

**Nayak, A. (2019).**  
*“Bharti Airtel Acquires Resources & Companies”.*

**PROF. DR. NORIFUMI KAWAI, MPIA (Pittsburgh)**

International Business & Trade  
Università degli Studi di Bergamo  
Dipartimento di Scienze Aziendali  
Bergamo, ITALY

# “Bharti Airtel Acquires Resources & Companies”



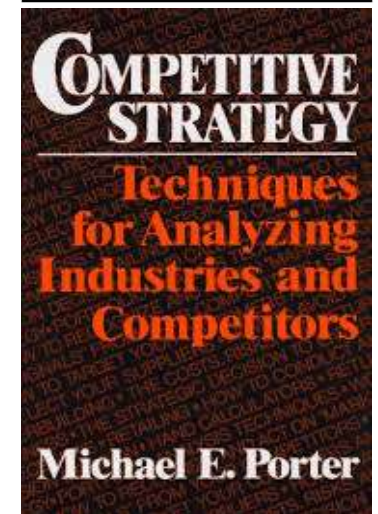
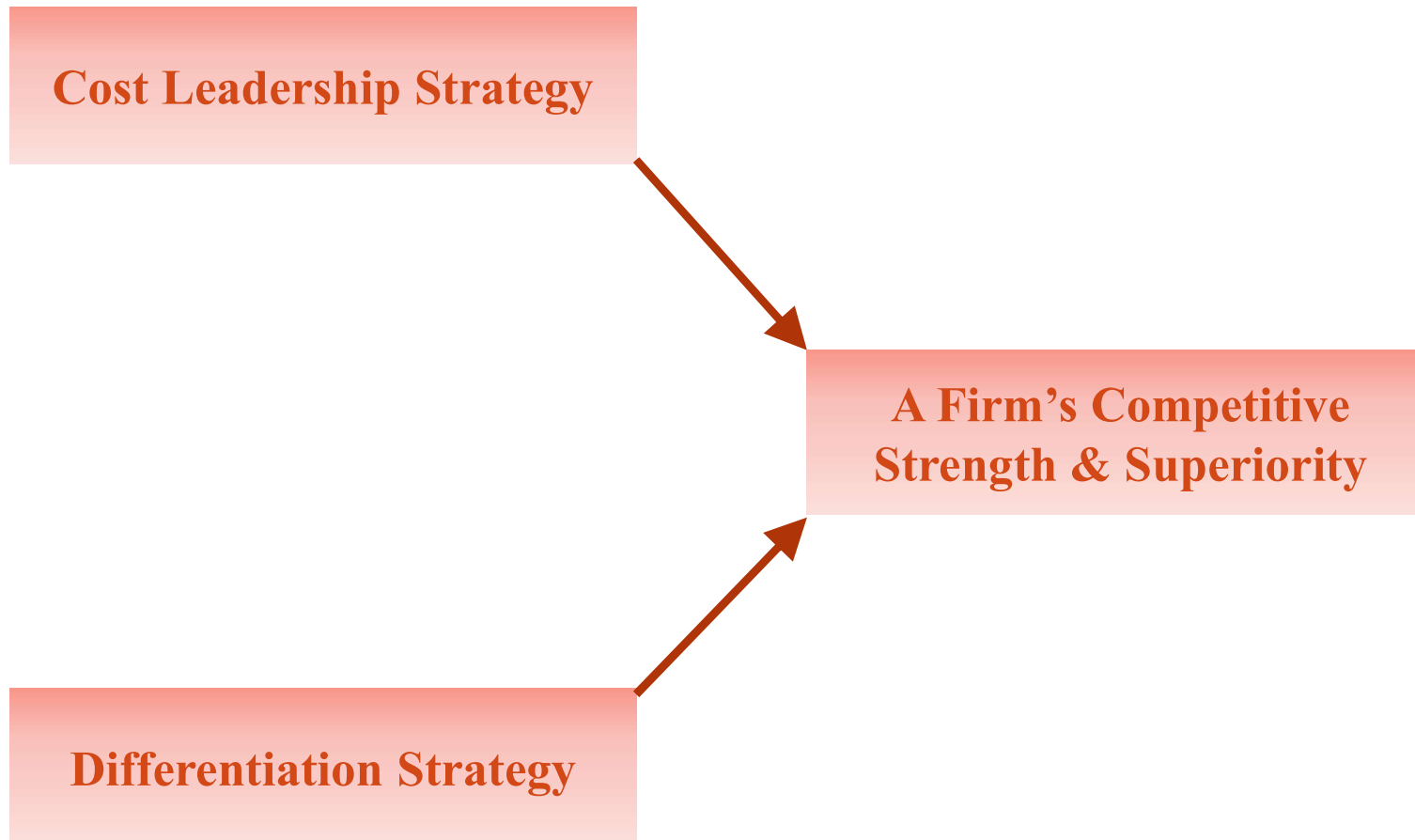
## ■ Discussion Points

- ❖ From **a resource-based view** of the firm, what are **Bharti Airtel’s main resources**? How were these resources built, & how do they shape its ongoing path of growth?
- ❖ From **an institution-based view** of the firm, how are the **challenges of entering emerging economies** (Bangladesh & Africa) different from entry in Western European economies?
- ❖ Compare **Bharti Airtel’s approach to internationalization** with that of **European MNCs**. To what extent is **Bharti Airtel’s model** unique to emerging economy MNCs?
- ❖ What are the **implications** of the **rise of emerging economy MNCs** (Bharti Airtel) for globalization?

# “Bharti Airtel Acquires Resources & Companies”



## ■ Porter’s Generic Strategic Model



# “Bharti Airtel Acquires Resources & Companies”



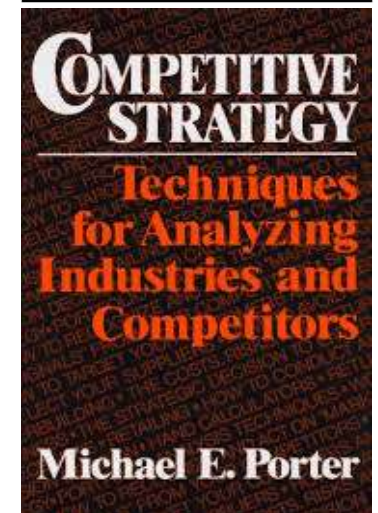
## ■ Porter's Generic Strategic Model

### Cost Leadership Strategy

- ❖ The “*aggressive construction of efficient scale facilities, vigorous pursuit of cost reductions..., & cost minimization in [various] areas*” (Porter, 1980:35).
- ❖ Low cost positions lead to **above-average returns** due to a lower price.
- ❖ **WHAT** makes it possible to be successfully achieved?
  - Scale economies
  - Value chain systems
  - Inter-firm cooperation



A Firm's Competitive Strength & Superiority



# “Bharti Airtel Acquires Resources & Companies”

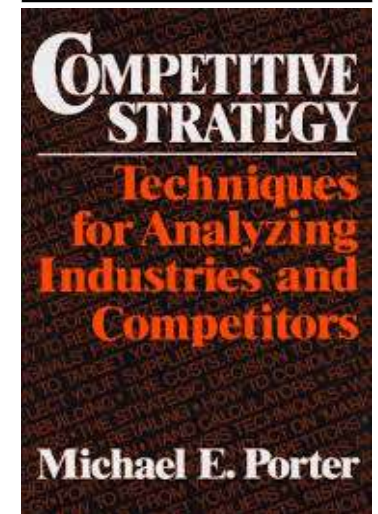


## ■ Porter's Generic Strategic Model

- ❖ Superior service, innovative features, strong brand names, effective promotion programs, **unique image**
- ❖ ... achieves high levels of **customer loyalty & satisfaction**.
- ❖ A **unique image** enables the firm to attract **new customers & introduce new products**.
- ❖ How? Labor quality, high-quality materials & components, low defect rates, efficient production methods & sophisticated production facilities.
- ✓ **Brand:** Harley Davidson & Mercedes Benz.
- ✓ **Positioning:** Domino Pizza. “30 minutes delivery”.
- ✓ **Technology:** Apple.
- ✓ **Insurance Policy:** Hyundai.

**Differentiation Strategy**

**A Firm's Competitive Strength & Superiority**



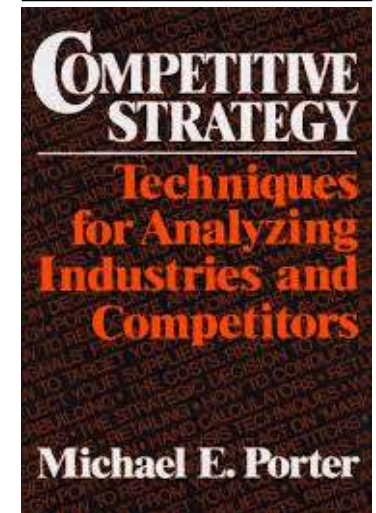
# “Bharti Airtel Acquires Resources & Companies”



## ■ Porter’s Generic Strategic Model

### ❖ Risks Involving Cost Leadership Strategy

- (1) **Technological changes** result in wasting previous investments & knowledge accumulation.
- (2) **Rapid changes in customer tastes** damage cost leadership positions.
- (3) Cost leadership positions may be **threatened by competitors’ pursuit of scale economies by imitating your products & expanding sales capacity.**



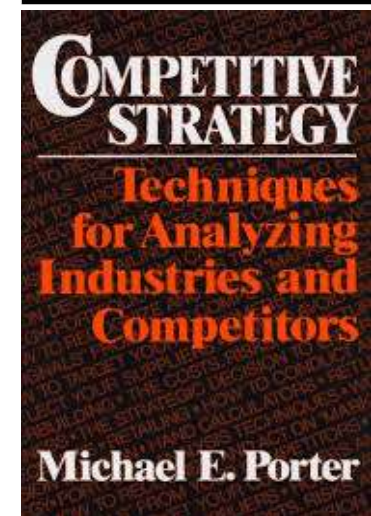
# “Bharti Airtel Acquires Resources & Companies”



## ■ Porter’s Generic Strategic Model

### ❖ Risks Involving Differentiation Strategy

- (1) It requires a lot of investments in R&D & advertisement campaigns.
- (2) Buyers may stop thinking your products as unique, although you are trying to differentiate your products from those offered by your competitors. You may have achieved a differentiation strategy in the past, but risks may arise once you are **satisfied** with your differentiation positions **without knowing rapid changes in market & technology conditions**.
  - In order to handle this problem, your company must **constantly reinvest in consolidating your differentiation positions**.



# “Bharti Airtel Acquires Resources & Companies”



## ■ Combination Strategies: Low Cost & Differentiation

### ❖ Adopting Automated & Flexible Manufacturing Systems

- Firms can produce unique products in relatively small quantities at lower costs (*i.e.*, **mass customization**) adopting **CAD/CAM**.

### ❖ Using Data Analytics

- **Analyzing data enables firms to better customize product & service offerings to customers** while more efficiently & fully using the resources of the firm.

### ❖ Exploiting the Profit Pool

- **The potential pool of profits will be deeper in some segments of the value chain than in others.**
- Some airlines (*e.g.*, **EasyJet, Ryan Air**) have expanded the profit pools of their market **by adding fees for a variety of services.**



# “Bharti Airtel Acquires Resources & Companies”



## ■ Potential Pitfalls of Combination Strategies

### ❖ Ending Up Being in “Stuck in the Middle”

- Mainline supermarket chains fall in “**stuck in the middle**” as their cost structure is higher than discount retailers offering groceries & their products & services are not seen by consumers as being as valuable as those of high-end grocery chains.

### ❖ Miscalculating Sources of Revenue & Profit Pools”

- If the manager’s background is in **engineering**, he or she might perceive that **proportionately greater revenue & margins** were being created **in manufacturing, product, & process design** than a person whose background is in a “**downstream**” value-chain activity (e.g., marketing). → **Perception traps.**

# “Bharti Airtel Acquires Resources & Companies”



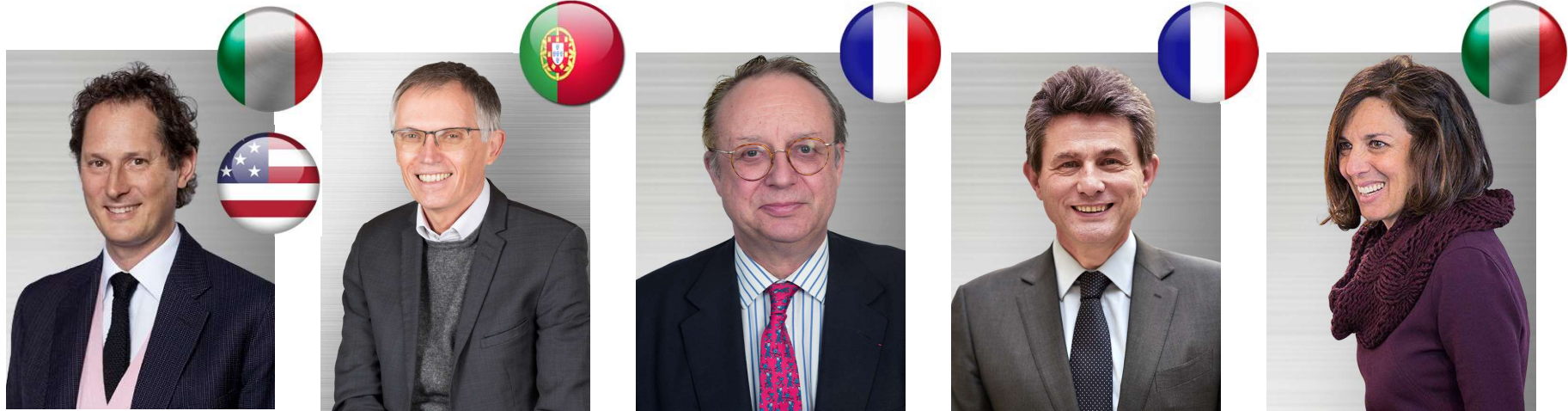
## ■ Why Does Board Internationalization Matter?

- ❖ ... represents a “step” forward in a firm’s globalization process (Oxelheim & Randøy, 2003).
- ❖ Foreign directors usually possess the **necessary knowledge & contacts in foreign markets** to link the firm to the **different contexts** of the countries in which it operates (Carpenter et al., 2001).
- ❖ Foreign directors extend to the provision of **managerial expertise & technical collaborations** → **creativity & innovation** (↑) (García-Meca et al., 2015).
- ❖ ... enable the **gathering, analysis, & interpretation of information** on **global market opportunities** (Barroso et al., 2011).
- ❖ ... will have a **more open-minded attitude towards other cultures** (Barroso et al., 2011).

# “Bharti Airtel Acquires Resources & Companies”



## ■ Stellantis: Board Internationalization



**Hubbard, N. (2013). “*Fast Retailing & Lotte*”.**

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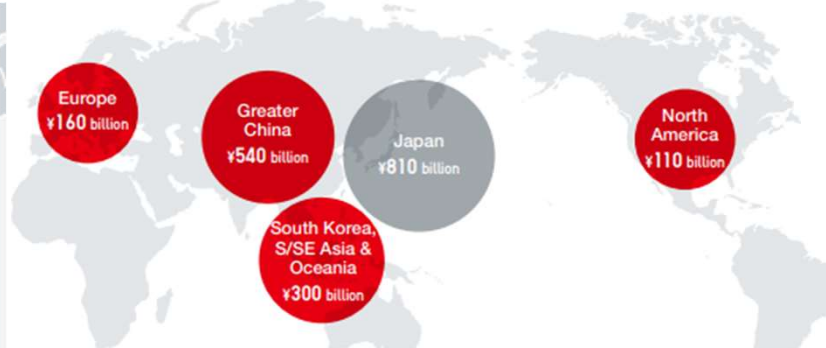
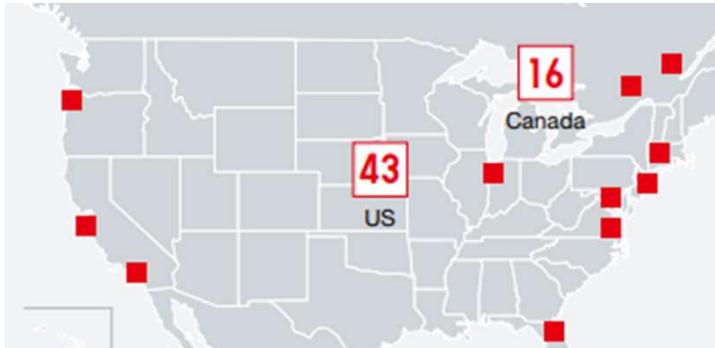
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Dipartimento di Scienze Aziendali  
Bergamo, ITALY

# “Fast Retailing & Lotte”

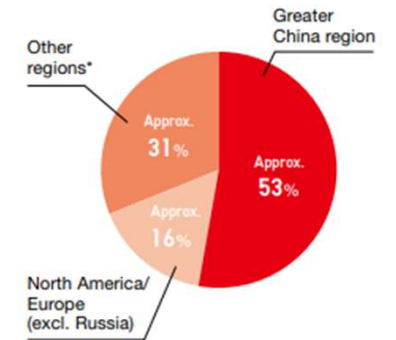


## Fast Retailing

UNIQLO International Sales by Region (FY2022)

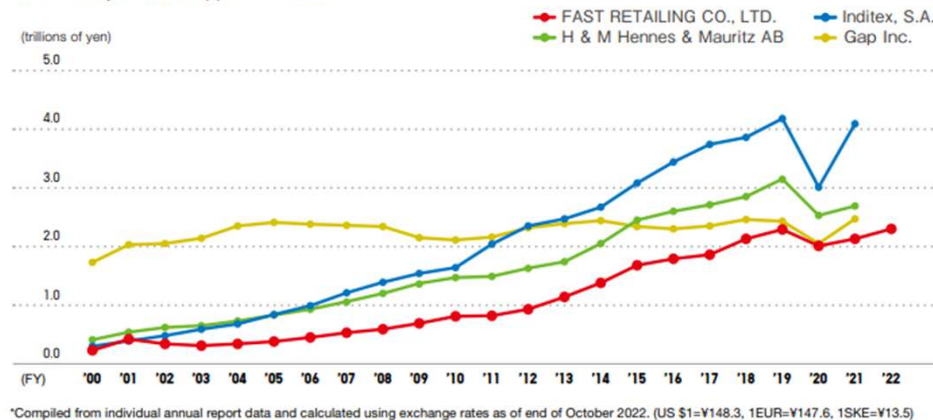


UNIQLO International Operating Profit by Region (FY2022)



**Q. Please explain the core discussion of the case of FR & Lotte.**

Sales of Major Global Apparel Retailers



Source: Fast Retailing Integrated Report 2022.

# “Fast Retailing & Lotte”



## ■ Key Points

- ❖ **FR’s staged equity approach** to acquiring **Theory** in the **US**.
  - A minority stake in Theory in **2004** → Full control in **2009**.
- ❖ Entering the fast-growing & lucrative **South Korean market** via a **JV** with **Lotte** (South Korean retail developer).
- ❖ **Lotte’s rich experience of multiple JVs projects** (e.g., IMAX).
- ❖ **What drove FR & Lotte’s JV to be successful?**
  - **Extensive talks** between **senior management teams**.
  - **Face-to-face interactions** on a **quarterly basis** at the **highest level**.
  - **Intensive trainings** to understand FR’s **operational processes & unique organizational culture** → **Partner knowledge** (↑)
  - **Mutual trust, mutual understanding, & mutual commitment**.
- ❖ **A win-win relationship building over many years.**
  - **FR** (local brand recognition / locations) & **Lotte** (excellent tenants).

**Hubbard, N. (2013). “*Teva Pharmaceuticals*”.**

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# “Teva Pharmaceuticals”



## ■ Discussion Points

- ❖ What are possible ways to calculate the **degree, intensity, & depth of firm internationalization** in general? Assess the **level of Teva’s Pharmaceuticals’ internationalization**.
- ❖ What is **Teva’s Pharmaceuticals’ main FDI strategy**?
- ❖ The author argues that it is inevitable for foreign firms to investigate the **unique characteristics of the Japanese pharmaceutical market**. Any specific examples?
- ❖ What are possible **managerial implications**?



# “Teva Pharmaceuticals”



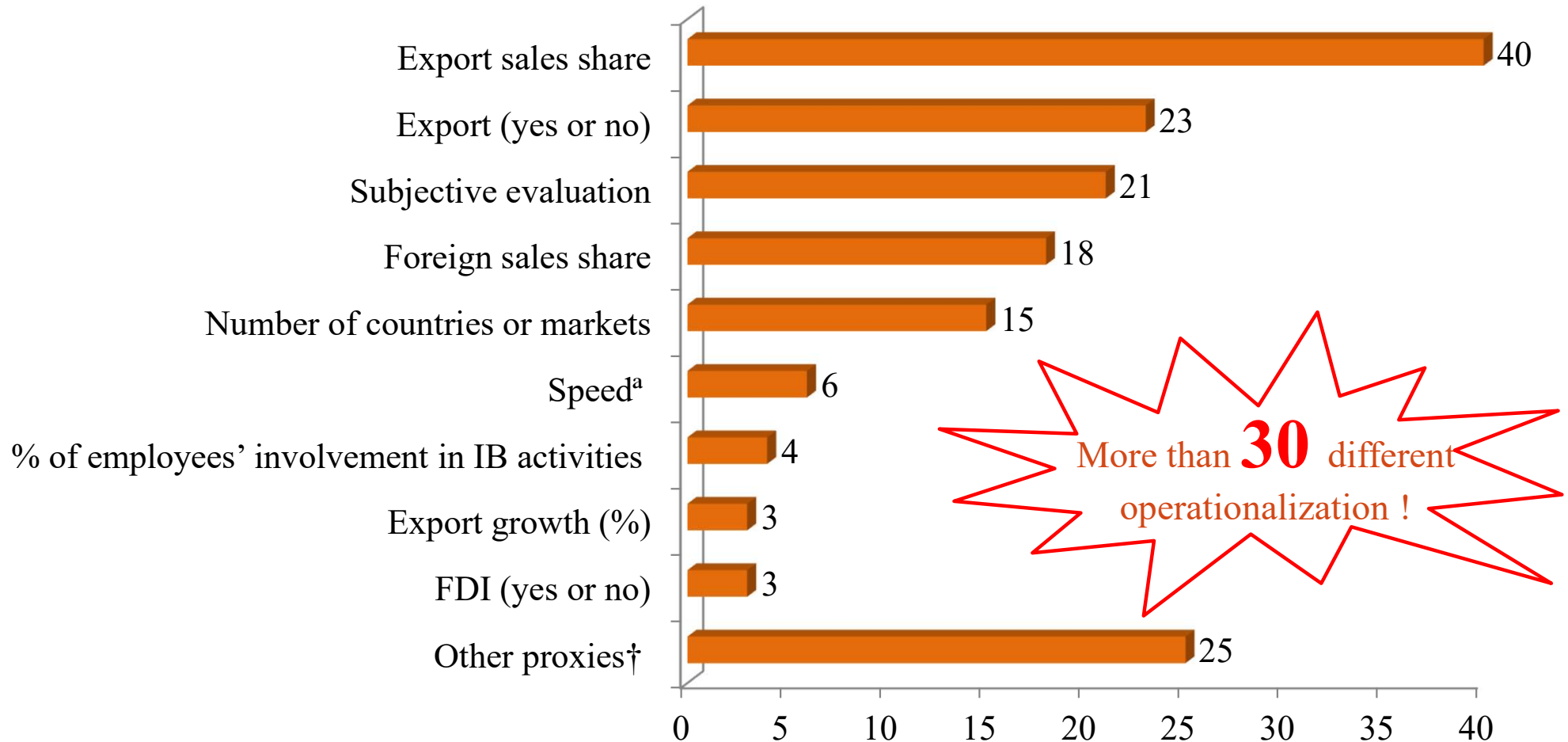
## ■ Significance of ‘International Management’

- ❖ ‘*International*’, ‘*global*’, ‘*multinational*’ ... in mass medias.
- ❖ Universities put an emphasis on nurturing ‘*global human capital*’ - language education, study & internship abroad programs etc.
- ❖ Number of foreign subsidiaries (↑), foreign sales-to-total sales ratio (↑), foreign assets-to-total assets ratio (↑)
- ❖ Number of foreign businesses (↑) = the number of home-country nationals living abroad (↑)
- ❖ The **Italian market**: 60 millions people (**Only 0.78%**)
  - (1) The growth potential is limited; (2) the growth of the domestic consumer market has peaked; & (3) the relocation of production bases to foreign markets speeds up etc. → **Italian MNCs have no choice but to seek overseas markets if they achieve further business growth.**

# “Teva Pharmaceuticals”



## ■ Main Variables Studied in IB Research



Note: <sup>a</sup> Establishment year minus initial year. <sup>†</sup> 23 other indicators available.

Celly (2018).

*“Eli Lilly in India: Rethinking the Joint Venture Strategy”.*

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# “Eli Lilly in India”



## ■ Discussion Points

- ❖ Characterize the **global pharmaceutical industry** in the **1990s** & interpret **Exhibit 1**. Discuss the characteristics of the **Indian pharmaceutical industry** in the **1990s**.
- ❖ **Describe & evaluate** (1) **Eli Lilly & Company** & (2) **Ranbaxy Laboratories** in terms of internationalization, business lines, & sources of competitive advantages.
- ❖ Clarify the underlying **rationale** behind the **success** of the **Lilly & Ranbaxy JV**.
- ❖ Interpret **Exhibits 5, 6, & 7** in greater details.
- ❖ What **practical suggestions** can be drawn from this case?

# “Eli Lilly in India”



## ■ The Global Pharmaceutical Industry in the 1990s

- ❖ **Markets:** Concentration in North America, Europe & Japan.
- ❖ **Market Share:** Top 4 firms (20% of sales) / Top 20 firms (50-60% of sales) / Top 50 firms (65-70 % of sales).
- ❖ **Required Investment:** Drug discovery is an expensive process, with leading firms spending more than 20% of their sales on R&D.
- ❖ **Duration & Cost of New Drug Discovery:** 10-12 years & US\$500 million to US\$800 million.
- ❖ **Stakeholders:** Physicians, customers, government agencies.
- ❖ **Regulations:** (1) FDA(US), (2) CPMP (Europe), & (3) MHW (Japan).



## ■ The Global Pharmaceutical Industry in the 1990s

### ❖ Patents? Why Patents Important?

- To **protect its proprietary knowledge**.
- The safety provided by the patents allows firms **price their products appropriately** in order to accumulate funds for future research.
- To guarantee the **exclusive legal right** to profit from its innovation for **typically 20 years** for a product patent.
- **A time lag of 8-10 years** exist from the time the patent is obtained to the time of regulatory approval to first launch in the US or Europe.
- **2 types of patents: The “product patent” (chemical substance) & the “process patent” (method).** – Both patents guarantee the inventor **a 20-year monopoly** on the innovation.
- Companies are **hesitant to invest in countries** where the **intellectual property regime is weak**.

# “Eli Lilly in India”



## ■ The Indian Pharmaceutical Industry in the 1990s

### ❖ Something Happened in the 1970s in India?

- **Changes in the intellectual property regime** – Drugs became available more cheaply & local firms were encouraged to make copies of drugs by developing their own processes.
- **The Patents Act 1970: Abolished** the product patents for all

### Institutional changes in the Indian pharmaceutical market

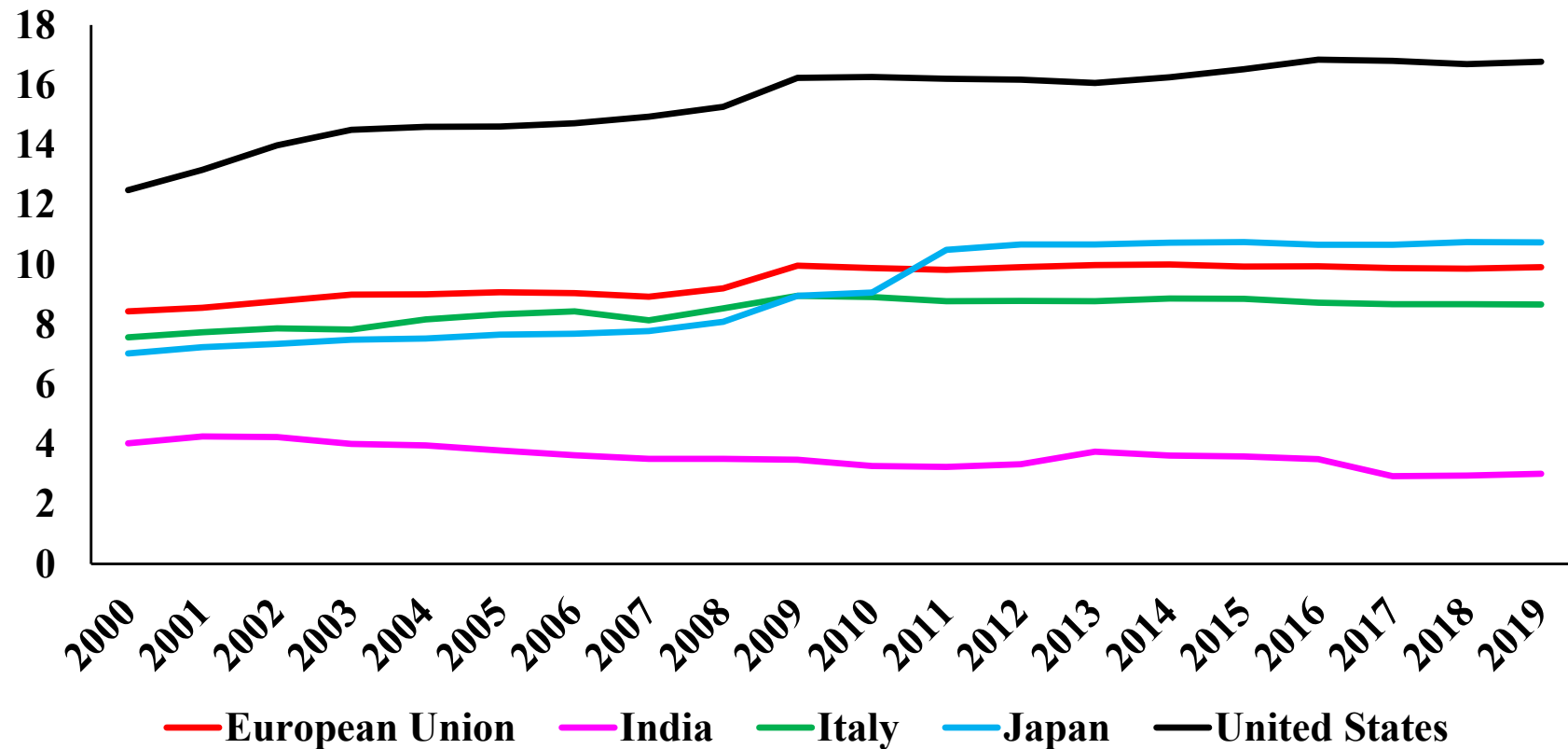
- **The Drug Price Control Order: Price controls for all drugs.**
- The emergence of local manufacturing companies & the departure of many MNC subsidiaries due to (1) **reduced price**, (2) **more local competition** & (3) the **lack of patent protection** in India.
- Departure from **import substitution** to an **export-driven** economy.
- **Foreign ownership requirements:** The maximum limit of foreign ownership to **51%** (from 40%) in the pharmaceutical industry.

# “Eli Lilly in India”



## ■ The Indian Pharmaceutical Industry

Current Health Expenditure (% of GDP)



Source: Own illustration based on the World Bank.



# “Eli Lilly in India”



## ■ Company Profiles

### ❖ Eli Lilly & Company (Est. 1876)

- **Location:** The US from the early 1940s until 1985.
- **Mission:** A commitment to scientific & managerial excellence.
- **Internationalization Patterns:** Exporting (before 1950s) – Setting up several affiliates overseas (in the 1950s) – manufactured & distributed through 25 countries & sold in more than 130 countries (by 1992).
- **Business Lines:** (1) Oral & injectable antibiotics & (2) insulin & related diabetic care products.
- **Motives for Global Expansion:** (1) Market-seeking & (2) opportunities to use the world for clinical testing – Lilly’s marketing strategy.
- **Business Strategy:** Innovation & discovery.



## ■ Company Profiles

### ❖ Ranbaxy Laboratories (Est. 1960s)

- Type: **Family business.**
- Location: The leading domestic pharmaceutical firm in India, founded by **Dr. Singh** – Ph.D from the Uni. of Michigan (US).
- Mission: To become a research-based international pharmaceutical company.
- Core Competencies: (1) **Chemical synthesis capability** & (2) **cost advantages** (50%-75% lower than those of comparable US plants).
- Internationalization Patterns: A presence in **47 markets** outside India through exports handled by an international division.
- R&D Intensity: **2-5%** of the annual sales (Future targets of **7-8%**).
- Business Strategy: Focus on the **generic business.**

# “Eli Lilly in India”

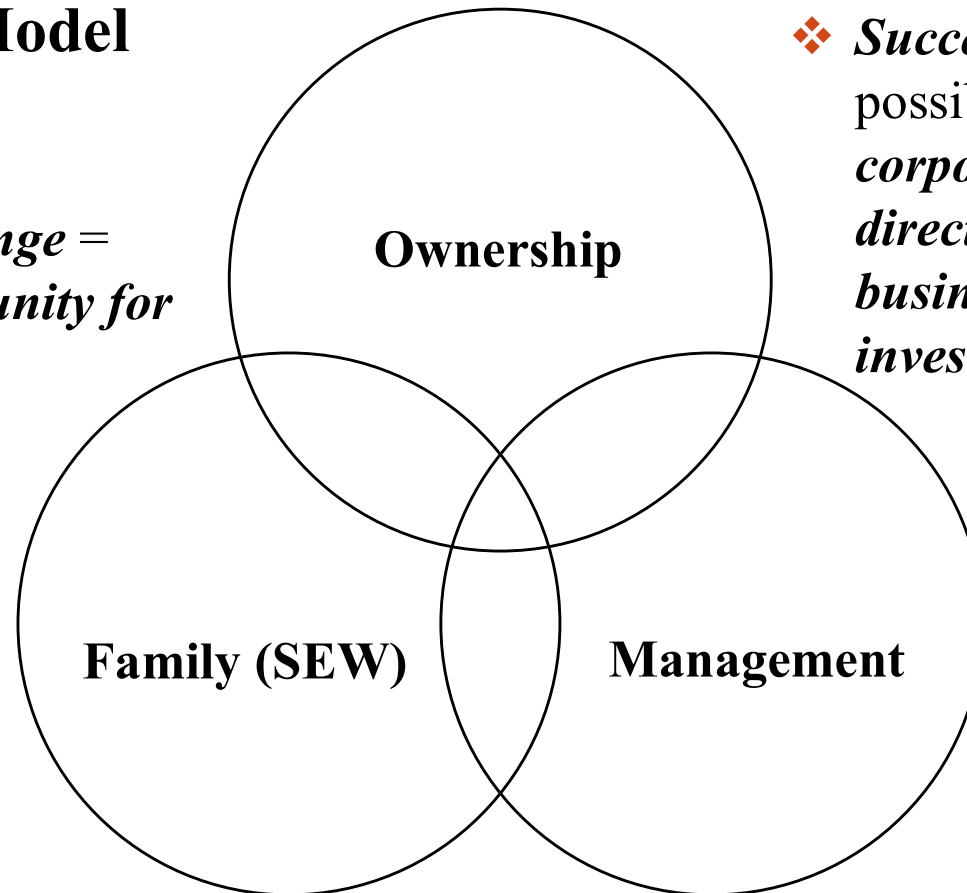


## ■ Company Profiles

### ❖ 3 Circle Model

#### KEY POINTS

- ❖ *Generational change = Threats & opportunity for bold changes.*



#### KEY POINTS

- ❖ *Generations (↑) → EO (↓)*
- ❖ *Successors' quality → The possibility of (1) **reshaping corporate visions & strategic directions**, (2) **reforming business portfolios**, & (3) **investing in new markets**.*

Source: Davis, Hampton, & Lansberg. (1997). *Generation to Generation: Life Cycles of the Family Business*. Harvard Business Press.

# “Eli Lilly in India”



## ■ Why the Lilly & Ranbaxy JV Successful?

### ❖ The Lilly & Ranbaxy JV (Est. 1992)

- **Lilly’s Name:** No known among most physicians in India – a lack of legitimacy & reputation.
  - **JV’s name:** Lilly Ranbaxy (The image of foreign products – “good quality”).
- **How Ranbaxy Helped Lilly?**
  - Government approvals, licenses, distribution & supplies.
  - Distribution networks.
- **The Pharmaceutical Industry in India?**
  - High turnover rates.
  - Very unionized.

# “Eli Lilly in India”



## ■ Why the Lilly & Ranbaxy JV Successful?

### ❖ The Lilly & Ranbaxy JV (Est. 1992)

#### ● Lilly’s Value as a Source of Competitive Advantage.

- A code of ethical conduct: The Red Book – Tell the truth: Both the positive & negative aspects of their drugs.
- No lies or no make up something.
- Honesty & integrity.

#### ● Success Factors of the JV between Lilly & Ranbaxy?

- The strong & cohesive ties between Mascarenhas & Gulati.
- Identities to the JV.
- No Ranbaxy vs. Lilly politics.
- Build on personal relationships.
- Communication.

# “Eli Lilly in India”



## ■ Assess Eli Lilly-Ranbaxy India Financials (1998-2001).

### Exhibit 5

#### Eli Lilly-Ranbaxy India Financials 1998 to 2001 (Rs'000s)

	1998–1999	1999–2000	2000–2001
Sales	559,766	632,188	876,266
Marketing Expenses	37,302	61,366	96,854
Other Expenses	157,907	180,364	254,822
Profit after Tax	5,898	12,301	11,999
Current Assets	272,635	353,077	466,738
Current Liabilities	239,664	297,140	471,635
Total Assets	303,254	386,832	516,241
No. of Employees	358	419	460
Exchange Rate (Rupees/US\$)	42.6	43.5	46.8

*Note: Financial year runs from April 1 to March 31.*

*Source: Company Reports.*

Source: Celly (2018: 387).

# “Eli Lilly in India”

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## ■ WEEK 6-2 (12.04.2024 | Friday)

- ❖ **Kawai & Chung (2019)**. “Expatriate Utilization, Subsidiary Knowledge Creation & Performance: The Moderating Role of Subsidiary Strategic Context”, *Journal of World Business*.
- ❖ “*Kent Chemical: Organizing for International Growth*”.
- ❖ “*Lundbeck Korea: Managing an International Growth Engine*”.

# The End of Today's Lecture



ご清聴有難う御座いました。

**Thank you so much!**

**Vielen Dank für Ihre Aufmerksamkeit!**

**Grazie mille !**

## **【Contact Address】**

**ADDRESS:** 208 in Via dei Caniana 2, 24127 Bergamo, ITALY

**E-mail:** [norifumi.kawai@unibg.it](mailto:norifumi.kawai@unibg.it)