Exploring and evaluating entry strategies for Small and Medium sized Enterprises entering emerging markets: The case of InterContinental Brands and its prospective entry into India

By

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ABSTRACT

Small and Medium sized Enterprises (SMEs) have traditionally restricted their services to their domestic markets or other slow and limited growth international ventures through modes such as exports to the countries geographically close to them. However with the advent of globalisation and advances in access to information, technology, communications and logistics, SMEs have actively started to scout for opportunities in the international markets.

This study investigates on the existing literature with respect to the process of internationalising keeping in mind the risk, resource commitment for an SME along with their returns from this market. This study also explores niche markets for SMEs to internationalise in; providing a pragmatic view to this research conducted. In addition this research aims to provide an entry mode to a resource constrained enterprise, avoiding the learning curve and making the most of the current opportunity without losing out on it during the process of knowledge gathering. This research provides support on how SMEs can hedge the resource commitment while keeping control and achieving their overseas objective through a specific entry strategy.

Abbreviations

SME – Small and Medium sized Enterprises

ICB – InterContinental Brands

BRIC – Brazil, Russia, India and China

MNC – Multi National Corporation

FICCI - Federation of Indian Chambers of Commerce and Industry

UB Group – United Beverages Group

NAFTA - North American Free Trade Agreement

GATT - General Agreement on Tariffs and Trade

WTO – World Trade Organisation

OECD – Organisation for Economic Co-operation and Development

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Exploring and evaluating entry strategies for Small and Medium sized Enterprises entering emerging markets: the case of InterContinental Brands and its prospective entry into India

Chapter 1 – INTRODUCTION

1.1 Aim

The aim of this document as a dissertation is to explore and evaluate entry strategies for small and medium sized enterprises looking to internationalise by entering emerging markets. This specific research revolves around the case of InterContinental Brands (ICB), a small and medium sized enterprise in the alcohol industry in the United Kingdom that is considering internationalising its operations in the emerging market of India.

1.2 Objectives:

The objectives of this dissertation is

1. To assess and evaluate the different routes to internationalisation, for SMEs
2. To juxtapose those routes with the ICB agenda as stated by Marcus Black (2009)
3. To evaluate India as a prospective market for ICB
4. To juxtapose the ICB's agenda and their product list with the opportunities in the Indian market
5. To eventually recommend action points for an entry mode for ICB into India.

1.3 Why SMEs?

SMEs are regarded as major contributors to the world economy as 99% of all businesses in the world are categorised under the SME segment (European Commission, 2005). However due to the lack of resources the process of internationalisation for SMEs has been restricted and as a result most SMEs are either domestic or localised in their operations. On the other hand the large business will typically have the resources, scale and motivation to internationalise their operations. Such large businesses which have a presence in multiple nations are known as Multi National Corporations (MNCs).

It is important to note that most MNCs at some point in time were small and medium sized enterprises which leveraged their expertise and resources, developed alliances to internationalise their operations and are today the multinational behemoths like Microsoft, Walmart, Ford Motor Co., etc. Based on which it can be said that with an in depth research into prospective opportunities in new markets, exploring and evaluating strategies, taking calculated risks and leveraging resources, SMEs can successfully internationalise their operations which could lead to exponential growth (OECD, 1997). MNCs on the other hand are not as nimble and are more bureaucratic in their operations, while SMEs have a more entrepreneurial approach to business and are more risk taking in nature (Lu and Beamish, 2001; Lumpkin and Dess, 1996; Ruzzier, Hisrich and Antoncic, 2006).

Large organisations and MNCs have the resources to commission research for internationalisation of their operations specific to their requirements while on the other hand little information or research is available on SME internationalisation (Ruzzier, Hisrich and Antoncic, 2006).

Based on the above reasons the research has been focused on SMEs.

1.4 Introduction to the alcohol business

The alcohol business is globally divided into three large segments being beer, spirits and wines (Jernigan, 2009). Alcohol has a long history with mankind and is produced and consumed in almost every country in the world, albeit from different sources ranging from food grains to fruits to flowers. The alcohol business also has a wide range of players ranging from multinational behemoths like Diageo and Anheuser-Busch InBev to boutique vineyards. At the same time they also occur across the price spectrum ranging from prohibitively expensive superior vintage wines to inexpensive locally brewed country liquor. At the same time there are companies like Diageo which produce different types of alcohols ranging from whiskies to beers to wines while on the other hand there are vineyards like Chateau Latour which produces one or two signature wines.

While the alcohol business is ubiquitous, the fact is that a large part of the business is in the unorganised sector (Jernigan, 2009; Individual 3, 2009), with a large part of the production, trade and sale going unrecorded. For example, unrecorded production and sales account for at least two-thirds of the alcohol consumption in the Indian Subcontinent (Jernigan, 2009). While approximately half the consumption in Africa and a third of the consumption in Eastern Europe and Latin America

(Jernigan, 2009). It is also reported that only 35% of the recorded alcohol sold is branded most of which is accounted to the production of the top ten spirits companies (Jernigan, 2009).

Today, with globalisation, the alcohol industry has shown a lot of consolidation at the top end of the market. A few large firms in each segment control most of the industry particularly in the case of beers and spirits (Jernigan, 2009). This consolidation due to globalisation has led to advantages for the industry on a whole. The industry has set up global distribution networks, consolidated sourcing, production and logistics has led to the industry being more efficient and has created various opportunities such as economies of scale in production, marketing and in new product development (Interview 1, 2009; Jernigan, 2009). However once again there is little information on the scope of opportunities and trends for the SMEs in the alcohol industry.

The above factors lead to the consideration of the alcohol industry as a case study.

1.5 Intercontinental Brands

InterContinental Brands (ICB) is a fast growing independent, small and medium sized spirits company in the UK founded in 1990, by John Hibberd and Paul Burton. ICB trades with a large number of the UK's major supermarket chains, specialist off-licence groups and independent retailers. ICB has been successful in carving a niche for itself in the highly competitive and saturated spirits market in the UK. This has been done by creating and marketing the “healthier” spirits category with a lower level of alcohol content such as Vodkat – a Vodka with 20% alcohol content and Red Russian – a vodka based ready to drink beverage (Black ‘b’, 2009). InterContinental Brands have been mainly servicing the young adults aged 18 to 25 years (Black, 2009).

The entrepreneurial management has been vital for ICB in identifying the right opportunities and getting the product to the market (InterContinental Brands, 2009; Black ‘b’, 2009). Intercontinental Brands are in the process of internationalising and have their prospects set on the emerging markets such as India, China or South Africa (Black, 2009). This research analysis would be aimed at exploring and evaluating entry strategies for ICB to assist them with their process of internationalising their operations and entering India.

1.6 Indian Economy:

India along with Brazil, Russia and China form the core of the BRIC nations as described in the benchmark report by Jim O'Neill of Goldman Sachs (2005). With a population of over 1 billion people, ranking fourth in the world with respect to gross domestic product (GDP) and with an average growth rate of around 8.8% in the last five years (FICCI, 2009). A large portion of the foreign investments in the world is headed to India, second only to China (The Hindu Business line, 2007), has validated the economic development of India in the world.

The population of India is such that 50% of the population is below the age of 25 years, according to the last official census by the Government of India in the year 2001 (Rao, 2004; Population of India, 2000; Census Data, 2001; Reddy, 2006). This has tempted firms into the idea that if they can gain the customers' loyalty at a young age they stand to gain the loyalty of over 500million people for a 'lifetime' period of over 45-50 years (Kumar, 2008; Jain and Singh, 2002).

The above reasons coupled with the fact that the author has an understanding and experience of having worked in the Indian market, and ICB expressing an interesting in the Indian market, lead to the consideration of India for this research.

1.7 India and the alcohol industry

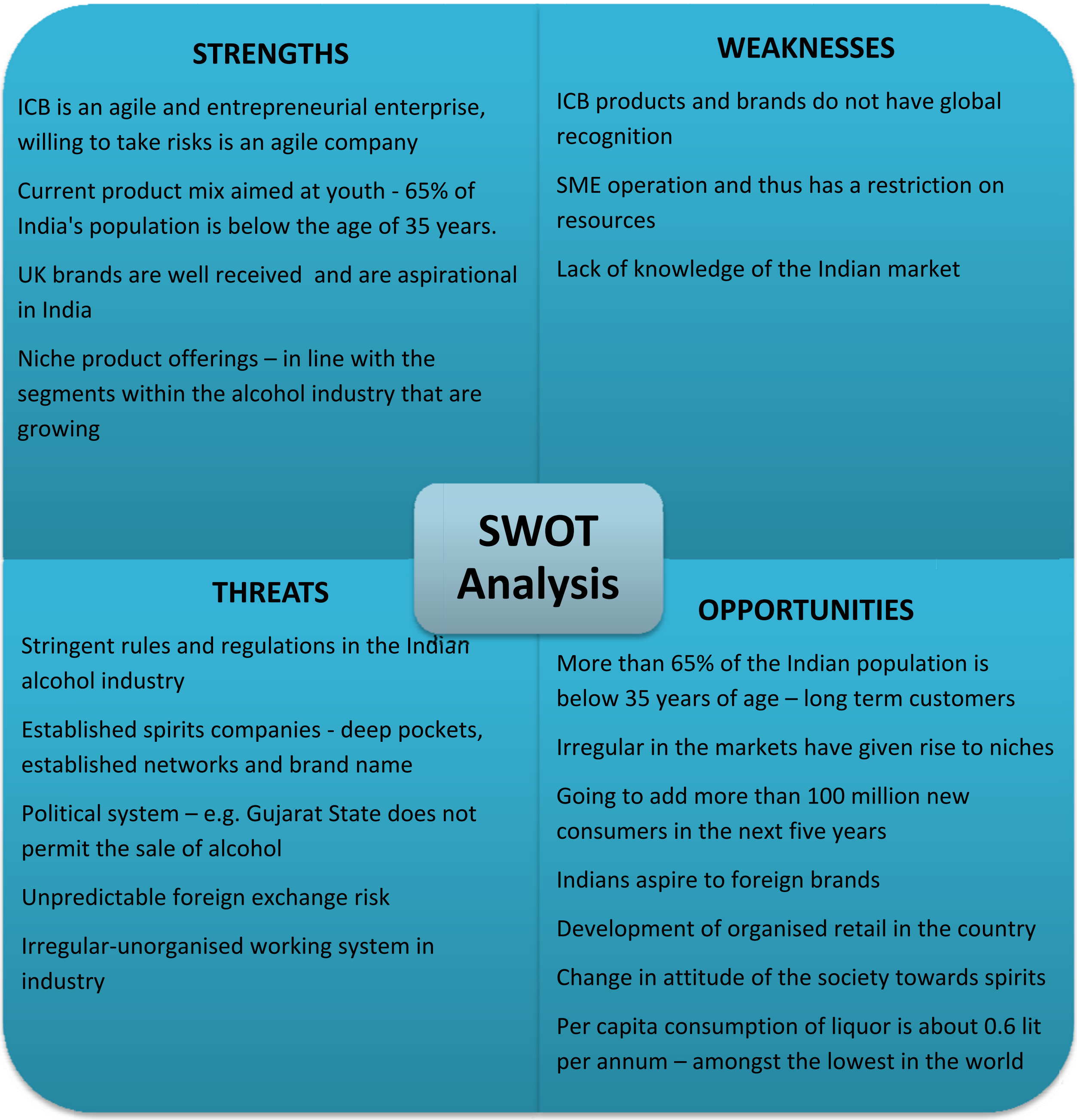
India has been mentioned on almost every international forum for business since the beginning of this decade (FICCI, 2009). The Indian economy registered an average growth of 8.8% during the 5 years ending 2007-08 (FICCI, 2009) and with this growth the economy and exposure to international media, the attitude towards alcohol and consumerism has changed. The liquor industry is seeing a declining trend across the world but a robust growth pattern in India (Reddy, 2006; Interview 1, 2009). The rate of growth with the spirits sector has been observed above the strong 8% mark (Euro monitor, 2009; Reddy, 2006; World report, 2009; Interview 3, 2009). With a population of 1028.7 million in 2001 according to the last official Government of India census, 2001, India holds the second largest population in the world. The per capita consumption of liquor is about 0.6 litres per annum which is among the lowest in the world (Rao, 2004; Reddy, 2006, World report, 2009; Interview 3, 2009) which indicates there is an opportunity for high growth. Another important statistic which is important with respect to the Indian market is that spirits account for 95% of the beverages consumed (World report, 2009). Since the economic development, the Indian market is now viewed as a country with a large emerging population, with great purchasing power, with an aspiration to drink spirits similar to the ones available in the Western world (Reddy, 2006). Thus India is now being eyed by various international spirits companies vying to grab a piece of this growing market.

Despite these encouraging prospects the Indian market for spirits has been quite restrictive and regulated for companies to operate in, but this have been changing off-late (Interview 4, 2009; Interview 1, 2009). This highly regulated industry is complex with rules and regulations administered by both, the Central and the State governments (India has 28 states administered by State Governments and 7 Union Territories directly administered by the Central Government). The licensing of units and sanctioning of capacities for production of alcohol fall under the Central government's domain while the taxation, regulation, distribution, and the authority to impose taxes such as those on imported spirits taxes, excise duty, export permit fee and sales tax are all under the State government (Reddy, 2006; Cunnington, 2007). Indian states operate as independent countries with respect to rules and regulation (Interview 4, 2009; Interview 3, 2009; Euro Monitor, 2009). For example if a company exports liquor from one state to another, they are charged 'import' and 'export' duty, however this is expected to change in the near future (Interview 3, 2009; Interview 4, 2009). A Legislation is currently being reviewed by the Government of India which will help in developing a national framework of rules and regulations for alcohol companies (Interview 4, 2009) making India a more investment and operations friendly country.

1.7.1 SWOT Analysis

Swot Analysis on the Indian Spirits Industry looking at it from the perspective of an international enterprise, InterContinental Brands:

The following figure will show the SWOT analysis on the Indian Spirits Industry from the perspective of ICB.



All the above facts and reasons coupled the author's experience in India have provided the basis for this research.

1.8.1 Rationale of the research project:

India is a large nation with a huge consumer base, being the second most populous country in the world. As mentioned above the population demographic is such that over 65% of its population below 35 years (i.e. almost 700 million) and more than half (i.e. over 500 million) below 25 years of age (Singhal, 2006). If companies can get hold of the population at a young age, then they can enjoy the loyalty of the consumer for a long time to come, leading to a more profitable return (Customer Lifetime Value) (Kumar, 2008; Jain and Singh, 2002). The Indian spirits market is one of the biggest in the world in terms of volume at 400 million cases (Saxena, 2008) and the rate of growth observed has been above the 8% mark (Euro monitor, 2009; Reddy, 2006; World report, 2009) as compared to the rest of the world which is showing a decline. This growth is expected to reach new heights in the coming years with an increase in the consuming population base by another 100 million (The UB Group, 2005). This growth is fuelled by the changing dynamics in the last few years due to the transformation in lifestyles, higher income, change in expenditure in favour of personal spending and one of the main reason being exposure to global media (The UB Group, 2005) and economic development of India. Despite the facts mentioned above India still has one of the world's lowest per-capita rates of alcohol consumption as compared to the world average for a given year (Menon, 2008). Considering the change of perception of alcohol and the above mentioned statistics emphasize the scope and potential the Indian spirits market has to offer.

With dominant domestic companies and emerging international giants, the scope for relatively smaller international spirits company, like InterContinental Brands (ICB) needs to be researched. This forms the primary rationale for this research document. It aims to recommend the most effective entry strategy to assist ICB to get the right footing in the Indian market.

This Indian market is highly regulated by the Government of India and State Governments. This coupled with the fact that existing players who already have established marketing strategy, distribution networks, large cash reserves and most importantly brand equity, in an industry where people drink/buy brands and not the product (Banerjee, 2006), it would make it tough for new entrants. This research will also keep in mind the risk, resource commitment and return needed (Black, 2009) for InterContinental Brands. This research would explore and evaluate various processes for InterContinental Brands which will assist and facilitate the deploying of an appropriate strategy and action plan for their prospective entry into the Indian market.

1.8.2 Research Questions

To successfully satisfy the rationale of the research the following questions will help in this research analysis.

1. What is the appropriate entry strategy for InterContinental Brands' new overseas venture, in consideration of risk, resource commitment and return – an exploration and evaluation?
2. What is the appropriate product offering and its positioning which will complement InterContinental Brands' entry strategy for their overseas venture?

To achieve these objectives and answer the above research questions, a population sample was carefully chosen of managers in existing companies in Mumbai, India were interviewed. Also around 23 shops were interviewed to assess the Indian spirits industry.

1.9 Structure of the dissertation

This research has been divided into five chapters. The first chapter, Introduction, as read above, provides an overview of the complete dissertation with the Indian economy, the Indian spirits industry and InterContinental Brands the UK based company wanting to head overseas. The second chapter, Literature Review, discusses the existing literature in consideration of InterContinental Brands expanding into an overseas market and the different processes of internationalising that can be applicable for InterContinental Brands to choose an appropriate entry strategy. Chapter three, Research Methodology, provides a design and an approach followed by the author for the research required for this dissertation. It also presents a detailed explanation about the data collection methods. The fourth chapter, Analysis, has an in-depth discussion with the literature and the research findings from the Indian spirits industry with regards to InterContinental Brands heading to India. The final chapter, Conclusion, concludes this research, provides recommendations and limitations of this research.

Chapter 2 Literature Review

2.1 Introduction

The awareness and shift towards globalisation has resulted in key emerging and developed economies undertaking steps and implementing policies which have lead to the dismantling of trade barriers, financial deregulation, reduction of duties, free trade agreements, etc. These policies have been further supported by advances in technology, logistics, communication, etc. which have incentivised and resulted in organisations looking to internationalise their operations. While multinational corporations (MNCs) ranging from the likes of Unilever to General Motors to Coca Cola have ventured overseas for decades, it has only been in recent years that small and medium sized enterprises (SMEs) have started to make a beeline for emerging economies as a direct outcome of the above mentioned reasons. This literature review will analyse and review theories specifically in context to an SME in the spirits industry – InterContinental Brands' efforts and plans to internationalise their operations.

2.2 Small and Medium sized Enterprise

The European Commission states that 'The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro' (European Commission, 2005)'. From the above it can be observed that the criteria of the SME are based on number of employees and turnover.

- Micro enterprise 0-9 employees and a turnover of less than 2 million euros
- Small enterprise 10-49 employees and a turnover of less than 10 million euros
- Medium enterprise 50-250 employees and a turnover of less than 50 million euros

Source: McAuley (2001), European Commission (2005)

On the other hand the Government of Indian defines SMEs on the basis of the investment for that enterprise. This definition of a manufacturing SME differs to a service SME.

For a manufacturing enterprise:

- Micro enterprise investment would be up to Rs 25 lakhs (Rs 2.5 million)
- Small enterprise investment would be above 25 lakhs up to Rs 5 crores (Rs 50 million)
- Medium enterprise investment would be above 5 crores to 10 crores (Rs 100 million)

Source: Micro, Small and Medium Enterprise Development Act, (2006) whereas;

For a service enterprise:

- Micro enterprise investment would be up to Rs 10 lakhs (1 million)
- Small enterprise investment would be above 10 lakhs up to Rs 2 crores (Rs 20 million)
- Medium enterprise investment would be above 2 crores to 5 crores (Rs 50 million)

Source: Micro, Small and Medium Enterprise Development Act, (2006)

As seen from the above definitions, there is no single standardised definition for SMEs (McAuley, 2001). Although they are dependent on the same factors like number of employees, volume of sales, capital employed, type of industry, etc., the definition varies from country to country (McAuley, 2001). Globally, SMEs form the core of economic growth where they constitute around 95-99% of the total number of companies and create 60-70% of total jobs (OECD, 2000; European Commission, 2005).

There is often a misconception about SMEs where they are presumed to be smaller versions of larger firms; however SMEs are fundamentally different from the large firms (Ruzzier, Hisrich and Antoncic, 2006). These differences are not just in terms of scale of operations, resources at their disposal and assets but also in terms of ownership patterns, organisational structures, management structures, processes, etc. (Carrier, 1994; Lu and Beamish, 2001). Thus the process of internationalisation for an SME is also different from one for a large MNC. Extracting from this Lu and Beamish (2001) state that successful internationalisation of an SME will be dependent on the understanding of the above mentioned resources and structures and their effective utilisation when working on the entry strategies for new markets.

2.3 Internationalisation

Buckley and Ghauri (1999) broadly define internationalisation as ‘the process of increasing involvement in international operations’ (Buckley and Ghauri, 1999). Hence it can be said that internationalisation is articulated as an increase in the activity of a firm in the international markets

(Susman, 2007; Ruzzier, Hisrich and Antoncic, 2006; Johanson and Weidersheim, 1975). Internationalisation has been given a distinction on the basis of 'inward' and 'outward' processes (Buckley and Ghauri, 1999). There has been little written about inward processes in academia but outward has been widely mentioned in literature. The inward process is with a view of the importer, licensees and franchisees and the outward process is in view of the exporter, licensor and franchisor (Susman, 2007), thus it can be said that the inward and outward processes are two sides of the same coin. Ruzzier, Hisrich and Antoncic, (2006) further add to the inward and outward process by mentioning a third aspect in such a process being 'co-operation'. However there has not been a clear explanation for the term 'cooperation' by Ruzzier, Hisrich and Antoncic (2006) but this can be deduced to be focused on models like joint ventures, creation of SPVs (Special Purpose Vehicles) or drafting of MoUs (Memorandum of Understanding), etc. It can thus be said that the model of cooperation is what binds the inward and outward processes together.

Internationalisation has traditionally been the playground for large MNCs. However the incentives on offer have given a boost to SMEs to internationalise their operations (Friedman, 2005). As noted by Reason and Sear (2007) the literature focus on SME internationalisation has been concentrated primarily around exports. However since the early 1990s, it has been observed that a growing number of SMEs are pursuing business opportunities in overseas markets using a wide range of cooperation models. SMEs are now looking to grow beyond the local and regional markets (Jones, 2006). Due to improvements in technology (Castells, 2000), infrastructure, globalisation and deregulation (Dicken, 2003; Axinn and Mattheyssens, 2001), firms are internationalising faster than before, in greater numbers than before, with some looking at international markets from inception (Lu & Beamish, 2001; Jones, 2006; Reason & Sear, 2007; Ruzzier, Hisrich and Antoncic, 2006; Axinn and Mattheyssens, 2001). The internationalisation strategy for SMEs, is very much an act based on entrepreneurial management driven by the search of opportunities for growth and wealth which is achieved by expanding into new markets (Lu and Beamish, 2001; Lumpkin and Dess, 1996; Ruzzier, Hisrich and Antoncic, 2006)

The motives and incentives for internationalisation are wide ranging, from the creation of international agreements to access to emerging high growth markets to saturated local markets. The creation of market agreements like NAFTA (North American Free Trade Agreement) and Mercosur (a similar agreement for South and Central American nations) and continued tariff reduction negotiated via GATT (General Agreements on Tariffs and Trade) and the WTO (World Trade Organisation) are some examples that have incentivised the internationalisation process for companies (Axinn and Mattheyssens, 2001). The wide spread economic restructuring and liberalising and the geographic expansion of markets into Asia and other emerging economies is also responsible for the growth in internationalisation (Ruzzier, Hisrich and Antoncic, 2006; Friedman, 2005). Emerging markets like the BRIC nations - Brazil, Russia, India and China (Goldman Sachs, 2001) are accelerators for the process of internationalisation, resulting in opening up of further growth opportunities. The motivation for SMEs can be linked to their own 'firm specific skills' (expertise in management, specialised products and so on), 'push factors' (domestic saturation) and 'pull factors' (foreign opportunities) as stated by Organisation for Economic Co-operation and Development (OECD, 1997).

2.3.1 SMEs finding success overseas:

With SMEs entering into a new international market they would be facing local and international competition. With international markets come different market conditions and companies leveraging diverse resources in different markets are in a position to capitalise on market irregularities and achieve growth in value and volumes (Lu & Beamish, 2001). All irregularities should be explored for a niche, and if an opportunity exists it should be further explored. Market irregularities often form favourable opportunities for SMEs, as large firms are known to adopt lower risk strategies when it comes to growth, and may find some niches too small to bother with (OECD, 1997). SMEs should seek such opportunities and pursue them as the resources required to exploit and enter niches are much smaller than those for a mass market entry and thus the SMEs are not competing with the MNCs head on. OECD (1997) mentions that 15% of the internationalised SMEs are working in niche markets. With internationalisation of SMEs around the world from different cultures and business environments can sometimes see opportunities that local SMEs cannot. These SMEs also possess the skills and capabilities lacking in local SMEs (OECD*,* 1997) to take these opportunities and make them a success, thus giving SMEs a fighting chance in overseas markets.

2.3.2 Selecting a country for internationalising

A company heading to an overseas market should evaluate the country thoroughly before proceeding with the new venture. The company should also go through a stringent screening process to evaluate if its products are marketable in the new market. This should be accompanied by a detailed study of the entry strategies, setting up of distribution and service network, understanding the customer correctly, etc., all of which are vital (Young, et al 1989). This would be done to assess if the overseas market can be serviced profitably. Douglas and Craig (1983) state that in identifying the new market for internationalisation mention, an indication as to whether the market is sufficient for the company's needs can be sought through 'Business and market indicators'. Business and market indicators are factors like the demographics of the population, geographic and economic characteristics of the market, socio-cultural aspects, etc that define the market. This could help the firm in assessing if their product targeting a specific age group has the potential or otherwise. The other indicators would be the degree of urbanisation, density of the population, cultural habits and spending power.

With respect to the geographic and economic indicators, physical size of the country, topography, climatic conditions and GNP (Gross National Product), income distribution, rate of growth of GNP and rate of investment in GNP respectively (Young, et al 1989; Douglas and Craig,1983). These would be useful in understanding if the product comes to the market would there be a demand and if the economic conditions of the new market have the affordability to purchase the product.

Young et al. (1989) and Douglas and Craig (1983) also add that technological factors, socio-cultural values and national goals and plans also play a vital role in identification of the market. To elaborate the technological skills such as existing production skills, consumption skills and education in terms of technological skills are fundamental before entering an emerging/new market. The dominant values, lifestyle and cultural group values are vital in deciding the entry strategy. One of the most important indicators for the firms before internationalising is to look at the national goals and plans. This is critical, for example if the local government in question is not satisfied or has reservations against the growth of that industry, it is likely to enforce stringent checkpoints and barriers for the operations of firms in that industry. These could be way of adding duties, banning the entry of international firms or even nationalising the existing firms. Understanding the national goals of the country will help the company know if its agenda matches the objectives of the market of the selected country and if the government's policies are favourable (Young, et al, 1989; Douglas and Craig, 1983).

Even with the stringent screening processes Ruzzier, Hisrich and Antoncic (2006) mention that there is always ambiguity and uncertainty with internationalisation. To reduce this uncertainty and to mitigate the risks associated, the resource constrained SME should choose a country with close psychological patterns and geographic distance to the SME's country of origin. This concept strategy is also known as 'Psychic distance' (Johanson, J, and Weidersheim, P F., 1975; Young, Hamill, Wheeler and Davies, 1989; Johanson and Vahlne, 1990; Axinn and Mattheyssens, 2001; Forsgren, 2002). This concept reduces the vulnerability of the company and helps in the initial process of internationalisation for the SME which in most cases would be exporting of goods and services (Ruzzier, Hisrich and Antoncic, 2006). However, Axinn and Mattheyssens, (2001) mention that the world is increasingly becoming a homogenous place and it is tough to differentiate one market from another. This can be validated by the success of Marlboro products where young adults around the world aspired to similar lifestyles. That is where Marlboro achieved growth in sales through internationalisation (Hafez and Ling, 2005). With the world markets expanding without looking at geographic and cultural boundaries, the psychic distance theory does not stand as a valid argument in today's time (Axinn and Mattheyssens, 2001).

While geographical boundaries wither away due to advances in logistics, communications, trade agreements, etc., cultural boundaries still exist in some sections of the markets. Entering into new markets is certainly a process of internationalisation and globalisation for the SME, but it is also a process of localisation in that specific market to cater to the tastes and cultures of the local population (Hafez and Ling, 2005) – a process now popularly known as "Glocalisation". Even with the world today becoming homogenous it can be seen that people around the world have the same needs but still have local tastes that the needs have to be tuned to (Hafez and Ling, 2005). Richard Tiplady has given the following definition of glocalisation: "The way in which ideas and structures that circulate globally are adapted and changed by local realities" (Tiplady, 2004; Towers, 2004; Tiplady, 2003). This is a phenomenon which has been widely used by food companies around the world. For example McDonalds, the need for fast food is universal but one finds numerous examples of this need adapted to local tastes, such as the McBurrito in Mexico, McLlahua sauce in Bolivia (a local chilli sauce found on every meal table) and the Maharaja Mac in India where a lamb version of the Big Mac for a country where beef or pork consumption is taboo due to the religious customs.

2.3.3 Characteristics required for international market entry and development

Prior to establishing operations overseas the SME's management has to establish a concrete characteristic of the various forms of market servicing and the mode of involvement overseas. There are various alternatives on the basis of various categories; to name a few – production in home market or production overseas; with respect to investment- direct investment or investment in developing export-import relations. Each decision has a trade-off attached to it. This trade-off is between control, risk and profit which would shape the entry strategy.

The issue of control is critical with impact upon the success of a firm in foreign markets (Young, et al 1989; Anderson and Gatignon, 1986). Control enables the firm to revise its strategies, co-ordinate its actions and resolve the dispute that inevitably rises in partners operating at a distance and pursuing their own interests (Anderson and Gatignon, 1986). With the rise in control, rises the chance of an increase in profits but the downside is an increase in the volume of risk, higher commitment levels with respect to higher overheads and other such resources (Anderson and Gatignon, 1986; Vernon, 1983; Young, et al 1989).

The issue of risk is associated with the allocation of resources and is also linked to the level of control. Considerable amounts of financial resources and management commitments will certainly increase the amounts of control and income but along with this will increase the amounts of financial and political risk (Anderson and Gatignon, 1986; Vernon, 1983; Young, et al 1989). However, the levels of resource commitment is going to be higher with direct investment operations like Greenfield projects, turnkey operations, and some kind of contractual joint ventures such as co-production deals. Ventures which involve only management commitments are not very risky as there are no physical assets drawn in, but with joint ventures involving fixed assets likes factories, warehouses, inventories and equipments, wholly and partly owned by the foreign enterprise, the risk and flexibility is reduced (Young, et al 1989). Some threats which depend on the sectors and countries of operation are political risks. Politically unstable countries often end up revoking contracts/ agreement. In sectors like natural resources there have been cases of the governments nationalising the assets of a firm to save their assets from "exploitation" (Skinner, 2009).

The entry into new markets is to essentially add to profits. The profit motivation can be to extract a certain amount of ROI and increase and improve the recovery of liquidity with the cash flow. With SMEs looking at exports; it is mostly done so that companies can look at economies of scale in production and purchasing of raw material hence resulting in savings which add to the profit. In market oriented motivation the main reason is to penetrate the market aimed at achieving a large market share (Young, et al 1989). With respect to competition oriented motivation, it could be seen as a response to import competition in domestic market, market entry or expansion to defend or improve market share. Finally the drive could be to attain strategic control which is to gain know-how, develop new product lines, reduce redundancy, control over exclusivity and also leverage key resources and investments such as research and development (Young. et al, 1989). An understanding of the returns based on the above trade-offs help in developing the entry strategy.

2.4 Process of selection of an entry strategy approach

A choice of entry strategy is known as a ‘frontier issue’ in international marketing and choosing the right strategy is one of the most complex decisions (Anderson and Gatignon, 1986). Every firm has the motivation and certain objectives in entering and developing a foreign market (Young. et al, 1989). The different processes and theories for decision making with the company entering a new market would be the Economic model, Stage of Development Model, the Uppsala Internationalisation Model and the Business Strategy Model.

2.4.1 Economic approach

The economic model to business decision making is based on logical behaviour with the cost and benefits of strategic alternatives being compared to identify the entry mode and option which can maximise the long term profits. Anderson and Gatignon developed the economic approach with an aim to assist the managers to choose the mode which maximises long run efficiency, measured in terms of risk-adjusted rate of return on investments (Anderson and Gatignon, 1986). According to Anderson and Gatignon (1986), control is the most important element for both risk and return. High control mode of entry (i.e. wholly owned subsidiaries, dominant joint ventures) increase return, but also risk. Low control modes (i.e. licensing and other contractual agreements) reduce the risk but also the return (Anderson and Gatignon, 1986). Thus the authors state that foreign entry mode often needs a rational trade-off whereby firms trade various levels of control while increasing return. The basic framework for analysing the efficiency (risk adjusted return) of different entry modes is shown in Appendix 3. The efficiency of an entry mode depends on four constructs that determine the optimal degree of control, following a transaction cost analysis. These constructs as specified by Anderson and Gatignon (1986) are transactional specific assets, external uncertainty, internal uncertainty and free-riding potential which is the agent’s ability to receive benefits without bearing the associated costs (Anderson and Gatignon, 1986; Young, et al, 1989).

This shows the degree of control is positively related to each of the four constructs. In other words each of the high control modes should be chosen when the firm possesses transaction specific assets; when external uncertainty is high; when it is difficult to control the agents’ performance and when there is a considerable opportunity for a free riding agent. This leads Anderson and Gatignon (1986) to develop nine propositions regarding the choice of foreign entry mode (Anderson and Gatignon, 1986; Young, et al, 1989). Appendix 4 has the 9 propositions for the choice on foreign market entry mode using the Economic approach. However this theory had its drawback stated with it being a very rational (Root, 1994) approach but lagging in the pragmatism.

Root (1994) also mentioned a wide range of factors influencing the market servicing mode to be adopted. These factors can be observed in Appendix: 5. This model was chosen to choose the 'right' entry mode. This model approach is based on a very 'rational- analytical' approach model and loses out on the pragmatic issues involved in the environment faced by the firms in the new overseas venture.

2.4.2 Stages-of-Development Model

The stages-of-development approach is based on the incremental mode of internationalisation (Young, et al, 1989; McDougalll, Shane and Oviatt, 1994). According to this model, internationalisation is a steady process and an evolutionary process with firms gradually developing a greater commitment to foreign markets over time with increasing international experiences. Stages-of-development approach to foreign market entry and development decision has been developed by Brooke (1986). Brooke points out that the international expansion takes place incrementally with a shift to other entry modes only when the previous one proves inadequate (See Appendix 6). Inadequate refers to being unprofitable, inefficient or inadequate for a firm with respect to its previous success. This can be viewed to be such that the when exporting and the number of products being exported is high, setting up of a subsidiary will help increase success in that market (Young, et al 1989; Brooke, 1986; McDougalll, Shane and Oviatt, 1994).

The original model for stages-of-development, developed by Johanson and Weidersheim (1975) follows the same gradual deepening of their involvement as they gain experience, learning about the new markets their perception of risk change and so on (Johanson and Weidersheim, 1975; McDougalll, Shane and Oviatt, 1994). This model has its roots from the reasoning of Carlson in the year 1966 which originated from the simple fact that when firms go abroad, they suffer due to lack of knowledge – which laid foundation to the reasoning 'The Uppsala Internationalisation'. This process has been divided into 4 stages – the experimental involvement stage, the active involvement stage, the committed involvement stage and the global involvement stage (Johanson and Weidersheim, 1975; Young, et al, 1989). The strategy here is to start an international venture with countries that are culturally and geographically close to the home country.

2.4.3. The Uppsala Internationalisation Process Model

The Uppsala Internationalisation Process Model also has its origin based on the simple fact stated by Sune Carlson that most firms suffer abroad due to lack of knowledge (Carlson, 1966). Carlson formulated the hypothesis that firms tends to handle this risky problem by trial and error and by a gradual acquisition of information of foreign markets (Forsgren, 2002). Carlson (1966) acknowledged that the risks in a foreign market, combined with the intentions to keep control of the operations are a part of the firms internationalisation process (Forsgren, 2002). This was laid as the foundation of the Uppsala Internationalisation Process Model (Forsgren, 2002; Johanson & Vahlne, 1977, 1990; Johanson & Wiedersheim-Paul, 1975). The Uppsala Model deals with first gaining experience from the domestic market before they move to foreign markets. This first venture in the overseas market should start with operations from culturally and/or geographically close countries and then move gradually to culturally and geographically more distant countries. As mentioned above, firms, according to this model should start their foreign operations by using traditional exports and gradually move to using more intensive and demanding operation modes both at the company and target country level. The core of this model is that firms learn about internationalisation/new overseas market from the acquisition of knowledge that is learning from experimental behaviour in the new overseas market (Johanson & Vahlne, 1977, 1990). This model is based on the market knowledge which is acquired by the firms' own activities in the overseas market (Forsgren, 2002). This experience is used to gain higher confidence in the minds of the decision maker and therefore reduce the cost of entry and errors in the new market. This experience will help understand the new market and reduce the perceived risk. Once the perceived risk is understood, the company can go ahead with the further steps and increase investment and control. The Uppsala model has a rational approach to it and is severely criticised by various theorists.

The first and foremost theory the 'core' of the model is criticised to be far too narrow in its view for 'learning'. Forsgren (2002) and Johanson and Vahle (1977) validate the draw back by saying that the experience on a whole cannot be transmitted. The drawback of this model is that it is too dependent on people and stability of people over time (Forsgren, 2002). To add to this, Levitt & March (1988) and Eriksson, et al (1997) point out that, through their business relationships, organisations can gain the access to knowledge of other firms, without having to go through exactly the same experience as these firms. Levitt and March (1988) and Huber (1991) also mention imitative learning. The other ways to acquire knowledge about a market can also be through 'grafting' (Huber, 1991). Grafting would be the acquisition of another organisation or hiring people with the required knowledge. Lastly Huber (1991) maintains that organisations can learn by conducting a focused search for new information rather than through experience from their own activities. The above mentioned methods to get hold of knowledge on new overseas markets have been widely used in recent times.

A few arguments which are brought to light by Forsgren (2002) and others can be that, however the firm acquires the knowledge, be it through 'shortcuts' through 'grafting' or imitative learning, are considered to be less efficient than 'first hand knowledge'. The important point is that the firm would be moving to the foreign market faster and more rapidly than if they followed the route offered by the Uppsala Model. Another argument brought to light by Forsgren (2002) is that when the firm has low market knowledge as a result of the Uppsala model and if they are still investing, they would be undertaking a high risk. However the risk of not acting/investing in this market would be much greater than the risk of acting (Forsgren, 2002) and forfeiting the opportunity in the overseas market.

The theories as mentioned, like traditional theories have many drawbacks and do not accommodate the new realities. One key draw back is that theories are static in nature. They are very slow in the process and cannot accommodate the new speed required in today's business world (Axinn and Matthyssens, 2002). As Forsgren (2002) mentioned that if not acted upon at the right time this could end up making the firm lose the opportunity. The other drawback for the theory is that the concept of psychic distance is being wrongly implied. With markets expanding without any regard to geography or culture and with the increasingly culturally homogenous world this law fails to work (Axinn and Matthyssens, 2002). Another important view point is that these theories recommend a rigid framework for entry strategies from exports to joint ventures to foreign direct investment; from less risky to more risky entry strategies; but are unable to provide an explanation to strategic alliances. None of the theories highlight co-operative entry strategies and vertical co-operation. One of the main criticisms of the Uppsala model is that it undervalues the role of the manager or the entrepreneur who takes critical decisions, wherein sometimes the decisions are taken by instinct rather than on the basis of a model (Andersen, 1997).

2.4.4 The Business strategy Approach:

The business strategy approach unlike the Uppsala Internationalisation Model is pragmatic in nature in the decision making process for the SME. It takes into account that when an SME is operating in an international environment, it involves a lot of uncertainty and ambiguity. This approach takes a very practical view to the decision making and helps the firm looking at both the internal and the external factors of the firm before taking a decision. The external factors which this approach takes into account are the target country market, target country environment, target country production factors and home country issue (Root, 1994; Young, et al, 1989). This can be seen in a diagrammatic form (Root, 1994) in Appendix 7.

This strategy approach also looks at the internal factors of the firm with a view to selecting an entry mode. The internal factors such as resource commitment factors and product factors are taken into account. The company product factors include the extent of the product differentiation, the servicing content, technological intensity, and the ability to standardise the product globally. The company resources/commitment factors include management, capital and technology resources; production and marketing skills; and the company's overall commitment to international business (Root, 1994; Young, et al, 1989).

However, the Business Strategy approach can be deduced as incomplete with respect to other above mentioned approaches which suggest a specific entry mode. This incompleteness helps to cover the faults of the previous strategies mentioned. This strategy takes into account a complete business environment and the internal factors of the company. It takes into account the motivation, risk assessment and resource commitment issue for the company and allows the founder or the management of the firm to assess the attractiveness of the market and take a decision accordingly. Looking into the drawback of the previous approaches this strategy approach does not suggest a 'correct' entry mode and hence offers a flexible approach to the new venture. Finally this approach does not specify a specific mode but allows the management to choose according to the current situation in the overseas market. Hence it can be said that a combination of two modes can be selected if the management finds it appropriate for an attractive entry model. This combination of entry modes is something which has been extensively used in recent times (Axinn and Matthyssens, 2002).

A ideal example for the business strategy approach is if the sales are low the most appropriate way for companies to head to the market would be through exports or even licensing, this would be a rational and a logical approach but in the business strategy approach it would look at the feasibility and may look at other entry modes such as contract manufacturing and selling it. This could be as observed in a country like India; the import duty of spirits is as high as 210% so a feasible approach to this problem would be to get the spirit contract manufactured and sold in India to avoid the massive import duty.

2.5 Entry Mode options:

With respect to the entry strategies for a firm; internationalising firms can opt for forms of one of the following three separate options namely independent, cooperative and integrated.

2.5.1 Independent entry option:

In the independent entry mode option, the internationalising firm relies on media that it does not own or control, it does not own any manufacturing, sales and services (Brouthers, et al 1996). In the independent entry mode, the firm has no equity stake in the international venture. It completely relies on the licensee/ agent in the other country through modes like licensing, franchising, agency/distribution, and contracting (Brouthers, et al 1996). This is the mode that most international firms start with due to the limited costs involved (Dalli, 1995; Lu and Beamish, 2001). The costs associated with this medium are products, training and possibly a marketing subsidy. The only draw back with this entry option is that the internationalising firm lacks control over the international venture (Young et al. 1989).

In the independent entry mode, exporting has always been regarded as the first step to the international markets (Kogut and Chang, 1996). Exporting is often seen as a route requiring little capital investment but resulting in the gain of valuable international experience (Lu and Beamish, 2001). It also helps with a deeper insight into the new market prior to entering the market place by allocating more resources. The benefits of exporting is achievable scale (Kogut, 1985), possible growth in revenues by geographic extensions, presence in international markets and gains from multiple markets rather than only the home market (Lu and Beamish, 2001; Young, et al 1989; Hibbert, 1989).

2.5.2 Co-operative entry option:

The cooperative entry options for internationalising are joint ventures and strategic alliances. In this method, the internationalising firm and one or more independent firms come together to provide manufacturing, sales and service operations in the new international target market (Brouthers, et al

1996). This mode of entry has an advantage over independent mode of entry by allowing the internationalising firm, some control over the international venture. This entry options as suggested by Dunning's in his theory has suggested that the cooperative entry modes may provide increased ownership and local advantages to the firm (Young, et al, 1989). The research by Brouthers et al (1996) also suggests that the internalisation costs may be lower than independent and integrated modes. These cooperative models help share costs; gain local knowledge, share risk and income from the international venture (Brouthers, et al 1996; Young et al, 1989). The disadvantage from this mode of entry is that these internationalising firms have lesser control and profit.

With SMEs having shortcomings in their resources for international expansion, a way for SMEs to overcome these shortcomings are by setting up alliances and joint ventures with firms. Authors like Beamish (1999), Jarillo (1989) also agree saying that alliances and joint ventures can be used for the same. Alliance partners can be a good source of knowledge to the SME (Beamish, 2001) which would be vital for working of a firm in a new geographic region. However the problem with alliances is that when two companies come together there can be difficulties in cooperation and coordination of the firms (Beamish and Lu, 2001) due to the differences in working culture and management, mistrust and lack of understanding and goal conflicts. These conflicts can have devastating effects on the alliance which could lead to instability and can even go as far as a failure of the entry mode strategy. Thus making it very important for companies who select alliances as a mode of entry have a full proof system of selecting a partner for the alliance (Hibbert, 1989).

2.5.3. Integrative entry option:

The third entry option for the firm internationalising is the integrated approach. In this mode the internationalising firm establishes its own "manufacturing", sales and service organisation in the new international market (Brouthers, Brouthers, and Werner, 1996). Integrated methods can be achieved in two methods being acquisition of an existing entity or a Greenfield field start-up, as a wholly owned subsidiary.

The advantages in an integrative mode are that the firms can have total control of the international venture/ entity and have full ownership of all the income generated from the venture. The drawback is that it would incur a huge cost requirement or resource commitment (Young, et al, 1989; Brouthers, et al, 1996) which is normally beyond the reach of an SME. Additionally the managerial aspect is that the internationalising firm may not be able to handle the extra workload of the

Greenfield operation (Brouthers, et al 1996). The time and resources required for this may be prohibitive at times. If the internationalising firm is already under pressure to move into international markets, the time to set up a green field operation could lead to the firm losing its time advantage. Acquisition of operating firms will take time too, as the firm needs to be identified, evaluated, approached and negotiated with (Brouthers, et al, 1996) and once acquired the process of integration can take a substantial amount of time.

Each of the three entry options; be it independent, co-operative or integrative, all have their pros and cons. As Axinn and Matthyssens (2002) stated that the most appropriate routes that firms have been following in recent times are a combination of entry strategies. It can this be deduced to say that an entry strategy can employ a combination of strategies such as having a wholly owned subsidiary to maintain control as well as alliances like contract manufacturing to reduce costs and risks associated with manufacturing. This is a strategy which has been followed by Diageo in India. They have their own subsidiary and have a few joint ventures with firms like Radico Khaitan, to be successful in India (Wiggins, 2009).

An analysis of the above theories juxtaposed with ambitions and agenda of InterContinental Brands is to follow in chapter 4 – Analysis. The next chapter discusses the methods used to conduct research for this dissertation.

Chapter 3 Methodology

3.1 Introduction:

The following is a description and a reasoning of the research methods deployed to collect information and conduct research for exploring and evaluating entry strategies for InterContinental Brands to enter the Indian markets. This involved researching on the SMEs, the alcohol industry, the alcohol industry in India, InterContinental Brands and the Indian market place.

3.2 Purpose of research:

The purpose of this research is:

1. To assess and evaluate the different routes to internationalisation for SMEs
2. To juxtapose those routes with the ICB agenda as stated by Marcus Black (2009)
3. To evaluate India as a prospective market for ICB
4. To juxtapose the ICB product list with the opportunities in the Indian market
5. To eventually recommend action points for an entry mode for ICB in India

3.3 Research Design

Research methodology can be stated as a systematic approach for gathering, analysing and interpreting information to gain knowledge and understanding about a given subject (Brown, 2006). From Brown's (2006) statement it can be said that research methodology can be an action plan to analyse and investigate the given subject to gain answers to them. Under the research methodology the author has a structure to obtain data; this is known as a research design. Saunders et al (2000) defines research design as an operating structure under which data is collected and analysed to obtain a clear meaning. Kerlinger (1986) defines research design as a plan and a structure of investigation conceived so as to obtain answers to the research questions. This outlines the manner in which the author would arrange the information gathering task, keeping in mind research questions, objectives and the aim of the research.

The information gathering has been structured in such a way that the data can be validated. This has been a conscious decision by the author in setting to collect and double check the research on data correctness by the method known as triangulation (Miles and Huberman, 1994). The data collections have been arranged in such a way that it is double checked. This has been done with the interviews as well as with the observation by a process known as respondent triangulation. In the interviews, the same questions were put to all the interviewees and their answers were tallied against each other to result in the correctness of the data by researching it with various members operating at various levels in the industry which forms the basic of triangulation (Nisbet and Watt, 1984; Cohen and Manion, 1994). To validate and generate correctness in the observations, the data was verified with an off-the-record chat with the sales people as well as the market research reports from Euro Monitor (2009) where they check the industry trends in-depth.

3.4 Data collection method:

Van Maanen defines qualitative techniques as an *"array of interpretative techniques which seek to describe, decode, translate and otherwise come to terms with the meaning, not the frequency, of certain more or less naturally occurring phenomena in the social world*" *(Easterby-Smith, Thorpe and Lowe, 2002).*

Creswell (1994) defines, a qualitative study, *"as an inquiry process of understanding a social or human problem, based on building a complex, holistic picture, formed with words, reporting detailed views of informants, and conducted in a natural setting"*. In simpler words by the organisation, Qualitative Research International, it is all about exploring issues understanding the phenomena and answering questions to any given subject (QSR International, 2007). Consequently for this research analysis we would be using qualitative research as a method for exploring an entry strategy for InterContinental Brands in the Indian spirits market.

In research method there is no right or wrong method; since both quantitative and qualitative methods are the tools of the social scientist that uses them according to the research question, resource availability, research conditions and type of information needed for the research (Howe, 1998). The difference between both are, qualitative research is more exploratory and hypothesis generative in nature where quantitative is more focused and hypothesis testing and statistical nature (Silverman, 2005). The rationales for selection of qualitative methods for this research would be exploring all the modes of entry for ICB in the Indian spirits market.

With respect to this dissertation, qualitative research is a more fitting approach as it concerned with finding the answers to questions which are - why? how? in what way?, which is basically providing this analysis with an understanding of the intangibles that are generated and help in gaining knowledge and learning through them (Easterby-Smith, Thorpe and Jackson, 2008; QSR International, 2007). In qualitative methods the types of methods used for data collection are interviewing, focus groups, cognitive mapping, participant observation, diary methods, to name a few. As mentioned by Denscombe (1998), the researcher should choose the data collection method depending upon the research study rather than just using the superior method of data collection. Gathering from this research the author deployed the use of interviews, documentary research and observational research.

Qualitative research enables probing and investigating of contexts and development processes. It also probes complex interactions between contexts, grassroots aspirations and strategies (Dr. Mayoux, L., 199?). This probing and investigating has helped in gathering information for the analysis. Qualitative research has often been labelled with the drawback that it is unscientific (Denzin and Lincoln, 2005; Denzin and Lincoln, 2003). However since qualitative methods allow the discovery and exploration of new and lesser known areas, the usage of qualitative methods will be appropriate for this research subject (Miles and Huberman, 1994). As ICB is not out to test specific routes that they are considering but are interested in exploring and evaluating different routes to entry, this requires the research to be qualitative.

Here qualitative research is preferred to quantitative research methods because qualitative research requires physical presence in the field while collecting data, such observations help a researcher to understand the nature of work and will result in effective and efficient observations (Pratt and Rafaeli, 1997). This was required to understand the change in the approach towards the customer buying behaviour (Baker, 1991) of products – India being a whisky and rum market would they be ready for ICB white spirits portfolio?, change in the attitude towards alcohol in society – India traditionally being a society which was against alcohol consumption – has this changed? If yes why and how. These presumptions and historic data needed to be verified through observations for InterContinental Brands, which would primarily help them in deciding if the Indian market conditions were conducive to their prospective entry. Following which they would need to chalk out the strategy.

Considering the aim of my research is not to provide a statistical analysis but to provide InterContinental Brands an entry mode bearing in mind the risk-resource commitment and return. It is also to provide ICB with an insight of the industry, competition, consumer behaviour, attitude towards international brands, and change in attitude of the Indian society towards alcohol. All of which directly impacts the entry of UK based InterContinental Brands entering India.

3.4.1 Approach Towards Research

Qualitative research can be classified into three types namely being exploratory, descriptive and explanatory. Yin (2003) describes exploratory research as mainly used for hypothesis testing. The objective of exploratory research is to explore or search thoroughly a problem or situation to provide insights and understanding (Malhotra, 1994). Exploratory research can be termed as collecting as much information as possible for a given research question and can provide a view about the particular question in mind. This research thus is for research topics which are less investigated (Yin, 2003). This helps in exploring the new arenas of research. Descriptive research can be to represent and depict the profiles of events of situations (Saunders et al, 2000). Descriptive study is to determine the degree of association between two marketing variables, to make predictions. Explanatory research is the study of cause and effect relationship (Malhotra, 1994) uses existing theory and data to solve the problem and find more information on the research questions (Saunders et al, 2000). Explanatory research is about testing the assumption and explaining the problem (Yin, 2003).

The purpose of my research is to find an entry strategy for InterContinental Brands, the route to finding the answer to this would be through an exploratory approach. This approach is chosen as it has to deal with finding a niche market segment for the ICB product range for their prospective entry into the Indian Market. The analysis would have to deal with exploring and evaluating the most appropriate mode of entry for ICB for the Indian market. Prior to this there is also an exploration on the appropriateness of the Indian market for a brand like ICB. It deals with learning more about the industry and specifically the industry's repercussions in a market like India and to eventually formulate an efficient strategy keeping in mind the trade-off between the risk-return and resource commitment. The research also explores various hypotheses such as the change in the product buying behaviour, the change in the attitude of the Indian consumer, to name a few. Hence the approach for my research is to explore more about an industry and find out an appropriate entry mode for InterContinental Brands.

3.4.2 Primary Research

Interviewing has played a major role of data collections for this research analysis. The format of the interview was semi-structured. There was a loose framework of pre-determined questions but these were allowed flexibility as the interview progressed. This was done to keep the interviewees at ease as primarily the nature of this industry in India is very secretive and more importantly they are often scrutinised or pulled up my lawmakers and enforcers. During the interview the flow of the conversation was flexible and allowed exploration of new areas but under the proposed theme. This helped the subject to be explored further. Drever (1995) defines semi structured interview as *"… interviewer sets up a general structure by deciding in advance what ground is to be covered during the interview. The person being interviewed can answer at some length in his or her own words, and the interviewer responds using prompts, probes and follows up questions to get the interviewee to clarify or expand the answers*".

The purpose of interview was to collate information about the Indian spirits industry and the way it functions. The interviews that were taken in the Indian spirits industry ranged from the Assistant Vice President of the third largest spirits company in India to the salesman of an unorganised specialist's alcohol shop in Andheri, a suburb of the financial capital of India - Mumbai. While selecting the population sample for this research it was noted to include interviewees from key sections of the industry. Knowing that the Indian spirits industry has a low power distance (Hofstede, 1991) the interviewees were approached with that in consideration. They were approached to get a holistic industry perspective. The first company that was approached was the third largest spirits company in India and also the third largest in the world. This company was approached keeping in mind that they were the largest successful international company in India hailing from Europe. Although this company is not similar to ICB in scale but is certainly similar in culture and origins. This company targeting the premium segment of the industry has provided the research with valuable information with respect to an international company entering India. With respect to the second company, it is the 4th largest spirits company in India catering to the majority of the Indian population with their economy and regular brands. This national player caters to the aspiring demographic of the Indian population. The third company is a regional player in the industry which again caters to the economy and regular segment but a more regional population unlike the previous company targeting the population at a national level. They also have associations with international brands such as Lucas Bols for manufacturing their product for that particular region. A look at the company profiles makes it evident that all the three companies provide a whole industry perspective covering three different categories and three different consumer bases in the Indian spirits industry.

For interviews of the retailers, off-trade specialist's shops and organised shops were chosen. While selecting the population sample, 20 specialist shops spread across Mumbai from the heart of the city centre to the suburbs were covered. It was also attempted that the population sample covers a wide demographic of the Mumbai population so as to get a wider range for the study. The 3 organised retail outlets from Mumbai interviewed were from the city to the suburbs following the same principle as above.

Individual 1 - Assistant Vice President (West) – 3rd largest spirits company in India
Individual 2 - Regional Manager International Brands (West)- 3rd largest spirits company in India
Individual 3 - Management and marketing manager (Maharashtra)- 4th largest spirits company in India (x2 interviews)
Individual 4 - Vice President – Regional Spirits company in India (contract manufacturers for Lucas Bols).
20 mom & pop retail outlets around spread across Mumbai different customer demographics
3 organised spirits outlets in Spencer, Big Bazaar and Hyper City.

The names of the people who are interviewed are kept confidential as the information they have contributed with can be termed as sensitive with respect to their companies and the industry they work in. In this research as mentioned above 'participant's observations' have also been carried out to access the information. This observation was conducted among the young adults and the families during shopping for alcohol in organised and specialist's retail shops. This research was carried out on an 'everyday setting' in the natural environment (Stewart, 1998). This was done to access information as mentioned above, the customer profile, the change in the attitude of people towards spirits and their buying behaviour for spirits, to mention a few. This can also be termed as ethnography (Stewart, 1998). During these observations the author had to pose as a customer to carry out these observations so as to keep the environment as natural as possible so as to get an accurate reading from the observations.

During the interview session with the managers at the companies, the nature of the Indian industry being highly secretive as often scrutinised or pulled up my lawmakers and enforcers, it was observed that interviewees be more comfortable and spoke freely when they were not being recorded. Hence the interviews were not recorded so as to obtain information which would have not been possible otherwise (Dawson, 2009).

With respect to the interviews taken with the salesmen and shop keepers of the specialist shops, it was observed these shops were always in the fear of the police and other policing institutions running undercover investigations and it was hence very difficult to obtain much information regarding the business. However, as these shops have very warm relationships and almost personal relationships with their customers and have casual conversation during the alcohol buying process, the author used an approach to act as a customer to gather information. This was done to develop and cultivate the appropriate environment to gather the required information. This was the approach for the unorganised retail outlets and the organised retail outlets who were hesitant to take part in an interview.

3.4.3 Secondary Research

The secondary data which has been accessed for this research analysis are through journals, existing reports, government statistics, news articles and market research reports. Journals accessed were focused around the subject of internationalising, international marketing, internationalisation of SMEs, spirits industry, internationalisation process, to name a few. Books on the topics above were selected for this research. New articles were accessed from the archives of Indian and International newspapers such as The Economic Times (India) and The Hindu (India). Market research reports from Euro Monitor International have also been used for this research. Most of the secondary data has been used to verify the primary data – interviews and personal observations, and to come to conclusions and propose recommendations for InterContinental Brands. This verification is termed as triangulation method (Miles and Huberman, 1994). Miles and Huberman (1994) express triangulation method as a self conscious setting out to collect and double check the findings, using multiple sources. It was not just primary data being verified against secondary data but even primary data were checked against each other i.e. all the interviews had the same question base so as to get the accurate answer on each of the question, this is the basic principle of triangulation (Nisbet and Watts, 1984). Observations as mentioned above were verified against secondary reports such as new articles and market research reports for verification.

3.5 Ethical and legal considerations

The participating members; with respect to the interviews taken with the managers of the companies'; even though the interviewees were aware of the nature and objective of the research the author has refrained from citing their names and revealing their identity to protect them from scrutiny and internal and external legal action. With regard to the shop interviews, the names of the shops that have been revealed are the ones who were aware that they were being interviewed for an academic research, whereas the others who were not aware have not been mentioned. All ethical and legal considerations have been kept in mind and were strictly followed during this research during the gathering of information for this dissertation.

3.6 Summary

This chapter was aimed to give an overview of the research conducted by the author giving a detailed explanation of the data collection process – both primary and secondary data. This also gives an explanation of the structure followed for interviews and the process of deciding the interviewees with respect to the company profile in order to give a holistic view of the industry. This would be helpful for InterContinental Brands to have a snap shot of the market which they would like to enter.

Chapter 4 Analysis

4.1 Introduction

The analysis chapter of the dissertation aims to juxtapose the literature review, the observations, the interviews and the secondary research with each other in order to analyse, explore and evaluate various entry strategies for InterContinental Brands' prospective entry strategy into the Indian market.

4.2 InterContinental Brands and their rationale for internationalisation

Intercontinental Brands have been successful in the highly competitive, saturated and regulated UK alcohol market. They have recognised and committed themselves to servicing a niche segment in the UK spirits division (Black, 2009) targeting the white spirits market. With their new off-trade-strategy for cash-n-carry and off-licence shops in the UK market, ICB are in the process of doubling their current volumes (Black, 2009) and are also looking forward to internationalise their operations for higher growth rates and to make a footprint in the global alcohol market.

According to Organisation for Economic Co-operation Development (OECD), (1997) one or more of three factors – 'firm specific skills' (management and product), 'push factors' (domestic saturation) and 'pull factors' (foreign opportunities) are usually the drivers for internationalisation. With respect to InterContinental Brands it can be observed that a combination of the three factors have driven them to their decision to internationalise operations. As mentioned by Lu and Beamish (2001), Lumpkin and Dess (1996) and Ruzzier, Hisrich and Antoncic (2006) the entrepreneurial management in companies can also be attributed to the tendency in firms to look overseas for opportunities thus it can be said that the entrepreneurial management at ICB (InterContinental Brands, 2009) can also be credited for their drive to internationalise. As stated by Black (2009) the fact that the UK market is attaining saturation, has driven them to look to markets overseas. This coupled with the fact that opportunities in emerging economies like the BRIC (Brazil, Russia, India and China) nations are lucrative, have been responsible for driving ICB to these markets to internationalise. Hence a combination of the three factors can be attributed to ICB's drive to internationalise.

The motivations to internationalise vary from firm to firm. According to Young et al (1989) the motivations are profit, market, competition or strategic orientation. In the case of ICB it would have to be market oriented motivation. This can be inferred from Black's (2009) statement, when asked about entering new markets through exports *"…so this (exports) is an easy quick win. But this is never really going to grow our business significantly."* From this it can be deduced that ICB is looking to grow their business significantly and are looking for opportunities and options which will do so.

4.3 ICB and their entrepreneurial connection:

The interface between entrepreneurship and internationalisation of SME is defined by Ruzzier, Hisrich and Antoncic (2006) as 'a combination of innovation, risk seeking behaviour that crosses national borders and is intended to create value in the organisation'. It can thus be juxtaposed with ICB's agenda and the statements made by Black (2009), to deduce that as they are already exporting into countries with close psychic and geographic distances like the Republic of Ireland, they are keen to take on greater risks and expand into new geographies. If they proceed along the lines of the Uppsala and the stage-of-development model the next step for them is likely to be growth in the same or nearby markets through deeper commitment. However this is not the growth or results that ICB seeks (Black, 2009). The management at ICB are looking at greater growth potential and value creation and are willing to take on greater risks by entering high growth but comparatively higher risk markets such as India, China or South Africa. Based on the theories of Lu and Beamish, (2001); Lumpkin and Dess, (1996); Ruzzier, Hisrich and Antoncic (2006), it can be said that the ICB management has an entrepreneurial drive to growth and risk taking.

This entrepreneurial spirit has been vital for ICB in identifying the right opportunities and getting their product to the market at the earliest (InterContinental Brands, 2009). Their success in the UK markets can be attributed to identifying a niche in the white spirits market and catering to young adults. The staffs at ICB are very hands on and entrepreneurial in nature in the company (Black 'a', 2009; InterContinental Brands, 2009). This spirit would be critical for finding opportunities in the international market. This can be validated by actions of firms like Reliance, Hindustan Unilever who have been hiring entrepreneurs -"intrepreneurs" for their new initiatives and ventures to deliver success. This is done as entrepreneurs are known to balance the resources and risk differently to other management. As Lu and Beamish (2001) stated that the success of the internationalisation depends upon an effective use and understanding of the resource utilisation.

4.4 Internationalisation of InterContinental Brands

The process of international, which ICB has undertaken earlier, has been a cautious one (Black, 2009). ICB like most firms started their internationalisation process with exports to neighbouring countries with a similar psychic distance like the Republic of Ireland. This was developed as an extension from their existing relationship with the UK retailers. As these UK retailers expanded their business overseas into the neighbouring countries such as the Republic of Ireland, ICB moved with them. This move was a well thought of initiative from ICB which resulted in a *"quick win"* for ICB (Black, 2009). This could also be linked to the entrepreneurial spirit to make the most of the given situation (Lu and Beamish, 2001). This move increased sales and also led to ICB testing the international market. However, while this increased their sales *"…this is never really going to grow our business significantly"* (Black, 2009). ICB are now looking at India, China and in all probability South Africa to assist their growth further (Black, 2009). From this we can reason that the management wants to have a sizeable growth for the company and is looking beyond marginal sales increase through exports.

4.4.1 Consumers

Looking beyond exports InterContinental Brands, in the UK cater to brand and price conscious young adults. With the entry into new markets Black (2009) says "*… (ICB is) looking at servicing the same section of the society (in India or other emerging markets) which they are servicing in the UK currently"*. Based on the factors stated in the OECD (1997), ICB has the 'firm specific skills' in terms of management expertise and the right product to target young adults, as they have been doing in the UK. This strategy finds support from Hafez and Ling (2005) through the research conducted for Philip Morris where it is identified that young adults globally have similarities in lifestyles and needs, like being independent, hedonistic, enjoying freedom and leading a life of comfort. Hafez and Ling (2005) also stated that this target audience of young adults is best suited to provide a standardised profile as a target audience around the globe. This is validated by the worldwide success of the Philip Morris cigarette brand Marlboro. This plays along the theory of 'psychic distance' where young adults around the world have the similar needs and lifestyle leading to a homogenous place (Axinn and Mattheyssens, 2001). Marlboro as a brand has been associated with the American lifestyle, something that a large part of the developing world aspires to. On juxtaposing the ICB offering and this theory it can be said that it is essential that ICB retains its identity as a UK brand as the youth in India aspire to Western brands and ICB as a UK brand is likely to appeal to them as the youth in India would aspire to a UK lifestyle and as youth in today's global world would have aspirations similar to their counterparts in the UK.

4.4.2 Product Offering and Positioning

Contrary to the 'aspiration' theory with respect to the alcohol industry, Black (2009) argues that *"a lot of the Far East wants to have western brands that may not be the case………. It feels right; but some of the biggest brands in the world are not the western brands"*. Black argues that some of the largest selling brands in countries like India and China are still local brands. While this is true, this can be attributed to the fact that international brands coming into markets like India and China position themselves at the premium end of the market. As the consumer of premium segments is comparatively much smaller than the middle class consumers, foreign brands have not seen significant sales figures. For example: the Tata Nano the world's cheapest car (at $2,500), is certainly going to sell in greater numbers than a Mercedes E Class (at $50,000). As the consumers in the mid market segment form the largest chunk of the Indian population and the ones that aspire to the Western lifestyle, it can be said that ICB must target the mid-market or the middle class as a Western brand – thus fulfilling their aspirations and targeting the most populous section of the market.

Black (2009) wants to *"keep (ICB) away from the full strength spirits companies"*. This can be achieved by finding a niche to operate in, a niche similar to the one that ICB are operating in, in the UK market (which is a highly saturated and regulated market) or an all together different niche which is a feasible one (Black, 2009). As suggested by Lu and Beamish (2001) markets often have irregularities and within them can be found niches which have a high growth potential. These irregularities can be found to be in a "naturally created" state which can be used by companies to their benefit. While niches can have a high growth potential they are also too small for the large companies to bother themselves with, leaving them to be exploited by SMEs. Serving niche markets has always been a way of life for the smaller firms (Linneman and Stanton Jr, 1992).

As stated by OECD (1997), with internationalisation of SMEs around the world from different cultures and business environments can sometimes see opportunities that local SMEs cannot. These SMEs also possess the skills and capabilities lacking in local SMEs (OECD, 1997) to take these opportunities and make them a success, thus giving SMEs a fighting chance in overseas markets. While the Indian spirits market is cluttered with hard alcohol offerings like whiskies, rums, gins, etc. at one end and beer and more recently wine at another, on juxtaposing that with ICB's offerings it can be said that there is an unexploited niche which is created in the Ready to Drink (RTD) segment. An RTD is a drink with a low ABV (Alcohol by Volume) content which can be offered in different flavours. Currently there is only one major player, Bacardi, with their product Breezer which has captured 95% of the market share (Euro Monitor, 2009). The RTD available in India is only available with a rum base. However in other markets like Europe and the USA, RTDs are available with a base of vodka and sparkling water. Niche markets have unique needs which are unfulfilled and prospective customers are willing to pay to have their needs met (Bastain, Oakley-Simpson, McLeod, Menkhaus, Alsup, Ogden and Whipple, 1999). It can thus be said that the Indian markets are deprived of such vodka and sparkling water based drinks, making these offerings an interesting opportunity for the Indian markets. According to Kit Kat Wines (2009) prospective customers are certainly willing to pay for such products which Kit Kat Wines see will have a large demand, especially if they are catered to by an international brand. This could prove to be the best fit for ICB's offering where it is said that the Indian market has a craving for international spirit brands from Europe and the USA (Wiggins, 2009).

However, Euro Monitor (2009) states that there has been a drop in the consumer interest as compared to the period 2002-2005 this can be attributed to the lack of new launches in this segment and no considerable changes in this segment. As stated by Kit Kat Wines (2009) customers in this segment like to try new products or new offerings within the same product range, the lack of which has resulted in customers turning to new products launched in white spirits segment. This segment primarily offers rum based drinks and lacks vodka and sparkling water based offerings which are available in the international market. Seeing this as an opportunity many local and small distilleries have launched vodka based drinks which haven't really made any impact on this segment (picture 4.2.2-A shows the major brand and the local brand-vodka mix). While these smaller brands have seen average sales, according to Kit Kat Wines, there is certainly a niche which can be filled by an international brand. Bacardi recently launched the new Bacardi Breezer Clear Lemon. This offering seems to have seen an increase in the level of interest in young adults (Euro monitor, 2009). Another advantage for RTDs in India is that though it is looked at as a girl's drink, it also has a sizeable population of males consuming it - these are mainly young adults (Shop Interviews, 2009).

Figure 4.2.2-A: Bacardi Breezer and a local RTD Toss and Czzule

While ICB would be operating and competing with big national and international players in the Indian market it should not view them as direct competition. Most companies target the economy segment and the premium segment, however for InterContinental Brands the best suited segment is the semi-premium. The massive price difference between the domestic and the imported spirits (due to the high import duty) has lead to the creation of the semi-premium products (Euro monitor, 2009). This segment caters to the internationally exposed, brand conscious Indian population who are still price conscious in their purchasing patterns. ICB has an advantage in every aspect as being an international spirits company who have catered to the similar audience in their home market as well. This again could be beneficial to ICB where it is said that the Indians aspire to international spirit brands (Wiggins, 2009) but these brands often lose out when it comes to segmentation and end up in the premium price band.

To be certain that the RTD segment in India is the place for ICB, knowing the Indian spirits market is critical. The Indian market is predominantly viewed as a whisky and rum market (Balaji, 2006; Euro monitor, 2009). However the recent changes in the economic and cultural development in India have resulted in a change in drinking behaviour. It can be observed that the older generation still prefer drinking whisky and rum but the new generation which is exposed to a Western lifestyle, is seen following the global trend and enjoying their white spirits (Balaji, 2006; Euro monitor, 2009; Economic Times, 2007). The ready to drink (RTD) segment would be a great place for ICB to launch and get the company noticed. This segment lags behind the rest of the alcohol market in a year-on-year growth percentage. However the prospects are good, where in the market the next 5 years will witness an increase by half the current size (Euro Monitor, 2009). When quizzed about the RTD segment Kit Kat wines (2009) said that *"All start drinking with this (pointing towards Bacardi Breezer)…"* This in essence is the medium for introducing the youth to alcohol in India. With only one major player, Bacardi in this category and lacking the product range it is certainly a segment for ICB.

By successfully positioning itself in this segment, ICB's brand will certainly get a loyal following with the youth and provide ICB to have them as a life time value. This would also open up the opportunities to launch other products for a maturing customer base in the future. With respect to ICB's entry into India, the Assistant Vice President at Interview 1 (2009) said that this would be the right time for the company to enter the Indian market, as a result of the recession in the world, there has been a shake-out of companies in the spirits industry. This has lead to companies concentrating on a few 'millionaire brands' (industry jargon for brands which sell one million cases or more) in their portfolio, as it is termed as starting of a new economic cycle in the spirits industry.

With respect to the product life cycle (Appendix 8), the Indian market is still in the nascent stages for Ready to Drink (RTD) and would be growing in near future unlike the UK market, which would be nearing its maturing stage (Black, 2009). The advantage for the Indian market is its population demographic which has a majority of the Indian population in the Ready to Drink (RTD) category of 18-25yrs of age. The product life cycle for vodka in India is in the growing stages with numerous companies such as United Spirits and Pernod Ricard introducing the new variants. On the other hand vodka in the UK, Black (2009) says that this may be a fashion statement but says that ICB does not see the volumes changing dramatically over the next few years.

Hence selecting a successful product in the home market and taking it abroad in the hope it will sell there, is a "shot in the dark" (Furber, 1990). However with ICB this is not the case, as it can be validated by the changing culture, current market condition and economic prosperity that there is a market in India for their products in the RTD and white spirits. This segment is exactly the same as the one that ICB targets in UK – the brand, quality and price conscious segment. As mentioned by Furber (1990) this can be a 'phased internationalisation' approach. The conclusion from the research says that the product strategy which is critical in drafting the international entry strategy for ICB in India would be to start with the Ready to Drink (RTD) sub-segment and then progress to offer their products in white spirits segment in the semi-premium market range.

4.5 The entry strategy:

4.5.1 Introduction

Based on the discussions with Black (2009), while ICB is certainly keen to internationalise their operations, they also have a few reservations when it comes to implementation. With respect to the markets of India and China, their reservations for India are lesser than those for China.

4.5.2 Intellectual Property and Language Apprehensions

With the Chinese market they are worried about the intellectual property. They certainly are worried about their intellectual property in India but as the legal system in India recognises and enforces contracts and the law seems to be better enforced with respect to intellectual property, honouring of contract and agreements (Black, 2009), this seemed to reduce Black's apprehensions of the Indian market. Another apprehension for the international venture for ICB is the language in Asia (Black, 2009), where again with respect to India it has the second largest English speaking population in the world. In India most secondary and primary schools in metros, tier 1, 2 and 3 cities, English is the medium of education. Government applications and the language of business in India is also primarily English (TESOL, 2007). The target customers for ICB's offerings in India are fluent in English.

4.5.3 Deploying funds

The biggest worry for InterContinental Brands with their international venture is that they would invest huge amounts of money in the market on travel, promotions, agent's fees and listing fees and related expenses without getting any return. Black (2009) said in his interview that *"It would be very easy to spend an awful lot of money and not get any return"*. He mentioned that this was the only reason that they are not targeting the US market and looking out for other markets. From this statement by Black (2009) it can be deduced that balancing the risk and resource commitment would be a major issue for ICB. Keeping in mind the risk and resource commitment achieving significant growth and returns would be fundamental for ICB in their new venture.

As mentioned by Anderson and Gatignon (1986) the issue of control is critical which impacts the success of a firm in foreign markets. However Anderson and Gatignon (1986) add that with a rise in control, also raises the level of commitment, volumes of risk, overheads and other commitments. But to overcome the faults which result in the rise in control and the rise in resource commitment levels Young et al (1989) suggest that contractual arrangements and alliances would help resolve this issue. This could be in the form of contractual arrangements or co-operation process as stated by Ruzzier, Hisrich and Antoncic (2006) for management contract, contract manufacturing, and contract distribution, and so on. This could help gain control and reduce the risk and commitments as well. This could be a vital component in the strategy for InterContinental Brands.

InterContinental Brands can employ the use of various routes to enter the Indian market like licensing, exports, wholly owned subsidiaries and alliances.

4.5.4 Licensing:

Black stated with respect to licensing that *"…….route would be to licensing. For example we could look at spirits business in India rather than going head to head with them (a company entering this segment) we can suggest using our recipe for the products (in India) and we will effectively share profit"*. However from this it can be deduced that they would like less competition in the niche. With respect to licensing it has been observed that while the brand makes an entry through the licensee the parent company (in this case ICB) has little control over the entity and for all practical purposes will not be seen as having entered the Indian market (Individual 1, 2009; Individual 3, 2009). By this statement from both the interviews it can be deduced that by licensing, the firm often lacks control (Young, et al 1989; Brouthers, et al 1996) and only the brand name makes it to the market with the licensee. In the Indian spirits market, firms which have entered through licensing have been not been able to extract the desired outcome (Individual 1, 2009). This has been attributed to the conflicts between the licensor and the licensee on the levels of contribution by either. There have also been issues of non-payment of royalty (Individual 3, 2009). Many small Indian players are often licensees for international brands and have not been able derive the expected results due to the resource constraints at the Indian end faced by them. Thus it can be deduced owing to the various factors mentioned above that licensing is not best suited for an entry into the Indian spirits market.

According to Ford and Jongerius, only one in twenty British licensors got an excess of more than 5% of the turnover from their licensees. However, on an international stage licensing income was no greater than 1% of the sales (Young, et al, 1989). In this medium there is restricted control, income generated for the licensor is less, along with a history of troubles faced in India for this route and the fact that any resulting issues could damage the reputation's firm in the international market. All these issues are certain to disincline prospective entrants into the Indian market from selecting this route.

4.5.5 Exporting:

As mentioned in earlier in the research when asked about the exports of ICB products, Black said *"To the Republic of Ireland we have increased our exports…. But this is never really going to grow our business signif*icantly…… s*hipping bottles across is not very easy*". From this we can deduce that the management wants to achieve significant growth. They want a strategy which would be add value and growth to their firm. With respect to the Indian market, exporting as mentioned invites a high import duty structure in the local market and never lets the brand deal in the volumes desired (Euro Monitor, 2009; Individual 4, 2009; Individual 3, 2009 and Individual 1, 2009). To add to this Black (2009) also mentioned that it is not easy to ship bottles in large numbers. Exporting as a mode of entry is viable only if the duty structure is supportive contrary to what is observed in India (Euro monitor, 2009). To this Individual 1 (2009) adds that the *"The duty structure in India is prearranged in such a way that imported spirits are directly moved into a premium and the segment above that"*. The duty for completely bottled imported spirits stands at above 210% and for imported spirits that are bottled in India placed at 165% (Individual 1, 2009; Individual 3, 2009). This duty structure in India is high and makes it an unviable option for InterContinental Brands. Thus it can be deduced from the above factors that exports are not the route desired by ICB and local conditions restrict the financial viability of this route.

4.5.6 Joint Venture:

Joint venture is the route followed by many international companies for the Indian market (Individual 3, 2009; Individual 4, 2009). As per earlier Foreign Direct Investment regulations of the Government of India, it was essential for the international partner to have a local partner disallowing a wholly owned subsidiary; however this is not the case anymore. Joint ventures are now used for access to the local commercial community through a credible well respected businessman-company to provide guidance and counsel on local business and regulatory authorities. However the main motivation for the joint ventures is to use existing production units, existing distribution channels and local knowledge (Furber, 1990; Individual 3, 2009; Individual 4, 2009). In the interview with the

Vice President at Interview 4 (2009), a company which has tied up with Lucas Bols for bottling their spirits for the South Indian market suggested that joint ventures are the best for the Indian market. He suggests that an international brand which sets up manufacturing operations in India could in the future use it as a base to expand into the neighbouring countries. A partnership study done by Beamish (19**) found that the most important contribution which was considered for joint ventures between a international firm and a local firm was local business, general managers, knowledge of local economy, politics, and customs. Moreover the functions of the manager were an important contribution in the ventures (Furber, 1990). However the Assistant Vice President at the third largest spirits company in India cautioned that most joint ventures in the Indian spirits industry have run aground or the joint venture partners have fallen foul of each other (Interview 1, 2009) and have almost never succeeded in the Indian spirits industry.

4.5.7 A Combination of Entry Strategies: wholly owned subsidiary and respective alliances

The AVP at the third largest spirits company in India mentioned that the best way for an international company in India with a long term view is to operate independently through a wholly owned subsidiary and to fill in the gaps by forging alliances. However this mode of entry requires a high commitment of resources and the levels of risk are higher, the control can be crucial (Anderson and Gatignon, 1986) for this venture to make a profit. The alliance with local companies will help overcome the weakness of the international firm.

However, with respect to the reservations along with the risk and return which have been mentioned by Black (2009) and control being crucial for success (Anderson and Gatignon, 1986 and Young et al, 1989) the most suitable way for ICB to venture into India would be to use a combination of entry strategies like the one stated above by the Assistant Vice President of the third largest Indian Spirits Company. Using a combination of entry modes is common practice nowadays by firms that are internationalising (Axinn and Matthyssens, 2002). With respect to ICB and their Indian venture, the recommended mode of entry should be a wholly owned subsidiary and contractual agreements with service providers. The contractual agreements/alliances can act as a substitute for resource commitment into buying of assets or investing in assets and can also help in gaining local knowledge (Interview 3, 2009; Interview 1, 2009). At the same time a wholly owned subsidiary will essentially let ICB take control of their venture in India and put them in control of their service providers through the contractual arrangement they would have in place.

With respect to mode of entry, ICB should follow the miniature replica type of wholly owned subsidiary. This type of wholly owned subsidiary produces and markets the parent's product line or related product lines in the overseas country (Poynter and White, 1984). This will help ICB keep their control on their overseas venture which is critical for success (Anderson and Gatignon, 1986). The requirements of knowledge for the operations in the overseas market can be obtained by alliance, business relationships (Levitt & March, 1988; Eriksson et al, 1997) and through grafting - hiring people from companies with an experience in that industry. This is the way most of the firms in the Indian spirits industry work during their expansion strategies into new segments and other regions (Interview 3, 2009). This learning process was confirmed by the Individual 3 (2009) who said *"Their Company and an Australian spirits company are few of the many who follow this strategy for learning information"*. It can also be validated by the success of Seagram's. When they entered in the year 1995, they entered with the same philosophy of a wholly owned subsidiary and alliances and are now the third largest spirits company operational in India and the largest international spirits company which is operational in India.

Another method which can be followed by ICB to derive success from the Indian market would be to learn more by following the footsteps of Seagram's India. This can be done on the basis of "imitative learning" for the Indian market as mentioned by Forsgren (2002), Levitt and March (1988) and Huber (1991). This will help ICB to learn about the Indian market by following in the footsteps of the third largest spirits alcohol maker in India and largest international spirits company in India. This route will reduce the learning curve for ICB.

As mentioned earlier alliances are necessary in India to skip the learning curve as well as to honour the rules and regulations set by the state and central governments (Euro Monitor, 2009; Individual 1, 2009; Individual 3, 2009 and Individual 4, 2009). Alliances can help avoid resource commitment in manufacturing and distribution. The alliance for contract manufacturing in each state is required to avoiding the complex duty structures in India where each state/region charges import and export duty respectively. The distribution alliances with agencies with on-trade and the unorganised off-trade shops will help derive a good reach and reduce time in developing their own distribution network.

On alliances with national players Individual 3 (2009) says *"even with national players, it is not that all national players are strong in all the operating areas as in each state the rules are different and each company has a different working system"*. Hence many companies, even national players and international players have alliances with regional players to make use of the regional player's expertise and to avoid that learning curve, time and resources commitment for that region. More importantly it reduces the need to micromanage operations. With respect to production, companies can tie-up with national players due to their excess production scale but for distribution it is better to work with regional players rather than national players. Most national players have tie-ups with regional players for distribution in far flung areas (Individual 3, 2009). For example for a distribution alliance in the north eastern region of India it would be better to tie-up with the makers of Dannyberg, Yuksom Breweries than the UB group, where the latter, being the largest national brand is still to make inroads into that part of India. Having a wholly owned subsidiary and control in their hands, ICB can then have regional alliances to develop a stronger distribution network while manufacturing can be done with various national players with excess production. The strategy can be stated as a business strategy approach (Young et al, 1989) for this decision as it has taken into account the current situation and the internal and external factors of the firm. This also takes into account the risk and resource commitment the firm can undertake for this venture; hence the approach for this decision of a wholly owned subsidiary and alliances can be said to be derived and taken under the Business Strategy Approach.

4.6 Sales channel and distribution

ICB, as stated by Black (2009) have quite a flexible approach to deploying a sales strategy, where they are willing to use a distributor or an agent or even setting up their own sales force or sales office for each territory. In the interview Black (2009) refers to territories which are essentially Indian states (there are 28 Indian States administered by State Governments and 7 Union Territories under Central Government administration). Having an experienced sales force in India is a must as rival brands can edge out new entrants from the market, especially when they have a weak sales team or channel. As Black (2009) stated, ICB would undertake a suitable regional sales approach. It would be appropriate for ICB to have a 2 pronged strategy – one to have a direct relationship with the organised retailers – second to set up alliances with regional on-trade and off-trade specialist's shops in each state.

The first channel will cater specifically to organised retail. As it is known that most organised retailers tend to have a central purchasing/buying office which deals with suppliers. This buying office of organised retailers like Spencer's, Star Bazaar in India, receive shipments of goods from suppliers and then use their own logistics infrastructure to supply its stores. A similar strategy is followed by the major player in this segment, Bacardi, thus providing ICB with a case of imitative learning (Interview 3, (2009); Euro monitor, 2009).

Picture 4.6-A: Kit Kat Wines, Mumbai, a typical off-trade outlet with poor product display and visibility.

Alliances with regional distributors and producers will give ICB exposure to off-trades. Off-trade or specialist alcohol retail outlets cater to the bulk of the Indian alcohol consumers and are hence critical to ICB's sales strategy. In contrast to the Uppsala Model, where they say that it is better to learn through gradual progress as in starting with exports and then progressing commitment levels, the proposed alliances will help ICB gain access to a distribution network. ICB will start to gain visibility, control its operations, achieve greater sales than they would if they were to use an exports route as suggested by Uppsala and on the other hand they would have reduced commitment of resources than if they were to set up their own sales and distribution network. With most off-trade specialist shops in every nook and corner in India, ICB would take a significant amount of time to develop an efficient independent sales channel. This route unlike the Uppsala model will also reduce the time consumed. Business alliances as stated by Levitt and March (1988) and Eriksson, et al (1997), will help overcome ICB's short comings and reduce their learning curve. This will also help reach the young population who can't afford the rates of RTDs at on-trade and prefer to buy their alcohol at off-trade specialist shops (Euro Monitor, 2009).

The Indian spirits market is different, while in most emerging markets for international spirits companies the sales are driven on-trade, in India they are concentrated around off-trade retail shops (Black, 2009). However the Indian off-trade is quite different from the UK off-trade as most of the off-trade in India is in the form of specialist's mom and pop shops catering only to alcohol (picture 4.6-a). These shops are family owned and are usually clustered and have less visibility. People who visit these shops know the staffs personally and also tend to have their brand pre-decided as these shops have poor product displays for customers to choose from (Shop interviews, 2009).

The sale of alcohol in India is dominated by the off-trade outlets which contribute to roughly 80% of the spirit sales in India. While organised retail was still nascent in India, sale of alcohol through organised retail was restricted as well. However the modern organised retail has been developing by leaps and bounds in India. Of late organised retailers in metros like Mumbai and Delhi have started to stock spirits for sale (picture 4.6-b) (Cunnington, 2007; Individual 1, 2009; Individual 3, 2009). These organised supermarket shops are clean, well illuminated shops and have visible display counters. While visitors to organised retail chains do not have alcohol on their shopping list, the visibility given to alcohol in such stores catches their attention and as a result customers tend to purchase bottles which have appealing packaging or brands that they recognise and have a 'value quotient' attached to it. This value quotient was defined by the salesman at Spencer as "a well packaged brand with affordable pricing". These new outlets have brought a fundamental change in the attitude towards alcohol. In these organised retail shops there is an increase in the visibility of the products and the ambience of these retail outlets have given rise to people preening through various brands which would have otherwise not been on their list had they been purchasing at off-trade stores. The opportunity for them to view and try new brands certainly emphasises the importance of organised retail as a sales strategy for ICB. The comparative difference in visibility, ambience and displays is seen between picture 4.6-a and picture 4.6-b. These new organised supermarket retail chains selling alcohol have helped in developing people's tastes and the general acceptance of lesser known brands, international spirits and the premium segment in India (Shop Interviews, 2009). This new attitude and organised retail which has been seen here has helped bring about a favourable attitude towards international products in the market, such as the ones which ICB would offer.

The on-trade sale of alcohol is far less in its outreach to prospective customers as it is crippled by the red tape that has to be endured before the bars or pubs receive permission to sell alcohol. Moreover the licensing fee for bars and pubs to operate is high (Cunnington, 2007), this ends up pushing up the prices of the alcohol for the end consumer. Though the sale of alcohol is less at on-trade outlets this has been on the rise due to an increase in social drinking in the Indian society. People and the Indian youth in particular tend to have get-togethers in the bars, restaurants and usually consume alcohol during this time (picture 4.6-c- World report, 2009). Overall with the Indians changing their view to alcohol by making it

Picture 4.6-B: Wine and Beer, an outlet selling alcohol at a organised retail outlet HyperCity with good product display and visibility.

socially acceptable, the sale of alcohol is rising at both, on-trade and off-trade outlets. This change, both with on-trade distribution and off-trade distribution makes it an ideal time for ICB to enter the Indian market. Moreover ICB does not service on-trade channel in the UK either, thus it can be said that ICB need not target the Indian on-trade channel in the early stages of ICB's entry into India.

Picture 4.6-C: Drinking socially among the youth is both acceptable and quite a trend.

ICB's prospective strategy for targeting different geographies in India would be to start by targeting metros such as Mumbai, Chennai, Bangalore, Hyderabad and Delhi to name a few. Also the state which should be targeted as a whole would be West Bengal as it accounts for up to 50% of the leader of this sub-segment, Bacardi Breezer's sales (Euro Monitor, 2009).

"… (ICB are) looking at markets where there are distribution channels similar to the UK". The distribution network in India is quite different to the one in UK. The distribution network is state/ region specific in India (Individual 3, 2009). For example in Maharashtra there is an open market system where the company appoints its own distributors to take their products to the retail outlets. In Karnataka a lengthy process is mandatory and the companies need to interact with the government. In southern states like Karnataka, the markets are controlled by the government wherein the wholesale distribution is implemented by a particular state body, with the consumer price being fixed by the state (Cunnington, 2007; Individual 3, 2009; See Appendix 9 for the distribution channel followed in Maharashtra and Karnataka). The complexities of the market in case of distribution can also be avoided and learnt by going though the alliance mode. Alliances will help ICB avoid the gruelling experience of understanding the different rules and regulations and also avoid the investment in warehouses, logistics and other related expenses. Alliance for distribution would help reduce the time to understand the various processes for each state. Hence alliances from distribution network would take care of ICB's needs of distribution.

4.7 Attitude and Perception

4.7.1 Changing Attitude and Perception

Black (2009) was keen to know more about the perception of alcohol in India, where traditionally alcohol has been known to raise eyebrows and was perceived as an ill of society. This can be deduced from Black (2009) during the interview when he says *"A sizeable amount of work that needs to be undertaken to find out the attitude towards alcohol consumption…… India has the second largest Muslim population in the world so we need to bear in mind the culture towards alcohol, religious aspects and all these things. There is quite a lot of work which needs to be accessed about addressing or launching our products in those markets."*

Black (2009) is partially right in saying that India had been synonymous as a country known to raise an eyebrow towards alcohol consumption (Reddy, 2006). Hence Black's (2009) apprehensions can be justified. As far as the cultural aspect of India goes, the attitude towards alcohol consumption has been changed tremendously over the last decade. The next generation have been more "advanced in their thoughts" and this has been the case in the recent time (India Inc, 2007; Talk Asia, 2008). This has been attributed to the amount of exposure to international media that the Indian society has received. Considerable transformation and a change has been observed which has resulted in a significant change in people's lifestyles. The changing demographics of India have also had a huge effect on the consumption. This new demographics of the population in India are now termed as young, aspiring and a "global/western" Indian (Singhal, 2006). Having around 54% of the population below the age of 25 (TESOL, 2007). A large population of youth aspiring to the West, changing lifestyle can be attributed to the economic advancement of IT, internet, jobs at Business Process Outsourcing centres (BPOs), entrepreneurship and a on the whole economic development has lead to an increase in the disposable income in the hands of the youth (Shop Interviews, 2009; Individual 1, 2009). This is not only in metros like Mumbai but also "emerging" towns such as Pune and Nagpur. Globalisation and economic development has increased the level of income and the emergence of the new middle class (Reddy, 2006; Cunnington, 2007; Euro monitor, 2009) has also changed the kinds of alcohol consumed (from whiskies to RTDs), the number of people drinking and their attitude towards drinking. The country has also seen a rapid growth in the number of city bars and nightclubs, reiterating the change in the attitude towards alcohol (World report, 2009). The evidence in the change in alcohol consumption can also be seen in the study conducted by KSA Technopak which estimated that in 1980 only 1 in 300 Indians had consumed alcohol, now 1 in every 20 consume alcohol in the 2000s (Reddy, 2006). The change which can be observed with an overall change in attitude towards drinking; drinking in moderation, drinking with one's parents, social drinking among women has lost the 'taboo' it was once considered (Reddy, 2006). The number of women alcohol consumers is also on the rise and is considered to be around 5% of the total drinking population (Reddy, 2006) and has shown an increase in the numbers who indulge in regular and heavy drinking (World report, 2009). Another important fact mentioned in the study by the World report (2009) is that in the southern states the young women consumed similar amounts of alcohol to the young men out on a typical drinking occasion. These women who consume alcohol are mostly at on-trade outlets but sales have also picked up at the off-trade outlets. The women are mainly working women who consume light drinks like RTDs and white spirits (Individual 3, 2009). The age bracket below 21 years has shown an increase in drinking with an increase of 2% per annum. The average initiation age of the Indian consumer has also dropped from 19 years to 13 years (World report, 2009). The above reveals a picture of a society fast losing its inhibition towards alcohol (World report, 2009). With a good reach of television in villages (Sarma, 2002), the international exposure is now reaching everywhere. Thus, the attitude towards alcohol if not changed everywhere is certainly changing. It can be deduced that this current point in time is just right for InterContinental Brands to enter the market as the inhibition towards alcohol reduces and consumption amongst the more than 1 billion strong population is on the rise.

4.7.2 Change in Product preference

The change in attitude towards alcohol consumption has also manifested into a change in the type of alcohol consumed. India was traditionally known to be a dark spirits market whisky and rum (Individual 1, 2009; Euro monitor, 2009; Individual 3, 2009) but with this change of attitude towards spirits the Indian market has adopted a very global approach of drinking products in accordance with the occasion (Individual 1, 2009; Shop Interviews, 2009). Consumption of wine and sparkling wine has increased significantly, in a market where it was almost insignificant. This has led to the emergence of the new product offerings like wines, ready to drink (RTD)/pre-mixed drinks and liqueurs. It can be witnessed that the new 'international' Indian consumer has had a flavour substitution in their drinking habits depending upon the consumption occasion (Reddy, 2006). This means that the new Indian consumer unlike before who would have stuck to a single choice such as whisky or rum would now have looked at other options such as RTDs, white spirits, liqueurs and wines (Reddy, 2006; Shop Interviews, 2009). The World Report, (2009) states that the introduction of flavoured drinks and low ABV content drinks has attracted previously non drinking women and men to change their lifestyle and try alcoholic drinks. This creates an opportunity to provide a drink for every occasion and thus creating and offering niches to work within. These changes in the culture and drinking habits have brought a change in the spirits market offerings as well. These point towards a promising scenario for ICB to be comfortable with the Indian market as these are tilting towards attitudes which ICB would be familiar with in the UK market.

4.8 Marketing

4.8.1 Marketing and Promotion in the Indian Spirits Industry

The attitude towards the spirits market has changed and can be validated as mentioned above, effective marketing to the population is important. As stated by Black (2009) *"………marketing and promotion should be apt for the consumer base we are targeting... Also the marketing and the effectiveness of marketing in each of those territories/states they would target."* ICB who sponsor various sporting events were keen to know if they could use similar avenues to gain visibility in India. This is important as globally there are various restrictions with the promotion and advertising of alcohol. In the Indian market place any direct advertising of alcoholic products is banned. No national television broadcaster is allowed to show advertisements which promote directly or indirectly, the sale of any alcoholic consumption. Even product positioning in the popular medium of Bollywood movies is prohibited. This has lead to be a tough place for creating awareness (Individual 1, 2009). This has led companies to become more innovative and creative in promoting their products. Alcohol companies operating in India get around this rule by event sponsorship (Menon, 2008; Reddy, 2006) and producing branded sales promotional materials (Picture 4.8-A: Illustrates an example of Bacardi's sponsorship of a music event-Bacardi, 2009),

Picture 4.8-A: Bacardi often sponsors music events or releases special music collections in a CD with a Bacardi branding to promote the brand.

launching bottled water or launching soft drinks variants of the alcoholic drink products (Cunnington, 2007). This is also achieved by alcohol companies organising events, mainly music events by international artists, fashion events (Reddy, 2006), sponsoring of sporting events like derbies, car racing, etc. (Individual 1, 2009). This works out effectively as the events and other such publicity is directly viewed by the young adults thus proving to be a very effective tool (Reddy, 2006; Euro monitor, 2009; Individual 1, 2009). The UB group, Radico Khaitan and Seagram's all have their unique ways to build brands from sports sponsorship, music events and album making to fashion calendars; all a major hit with the young Indian adults which are a target market.

4.8.2 Branding

Effective reach is possible with the above mentioned techniques for ICB but creating a brand is vital for this industry. As is known people consume brands and not the products (Individual 1, 2009; Individual 3, 2009; Banerjee, 2006; Shop Interview, 2009). This is validated by the salesman at Juben Wines based in Juhu, a suburb in Mumbai, where he said that people buy brands and consume them; they don't buy vodka or beer. Juben Wines also mentioned that these brands then become an extension of the consumer himself. This can also be validated by Jernigan (2009) that if the brand is marketed in the lifestyle or as per the aspirations of the target user, they become a part of the identity of the consumer (Jernigan, 2009). In the book 'Building Strong Brands' Aaker (1996) states that "*The presence of a brand (or even the attitudes held toward it) can serve to define a person with respect to others, and when social identity is involved, what is expressed can be very important to the individual. . . . [the] brand becomes an extension or integral part of the self*" (Aaker, 1996; Jernigan, 2009). This is further validated by Dr Vijay Mallaya that this industry is based on an 'aspiration'. People want to consume something which will make them feel good in their normal lives. Makes them signify that they are a 'particular type of person' or 'They stand for something'. Though the recipe for success has not been discovered (OECD, 1997) the best way the interviewee at Interview 3 mentioned, is to offer something different for the people to connect with. Maybe a product or an image to connect with would do wonders for the brand ICB, similar to the Marlboro campaign. However with ICB being an international brand if they can create an image or an identity knowing Indians having an appetite for western branded goods (Weggins, 2009) it would do wonders for ICB and their brand in India. ICB has to position itself as a lifestyle brand in the semi-premium segment.

Hence with the right entry mode strategy whilst considering the risk, resource commitment and the need to derive a return – a wholly owned subsidiary and alliances for the Indian market derived from the ‘Business Strategy approach’ and learning from the limitations of the Uppsala model would assist in the development of the preferred entry strategy for InterContinental Brands. The change in the attitude towards alcohol in India and the economic development will only boost their international venture for their selected product range with respect to the demographics in India. It is important for ICB to maintain its international brand image while entering India and project a lifestyle around it; this is bound to assist ICB in charting a successful course in India.

Chapter 5 Conclusion

5.1 Conclusion

Interestingly 99% of all the enterprises in the world are categorised under the SME segment. These are regarded as the major contributors to the world economy, however a very small percentage of SMEs internationalise. This has been changing in the recent times and can be observed with InterContinental Brands (ICB) and their internationalising.

SMEs are now coming out of their domestic markets and are moving away from slow and limited growth internationalisation modes such as exports to the neighbouring countries. They are on the lookout for higher growth rate from the international markets as observed in the case of ICB. This change in the approach has been attributed to domestic saturation and lucrative opportunities overseas.

This study investigated on the existing literature with respect to the process of internationalising in consideration of the risk, resource commitment for an SME along with their returns from this market. This research provides a pragmatic view rather than a logical view to the study and research conducted. This has been done keeping in mind that being rational would not be possible without taking into account that SMEs are resource constrained. In addition, this research aims to provide an entry mode to a resource constrained SME that could avoid the learning curve and make the most of the current opportunity without losing out during the process of knowledge gathering. This research provides evidence that SMEs using multiple entry modes can hedge the resource commitment while retaining significant control and achieving their overseas objective.

This research touches on the matter that an SME should select products for niche markets. These should be in naturally created segments so as to keep away from large players, and hence providing themselves a niche to grow in and exploit. These niches can result in the creation of new market segments which over a period of time can attain significant scale and result in the SME's exponential growth.

5.2 Recommendations for ICB based on the research and analysis conducted:

1. The drive to internationalise for ICB is driven by them having an expertise in the RTD niche, saturation in the UK market and immense opportunities in the overseas markets.

2. InterContinental Brand's ability to be nimble and agile while undertaking an entrepreneurial approach and its willingness to take risks will give them access to various opportunities.

3. InterContinental Brands must continue to target the brand and price conscious youth in India.

4. The youth in India have similar tastes and lifestyles to those in the UK.

5. InterContinental Brands need to maintain their competitive pricing while maintaining its identity as a UK brand.

6. InterContinental Brands has focused on the RTD segment in a saturated and regulated UK market by targeting youth, and hence has an expertise in that segment. ICB as rightly suggested by Black (2009) must focus on niches like the RTD segment and stay away from the full strength spirits companies.

7. With a population of over 650million below the age of 35 years, that niche is still likely to be a sizeable opportunity, leading to exponential growth.

8. ICB should introduce other RTD drinks with low ABV which are vodka or sparkling water based. Currently the Indian market is only catered to by one major rum based RTD offered by Bacardi's Breezer.

9. Indian market is deprived of quality international products and consumers are willing to pay for such products especially new and unique offerings.

10. The Indian market place is quite competitive with products at the lower end and the premium end of the market, but with few offerings in the semi-premium segment.

11. While India has traditional been a dark spirits market this is now shifting towards RTDs, wines, sparkling wines, etc.

12. RTDs are seen as the introductory tool for youth to alcohol and spirits consumption. The initiation age for Indians to alcohol has fallen from 19 to 13 years of age.

13. Due to economic recession, there has been a shake-out of companies, leading them to focus on 'millionaire brands' in the whiskies and beers segment, further opening up niches like RTDs.

14. By starting with RTDs and catching prospective customers at a young age, as the customers mature, it paves the way for ICB to introduce a full spirits product range.

15. The Indian market is a better enforcer of intellectual property and legal agreements as compared to a country like China.

16. The ease of doing business and communicating with the consumer is facilitated by the use of English as a language of business in India.

17. Licensing is not seen as an appropriate entry route to the Indian market as ICB will not be able to exert sufficient control and ICB is unlikely to make its presence as a brand felt when operating through a licensee – something which is important to portray ICB as an international brand. Traditionally licensors have not been able to extract the desired outcomes both in terms of finance and brand equity.

18. Exporting on the other hand is not something ICB see as a preferred route to entering the market, this is further accentuated by the high import duties on imported spirits.

19. Similarly joint ventures have never succeeded in the spirits business in the Indian markets.

20. ICB should set up a wholly owned subsidiary in India to administer the various relationships, maintain control and more importantly maintain its brand identity.

21. ICB needs to set up contract manufacturing arrangements with players with a national presence. However manufacturing needs to take place in each of the states it wants to be present in, due to local duty structures.

22. ICB needs to deploy a two pronged approach to developing a distribution network –

    a. ICB's own sales office to coordinate with the centralised purchasing operations of organised retailers.

    b. Alliances with regional distributors to target specialist off-trade alcohol retailers. This alliance will also help them in understanding the local situation if they need to set up their independent distribution network at a later stage.

23. Due to red tape and lesser reach of on-trade outlets, coupled with the fact that the on-trade route is not a route used by ICB in the UK, ICB should not target it in the first stage.

24. ICB should target metros like Mumbai, Delhi, Bangalore, etc. and the entire state of West Bengal.

25. ICB should enter with RTDs based on vodka and should regularly update their product offerings.

26. While traditionally alcohol has raised eyebrows in India and was seen to be an ill of society the perception has changed drastically to making it socially acceptable and even aspirational in some sections of society.

27. RTDs are seen as women's drinks but with a large percentage of male consumers in India.

28. Marketing and sponsorship is restricted and highly controlled but there are opportunities for surrogate advertising and sponsorship for key social events like derbies, award ceremonies, Bollywood events, etc.

29. Indians consume brands and not products (just like in other parts of the world) thus it is integral for ICB to position and promote its brand well.

30. All the above recommendations point to the fact that this is an ideal time for ICB to enter the Indian market.

5.3 Limitations of the research:

The limitation for the research conducted were firstly, due to the time constraint the research was conducted with only a few industry personnel (4 interviewees) and a handful of shops spread across only Mumbai (20 shop keepers and salesman – 3 organised retail salesman). The observations that were conducted with the shop salesmen were by way of a casual conservation during the purchase of their products-they were not aware of their information being used in a research and the details of the information they were sharing was used in a study. The research was conducted only in Mumbai and validated by the market research report the information has been generalised and stated as a nationwide view. With respect to the information shared by the management, the information might not be necessarily be in line with their own operations, this was done to protect them from legal implications under the rules and regulations of the country and their employers. Moreover interviewees might have wanted to protect their strategies and intellectual property of their operation from being used by prospective competitors. On the geographic front for the consideration of India as a market, this was restricted to purely to a study of the factors in India and not a comparative study of India as against China and South Africa.

5.4 Concluding comments:

To conclude, India is a ripe opportunity in terms of timing, consumer base, perceptions towards alcohol consumption, spending power, aspirations towards Western brands, etc. all of which strongly support ICB's prospective entry into India. Government rules and regulations are being eased and will ease further. While there are a few dominant players there are sizeable niches to be exploited in the Indian market. ICB should certainly consider entering the market in the near future as the alcohol industry in India is on the cusp of growth and entering the market at this point will certainly help ICB grow with the industry.

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Appendix 1: The questionnaire for InterContinental Brands

Questions for InterContinental Brands

Theme A – Domestic Business / Spirits business

1. ICB's niche in positioning & segmenting: affordable & refreshing alcoholic drinks for the young adults and women

2. ICB have attained success with carving a niche? How vital has been this strategy?

3. The spirits industry has always been dominated by a few big brands. How does ICB plan to compete with them? The strategy working with a niche market been successful, but has this niche's growth saturated?

4. What are the problems faced by ICB in the markets they are operating now? How have they overcome these problems? Problems related to:
    - Awareness of the brand
    - Social and cultural implications
    - Financial repercussions
    - Marketing and promotions
    - Launch
    - Growth

5. How are the future plans with the UK markets going?

Theme B – Overseas Market

6. In the year 2007 with the influx of private equity funding press release from Lloyds, ICB stated that this influx would be used to expand their exports and grow internationally?

7. ICB has been having an interaction with many countries, Australia and Hong Kong, How does ICB see their future in these countries-does this go beyond export?

8. What are the priorities and objectives of ICB with its international foray?

9. Which are the countries ICB has its eyes on for expanding in the near future, and why?

10. What stage has the plans of internationalising reached?

11. Would ICB look at working on the same niche-targeting young adults and replicating the success derived from the UK markets?

12. Would ICB look at the same niche marketing strategy or be willing to look at other niche marketing strategies to compete against the big brands?

13. ICB has built its success in the UK with organised retail for its distribution; in most developing nations offering huge growth opportunities, organised retail is still in its nascent stages would this hamper ICB's growth in these nations with true growth potential?

Theme C – Entry Strategy & international Marketing

14. What are your thoughts on India as a market for ICB expanding soon?

15. With plans of expanding globally has ICB chosen any particular entry strategy apart from the currently operational exporting?

16. If so which one and why? Is ICB willing to look at other attractive proposals in the emerging markets if they show potential?

17. The one thing mentioned about the culture at ICB is that it is very entrepreneurial, when entering a new market would this culture likely be replicated with other forms of entry strategies?

18. What sort of alliances and entry strategies is ICB looking at with its international foray?

19. Is there a particular product mix ICB is looking at in these international markets?

20. What are the worries and reservations with an international foray into nations like India and China; prior to entering or even developing an entry strategy?

21. With respect to the International foray, there is a huge difference in the management styles and drinking behaviour, any thoughts on it?

22. What would ICB want to know through this research?

Transcribe of the interview Intercontinental Brands

The format of the interview was semi-structured. There was a loose framework of pre-determined questions but these were allowed flexibility as the interview progressed. This was done to keep the interviewees at ease and collate as much information as possible. There may be some questions not mentioned in the transcribed this is due to the mentioned format of the semi structured interviews and the flexible approach followed.

Theme A – Domestic Business / Spirits business

ICB's niche in positioning & segmenting: affordable & refreshing alcoholic drinks for the young adults and women?

- Yes. The younger consumer probably aged 18 to 25. I would say about 60% females. I would say that is a guess as there is no empirical data necessary to back that up. But it should be plus or minus a couple of percent would be about right.

- This is not a deliberate attempt but I assume it was more of an untapped market. If you think the traditional drinking habits were male working class and then shifted to social drinking, then wine then male and female. In the spirits drinking business, tends to be white spirits for females and dark spirits for males, so we developed a white spirits end which finds to be consumed more by females. It wasn't specifically designed for the way (for women) it is but that is how consumer profile breaks down.

The spirits industry has always been dominated by a few big brands. How does ICB plan to compete with them? The strategy working with a niche market been successful, but has this niche's growth saturated?

- This has helped us to work against cash rich companies. Our experience is that the niche we found is growing significantly. That is because the white spirits market is continuing to grow and is still one of the fastest growing and has three reasons attached to it. As consumer tend to move away from traditional spirits like brandy and whisky and dark rum is the reason for white spirits to grow. White spirits growth is taking place at the 6% mark. So for example last year, the UK off-trade vodka sales exceeded whisky. It's may be a fashion thing which may change over the next few years but at the moment we don't see that changing dramatically. The second factor is, two fold, our products with a lower alcohol strength it appeals to one who want to drink but I little more responsible drinking and also it gives a price advantage so it is a value proposition. These three propositions certainly help the understanding that we are certainly not slowing in our growth. Our growth statistics has definitely come down from 1000% growth to about 46% growth but we are still significantly exceeding the market. When would the market be saturated in the UK, I suspect another 2 years may be.

What are the problems faced by ICB in the markets they are operating now?

- Most of our sales come from on-trade which is around 60% and rest from off-trade. We don't market our products to on-trade; it's a declining market at the moment. But if you look at growth, off-trade is where the growth is. As our customer profile is where the consumer buys the alcohol from the off-trade drinks at home and then probably goes out to drink. Because of the strength of the product it has to specifically have to be asked for it and this makes a bit more problematic hence we don't market it to on trade.

- Awareness/advertising: Raise awareness through combination methods such as pure advertising such as consumer awareness from on trade press, sponsorship, in store promotion website, freebies, the normal text book marketing. Nothing exotic. Not anything special just the normal advertising which is billboards, newspapers, TV, radio, brand sponsorship, point of sale promotion stuffs. Sports promotion, Merchandise t-shirts all the good old fashion stuffs in advertising.

- With respect to the global spirits image we have our association with the English premiership and England international of football which is a best medium for the global audience. We sponsored Scotland internationally, having boards at half the premiership grounds. All that is to arise awareness on a global basis. We did look at formula 1 but it was very expensive where it was cheaper than before but we were talking about half a million to about one million a year. It did not justify that kind of money at this stage.

- Social drinking awareness: We haven't make enough of that but not much about it yet, but over the next couple of years the marketing campaign will fall in much favour of that. That is still very much a part of our trade press but the consumer stuff we don't make much play of that. The advertising is of very much with respect t saying that this is a very different product with low strength a different way of drinking and breaking the norm. The consumer advertising has largely been around that. We haven't made a lot about that but over time we will build a campaign around use are consuming it a level of consuming a full strength spirit is being consumer and not suffering the strong ill effects you might do.

How are the future plans with the UK markets going?

- With the clear defined nature of market there is probably only one major retail group we don't do much business with which ought to, is Co-Ops, we are currently listings/workings with Tescos, Sainsbury, Morrison's, Asda of the major retailers. With our current target market it is only Co-op who were are not doing much trading enough with. So our future plans would be targeting co-op would be one, then targeting the cash and carry businesses sectors would be to target the convenient retailers, the late night shops, the petrol stations that whole sector, we have a way to go to service that, which we would do that through the cash and carry sector, So we think we can easily double our volumes in to the wholesale and cash and carry market. And we can also increase our listings we have got with major retailers. Our listings with Asda and Morrison's are relatively new so it will take us another 2 years for it to grow and levelling out, so that will probably and effectively take about double our volume out before the shift and after that it would mostly be down to promotion, probably in-store promotion.

Theme B – Overseas Market

In the year 2007 with the influx of private equity funding press release from Lloyds, ICB stated that this influx would be used to expand their exports and grow internationally?

ICB has been having an interaction with many countries, Australia and Hong Kong, How does ICB see their future in these countries-does this go beyond export?

- Yes this was the reason. The simple answer is yes but not in the way you would anticipate. For example the republic of Ireland we have increased our exports to them. This has been done with the UK retailers who have a relationship with intercontinental brands and who has a presence in the republic of Ireland, for example Tescos. So this is an easy quick win. But this is never really going to grow our business significantly.

Which are the countries ICB has its eyes on for expanding in the near future, and why?

- To the markets we are currently considering are India, Hong Kong, certain aspects of China and probably/potentially South Africa. These are the markets we are looking at this certain principle of time.

What stage has the plans of internationalising reached? Would ICB look at working on the same niche-targeting young adults and replicating the success derived from the UK markets?

ICB has built its success in the UK with organised retail for its distribution; in most developing nations offering huge growth opportunities, organised retail is still in its nascent stages would this hamper ICB's growth in these nations with true growth potential?

- We are formulating our strategy at this moment of time. We are looking at foreign markets which are similar, and the growth potential with the consumers who are currently servicing in the UK market between 18 to 25 years of age rather than necessarily above 25. We are looking at markets where there are distribution channels similar to the UK. Like the new markets the new markets are more on-trade than off-trade which would have to make us look at strategies for the on-trade. Also looking at duty regimes to be away from the full strength spirits companies. Also would be looking at the most appropriate sales channel would be for the us to use a distributor or an agent in territory whether we license our products to a locally based producer, whether we have our own sales force or sales office in territory. So we are at present pulling our thoughts together. As you know it's easy to say if its China or India but they are vast markets in themselves and needs to be a regional analysis which needs to be taken. Each has a different analysis, tax and physical structures which need to be undertaken for each of the territories. So it is quite a reasonable size of work that needs to be undertaken. Also attitude towards alcohol consumption.

- As you would probably know, India has a second largest Muslim population in the world so we need to bare in mind the culture towards alcohol, religious aspects and all these things. There is quite a lot of work which needs to be accessed about addressing or launching our products in those markets. From all of that the marketing and promotion should be apt for the consumer base we are targeting. Also the marketing and the effectiveness of marketing in each of those territories.

Would ICB look at the same niche marketing strategy or be willing to look at other niche marketing strategies to compete against the big brands?

- Yes absolutely, china a lot of the consumers like to be seen drinking but particularly drunk unlike their western European colleagues. So with this we can build our consumer profile with this saying that and marketing around those sorts of messages. We may also look at reducing our strength of our products, normally when we export we increase the strength of the products. We might actually have a product which is slightly different to the individual markets which we target.

Theme C – Entry Strategy & international Marketing

What are your thoughts on India as a market for ICB expanding soon?

- We have access to international data, Euro Monitor, which gives us about a reasonable amounts of historic data, reasonable amounts of distribution data – on trade off trade etc. A lot of UK retailer who we have an association with in the UK market are planning to launch in the Indian business such as Tescos; they are helping us leverage us of the work they are doing. Getting in touch with the consulate, helping us understand the duty regimes and each territory. We are probably wht we have on top of our head. We have attending trade fairs. And see wht is on the ground.

- We are looking at HK and china; our investors have opened an office in china and act as a facilitator to us to relevant people. That an office of the ground and helping identify key individuals.

What sort of alliances and entry strategies is ICB looking at with its international foray?

- The answer to that is not very simple; there is definitely a possibility to it then but a more likely route would be to licensing. For example we could look at spirits business in India rather than going head to head with them we can suggest using our recipe for the products in India and we will effectively share profit. A more of a joint venture. That's more likely the case than moving production abroad. Although I won't rule it out obviously as there various incentives to establish a production but clearly at this stage, we would not produce till at least the next five years. Shipping bottles across is not very easy and plus the duty regime in India. Also each region will have its unique strategy, I think for the reasons mentioned it would be important to identify to look at them and say to produce our products and profit share, which would be some sort of a joint venture.

- So it will be an individual strategy per individual territory. Anything will do.

- Apart from just us investing in the Indian market we to capture the market with a billion people, the Indian drinks businesses have been very inquisitive about the businesses in the

UK, the company UB group, and maybe establish a relationship where they could buy look at acquiring Intercontinental Brands for a footprint in the United Kingdom and to produce these products in India. That's an attraction as much as anything. Establishing relationships with businesses in India will be nice.

- UB group have acquired a few companies in here for a massive price. Even before them buying to attracting, we need to prove that the export market is there and prove it to him that it would work.

Is there a particular product mix ICB is looking at in these international markets?

- As a business we have been very responsive to the individual consumer markets. We are perfectly able to amend products or develop products for specific markets but with this are the only risk is you need to increase your number of SKU- (Stock Keeping Units) cause each individual region would require their own labelling requirement and packaging issues so we are quite happy and open to the idea of having 'green tea and vodka mix' for the Chinese markets.

What are the worries and reservations with an international foray into nations like India and China; prior to entering or even developing an entry strategy?

- Ya, definitely, where do I start, we legal systems in China, in India is the UK based legal infrastructure which is very well established. Certainly in China the ability to undertake contracts is a major concern. Protection of intellectual property, typically in China it would be a matter of seconds where the product will be replicated. Not so much in India as the well established contract law. Another one could be language difficulty and diversity, processing other skills to communicate in any of them in any language of which there I am sure is many. I am sure many people speak English now in Asia but language skills are a barrier or a risk. The currency movement, the biggest worry for us is we invest huge amounts of money in the market on travel, promotions, agent's fees and listing fees and all sorts of other things without getting any return. It would be very easy to spend an awful lot of money and not get any return. That is the biggest of our worries. We are not targeting the US for that very reason; we could spend millions and not even scratch the surface. I think probably that, the financial risk is probably significant, not getting paid, not breaking even.

What would ICB want to know through this research?

- Any ideas you got, any thoughts, we are open to any ideas. Going to the field and getting information and getting a real perspective, even a snap shot will be real helpful. Even with the thought, may be a misguided thought that of a lot of the Far East wants to have western brands that may not be the case. Testing that assertion would be helpful to us. It feels right; but some of the biggest brands in the world are not the western brands. They are not some, probably which you must have heard but not certainly that I have heard of. So it is an interesting one that western brands have a perception and desire over local brands but still the consumers prefer the local brands. The domestic markets are so vast that the domestic brands are getting registered on the global scale, well, everybody in the west is heard about Smirnoff but in comparison it is a small brand.

Appendix 2 Research Conducted in India:

The people interviewed in India:

- Mr Individual 1 - Assistant Vice President (West) – 3rd largest spirits company in India
- Mr Individual 2 - Regional Manager International Brands (West)- 3rd largest spirits company in India
- Mr Individual 3 - Management and marketing manager (Maharashtra)- 4th largest spirits company in India (x 2 interviews)
- Mr Individual 4 - vice President – a regional spirits company in India (contract manufacturers for Lucas Bols).

These people were interviewed with the following questions:

Theme A: Introduction

1. A brief background on your company.

2. Briefly, what are your growth and expansion plans in the near and long term?

3. What kind of associations have you had with overseas/ international firms?

Theme B: Current situation

4. How is the industry behaving in the current world economic slowdown?

5. What is the position of (small and medium scale) international spirit brands in the Indian market?

6. How do small-medium sized companies/new entrants behave when in competition with large cash and resource rich companies like the UB group and Ricardo Khaitan?

Theme C: Entry of international brands, local partners and the Indian market place

7. Which is the best way for a company to grow in the Indian market – organically or inorganically?

8. Has the Indian market been open to licensing of international brands for small and medium scale brands?

9. Euro monitor's market research report stated that Joint Ventures (JVs) are the best entry strategy for a company in the Indian spirits industry. What is your view on this and why would it be considered better than licensing?

10. The same Euro monitor report states that the Indian industry is immensely diverse and behaves like many countries in one. They say that each part of the Indian market is very different to the rest of the Indian market; this in turn leads to strong and large regional players. What are your thoughts on this?

11. How and why is it important for new entrants to tie up with regional players for establishing themselves? For example: understanding of local knowledge, government regulations, existing distribution infrastructure of the local companies, etc. please elaborate on these and others that you would have knowledge of.

12. What is the future for new small and medium sized companies entering the Indian spirits industry or for those who have already entered the markets?

13. What are the roles can the international partner expect the local partner to play in a JV or other forms of partnerships?

Theme D: Distribution networks

14. What is the best strategy suited for companies to strengthen their distribution network and sales force in India?

15. Which is a commercial more lucrative/ feasible arrangement for a spirits distribution network, on-trade or off-trade for a new entrant which is a medium sized spirits company?

Theme E: Government regulations

16. What are the restrictions imposed by the government with respect to Foreign Direct Investment in this market?

I would like to thank you for your time and for the valuable inputs that you have provided for my research. I will gladly provide you with a soft copy of my final research.

Thank you.

Yours sincerely,

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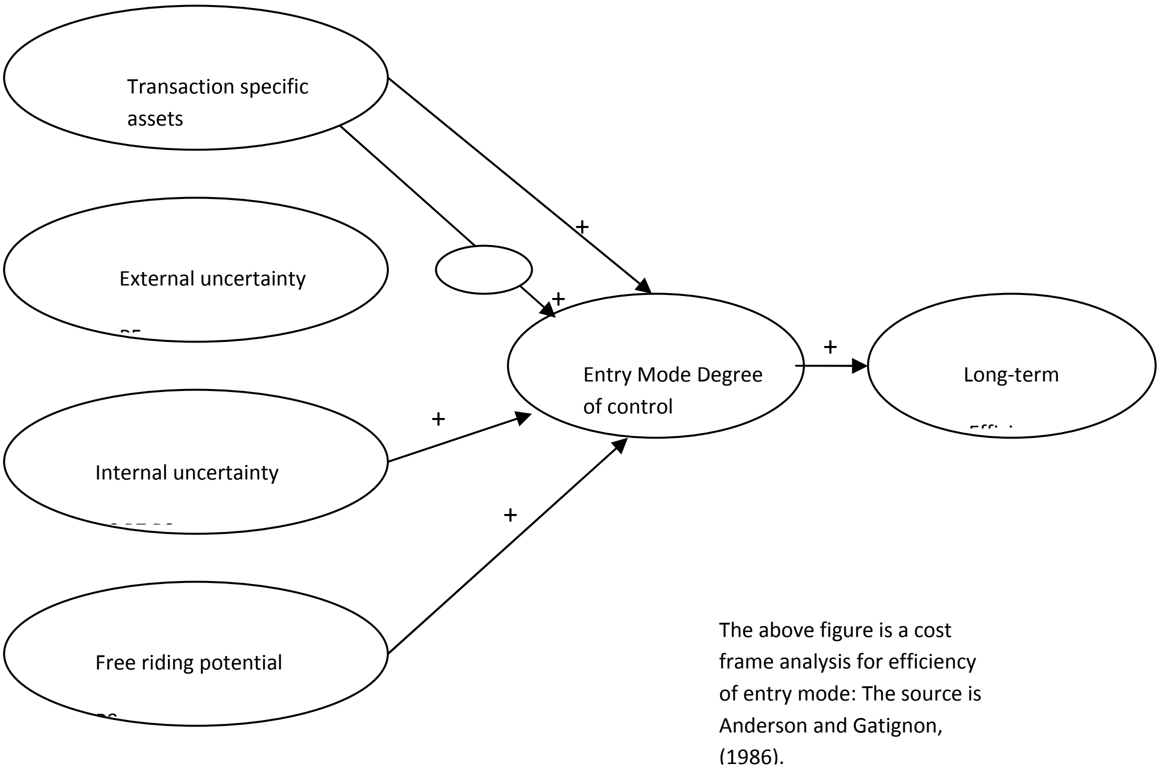
Appendix 3- Figure is a cost frame analysis for efficiency of entry mode:



Source: Anderson and Gatignon, (1986). Mode of Foreign Entry: A Transactional Cost Analysis and propositions, Journal of International Business Studies, 17 (3), 7.

Appendix 4-: The propositions regarding the choice of foreign market entry mode: a transaction cost analysis.

P1: Modes of entry offering greater control are more efficient for high proprietary products or processes.

P2: Entry mode offering for higher degree of control are more efficient for unstructured poorly understood products and processes.

P3: Entry mode offering higher degree of control are more efficient for products customised to the user.

P4: The more mature the product class, less control firms should demand of a foreign business entry.

P5: The greater the combination of country risk (e.g. political risk, economic fluctuations) and transaction specificity of assets (e.g. proprietary content, poorly understood products, customised, product class, immaturity) the higher the appropriate degree of control.

P6: The entrant's degree of control of a foreign business entity should be positively related to the firm's consultative international experience.

P7: When the socio-cultural distance is great:

a) Low control levels are more efficient than intermediate levels;
b) High control levels are more efficient than intermediate levels;
c) High control levels are more efficient only when there is a substantial advantage to doing business in the entrant's way.

P8: The larger the foreign business community in the host country, the lower the levels of control an entrant should demand.

P9: Entry mode offering higher degree of control are more efficient the higher the value of the brand name.

Source: Anderson and Gatignon, (1986). Mode of Foreign Entry: A Transactional Cost Analysis and propositions, Journal of International Business Studies, 17 (3), 7.

Appendix 5-: Roots (1994)

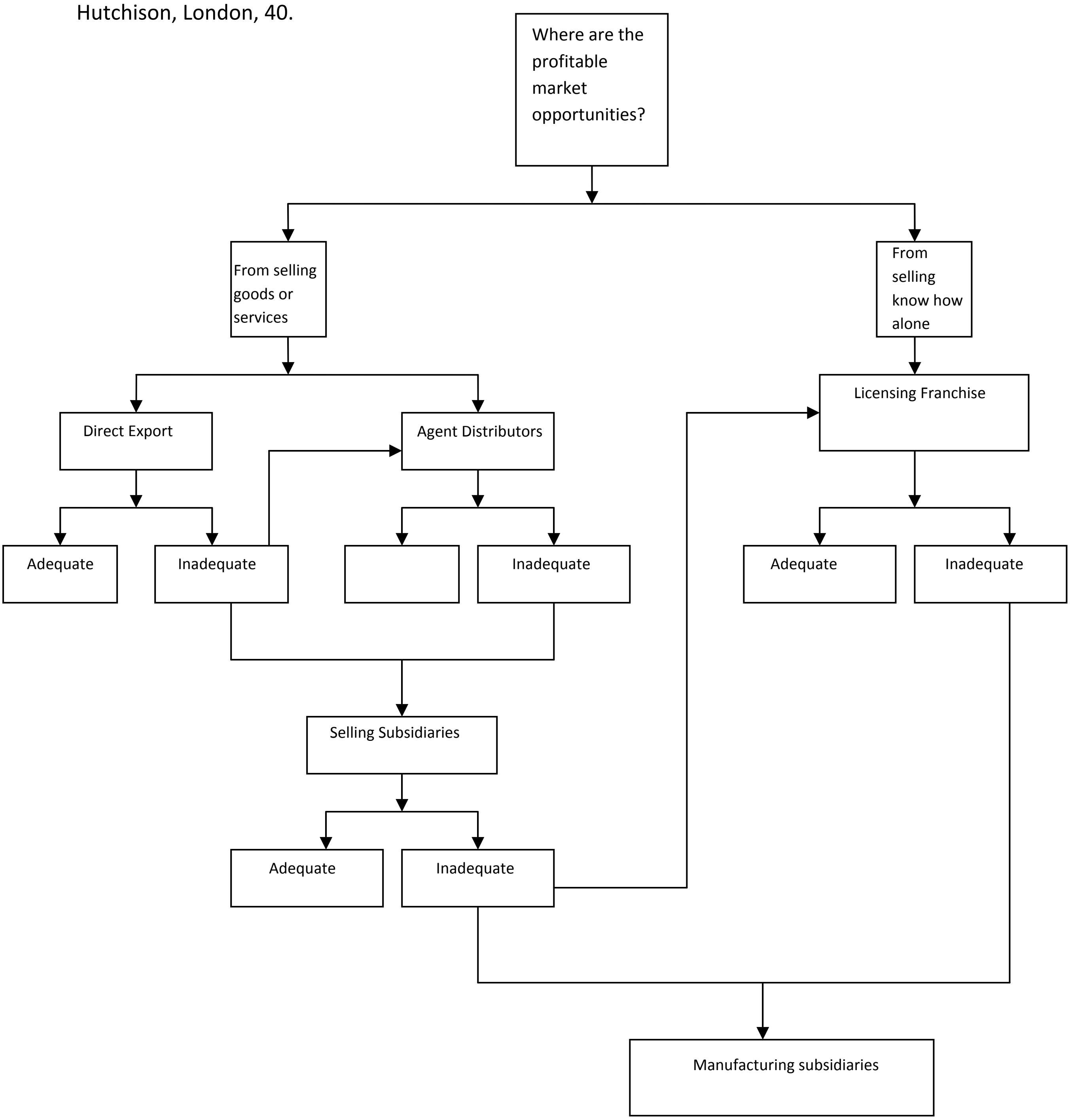
	Generally favours				
	Indirect and agent/ distributor exporting	Licensing	Branching/ Subsidiary Exporting	Equity Investment / Production	Service Contracts
External Factors (Foreign country)					
Low sales potential	X	X			
High sales potential			X	X	
Atomistic competition	X		X		
Oligopolistic competition				X	
Poor marketing infrastructure			X		
Good marketing infrastructure	X				
Low production cost				X	
High production cost	X		X		
Restrictive import policy	X	X		X	X
Liberal import policy			X		
Restrictive investment policies		X			
Liberal investment policies				X	
Small geographic distance	X		X		
Great geographic distance		X		X	X
Dynamic economy				X	X
Stagnant economy	X	X			
Restrictive exchange control	X	X			X
Liberal exchange control				X	
Exchange rate depreciation				X	
Exchange rate appreciation	X		X		

	Generally favours				
	Indirect and agent/ distributor exporting		Branching/ Subsidiary Exporting	Equity Investment / Production	Service Contracts
Small culture distance			X	X	
Great culture distance	X	X			X
Low political Risk			X	X	
High Political Risk	X	X			X
Home country:					
Large market				X	
Small market	X		X		
Atomistic competition	X		X		
Oligopolistic competition				X	
Low production cost	X		X		
High production cost		X		X	X
Strong export promotion	X		X		
Restrictive investment on board	X	X			X
Internal factors:					
Differentiated products	X		X		
Standard products				X	
Service intensive products			X	X	
Service products		X		X	X
Technology intensive products		X			
Low product adaptation	X				
High product adaptation		X	X	X	
Limited resources	X	X			
Substantial resources			X	X	

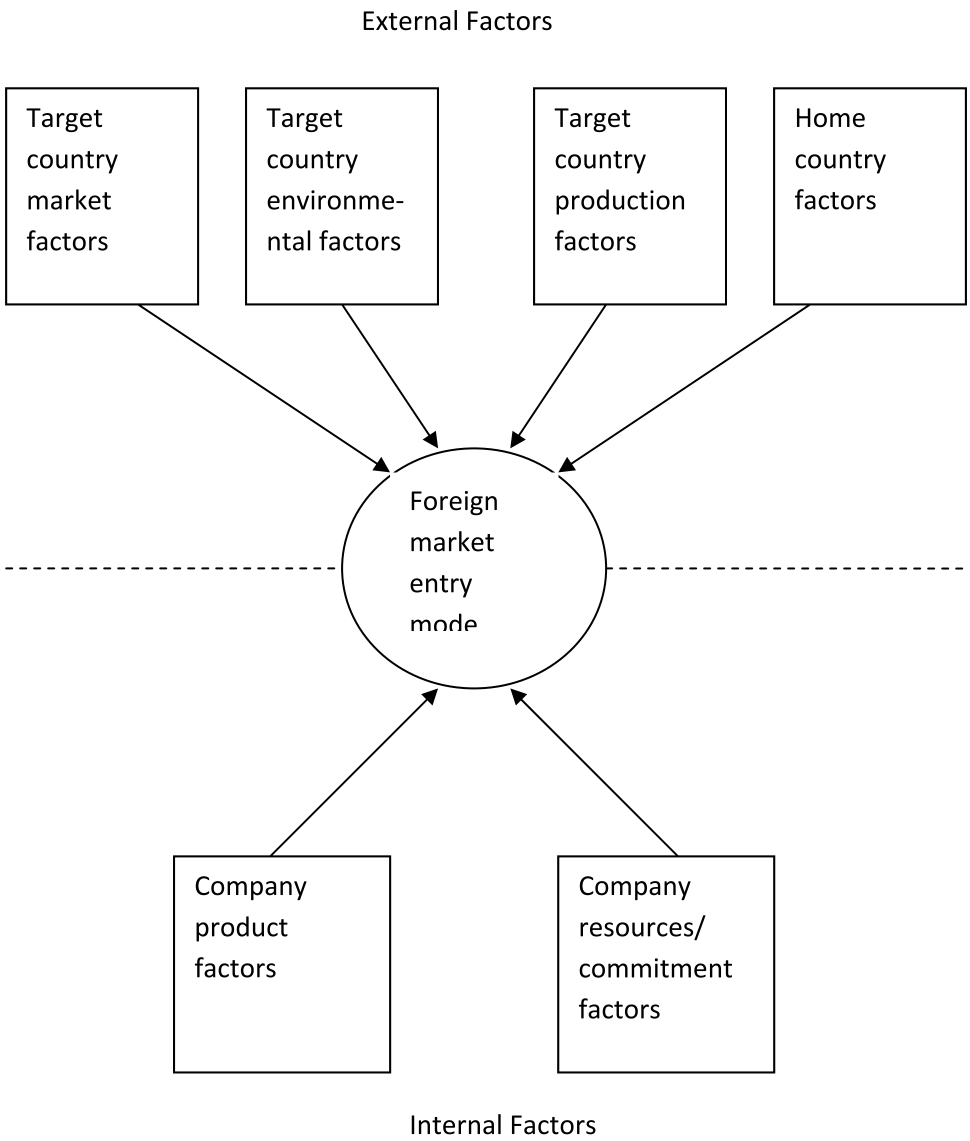
Appendix 6-:

The diagram below: The foreign market entry decision making process.

Source: Brooke, M Z., (1986), International management: a review of strategies and operations, Hutchison, London, 40.



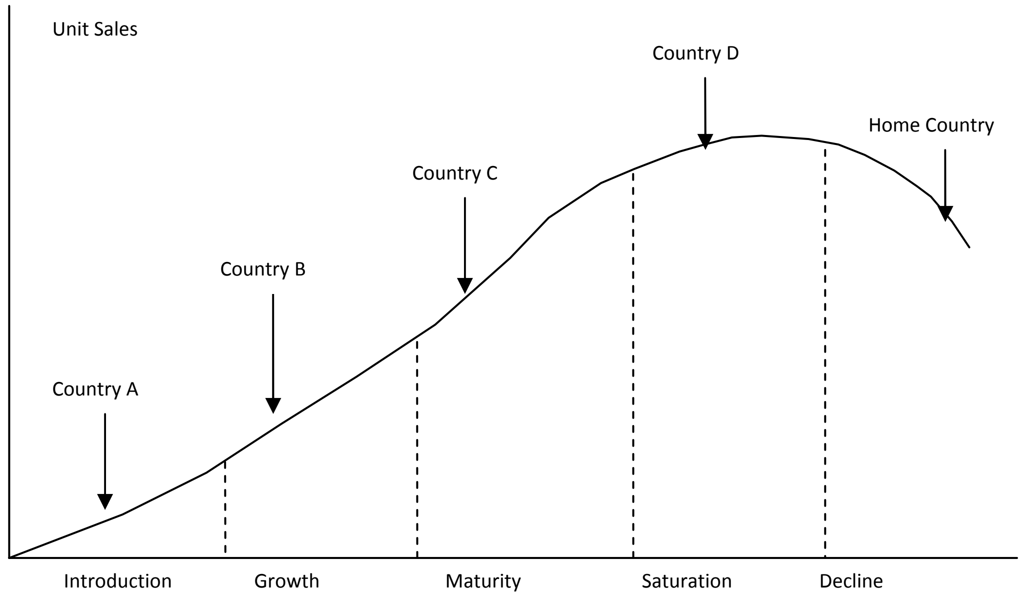
Appendix 7-: The Business Strategy Approach



Factors in the decision making process: Roots, F R. (1987)

Source: Roots, F R. (1987). Entry strategies for International Markets, Lexington Books, D C Heath and Co., Lexington, Mass 9.

Appendix 8-: Global Life Cycle of a product at a given time



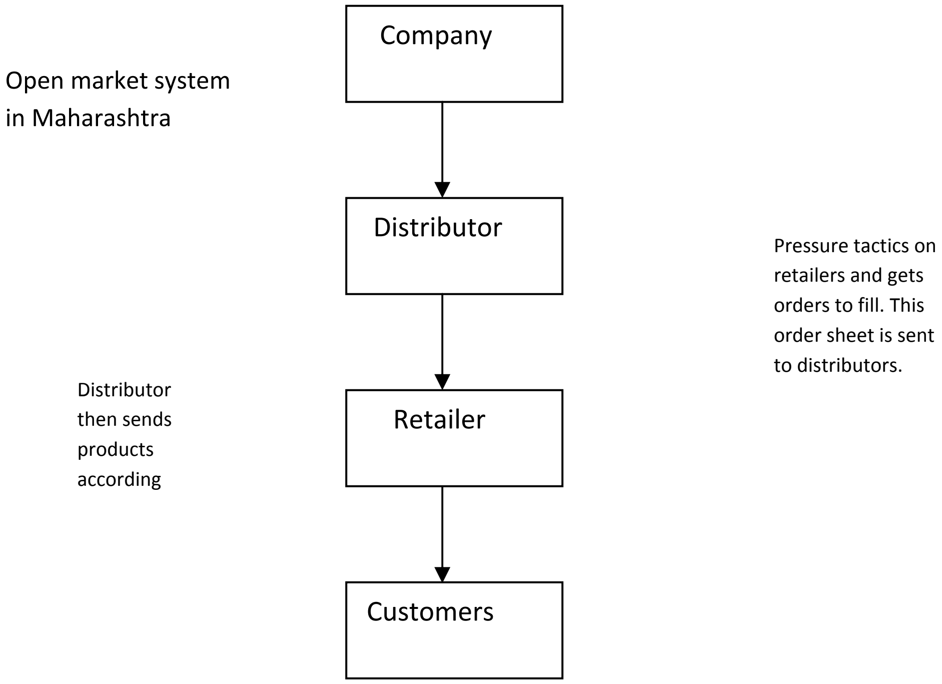
This above Diagram helps us understand that in even though the product has reached the decline market in the home country. The SME can pursue the same product in some other market as in that country the same product can and would be in some other product like cycle stage.

For example the numbers of Mobile phones in Australia have reached a saturated point in the market (Reuters, 2001) but in India they are still in the growth market stage adding more than 10 million new connections on the month of January (RF/Wireless Design, 2009). In comparison in some countries in Africa it is still in the introductory stage.

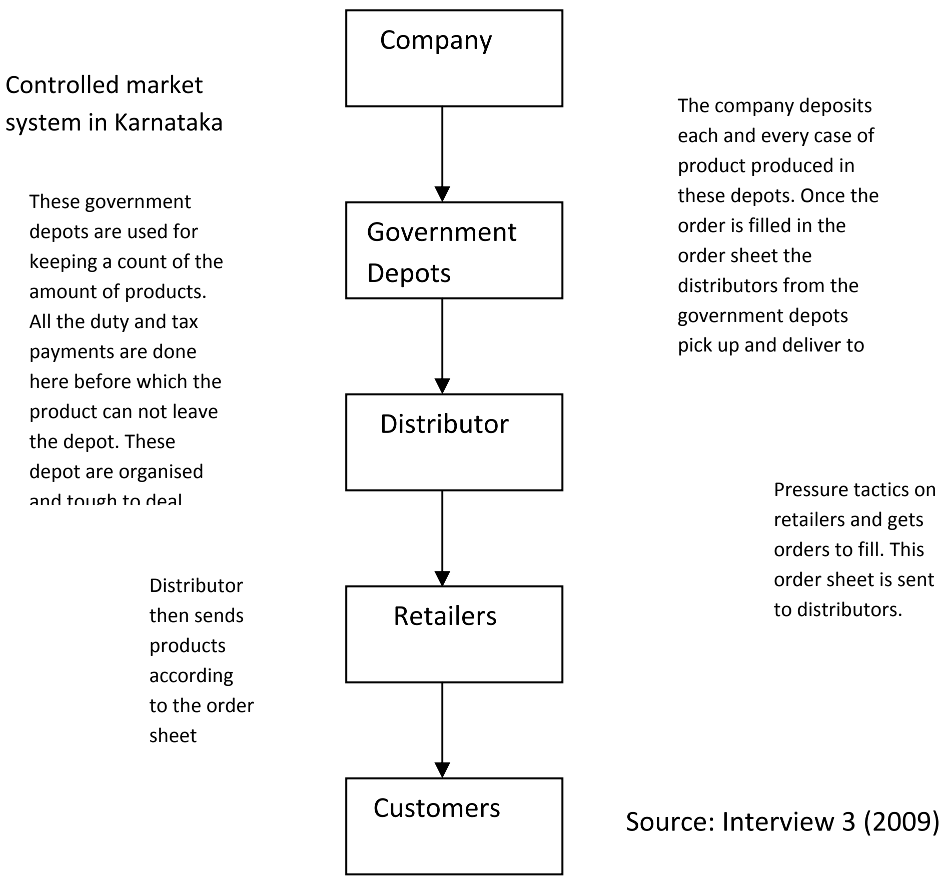
This shows that if SMEs internationalise with the right product at the right time they can be exposed to a new market with immense growth potential.

Source for the diagram: Root, F. 1994. Entry strategies for International Markets-revised and expanded. Jossey-Bass Publishers. San Francisco.

Appendix 9-: The distribution system in Maharashtra



The distribution system in Karnataka



Source: Interview 3 (2009)