

EXPANDING FROM NEW REGIONS

15.220--Global Strategy and Organization

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ICICI Discussion Framework

- Context
- Why Go International
- Opportunity / Competitive Positioning
- Process of Internationalization
- Competencies Required/Coherence of Resulting Strategy & Organization
- Where is ICICI Today?

ICICI Context—History and Banking Industry

Quick facts about ICICI

- ICICI - Industrial Credit and Investment Corporation of India – was formed in 1955
- It was an **initiative** of the World Bank, the Government of India and representatives of Indian industry with the **principal objective** to create a development financial institution for providing medium-term and long-term project financing to Indian businesses
- In the **1990s**, ICICI **transformed** itself from a development financial institution to become a diversified financial services group.
- In 1999, ICICI became the **first Indian company and the first bank** or financial institution **from Asia** (non-Japanese) to be listed on the **NYSE**.
- ICICI is **nowadays India's second largest bank** with assets of US\$ 38.5 bn and profits after tax of US\$ 461 mn

Quick facts about the Banking Industry in India

- The financial services sector in India has been historically very regulated and mainly controlled by the government.
- 1980s → 90% of the branches in the country were controlled by the government after a series of nationalizations in 1959, 1969 and 1980.
- “However, as might be expected in a nationalized industry, banks in India were characterized by their inefficiency, high intermediation costs and high non-performing assets (NPAs).”
- In the mid 80s and early 90s, the financial services sector began a transformation that was part of a comprehensive reform process that impacted the entire economy in India

Context - Indian Diaspora

- About 6 million Indian citizens and a further 12 million persons of Indian origin (PIO) lived outside India in 2001, and together were estimated to have a combined wealth of over \$300 billion.
 - From those, 4.1 Million are in the GCC (Gulf Cooperating Countries), 2.2 Million are in the UK, 1.7 Million in the US and 0.8 Million are in Canada

	GCC	UK	US	Canada
Indian Diaspora (Millions)	4.1	2.2	1.7	0.8
Remittances (Million \$)	5000	1500	5200	750
Average Remittance Per Person (in \$)	1219.512	681.8182	3058.824	937.5

Should ICI Go International?

As part of its international strategy, ICICI should cater to the Indian population abroad as well as to the NRI population looking to expand their businesses internationally. Given the leaner and more responsive structure of ICICI, the company is well suited to cater to international markets (Mirza Ahmed, Barry Bunn, Masahide Kawakami, Hyunyoung Kim, Damien Liot)

..they should focus in the Indian market ...the market in India is big and very promising in the near future, the competition is going to India to compete with them and the effort to deliver a good service and portfolio outside India is going to be really hard and the competition in the outside market is huge. (Roger Skogmo, Chris Stepanian, Rupin Mohan, Hiroshi Onuki)

We do not recommend ICICI to expand internationally before taking up a larger place in the domestic market. Technology innovation and excellent management team can lead to the success in the domestic market. By building a back office support outsourcing group, ..ICICI can build partnerships ..to better position itself for future expansion into foreign markets (Justine Li, Rohit Kashyap, Steven Martin, Virgil Chan)

ICICI has been very successful in India by using technology to become a more efficient financial institution. However, this competitive advantage is limited to local level (Pierre Cleroux, Xoliswa Kakana, Nobu Takei, William Harrison)

Why Internationalize?

- **Running out of space in India?**
 - Still weak, dominated by state owned
 - But public ownership, dispersion is barrier
 - Spreads already narrowing -- 3 yrs from 9 to 3.5
 - Long way to go to consolidate ICICI as Indian bank
 - **Great opportunities abroad**
 - NRI's
 - India Inc going international
 - Other countries with weak infrastructure that can be leapfrogged by tech
 - BPO
 - **Industry requires global scale?**
 - **Going Head to Head with the Best (Ghoshal et al)**
 - **Learning, Differentiating ICICI in India** >> Established Int'l's, Indian International, Domestic
 - **Diversification**
- RATs >> which models, competencies relevant?
Platforms >> In what way can internationalization strengthen these core competencies for both India and abroad? –

ICICI

- **What is ICICI good at?**
 - Very efficient bank (process, services, technology) – late mover advantage in Financial Services
 - Products targeted at the Indian Immigrant Community
 - Recognized Indian Brand
- **Services**
 - Front-office: Products & Services targeting the Indian Diaspora
 - Under ICICI Brand name
 - White-label
 - Back-office: Services offered to other banks
- **Markets**
 - Given ICICI core competences, what should be the positioning of ICICI in terms of products and services internationally?

Opportunities – Customer Needs

Desired value prop	
Customer segments	
NRIs	
Indian Firms Small Large	
BPO	

Opportunities – Mkt Potential

Market Potential	US, Canada	UK	Gulf	Asia
Customer segments				
NRIs				
Indian Firms Small Large				
BPO				

Targeting Markets/Customers

Phase 1 - Target the countries which are actively trading with India

Phase 2 - Target the Non Resident Indians and Persons of Indian origin who still maintain contact with India

- Phase 3 - Start tapping other potential international customers who are doing business in India.

- Phase 4 - take advantage of home grown skilled labor force in information technology and do compilation of data, its reconciliation and offer these services to international financial industry.

Our recommendation is a variation on the India strategy. We believe that ICIC's best strategy is to focus on its domestic market, and to offer extensive on-line services in foreign markets. This strategy would leverage the cultural ties of NRI to India strengthening the domestic banking business in India, while expanding into the foreign markets in a way that is less capital intensive. This strategy also leverages ICIC's capabilities in IT and business processes.

(Karen Kotkow, Martin Croot, Diego Parlaghy, Chihon Park, Franco Herrera)

- As ICICI grow it should follow the following criteria:
Focus on countries with:
 - market size (>\$5B GDP),
 - high growth potential (>2% growth),
 - significant Indian populations (Indian population >5% of local population)

Market Segments/Required Capabilities

Segment	Potential *	Key Location (s)	IT remittance platform/Indian distribution				
NRI- \$\$\$		Gulf					
NRI - \$\$		UK, US, Canada					
NRI-\$		Gulf					
Small Indian Firms							
Big Indian Firms							

Market Segments/Required Capabilities

Segment	Potential *	Key Location (s)	IT remittance platform + Indian distribution	Indian asset mng't capability	Indian credit capability	Country of residence products, presence	Multi-country transactions, clearing
NRI- \$\$\$		Gulf	X X	X	X		
NRI - \$\$		UK, US, Canada	X X X	X X	X	X	
NRI-\$		Gulf	X X		XX		
Small Indian Firms			X X	X X	X	X	
Big Indian Firms			X	X	X	X	X

*Need to compute revenues – variable cost of account * # - fixed cost of infra.

** Consider advantage viz local, CITI/HSBC

Targets and Sequencing

In international markets with a large NRI population, ICICI could partner with a company that has a large network in the geography being penetrated (e.g. in the US they could partner with Wells Fargo which has an extensive nationwide network). They could also introduce a direct banking service or a virtual bank service to create easier access to the bank without having to incur with the costs of international branch offices. (Yining Zhao, Merritt Mayher, Flavio Fomin, Frank Parker)

It should not arrive at its decisions on which markets to explore based on just modeling and reasoning. Instead it should experiment in all 3 of these markets in an intelligent fashion. It should begin by establishing a base or an "outpost" which it can gradually grow in strength into a "source" and perhaps later into a "lead". (Christopher Stepanian, Venkat Rangamani)

"Success in rural, then surround and conquer cities".. Applying this approach to ICICI, they could begin to build their foot print by targeting developing countries first, regardless of NRI population, where competition is not as intensive as in advanced country, leveraging their cost effective and technology based competitive advantage. When they accumulated enough experience and financial muscle, then they could enter developed countries like the US and EU in a later step. (Masaharu Aiuchi, Peter Curley, Tuang Lim, Brian Wilson, Kent Xu)

Retail banking involves a multitude of services which require not only technical and financial expertise in this sector, but also significant visible presence and understanding of the local cultures. To the extent that ICICI does decide to expand, it has to make incremental moves in the foreign market. It's probably prudent to pick one region and start building a global brand from there. (Carla Burigatto, Yoshiro Tokoro, Paulo Centeno, Gaurav Gupta)

Process – Targets and Sequencing

Market Potential Platform Customer segments	US, Canada	UK	Gulf	Asia
NRIs				
Indian Firms Small Large				
BPO				

Entry Mode: Its all about A and T!!

How Breadth	Greenfield	Acquire	JV
Few products			
Broad range			

Where else?

ICICI could also try to identify markets in the world, which have conditions similar to those that permitted the success of the company in India, and install a subsidiary there. Same issues, same solutions. By replicating its successful Indian strategy, ICICI could, thanks to its technology and offers, fill the gap of un-existing services in other region of the world, and capture significant market share there. Typically, developing countries in a transition phase could be interesting targets. (Lars Husby, Etienne Barritault, Eduardo Amorin, Michael Chiu, Adrien Lehideux)

Checklist -- Does this get you where you were planning to go?

- What is required set of competences vs. potential
- What are required resources vs. potential
 - \$
 - Int'l staff
 - Local staff
- How well does it meet goals
 - Strengthening, differentiating Indian base for sustained profitability
 - Creating sustainable profitable international business
 - Diversification
- Compatibility of different positioning in different locations (+ options for future expansion)

Questions for Dell-Lenovo

- How has the PC industry evolved in recent years? What markets will exhibit the best opportunities in the future?
- What are the key differences between Dell and Lenovo's business models?
- Is Dell's model and strategy working in the Chinese market? What difficulties is the company encountering?
- How should Lenovo approach the US market? Do you think the decision to launch the new Lenovo 3000 series is a good move for Lenovo? Can a firm compete with different business models in different locations?
- Do you think that Lenovo's acquisition of IBM will/could be a success story? How quickly do you think that Lenovo should drop the "IBM" name in favor of marketing a new, unknown brand in its place?