on marauding bandits. Such was the situation at Tata Motors after the failure of the Nano in 2011-12.

At the Geneva Motor Show in 2012, when the Nano Megapixel was unveiled, it was well received by the global audience. It was then that engineers Girish Wagh and Timothy Leverton, along with their design wingman Pratap Bose, sat down with then-Tata Group chairman Ratan Tata, now chairman emeritus, to chart out a road map for the future of Tata Motors. In that meeting, the need for a paradigm shift in Tata Motors' passenger car business was discussed.

But Leverton's and Wagh's biggest concern was to convince the Tata Motors board to approve investments on new powertrains, designs, telematics and mobility solutions, which together could convince dealers and consumers to reinvest in the Tata brand. The total outlay for this grand scheme to launch a new set of products until 2020 was estimated to be around $3 billion

The duo's plans came to fruition when Ranjit Yadav and Karl Slym came on board in 2012. Slym brought with him a unique mix—a global and Indian understanding of the automotive business—having headed both the Chinese and Indian operations of General Motors. Yadav's stint with Samsung had given him expertise on consumer buying habits for products with short life cycles. The members of the new team complemented one another, leading to a fusion of ideas on sleek design, reliability in manufacturing, functionality in product and impeccable customer service."The board stood by our proposed plan because it understood the situation that the company was in and that we needed a new direction," said Wagh, vice-president and head, Small Car Project, Tata Motors.

The team created a portfolio of 10 new products aimed at breaking the consumer mindset and correcting the prevailing image of Tata Motors as a commercial vehicles manufacturer which sold unreliable passenger cars with only diesel powertrains.

Such was the extent of brainstorming that the team had put in that Slym's untimely death in early 2014 did not derail the plan. Wagh, Leverton, Pratap Bose, Ravi Pisharody and Yadav are now on course to bring Tata Motors back from the brink.

Small Car, Big Trouble

It's been a little over five years since Tata Motors drove in the Nano. There's been nothing but criticism since. At the time, most of the company's product portfolio was already a decade old and a lot was riding on the Nano. Unfortunately, it added to the woes. Its initial "mechanical" failures set off a spiral that saw the company quickly lose market share (see above, A Poor Third).

Although the company did try to bounce back with better product iterations of the Nano, it failed to attract buyers. Tata Motors was held together by its commercial vehicles arm and its international brands Jaguar and Land Rover. Sales of the Nano, meant to notch up large volumes, have not crossed the 100,000 units a fiscal mark once since its launch in 2009. The car has burnt $1 billion in cash so far and sold only 21,129 cars in the last fiscal year.

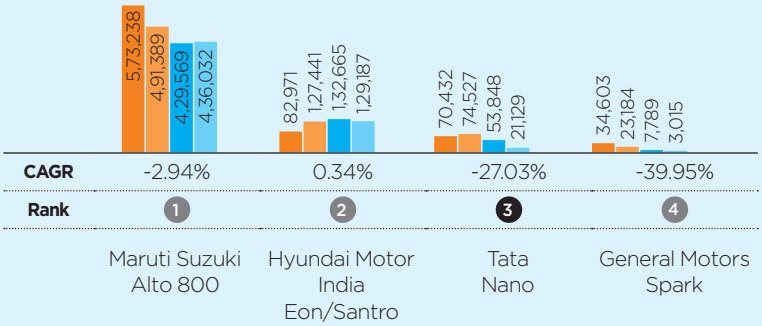
Over the last three fiscal years, the passenger cars division has sold 198,812 (2013-14), 314,464 units (2012-13) and 370,834 units (2011-12) in the domestic market, representing a 46% fall in sales over a two-year period. To add salt to Tata Motors' wounds, its global MPV Tata Aria, showcased in 2010 with an array of electronics in terms of telematics, evoked little or no interest.

New Horizons

After spending $160 million between 2010 and 2013, the core team at Tata Motors came up with HorizonNext. At its foundation, the plan envisages there will be zero defects in manufacturing and that customers will be engaged through revamped dealerships equipped with tablets and apps that assure a consistent quality of service. In all, the plan expects to roll out 10 car models between

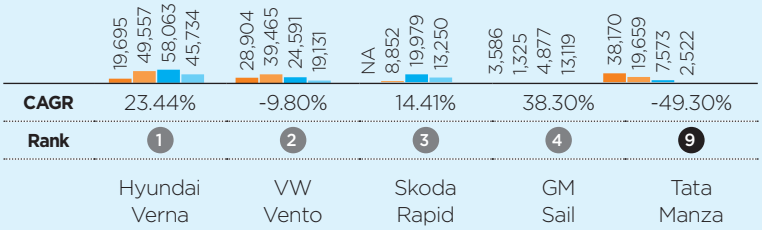
A POOR THIRD

The nano has grown at CAGR of - 27.03% between 2010-2011 and 2012-14



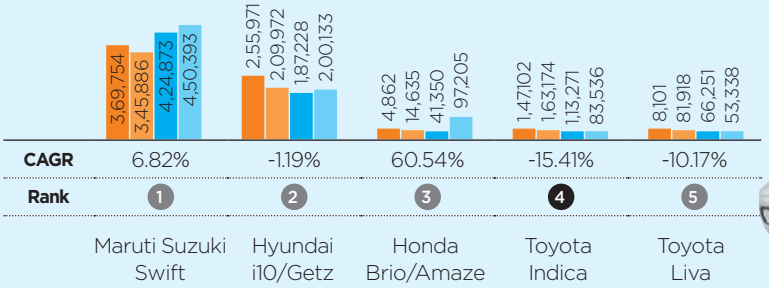
DOWNHILL DRIVE

Manza sales have grown at a pitiable - 49% CAGR in the past four years



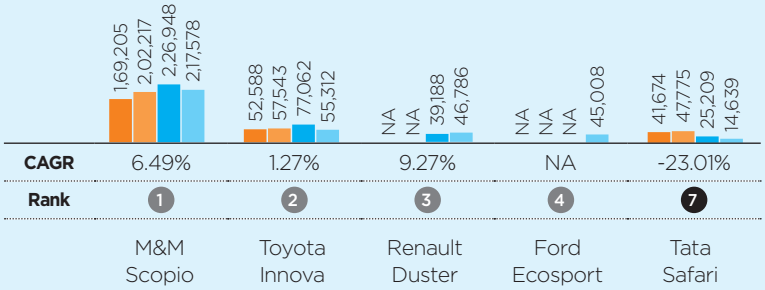
NO MATCH

The Indica has completely lost the plot vis-à-vis its peers



LOSING MUSCLE

The Safari has lost out to new entry-level SUVs



2010-11
2011-12
2012-13
2013-14

SOURCE: SIAM/BW RESEARCH

"Customers subconsciously know what they want, but they cannot articulate it."
—Pratap Bose,
Tata Motors head of Design

2014 and 2020, with $3 billion as expenditure on the passenger car product line alone. "We explained to our vendors how the new products would bring in volumes for them to stay invested with us," said Wagh.

Tectonic Shift

Experts from Harman Electronics, Honeywell and Bosch were called in. The brief was simple: build a powerful lower displacement gasoline engine that provides fuel economy and creates a world-class driving experience along with a telematics unit that can sync with any smartphone and integrate its apps. "We came into the project very early with Tata Motors. We wanted to prove to the world that a telematics platform can be built locally and yet have superb quality, capable of going into global cars," said M. Lakshminarayan, MD, Harman International.

So much so that Tata Motors has now set standards that other automakers will have to follow. Renault Nissan, Volkswagen, Toyota and Honda are yet to bring vehicles that offer voice-based telematics and advanced mechatronics at sub-$14,500 prices. Perhaps the only car to have such extensive telematics unit is the Mahindra Reva E2O. Future iterations of Harman's telematics system can leverage cloud computing, managed by Tata Motors, to store data in the form of songs and other video files which can be retrieved in the car.

Tata Motors achieved another fillip by working with Bosch and Honeywell. It created a new 1.2-litre gasoline engine that can operate in three driving modes—sport, economy and normal. This feature is available right now only in high-end cars and was a step up in Tata Motors' portfolio of innovations. The turbocharger was built by Honeywell in the city of Pune and the engine management system's software was built by Bosch in Bangalore. "It took us 18 months to build this system," said a source at Robert Bosch Engineering India. As the software was already controlling the fuel economy of the car, "Why not use it to provide performance and economy at the press of a button," the source said

Tata Motors then brought in Formula 1 race driver Narain Karthikeyan as a consultant to test the Revotron, the Zest's 1.2-litre gasoline engine. "He gave us inputs on the tuning of the engine and the ideal performance dynamics for a passenger car," said Wagh.

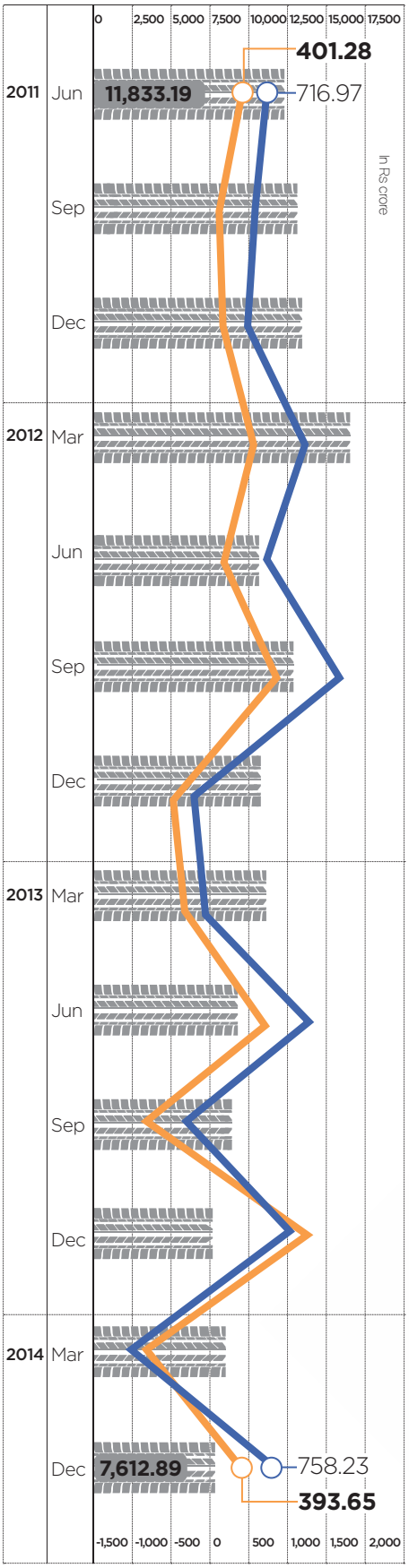
While the product planning team had scored a bull's eye, the company was yet to get the market segmentation right. The company realized that by the time the Nano came out in 2009, something had changed. Indian consumers had begun showing interest in cleverly marketed products that improved their lives. Was the Nano not an improvement? It definitely was. It gave 25 km to the liter—still the best in its class—and it was not short on safety. Yet it suffered because its marketing campaign treated the Indian consumer as a deprived individual who needed something little better than a two-wheeler.

Tata Motors took a hint from the boom in smartphones. "To communicate the design, drive and connect philosophies of HorizonNext you need to project the message of quality and consistency," said Yadav, president, Tata Motors (Passenger Cars). With the new launches, dealers will engage customers differently. Sales executives will use tablets to explain the product and take orders. After the car is sold, the customer can schedule service online and the car's job card will be provided via a tablet at the service center. "We need to make sure that there are no recalls, no issues at the plant and dealerships offer world-class service," said Yadav.

Digital Dealers

When JD Power Asia Pacific, the automobile marketing consultants, released a dealer satisfaction report in early 2014, Tata Motors realized the need for immediate action. It was ranked ninth among 10 OEMs surveyed. Currently, about 150 of the company's dealers have gone totally digital in connecting with customers and their service centers are wi-fi enabled. Over 3,000 tablets have already been shipped to dealers. Customers can now sit in the lounge and track their cars while they are being serviced.

"Given the relatively weak outlook on vehicle sales, dealerships are concerned about the viability of their business," said Mohit Arora, executive director, JD Power Asia Pacific. Increasing the share of service



TATA SLOWING DOWN

CAGR

-13.67%	1.88%	-0.64%
Net Sales	EBITA	Net Profit
(Upper scale)	(Lower scale)	

The past 13 quarters have been the toughest for Tata Motors's domestic passenger car business*

* STANDALONERSULTS

REVIVAL STRATEGY

- 150 new-look showrooms using tablets/mobility solutions
- Focus on zero defects
- Convergence of cloud computing and car telematics
- Slew of new launches lined up for the domestic market

X0 platform: Kite hatchback/ sedan
X1 platform: Zest sedan/ Bolt hatchback/ Nexon SUV/ MPV
X3 platform: Nano Active/ AMT
X4 platform: Advanced Modular Platform for cars beyond 2018
X6 A new SUV beyond 2017
Q5 High-end SUV on old Freelander platform

"There is innovation happening in new engines and platforms, many of which will be unveiled next year."
—Ravi Pisharody, Tata Motors Commercial Vehicles Division

revenue is one of the ways in which dealers can survive tough times. "But retaining customers beyond the standard warranty has always been a challenge for dealerships," said Arora. Toyota and Maruti Suzuki top dealership satisfaction surveys.

Tata Motors had to depend on Bose, the design head, to get the "world-class service" message across from the manufacturing side to the dealers so that they, in turn, could communicate it to consumers and vendors. Tata Motors' design centers in Pune, Italy and the UK worked on 600 design iterations of the product over two years before the concepts were showcased at the 2014 Auto

Expo in New Delhi. The new products will remain consistent with the HorizonNext strategy and focus on communicating every aspect of its three vectors—DesignNext, DriveNext and ConnectNext—to the consumer. That is, right from the key, the door handles, to the seats, the digital tachometer, the touchscreen and the voice-operated telematics unit, the experience at each level is meant to wow the consumer who picks a Tata Motors vehicle.

"Customers subconsciously know what they want, but they cannot articulate it," said Bose. Now, every dealer will talk about and emphasize the beautifully designed central console, the sporty steering wheel, the ergonomic seats and the easy-to-access telematics. Tata Motors will increase its 400 dealerships to over 500 in the next 18 months. In comparison, Maruti Suzuki has around 1,200 dealerships and Hyundai has close to 650.

The Product Push

Tata Motors plans to take on Maruti Suzuki and Hyundai in every segment. In the $6,500-and-below segment, or the A-segment, the Nano is expected to be revealed in an automatic version, and will take on Maruti's Alto 800, Nissan's Datsun Go and Hyundai Eon. Tata Motors did not spell out future iterations, but the Nano is expected to be a notch above the competition. The segment is dominated by Maruti Suzuki which sells 430,000 units on average every year.

In the B-segment, Tata is working on a car that can replace the Indica and Indigo soon. The car being tested is called the Kite, which will have diesel and gasoline variants and come in hatchback and sedan versions. Maruti and Hyundai continue to dominate this segment, selling 200,000 units on a regular basis.

The C-segment is where Tata Motors will want to win over the market with the Zest sedan and the upcoming hatch called the Bolt. The sedan segment is a smaller market whose size is not more than 250,000 units, with Maruti Suzuki selling close to 197,000 units. The Bolt, which will be in the B-plus segment, will take on Maruti's Swift and Hyundai's Grand i10.The aggressive pricing of both cars is expected to win over new customers.

These cars apart, there are interesting new products undergoing testing. On the Zest platform, Tata Motors will launch an affordable SUV and an MPV, which was showcased at the Auto Expo as the Nexon.

"We wanted to prove to the world that a telematics platform can be built locally and yet have superb quality, capable of going into global cars."
—M. Lakshminarayan, MD, Harman International

The SUV will take on the Ford Ecosport, Nissan Terrano, Renault Duster and Mahindra & Mahindra's Scorpio. The MPV will be pitted against the Maruti Suzuki Ertiga, Honda Mobilio, the Nissan Evalia and the upcoming Renault Lodgy. There is also talk of a premium sports hatchback as well as driving in the old Land Rover Freelander rebadged as a Tata Motors product in the $35,000-$40,000 range.

Success Stories

Who would have imagined that when Tata Motors bought Jaguar Land Rover (JLR) for $2.5 billion, the brands would one day churn out mover than $20 billion in revenues (in 2013), a three-fold jump from 2009. Land Rover's sales grew by 15% with 348,383 units and Jaguar's sales doubled to 76,668 units. The global revival of the brand led the company to invest $780 million in 2014 on building low-emission engines.

Complementing the success of JLR is Tata Motors' commercial vehicles arm—the largest in the country, with a 50% market share. Of the total of 632,738 commercial vehicles sold in the country in 2013-14, Tata Motors accounted for 317,887 units. With the commercial vehicles industry seeing a 20% drop in sales over 2012-13, Tata Motors has seen its sales drop 29% in 2013-14. But the CV arm of the company will invest $240 million a year to build new vehicle platforms.

"There is innovation happening in new engines and platforms, many of which will be unveiled next year," said Pisharody, executive director, Commercial Vehicles Division, Tata Motors. The Prima Truck, from the company's South Korean division, sold in nine countries, is becoming a premier heavy haulage truck with state-of-the-art GPS and telematics units. Pisharody said there will be new iterations of the sub-one ton Ace in the coming years. The Ace has sold close to 750,000 units since its launch in 2005.

So deep is the association of Tata Motors with the Indica and the Nano brands that few remember the miraculous turnaround it effected at JLR, which was on the brink of shutting down. While its strategy worked on a global level, it needs to get it right in its own backyard.

Again, much of the success of Tata Motors' passenger cars will depend on the growth of the automobile industry. Last year, the passenger car segment fell 6.05% with only 2,503,685 units sold, compared to 2,665,015 units sold in 2012-13. "The Indian market has changed, people want choice and want to be sold vehicles that can define their status," said Y.J. Ahn, executive director, Hyundai Motors India.

Sage counsel that the Tata Motors brass can ill afford to disregard.

GOING POTTY

Public sanitation in India is flush with hope as new players sense a business opportunity

By Moyna

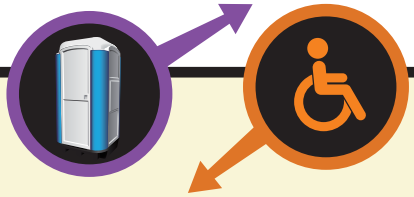
- **Company** Sulabh International
- **First toilet built in:** 1973
- **Total units today:** 8,000
- **Cost:** $80~$400
- **USP:** Comes with options of a bio-gas unit, water treatment facility and a unit to generate electricity from methane

Toilets before temples, toilets for all, girls toilets—these are among Prime Minister Narendra Modi's favorite phrases. In speeches during his pre-election campaign, in Parliament, at the Independence Day function at Red Fort and on Teachers' Day, Modi has spared no opportunity to underline the need for achieving complete sanitation coverage by 2019. A commendable idea and one that is more likely to succeed now as opposed to attempts by earlier governments.

This, because the sanitation segment is flush with new entrants in the past year. Armed with an array of business and tech options, players like Kerala-based Eram Scientific Solutions and Pune's 3S India are at the forefront of the sanitation revolution.

Consider this: the sanitation market in India is estimated to grow from $6.6 billion in 2007 to $15.1 billion by 2020, while government figures peg the potential of the cumulative sanitation market at $152 billion between 2007 and 2020. And, this was before the current push. The money flowing into the sector is expected to increase manifold with the likes of Bharti Foundation, Hindustan Unilever, Larsen & Toubro, Tata Consultancy Services and the Birla Group pledging amounts of $16 million and more to build toilets.

For the past four decades, the sector has been dominated by Bindeshwar Pathak's Sulabh International. However, there has been an influx of private companies looking



FIRM PUSH

The government's clarion call to achieve complete sanitation within five years has found takers in India Inc. Many a corporate has made monetary commitments toward that goal. Prime Minister Narendra Modi's Independence Day speech sparked a rush among the big guns of industry to pledge big money. Be it through multi-channel tie-ups with government agencies or their own corporate social responsibility (CSR) spending, the "toilets for all" mantra has caught everyone's fancy.

The aim is to install 12.5 million toilets by 2019, and in the race to achieve this target, the private sector has committed itself to working shoulder to shoulder with the government. The new toilets are to be largely funded by corporates using their CSR funds—a mandatory 2% of their annual profits as per the new rules. The promised toilets will cater to all sections of society and will be free.

While corporates have always been quick to make promises, few, if any, stayed the course and delivered. Hence, India's sanitation woes.

A word of caution here to the eager spenders: it is not enough to put up toilets; they need to be maintained and not abandoned after a few years. Toward this end, it would help if technology is harnessed to make them self-sustaining and hygienic.

Some prominent players and their pledges are:

- Sulabh International unveiled 108 facilities between the PM's I-Day speech and Aug. 31
- Aditya Birla Group plans to build 10,000 facilities in the next year across Madhya Pradesh, Uttar Pradesh, Orissa, Tamil Nadu and Gujarat
- Hindustan Unilever aims to set up 24,000 facilities, as a branded CSR activity powered by Domex Toilet Academy, launched early in 2014. The toilets will also be used for promoting the company's hygiene and cleaning products
- Bharti Foundation will spend $16 million on constructing toilets in Ludhiana
- Vedanta is building 30,000 toilets in association with the Rajasthan government. This apart, it is constructing 10,000 more across India
- Adani Group started its own sanitation program in Gujarat in 2009, which will now be extended to other states where the company is present—Maharashtra, Punjab, Rajasthan and Himachal Pradesh
- Tata Consultancy Services will invest $16 million, with special focus on female hygiene and sanitation in schools
- ITC has built 800 facilities adjoining its factories, for the low-income group in the past year. Following the PM's speech, it has set a target of 10,000 facilities
- Coal India has earmarked $37.6 million—half of its for building toilets in the current fiscal year, with a focus on schools and underprivileged homes. This will benefit around 100,000 families by March 2015.

to garner a share of the public "potty" business. Newer players are introducing environmentally friendly mobile and electronic toilets that come with smart metallic exteriors and flushes with sensors. Take, for instance, the e-toilets—electronic toilets that need minimal handling—that Eram Scientific Solutions, owned by Saudi Arabia's billion-dollar Eram Group, has installed. Since the first such toilet in Kerala in 2010, 500 units—priced between $3,200 and $7,200—have been set up by the company across India.

The e-toilets automatically flush before you enter the cubicle, and once again after business is done, and have in-built water tanks, sensors for water and electricity conservation, as well as automatic platform cleaning and power backup. Optional features include waste water treatment, solar panels, napkin-vending machines and coin-operated entry. These toilets are programmed to flush 0.4 gallons of water after three minutes of use and 1.20 gallons if the usage is longer.

"Lack of political will and costs hold government back"

Bindeshwar Pathak
Founder, Sulabh International

"These toilets incorporate a full-cycle approach to sustainable sanitation by integrating electrical, mechanical and Web-mobile technologies. They control entry, use, cleaning and exit, and combine remote monitoring capabilities with revenue options," said Anvar Sadath, director, Eram Scientific Solutions.

A Sound Business Idea?

With technology comes cost. But with the government increasing allocation and India Inc. eager to invest in building toilets (see Firm Push, below), the models are not unviable. The recent innovative models further strengthen the case for building more toilets. Public toilets no longer need to be solely philanthropic—instead, they can be turned into self-sustaining and profitable enterprises.

Revenue generation from advertising on the walls of the toilets is a tried-and-tested option. Another is pay and use. A third is the lease option. Naveen Arora, a marketing and

- **Company** Eram Science Solutions
- **First toilet built in:** 2010
- **Total units today:** 500
- **Cost:** $3,000~$7,000
- **USP:** Unmanned toilets with automatic flush can be customised to dispense sanitary napkins. Can be customised to work as coin-operated units with solar power and bio-digesters

advertising entrepreneur in Greater Noida, installed six toilets three years ago at $6,400 apiece and earns close to $400 a month through advertisements in each of his units. Besides advertising, Arora also makes around $24 to $32 a month from coin-operated access.

Sadath said his e-toilets are ideal for public spaces as they have significantly low maintenance costs due to their sensors and self-cleaning technology. Arora claimed his units are 70% cheaper to maintain than conventional toilets as they require no manual cleaning.

Newer players are introducing environmentally friendly mobile and electronic toilets that come with smart metallic exteriors and flushes with sensors.

"Government bodies are eager to install these toilets but are concerned about maintenance. We have, therefore, developed special packages to take over the maintenance—around $80 annually for a specific number of toilets," explained Sadath. Given that manual intervention or cleaning is only required once in three days, Eram has allocated one engineer for every 10 toilets across the 10 states where it is currently present.

Increased quantities of waste and poor infrastructure are pushing entrepreneurs to provide end-to-end solutions. For instance, at present, e-toilets are either connected to the existing sewage system or to a septic tank, which are not very efficient systems of waste disposal.

"That is why we are working with three international institutions to develop better waste water treatment/ usage facilities, energy generation from fecal waste and solar panels attached to the units for running the automated systems," said Sadath. Eram hopes that with scale it will be able to reduce the cost of these toilets.

Even the simple toilet models adopted by Sulabh International—with prices ranging from $80 to $400—are equipped with complete waste re-use options. The $47 million company has the option of installing a biogas unit, water treatment facility and a unit to generate electricity from methane, at each site.

"E-toilet solutions are ideal for public spaces."

Anvar Sadath
Director, Eram Scientific Solutions

However, of the 8,000 toilets installed over the past four decades, only 200 have these facilities. Pathak says this is due to lack of political will and additional costs holding governments back. But he is hopeful that the new government will change that.

Toilet Training

There is no dearth of technology in the waste business. A model popular in the West is the waterless urinal. Although developed in the US way back in 1991, it became popular in India only in the last five years as water scarcity became a reality. Misconceptions about such toilets being unhygienic and requiring higher maintenance had prevented them from gaining acceptance earlier, said developers.

A general lack of civic sense, absence of awareness about why urinating or defecating in the open is unhygienic and the unwillingness to pay to use toilets are held responsible for the sorry state of sanitation in India. Since it is illegal in many countries for people to attend to nature's call in the open, they have to fork out to use public toilets. In Argentina, for instance, one has to pay close to $2 per use; in England, the charge is 50 cents plus a tip to the attendant; even Asian neighbor Singapore charges 10 to 20 cents per use. In India, the charges are nomi-

There is still a large section of people–at construction sites, labor camps, communities and slums–who have no access to toilets.

nal—1.5 cents to 8 cents.

There is still a large section of people—at construction sites, labor camps, communities and slums—who have no access to toilets, but it makes little sense to build permanent facilities for them. To cater to their needs, a handful of low-cost toilet models have entered the market.

One such player, 3S (Sanitation Solutions Simplified) India—the largest in the portable toilets segment—makes toilets for outdoor gatherings and temporary sites in the range of $16 to $160.

The 3S toilets are either leased out or bought by project developers, event managers or individuals. They are usually installed and serviced at makeshift sites, said Rajeev Kher, chief executive officer and managing director, 3S.

Considering the rising demand and popularity of these toilets, 3S is working on other installation models. "We are implementing some pilot projects at slums in Delhi and Pune, where we are providing access cards to users for a nominal monthly charge," he added. Over the past five years, the company has diversified to include a variety of urinals, washbasins, septic tanks, toilets and allied consumables, which cost between $80 and $1,600 to install.

Currently, the company manages around 5,000 units and provides services ranging from cleaning and evacuation to disposal of waste across cities such as Mumbai, Bangalore, Chennai, National Capital Region, Pune, Hyderabad and Panaji.

3S, which started out as a $480,000 company in 2009, clocked nearly $2.56 million in revenues in March 2014.

In the US, the portable sanitation market alone is worth close to $7 billion, with a dozen-odd companies having nearly 150,000 toilets in stock. In comparison, India has only 6,000 to 7,000 such toilets. "We need at least [one million] toilets to make a difference," said Noshir Colah, operations partner at Aavishkaar, a venture capital company that specializes in social enterprise funding.

The Road Ahead

There is still a long way to go before the new toilet models of pay-and-use and revenue generation through advertising ensure that sanitation companies are flush with funds.

Private players believe that if the government can end the practice of defecating in the open and incentivize businesses as part of its sanitation drive, the public toilet business has a fair chance of turning profitable.

Based on Modi's slogan of building "toilets first and temples later" and the government's target of putting up 12.5 million toilets by 2019, there is hope for the sanitation sector in India.

With both the authorities and the industry willing to pump in the money, in a few years, the sight of men urinating in public may become history.

"We're rolling out pilot projects in slums in Delhi"

Rajeev Kher
CEO and MD, 3S India

- **Company** 3S India
- **First toilet built in:** 2010-11
- **Total units today:** 5,000
- **Cost:** $80~$1,600
- **USP:** Suited for outdoor events and temporary installations. They are water saving and boast of a fresh water flushing mechanism.

VYING FOR A SLICE OF THE CONSUMER SPENDING PIE

Several big-name foreign players have arrived on Indonesian soil to capture the potential locked up in the country's large—and still expanding—middle class. With private consumption still increasing despite modest economic growth, local conglomerates are following suit.

By Muhamad Al Azhari & Vanesha Manuturi

Warnings from analysts that consumer goods companies will experience margin pressures from rising costs have not stopped foreign investors and local conglomerates from fighting for a slice of Indonesia's robust consumer spending pie.

New Players

Two big global retailers have recently arrived in Indonesia, and they are ready to compete with local rivals to offer their best to consumers in the world's fourth most populous nation.

On Oct. 19 Courts Asia, the operator of big-box retailer Courts Megastore, opened its first store in Bekasi, marking its foray into Southeast Asia's largest economy.

Terry O'Connor, group chief executive of Courts Asia, spoke to GlobeAsia during the West Java opening. He said that the Singapore-listed company had been planning the 12,000-sq-m store—its biggest in Southeast Asia—for the past three years.

Courts Asia was willing to dig into its coffers for up to $15 million in initial investment for its Bekasi store, O'Connor added. "We were listed in Singapore in 2012, and used the money from the (initial public offering) to expand into Indonesia. The market—an emerging middle class, a higher minimum wage, a young demographic—just makes sense," O'Connor said.

Courts Megastore will challenge the domination of local rivals including Ace Hardware and Electronic City. Aiming high and banking on Indonesia's expanding middle-class population, O'Connor said Courts Asia expects to book up to $25 million in sales in the outlet's first year.

"When we look at the market in [Bekasi] itself, it has a burgeoning customer base but it seems to be underserved by specialty

The Alam Sutera store is Ikea's 364th worldwide.

SYNDICATION/GLOBE ASIA

Courts Asia plans to open up to 12 more stores around Greater Jakarta.

retailers." Courts Asia is a regional player. It currently operates some 70 outlets and branches across Singapore, Malaysia and Indonesia, covering a total of 130,000 sq m of retail space. The company is planning to open up to 12 more stores in Greater Jakarta area through its local arm, Courts Retail Indonesia, O'Connor added, with another Courts Megastore scheduled to open in BSD\ City in Serpong, Tangerang, in 2015.

In another major retail move, thousands flocked to the flagship store of Ikea on the outskirts of Jakarta Oct. 15 as the Swedish flat-pack furniture retailer opened its first store in Indonesia.

Ikea Indonesia marketing director Benedicte Hansen said some had driven in from as far as Bandung (a two-hour-plus trip) to get hold of some of the company's wares, while social media became awash with images of the company's signature Swedish meatballs.

The store, which covers 35,000 sq m of retail area, offers 7,000 home furnishing products, including some geared for the Indonesian market featuring rattan and specialty textiles. The Alam Sutera store is Ikea's 364th worldwide, with the brand

"The market—an emerging middle class, a higher minimum wage, a young demographic —just makes sense."

Terry O'Connor Courts Asia Representative

already operating in 46 countries, contributing to the houseware giant's total sales of more than $38 billion.

Courts Asia and Ikea are just the latest in the long list of foreign players seeking a slice of Indonesia's robust consumer spending pie. Lotte Shopping, South Korea's largest department store operator, plans to open four new shopping malls in Indonesia by 2018 following its first foray last year in the Ciputra World Jakarta superblock complex in Mega Kuningan, one of the busiest districts in Indonesia's capital. Through Lotte, popular fashion brands such as Japanese clothier Uniqlo and H&M also entered the Indonesian market.

Measuring Local Players' Prospects

All this excitement comes amid analysts' expectations of margin pressures on existing consumer goods players. United States brokerage JP Morgan, in a note to clients about listed consumer goods companies in Indonesia, said it expects revenue growth of such companies "to remain robust" but that they may see "margin pressures."

"We see cost pressure will be more accentuated for retailers (inventory discounting) and generally we expect pressure from higher utility costs and wage costs," said the note, written by analysts Lonnie Yu, Aditya Srinath and Ebru Sener Kurumlu.

"Recent declines in pricing of key commodities may not drive a meaningful lift to margins for staples companies, given weakening rupiah trends," the note added.

JP Morgan placed seven listed consumer goods companies—Matahari Department Store, Ace Hardware, Ramayana Lestari

Brian Riady, chief executive at Cinemaxx, said his company plans to install 2,000 cinema screens in Indonesia.

Sentosa, Mitra Adiperkasa, Unilever Indonesia, Indofood Sukses Makmur and Indofood CBP Sukses Makmur—in a valuation matrix, analyzing their strengths and weaknesses. Its top pick in the Indonesian consumer sector is Matahari Department Store, banking on a potential upside in its stocks with a target price of $1.54 per share.

This means investors could gain a potential 26% upside from its Oct. 17 close of $1.22 per share. The stock was marked as "overweight," meaning it represents the most attractive pick covered by the analysts' as it has the prospect of generating higher total shareholder return as compared to the other companies in the study.

JP Morgan's analysts cited research from Euromonitor which said "the market size for department store retailing in Indonesia is likely to increase at a compound annual growth rate (CAGR) of 13.9% to $5.38 billion by the end of 2018 from this year. The growth will be remarkably driven by a growing middle-class population and an underserved market.

"We believe Matahari Department Store is well-positioned to benefit from this opportunity. It is the largest department store operator in Indonesia… ."
—JP Morgan note to investors

"We believe Matahari Department Store is well-positioned to benefit from this opportunity. It is the largest department store operator in Indonesia, with a 36.7% share of department store sales in 2013," the note said. Conversely, the US brokerage labeled the stocks of Mitra Adiperkasa, Ace Hardware and Unilever Indonesia as "underweight," meaning they are among the least attractive stocks and may yield lower total shareholder return as compared to rivals in similar businesses.

"We have an 'underweight' rating on Mitra Adiperkasa. We see Mitra Adiperkasa's business model being inherently capital-intensive, keeping capital returns subdued. A rising share of inventory-intensive specialty stores and expansion into tier-two cities have kept capital returns depressed and lower compared to peers," JP Morgan said.

It added that Mitra Adiperkasa's "inventory trends show that inventory intensity has risen sharply during periods of Indonesian economic slowdown." Rising inventory intensity, which could mean that the company has sold fewer goods, would lead to higher costs for the company.

Mitra Adiperkasa, controlled by tycoon Sjamsul Nursalim, operates department stores and specialty stores which sell a diverse range of branded goods, including clothing, food, toys and other merchandise. It has been moving to expand its business from major cities in Indonesia into tier-two and tier-three cities to tap growth opportunities.

Meanwhile, Ace Hardware and Unilever Indonesia face their own unique challenges, with inventory intensity, depressed margins amid tough competition and higher costs cited to have had a detrimental effect on profit and revenue growth for both companies.

Ace Hardware is a home furniture and appliances retailer, selling various types of household hardware, building materials, home appliances, cleaning supplies, plumbing supplies and fixtures, while Unilever Indonesia sells fast-moving consumer goods including home and personal care items and foods and beverage products.

Consumer goods companies, including those mentioned by JP Morgan, must deal with the higher burdens from rupiah depreciation, which has translated to rising import costs and wages, as well as higher utilities costs. This does not include the prospect of higher fuel costs in the future, with Joko Widodo's administration expected to raise the cost of subsidized fuel to reduce the burden on the state budget. Meanwhile, Indonesia's economy was forecast to grow at 5.2% by the World Bank in October, a downgrade from its 5.3% forecast in April. This will be lower than 2013's growth, when the economy expanded by 5.78%.

The Washington-based lender is penciling in a pickup next year with 5.6% growth, but that projection comes with the caveat that it will largely depend on how effective the country's new administration is in pushing policy reforms through next year.

Local Conglomerates More Involved

Still, the fact that the 10th biggest economy in the world is now harboring 45 million middle-class consumers and is set to see this middle class expand by another 40 million by 2020, according to a McKinsey Global Institute report, has triggered Indonesian conglomerates to seriously think about capturing such potential.

Tiara Marga Trakindo, a diversified conglomerate controlled by the Hamami family, announced in August an expansion into the retail business.

Mega Mahadana Hadiya (Mahadya), a consumer retailing unit of Trakindo group, announced the opening of two lifestyle supermarket outlets under the LOKA brand. Trakindo has roots in heavy equipment distribution andhas already expanded into the mining sector.

Mahadya, incorporated in 2013, picked up business expansion momentum in June when it announced it had set aside up to $25 million to open 100 new chicken-wing restaurants under the franchise license of the Carl's Jr. burger brand.

"Private consumption remains a strong pillar of the economy… We are still likely to see private consumption growth circa 5.5% this year."
—DBS Group Research data

Saratoga Investama Sedaya, the Indonesian private-equity firm co-founded by tycoons Edwin Soeryadjaya and Sandiaga Uno, doesn't want to be left out either in the rally to tap the rapidly growing Indonesian consumer market. It has set aside $480 million in a war chest to invest in consumer-related companies.

In August, it announced it had agreed to acquire a strategic stake in Gilang Agung Persada, which runs well-known fashion, lifestyle and luxury brands in Indonesia including Gap, Celine, Givenchy, La Senza, Guess Watches, Guess Collection, Nautica, Swarovski, Superdry and Victorinox Swiss Army.

The Lippo Group, which already has a strong grip on consumer-related sectors through its property, hypermarket, healthcare and technology-related businesses, announced its plan to go deeper into the consumer market with a foray into the cinema industry.

Through Cinema Global Pasifik, the group's movie theater chain operating unit, it has set an ambitious target of becoming Indonesia's largest cinema chain operator and broadening cinema screen penetration in a country with low cinema patronage. Brian Riady, chief executive at Cinemaxx, said his company plans to invest up to $468 million to open up to 300 cineplexes in 85 cities within the next 10 years.

In total, the company plans to install 2,000 cinema screens across the archipelago. Research from DBS Group Research dated Sept.11 may partly explain why the consumer sector remains alluring amid slow economic growth.

"Private consumption remains a strong pillar of the economy … .We are still likely to see private consumption growth circa 5.5% this year, sustaining the pace seen in recent years," it said.

All this excitement comes amid analysts' expectations of margin pressures on existing consumer goods players.

IT'S TIME TO DELIVER

When it comes to delivery, e-commerce companies require too much of a customer's patience, but this has started to change. Should they be afraid of the arrival of Amazon?

By Gian Kojikovski

Riceli Batista Dos Passos, a pharmacist from Curitiba, Paraná, put a lot of effort into pleasing his son Lorenzo, 2, on Children's Day this year. When visiting some friends in September he saw that Lorenzo was delighted by a ball pool. When he got back home he searched for the best price online, and since the webpage promised to deliver the product by Oct. 8, he bought it as a present for his son. Do we need to continue? Oct. 8 arrived and no ball pool. No trucks parked in front of his house in the following days either, and so, making sure Lorenzo would not spend Oct. 12 (Children's Day) with no present, his daddy went after another one at the last minute. It's just one more story among thousands of this kind: With 32% of total complaints, delay in delivery is the top-ranking problem for those who shop online.

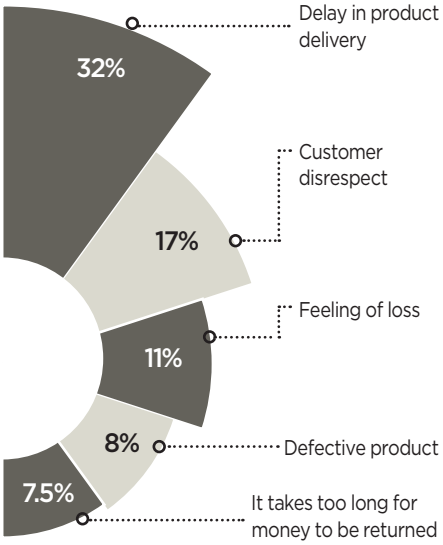
Since the early days of e-commerce in Brazil, the delivery model has followed the same pattern: If someone buys something in Fortaleza, the product is shipped from

SYNDICATION/EXAME

WHERE IS MY PACKAGE?

The main complaint of Brazilian customers who shop online is the delay in product delivery

Problems mentioned by online shoppers (in %)



WHAT THE MAJOR E-COMMERCE COMPANIES ARE DOING TO REDUCE DELIVERY TIME

B2W (Americanas.com e Submarino)

In the last three years the company has increased the number of its distribution centers from two to seven. In addition to São Paulo, centers are also in Pernambuco, Minas Gerais, and Rio de Janeiro. Another seven will be open by the end of next year.

Magazine Luiza

The company integrated its online operation with its eight distribution centers located in seven states last July. By the end of 2015 around 50% of online orders placed outside São Paulo will be delivered by regional distribution centers.

Cnova (Ponto Frio, Casas Bahia e Extra)

The company invested in a new distribution center in Rio de Janeiro in addition to integrating its online operation with Via Retail (managing the supply of the physical stores of the chain) in Bahia. It has also signed exclusive agreements with distributors.

São Paulo (where the distribution centers are located) and travels 2,890 km until it reaches its destination. If the truck breaks down on the way there, it is the customer's loss. For the companies, despite the setbacks, it makes sense to keep it this way since the market in the country is not large enough to justify a different model. A refrigerator bought online is delivered in São Paulo in four days at the fastest; in Curitiba in eight days, and in Fortaleza, two weeks.

Unequal treatment is now being tackled. All major e-commerce companies are in a race to see who opens more distribution centers outside São Paulo. "After years of growing at double-digit rates, the Brazilian market has reached a significant size. It now makes sense to have a regionalized distribution," said Esteban Bowles, a partner at AT Kearney, a consulting company. Last year, online sales added up to almost $30 billion, and according to AT Kearney predictions, they should keep an annual growth rate close to 20% until 2018, with higher rates outside of São Paulo.

Until 2010, B2W, owner of Submarino and Americanas.com, used to have two distribution centers, both in São Paulo. Since then, the company has opened two in Pernambuco, one in Minas Gerais, a third in São Paulo, and one in Rio de Janeiro. The company—which had a logistical blackout in 2010— plans to open seven more distribution centers by the end of 2015. In addition

"After years of growing at double-digit rates, the Brazilian market has reached a significant size. It now makes sense to have a regionalized distribution," —Esteban Bowles, AT Kearney

to that, B2W has bought the controlling share of two shipping companies in just over a year: Direct Express, with national coverage, and Click Rodo, experts in shipping volumes of over 66 pounds. Cnova do Brasil, manager of Ponto Frio, Casas Bahia, and Extra online stores used to have its distribution centers in São Paulo until late 2013. In recent months, it has started to share the distribution center in Camaçari, Bahia, with Via Retail, in charge of the company's physical stores, and has opened a new one in Rio de Janeiro.

All Magazine Luiza deliveries for online shops used to be shipped from a storage facility located in the countryside outside of São Paulo. This changed last July when its eight distribution centers spread across the south, southeast and northeast were authorized to deliver not only to physical stores but also for online purchases.

All work to manage inventory has been completed, but the implementation of decentralized delivery will take place in several phases. The goal by the end of 2015 is that 50% of orders placed online outside São Paulo will be delivered by the storage facility closest to the customer. "We are working to have the delivery period outside São Paulo drop by 70%," said Frederico Trajano, Director of Operations at Magazine Luiza. Walmart.com's situation is slightly different. Instead of São Paulo, the company used to store all its products in Minas Gerais.

Other than that, the rest of the story is very similar to that of its competitors. This year, the company opened a new distribution center in São Paulo, another near the central region of Recife, and is negotiating to buy land in the south, most likely in Rio Grande do Sul.

"All this movement has only one goal: to get to the region before the competitors and secure its position as the company that increased customer satisfaction," explained Pedro Guasti, Director of Ebit, an e-commerce research company.

"There are no shipping companies in Brazil with national coverage … . Therefore companies are required to invest heavily in distribution centers."
—Marcel Moraes, Deutsche Bank

What About the Money?

The e-commerce sector in Brazil—and in most countries—is good for investment but bad for profits. B2W and Cnova do Brasil both lost money in 2013. Others say they profited but no one knows the exact figures. So why are they investing in new distribution centers? Wouldn't it make more sense to first have a profitable operation? "There are no shipping companies in Brazil with national coverage that could deliver to customers. Therefore companies are required to invest heavily in distribution centers," said Marcel Moraes, an analyst at Deutsche Bank. Another urgent factor is the arrival of new competitors. Amazon, the American company, began selling books in Brazil in 2014 and will probably expand the range of products at some point in the future. Chinese Alibaba just had a record IPO and is capitalized. An executive from one of Brazil's largest e-commerce companies summed up a common feeling in the sector: "Amazon will not start using drones for delivery in Brazil or change everything overnight, but, no doubt, we must be ready for this new competition."