

MANAGER'S TOOLBOX | All you need to read



Women and Money

INSEAD Knowledge (<http://knowledge.insead.edu/WomenAndMoney080404.cfm?vid=36>)

Are women better than men at investing—or worse off? “Some studies suggest that women are better investors than men. Dig a little deeper and the picture isn't so clear. What is clear is that too few women take an active role in investing their savings,” says this article. “Since women on average live longer and have lower life-time income than men, it's important that they learn more about investing,” says INSEAD Assistant Professor of Finance, Lily Fang. “(Men) take higher risks and higher risk is rewarded with higher returns, but after you take out the transaction costs... men are slightly worse than women,” she says. In fact, Fang says both men and women tend to under-perform the major market indexes when they trade as individuals. “The more you trade, the more you lose out against a passive index, so compared to men, women might lose out a little less,” she says. Surprisingly, men trade almost 50% more than women.



Connecting with Customers...

Q&A with Gerald Zaltman and Lindsay Zaltman Harvard Business School Working Knowledge (<http://hbswk.hbs.edu/item/5871.html>)

Marketers have always been intrigued with what consumers really need. According to Gerald and Lindsay Zaltman, the best brands offer consumers an emotional meaning that taps into thoughts and feelings related to the positive aspects of transformation. The authors of a new book titled *Marketing Metaphoria* say that “deep metaphors” are powerful predictors of what customers think and how they react to new or existing goods and services. They explain what deep metaphors are all about (basic frames or orientations we have toward the world around us. They are “deep” because they are largely unconscious and universal) and how marketers can use them, with the examples of Coca-Cola and Michelin tyres thrown in.

Bookshelf

There have been an umpteen number of books on Jack Welch. Add one more that claims to tell you the “inside story of how Jack Welch talked GE into becoming the world's greatest company”. Now haven't we heard that sort of line before? The author was Welch's speech writer for 20 years. He claims that the secret to Welch's stupendous success as a leader was his knack to communicate well—coming from his speech writer, it would be understandably so. You would do well by not agreeing with the author to a T. There's a lot more to Welch's rise than just speeches, after all. Having said that, the book is surprisingly well written—unlike a lot of other books in the category. The beauty of the book is the fact that it goes behind the scenes and familiarizes you with day-to-day events and major happenings at GE during Welch's times. Given the author's unique vantage point, that comes as a huge plus.



Jacked Up By Bill Lane Tata McGraw Hill (Price: Rs 325; pages: 314)

THE MICHAEL PORTER INTERVIEW—2

How nations compete

Regional economies today get their competitive edge by specializing in relatively small numbers of fields where they develop unique human resources and infrastructure, argues HBS' Michael Porter

Apart from the discipline of strategy, Michael Porter, the Bishop William Lawrence University Professor at Harvard Business School, has had a lasting effect on the study of countries and their competitiveness. In 1990 he wrote a book, *The Competitive Advantage of Nations*, which, in many ways, changed the way people thought about how nations can compete and prosper. In this book, he introduced the concept of clusters, or concentrations of interconnected companies, suppliers, service providers and associated institutions in a given field in one region. It has now been nearly 18 years since the idea first came into practice. In the second part of his interview with TOI's Neelima Mahajan-Bansal, Porter explains how the same idea still holds true

MASTER MIND

ditions for the industry's product or service; related and supporting industries; and the context for strategy and rivalry. The aspects of the diamond are enduring and can be analyzed for any location.

China now offers a different combination of labour costs and business environment quality that is very competitive. Before, in order to gain very low labour costs, you had to go to a country that was very inefficient in terms of business environment. Today, China presents a new combination of a relatively efficient business environment with low (but rapidly rising) labour costs. One can use the diamond framework to compare China versus the US versus Malaysia versus Indonesia in each particular field. In addition, the diamond can be applied not only at the level of the nation but at the level of a cluster.

My competitiveness theory also stresses the role of regions within a nation. Although India has some commonalities, states and even cities within India are very different in terms of their competitiveness, because they have different business environments and varying strengths in terms of clusters.

Nations are always progressing or falling back. In general, the trend is that the bar is rising—that is, the quality of the business environment is going up. For example, a country like Indonesia would have a much better business environment than a developing country had 20-30 years ago. The central idea in *The Competitive Advantage of Nations* is that all differences in wealth and standard of living ultimately relate to productivity and to the ability of a location to support highly productive business activities.

Q. So what has changed?
A. We now tend to see economies becoming more specialized around clusters where they can achieve high productivity, and the right business environment. We see that in regional economies as well. Regional economies used to be broader. Now they specialize in relatively small numbers of fields where they develop unique human resources, unique infrastructure, unique university access, and so forth.

We are also seeing a greater specialization within clusters in different locations. For example, instead of producing all kinds of footwear, Italy is increasingly concentrating on designing and producing high-end and sophisticated footwear. The less sophisticated products may be produced by Italian firms, but in another location such as Romania.

Q. I'd like to focus on the strategies for globalization. If you look around, there are hardly any companies that are multinational in the true sense of the word. There is hardly any MNC that is present equally in different markets of the world. What are the complexities of drawing up a global strategy when you have large, distinct and differentiated markets?

A. I don't think that's true. For instance, most of General Motors' production and profits are outside the US. It is the leading auto company in China.

GM has a huge position in Europe, Asia and Australia. You'll be surprised how truly multinational companies are today.

One of the reasons US companies have been so successful is that they have been extremely aggressive in moving production offshore. Many Scandinavian

countries also have MNCs operating all over the world, as does Germany.

If you look at the data, you'll see how much internationalization has taken place. This has been the big change over the last decade. Ten or 15 years ago, GM would have produced two-thirds of its output in the US, while Toyota would have had most of its production in Japan. But if you look at Toyota's production today, you'll see a large and growing share of it happening in the US and elsewhere. Also, we are increasingly seeing more internationalization of not just manufacturing but also technological developments.

R&D centres are also sprouting up in different regions of the world, primarily because customer needs in different countries remain different. So companies need to adapt, improve and tailor their products to local circumstances.

The really exciting new development is that companies from developing countries like India and China are increasingly becoming multinational. Indian companies now have major international operations, and have made major international acquisitions. Initially, this never happened until countries became advanced economies. A very intriguing trend you see today is the multinationalisation of firms in developing economies.

Q. If you look at markets—Asia, Europe, America—each is a completely different ballgame. What are the complexities of drawing up a global strategy when you have large, distinct and differentiated markets?

A. I am not sure the markets really are that different. Certainly the consumer markets will be the most different. But I can affirm that when buying a tractor or an aeroplane, you'll have pretty much the same needs all over the world. So what we find is that globalization of the market in commercial and industrial markets is increasing.

On the consumer side, there are differences in income levels, culture, geography and language. What happens in most cases is exemplified by a firm like Nestle, which has very well developed subsidiaries in many different countries and different regions. And each of those different subsidiaries has a common technology and often common brands and products. They deploy those products somewhat differently in India, in Germany, or the US. But there is also evidence that markets around the world are getting more similar. A middle-class consumer in India probably wants the same thing as a middle-class American or a middle-class German. That's why Apple Computer or Perrier bottled water sells worldwide. International cultural differences have a lot to do with income differences, also with ethnic backgrounds. It is complicated to manage a multinational to address such differences.

Another development over the last 20 years is that we have learned a lot about how to manage a truly transnational company. What is really different now is the size of the markets in the developing world. We used to think that the biggest markets were in developed countries like France and Germany. But now we see big markets in nations such as India, China, Indonesia, Poland, and Bulgaria. And today the MNCs produce much more in developing countries. What they don't know how to do very well is to market to economies where consumers have much lower incomes. There's a new understanding that you have to rethink your product for developing countries, where many people have no electricity, for instance. That's a great challenge.

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Yamini Panchal

PERISCOPE SPECIAL DON TAPSCOTT & ANTHONY D WILLIAMS

Platforms for innovation: Why 'being open' makes so much more sense

Mass collaboration is revolutionizing the corporation, the economy, and nearly every aspect of management. Today, web-enabled teams numbering in the thousands or even millions are creating encyclopedias, jetliners, operating systems, and many other things that used to be produced by conventional firms. This series explains new business models that will empower the prepared firm and destroy those that fail to adjust

Conventional wisdom says that “being open” is rather like inviting your competitor into your home only to have them steal your lunch. But in an economy where innovation is fast, fluid and distributed, conventional wisdom is being challenged.

A growing number of smart companies are learning that openness is a force for growth and competitiveness. As long as you're smart about how and when, you can blow open the windows and unlock the doors to build vast business ecosystems on top of what we call “platforms for innovation”.

Amazon, eBay, Google, and flickr represent a new breed of innovators that know how to make platforms for innovation work. They've opened up their applications and business infrastructures to create a global stage where hundreds of thousands of customers and partners add value and establish synergistic businesses. Amazon, an open platform prodigy, harnesses the power of 140,000 active software developers and gains nearly 30% of its revenue from 975,000 third-party sellers that leverage its e-commerce engine.

Here's how Amazon does it. It takes a massively sophisticated online ordering, inventory and distribution infrastructure and hands over the keys to just about anyone. They call it web services. In plain English this means that third parties get access to a significant proportion of Amazon's proprietary software code, and virtually all of its product data, over the web. This makes it easy to build compatible applications and services that will drive more traffic, more clicks, and ultimately more purchases through Amazon's online system. Third-party sellers and developers stand to make between 3% and 7% commission on the revenue they create for Amazon, so everyone walks away a winner.

Conventional wisdom says Amazon should closely guard all of its proprietary tools and data, but the opposite is true today. The new web makes collaboration easy for people and firms. When you open up certain assets and invite people to come in, you can actually increase the speed, scope, and success of innovation.

Jeff Barr, who runs Amazon's web services program, says developers and marketplace sellers are “increasing the surface area of Amazon”. They add more and more things to sell, in more and more places on the web. All of this happens in a completely self-organizing fashion, which makes Amazon's already low overhead even lower.

Giving away the keys to your most prized assets is not something you should take lightly. Shai Agassi, SAP's

product and technology group president, says “It's almost like you're taking down your borders and opening up for no tariffs, no tax competition. You need to know that your core assets and your skill sets allow you to continue to innovate fast enough as a corporation.”

SAP would know. The company just opened up 30,000 application programming interfaces (APIs) to its market-leading enterprise software platforms. Agassi does worry that competitors



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could come in and try to eat SAP's lunch. “But our customers love it,” he says. “A large pool of innovative software companies can now provide them with additional solutions with integration by design, not integration as an afterthought.” SAP's platform for innovation now includes over half a million independent developers.

In an economy where growing numbers of individuals eek out a living as free agents, open platforms become all the more important. Agassi has a nice way of putting this. He says, “Most of the free electrons will gravitate toward the biggest centres of gravity.” In other words, companies can harness today's global pool of free agents by creating dynamic platforms for innovation that provide opportunities for partners to share in the profits.

Tapscott is the founder and chairman of *New Paradigm*, a technology and business think tank and part of the BSG Alliance. Williams is an author, researcher and former lecturer at the London School of Economics. He is vice president and executive editor at *New Paradigm*.

RCom joins hands with Alcatel-Luc

TIMES NEWS NETWORK

Mumbai: Reliance Communications announced a joint venture agreement with telecom equipment provider Alcatel-Lucent for network management services. The JV will foray into the \$16-billion (Rs 64,000 crore) managed network services industry and will cater to both CDMA and GSM telecom operators across the globe. It is expected to generate revenue of \$500 million in five to seven years. Reliance Communications, India's second-largest mobile operator, said on Monday it would own 33% of the venture, with the French-American partner owning the remainder. A new legal entity is being formed as part of the joint venture. Alcatel-Lucent will have the operational control of the new entity, which is yet to be named. Reliance Communications is represented in the venture through a wholly-owned subsidiary. The joint venture would expand its operations in the global arena once it is up and running.

The joint venture, which will employ about 1,000 people initially, will first provide managed services for Reliance Communications' CDMA and GSM networks in India. AGENCIES

India cheapest Bric mkt, may get cheaper on costs

Investors are punishing stocks in India more than in any of the other large emerging markets as government measures to curb inflation cut profits at companies from Steel Authority (SAIL) of India to Grasim Industries.

SAIL, India's second-largest producer of the metal, last week was valued at nine times projected earnings, 41% less than at the start of 2008.

The ratio for Grasim, the nation's third-biggest cement maker, dropped 32% to 8.5. Price-to-earnings for the entire Indian market slumped 33% as foreign investors turned net sellers for the first time since at least 2000, more than in Brazil, Russia and China, where they fell 10-31%, data compiled by Bloomberg show.

Investors are showing less faith in India—even after sensex jumped 13% from its March low—because companies produce fewer commodities than Russia and Brazil, the nation's GDP is growing slower than China's and a scarcity of coal, oil and iron ore drove inflation to a three-year high. “I'm just not finding a compelling reason to be in India,” said Uri Landesman, who oversees \$5.5 billion as head of global growth and in-



CURRENCY WOES

ternational equities at ING Groep NV's asset management unit in New York. “With little natural resources given their population, inflation might be a problem and the government might end up quashing some of the GDP growth.”

India is also the only so-called Bric market where Landesman, 46, isn't invested after he sold the last of his Indian stocks at the start of the month. He declined to name them. Bric is an acronym coined by Goldman Sachs Group in November 2001 to encompass four emerging markets it predicted will join the US and Japan as the world's biggest economies by 2050.

ington-based IMF Overseas fund managers pulled a net \$3.03 billion out of Indian equities in the first three months of 2008, Bloomberg data show. That's the first time foreigners have been net sellers on a quarterly basis since the data were first compiled in 2000.

“There are no triggers really for the markets to move up,” said Mahesh Patil, who helps manage \$8.8 billion at Birla Sun Life Asset Management in Mumbai.

The declines have made stocks too cheap for some investors to pass up. Prudential ICICI Asset Management, India's biggest money manager, and Merrill Lynch's local management unit are among those betting on India's plan to spend \$1 trillion this decade on roads, railways and airports. “We remain very positive,” said Michael Konstantinov, Frankfurt-based CIO for emerging market equities at RCM, a division of Allianz Global Investors, which oversees \$435 billion. “I'm looking for the right time to increase our holdings.”

UBS AG, the top-rated research firm for Asian equities in *Asiamoney* magazine's 2007 broker poll, is more skeptical. BLOOMBERG

Inflation may dip to 5%: Rangarajan

New Delhi: Inflation is expected to come down to the acceptable level of 5% to 5.5% after four months due to an anticipated good monsoon and measures taken by the government and Reserve Bank, Prime Minister's Economic Advisory Council chairman C Rangarajan said on Monday.

“Inflation is likely to come down to 6% in the next three to four months. Thereafter it can come down to 5-5.5% depending upon the monsoon and other sectors,” he told reporters here on the sidelines of an international tax conference.

It is not only due to monetary measures announced by the Reserve Bank, but due to other factors as well, he said. Also, it would be due to the base effect, as inflation was rising at a slower rate at this time last year. Despite all assumptions, it would come down, he said. “Much will depend upon the monsoon, much will depend on the way how the output behaves.. It is possible to go down to 5 to 5.5% At present, the expectations are that monsoon will be good,” he said. He also said the high oil crude oil prices, which have crossed \$120 a barrel, could slow down the GDP growth though it would not “derail” it. AGENCIES

IBM, ISB tie up for research

Hyderabad: IBM India and Indian School of Business (ISB) have signed a two-year agreement for open collaborative research (OCR), the first such in Asia, aimed at improving the competitiveness of the services sector.

The meaning of OCR is that the results of the research would be available openly to everyone in the industry. “IBM would, however, have the first mover advantage,” said Guruduth Banavar, director of IBM India Research.

According to him, the research would focus

on ‘services supply-chain management’, especially in a business to business environment, a relatively new area of study.

The research will be led by the Centre for Global Logistics and Manufacturing Strategies (GLAMS) at the ISB and Indian Research Laboratory of IBM.

The joint research will study mathematical modelling techniques and social networks to enable organisations to improve the way people work in a service chain. TNN

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