Part V
HOW TO DO BUSINESS IN WESTERN INDIA.

1. OPTIONS TO FOREIGN COMPANIES:

There are five major options open to foreign companies in India.
— Direct sale of products/services generally through global tenders issued by Indian buyers.
— Sale of products in India through an Indian agent.
— Complete or partial turnkey contracts for Indian projects
— Technical collaboration or sale of expertise
— Manaufacture in India
The factors to be considered with any of these five options is tabled below.

a. Direct sale of products and projects

Imports of capital goods into India are restricted and generally depend on the availability of the equipment from indigenous manufacturers for import control purposes. Industries/projects are divided into 3 groups.

(1) **World Bank assisted projects**: the World Bank normally insists on global tenders being floated for projects aided. However, in several cases, it allows the buyers to show a price preference for the local suppliers for up to 15% in the power and oil sectors.

(2) **Key industries**: for 13 turnkey industries, Indian companies are permitted to float global tenders for capital goods, whether they are manufactured in India or not. A government committee evaluates the bids and compares Indian offers with the landed cost of foreign machinery.

(3) **Other projects/industries**: here capital goods fall into 3 categories:
— OGL list (Open General Licence) of items which can be imported without a licence.
— Restricted list of items which are difficult to import.
— Items not on above lists which can only be imported after importer has advertised his requirement and failed to get a satisfactory offer from Indian suppliers.

b. Sale through Indian agents:

A safe though slow approach to getting a foothold in the Indian market is to appoint a sole-selling agent to market your product in India. This is a popular arrangement and many such tie-ups exist for the import of engineering goods, plant and equipment, spares and chemicals. The local agent can advise the principal in the pre-tender period, evaluate final pricing, negotiate and monitor the bureaucratic process.

It is extremely important to choose the Indian partner carefully, based on consideration of relevant experience and competence as well as resources. The latter is particularly important, if after obtaining a foothold, the foreign supplier desires to set up manufacturing operations in India in collaboration with the agent.

c. Technical collaboration:

Technical collaborations can be with or without foreign investment.

Four types of financial returns are enjoyed by foreign collaborators.

Royalty: Royalty ranges from 2-8% on agreement, with terms of 5-10 years computed on the ex-factory price less the landed cost of imported components.

Technical/licensing fee: A lumpsum payment is provided for import of drawings and documentation. It varies from case to case. As a general guideline, payment of lumpsum and royalty does not exceed 7-8% of total expected sales during the period of agreement.

Dividends: A foreign company share holder can receive dividend on his company's after tax profits.
Equipment and components: A collaboration usually entails sale of equipment to start with and the supply of components thereafter. This is usually the largest source of income for the foreign partner.