# Mafatlal Consultancy's Entry into Nepal

KATHMANDU, NEPAL

Location: Kathmandu, Nepal

Topics: International Strategic Market Entry Alterna-

tives and Business Negotiations

Characters: Bramha Lall Shrestha, National Finance Co.,

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#### **EXPLANATORY NOTE**

Date of Events in the Case: approximately December 1992–June 1993.

The Gregorian year beginning January 1, 1992 through December 31, 1992 is equivalent to the Nepalese year of Pousch 16, 2049 through Mangsir 15, 2050 (see conversion table at the end of the Appendix of the case).

#### Introduction

The case study, "Mafatlal Consultancy's Entry into Nepal" was drafted in 1993 during a period of political unrest in Kathmandu. It was written as a tool for MBA students analyzing international market entry strategies

and business negotiations. The case focuses on the relationship between two south Asian firms, National Finance Company, Ltd. of Nepal (a new finance subsidiary of the largest diversified Nepalese manufacturing firm), and Mafatlal Consultancy Services, Ltd. of India (the systems consulting arm of an Indian diversified conglomerate).

As a Free Market Development Adviser, the author was contracted by the United States Agency for International Development (USAID) to assist in the establishment of NFC, a private sector financial institution. In 1993, NFC was one of several new financial institutions being formed as a result of the Government of Nepal's economic liberalization policies, which encouraged private sector ownership of the banking and financial system. Over the course of 10 months, the adviser worked closely with the management of NFC to develop corporate strategies, hire and train employees, implement business plans, and set in place appropriate systems and procedures.

The case outlines NFC's rush to compete in an expanded sector of the Nepalese economy. It also addresses the challenges NFC faced in building an organization in a country where banking was very inefficient and lacking in service. Assuming the perspective of NFC, the author attempts to present an honest account of business development in a lesser-developed, south Asian country. Background information on the socio-

cultural history and business practices of Nepal is included, much of which may seem unusual to a Western MBA student. Given the importance of personal relationships in international business and in developing countries in particular, the intent is to stimulate discussion regarding very real cultural differences faced when doing business overseas.

#### **Case Description**

Mafatlal Consultancy Services, Pvt. Ltd. (Mafatlal), an Indian computer software consulting group specializing in integrating automated business systems, attempts to enter a new market in the neighboring country of Nepal. As part of an international expansion strategy, Mafatlal is eager to sell its software products in Nepal. Mafatlal's strategy is to enter the Nepalese market by collaborating with a local start-up firm through a co-operative marketing agreement. The agreement specifies that Mafatlal will provide its existing software packages, already developed and used in India for various commercial and industrial purposes, to potential clients in Nepal under a licensing fee.

Mafatlal has a wide range of software products and is eager to install its well-tested banking software product (called Ex-Chequer) at a new private sector financial institution, National Finance Company, Ltd. (NFC). The relationship between these two firms evolves as Mafatlal tries to help NFC build an organization that is much more service-oriented than traditional state-owned banks in Nepal. A crucial component of this capability will be NFC's accounting and management information system. Because many private sector banks and finance companies are now being formed in Nepal, Mafatlal's managers view Nepal's emerging financial services industry as a way to establish an inroad into the lucrative, albeit limited market for automated business systems in Nepal. Mafatlal is focused on trying to build a client base in Nepal from which to grow. They feel that once a substantial customer like NFC is obtained, Mafatlal can leverage this relationship to obtain additional clients.

The central problem of the case is that, despite offering a superior line of products, potential Nepalese clients are reluctant to hire Mafatlal. This stems from the nonpermanent nature of its co-operative marketing agreement with a local software firm, which would

allow Mafatlal to exit the market at anytime. Information technology services will always require a certain level of maintenance. So the Indian consulting firm tries to convince the management of NFC that Mafatlal is indeed committed to the Nepalese market. The case drama centers around the interaction between Mafatlal and NFC as they prepare to negotiate a deal for Mafatlal's banking system. Political instability results in an outbreak of violence that impacts NFC directly and clouds the firm's future. Mafatlal must also assess this same political risk in making its market entry decision.

#### **Teaching Purpose and Objectives**

This case sets the stage for introducing a framework for managing international market entry strategies. In light of the facts in the case, the reader must assess the strengths and weaknesses of Mafatlal's chosen market entry strategy into Nepal. From NFC's perspective, the case attempts to illustrate the challenges of launching a new financial institution in the developing world that aims to bring a whole new level of service to Nepal. It also challenges the reader to shift negotiation issues creatively through integrative bargaining.

#### **Assignment Questions and Discussion**

I. What are some of the reasons Mafatlal would want to do business outside India and enter the global marketplace? What framework should Mafatlal use to develop an international strategy?

The global marketplace provides an opportunity for Mafatlal to obtain a larger client base. If managed effectively, this can translate into greater profits for the firm and thereby enhance shareholder value. Mafatlal carries a wide range of computer software products (listed in Exhibit 4 of the case) that purportedly have been successfully installed in numerous firms. These products required specialized technology to develop, the cost of which has already been incurred. By selling these products internationally, Mafatlal can realize greater economies of scale by generating new income from existing technology. Although the Indian market is not discussed in the case, it may be inferred that the market for Mafatlal's products in India has reached the mature phase of the product/service life cycle, or at the very

least, growth has stabilized. By seeking clients in international markets, Mafatlal can extend their product/service life and attain additional growth in revenues.

In attempting to penetrate foreign markets, a framework can prove helpful in developing an international strategy. In fact, Mafatlal's objective of expanding throughout South Asia should be viewed as a combination of several individual foreign market entry plans. According to Robert Moran and William Stripp in The Dynamics of Successful International Business Negotiations, the way to go global is to develop "an entry strategy. . . for each product, in each foreign market." The firm must choose (1) a target market, (2) the objectives in the market, (3) an entry mode to penetrate the market, (4) the marketing plan to enter the target market, and (5) the control system to monitor performance. According to the authors, a comprehensive plan for entry into foreign markets is one that sets objectives, goals, resources, and policies for a long-enough period to sustain growth.

## 2. Why should Mafatlal enter the Nepalese marketplace?

The level of competition in lesser-developed countries like Nepal for high-technology products and services is minimal. While the skills for computer programming and systems integration exist in Nepal, they are not extensive (note the high degree of illiteracy outlined in the chart in the Appendix). Thus, the industry is highly fragmented. Most software developers are small, unproven entrepreneurial firms that make customized packages for small businesses. There were only two vendors providing such services for medium- and largescale business systems. Obviously, Mafatlal can leverage its expertise (which has been achieved through economies of scope) by entering the Nepalese marketplace and offering its superior line of software products. In doing so, Mafatlal may realize many of the benefits outlined in the discusion of the preceding question.

The Nepalese marketplace may also provide a path for Mafatlal to follow Indian customers who themselves are going global. The case clearly states (in the Appendix) that Nepal's poor economic base has made the country dependent on other countries (especially India) not only for their capital and technology, but also for the supply of raw materials and consumer goods. Furthermore, during Mafatlal's first visit to Nepal, several

letters of intent were signed by Indian nationals at the Nepal Investment Forum expressing an interest in doing business in Nepal. Finally, Exhibit 5 outlines at least three Indian financial institutions being formed in Nepal.

### 3. What factors should Mafatlal consider in doing business in Nepal?

There are a number of factors any firm going international should consider. These include market potential as well as socioeconomic, cultural, legal, and political factors. Question # 2 addresses two issues pertaining to market potential. Beyond this, the case itself is deliberately somewhat vague. Details regarding market size and competitor position are not provided simply because they are unavailable. This situation is normal in developing countries, requiring managers to make decisions with minimal market data and information. Instead, the reader is provided with economic data and information on changing governmental policies, notably Nepal's economic liberalization encouraging private sector involvement in the new economy.

The case implicitly requires the reader to assess the political risk of a business venture in Nepal. One must consider the democratic changes to Nepal's political system that, while sweeping, are fragile. Nepal is a country with little democratic experience. In fact, given the extreme gulf between rich and poor, it will be interesting to see if the 1990 political changes are merely temporary. The outbreak of violence in 1993 suggests instability and discontent by many Nepalese. As a manager, political risk must be assessed to determine the threat of expropriation or nationalization of foreign assets. While this risk seems unlikely for Indian firms doing business in Nepal given India's political and military strength over Nepal, the greater threat is that of destruction of foreign assets given the culture's values regarding the challenge to its power. Although cultural differences persist, these factors should not pose a major problem, since India and Nepal are linked by a common religion and historical past. The Hindu faith and Brahmin caste system are intertwined in both cultures.

4. Evaluate Mafatlal's market entry strategy in Nepal (which involved a cooperative marketing agreement with a local firm). Do you agree with this strategy, or should Mafatlal execute a differ-

### ent alternative? Discuss the pros and cons of your choice.

Of the alternatives available to Mafatlal (outlined at the Nepal Investment Forum), a strategic alliance such as the one Mafatlal chose seems reasonable. The marketing agreement signed with Technology Consulting Services (TCS) is a low-risk entry strategy that minimizes Mafatlal's equity investment. This alternative seems most prudent from Mafatlal's perspective, particularly in the current political climate. It also allows Mafatlal to "test-the-waters," so to speak, in order to determine the full potential of the Nepalese market before actually committing equity capital to the venture. Not only does such an arrangement mitigate a great deal of political risk, but it allows both parties to share costs, establish a pool of joint resources, and create operating synergies.

There was, however, a major drawback to this entry strategy: Mafatlal was unable to obtain any clients six months after signing the agreement despite having a superior product line. The reason for this is that systems integration is a line of business highly dependent on service and maintenance. Because the co-operative agreement was not an equity investment on Mafatlal's part, many potential clients viewed the agreement as being "nonpermanent." For example, NFC believed that Mafatlal would withdraw from the market at any time if it did not meet their original expectations. NFC was concerned that if Mafatlal was unable to generate enough revenue to offset the cost of placing two engineers in Nepal, they would bring them back to India. NFC's management feared this would leave the inexperienced local firm, TCS (a start-up firm that knows little if anything about Mafatlal's software) with the unenviable task of servicing and maintaining Mafatlal's systems.

5. Do you think NFC should automate/computerize its operations? Why or why not? If so, do you think Mafatlal can help NFC? Evaluate the proposal submitted by Mafatlal. Can it really give NFC the sustainable competitive advantage that Shrestha believes? What should NFC do?

In the past, the financial services sector in Nepal was controlled by a handful of state-run banks and characterized by little if any competition. In that environment, Nepal's surplus labor pool "adequately" provided the minimum level of service required by consumers. How-

ever, the government's liberalization policies and encouragement of private sector involvement is changing the way financial services are delivered to the Nepalese. Although fledgling, the industry is undergoing significant change, with new entrants coming even from overseas. The number of financial institutions is expected to increase substantially and thus intensify competition. In this new environment, competitors need to find a way to achieve a sustainable competitive advantage.

Mafatlal's Ex-Chequer system can be an integral part of NFC's strategy. Information technology is but one facet of NFC's strategy, but it allows NFC to automate customer transactions, computerize accounting transactions, and maintain a real-time management information system with a streamlined staff. Although there are alternative business systems available in Nepal, NFC's management seeks a proven, well-tested system. Ex-Chequer fits into this category, having been installed at many financial institutions in India's highly competitive financial services industry (see Exhibit 4 of the case). NFC should hire Mafatlal because they offer a superior product. However, NFC should also renegotiate several terms in the Mafatlal proposal to ensure adequate service from the Mafatlal group.

If Mafatlal does a fine job of installing their Ex-Chequer system in NFC, and then pursues other client relationships with the other banking institutions of Nepal, as is their plan, then it is more than likely that the capabilities Mafatlal provides to NFC through their software will over time also be provided to other Nepalese banks. The software by itself will thus not guarantee a sustainable competitive advantage. Nonetheless, it can help NFC get established, build a substantial depositor and client base, and acquire a reputation as an institution offering cutting-edge customer services.

6. Do you believe that a business negotiation can assist both NFC and Mafatlal to obtain their real interests in this transaction? If you believe it can, outline a negotiation strategy for NFC—since Mafatlal has already expressed its position in their proposal. What terms of the proposal can best be negotiated?

It seems a stalemate will arise during the Mafatlal/NFC negotiations. However, there is an opportunity for both parties to create a "win-win situation" through integra-

tive bargaining. In answering this question, it is important to distinguish between the interests, issues, and positions of both parties. In the article "Interests: The Measure of Negotiations," David Lax and James Sebenius argue that "negotiators seek to reach agreements on specific positions and on a specific set of issues, often neglecting to distinguish them from their underlying interests." This is known as positional bargaining. In the case, the real issue for both parties is the installation of Mafatlal's business system at NFC. However, their positions and interests are substantially different.

Mafatlal's interests go beyond selling a business system for the highest price. They seek an inroad into the Nepalese market and a platform from which to grow their business. Conversely, NFC's interests go beyond obtaining an accounting and management information system at the lowest possible cost. NFC seeks a sustainable competitive advantage in the Nepalese financial services sector. In this regard, the interests of both parties are instrumental as opposed to intrinsic, i.e., favorable terms on the issues are valued because of their effect on future dealings.

During the actual negotiations, NFC's management identified two key elements of Mafatlal's proposal as being negotiable: price, and the payment terms and conditions. Because NFC's management recognized Mafatlal's inability to enter the market, they felt the Indian firm was at a disadvantage during the negotiations. "Above all else, Mafatlal thought it was important to establish a client base in Nepal from which to grow" (see Bargaining Positions section of the case). Therefore, NFC believed the 50% price premium could be eliminated in spite of Mafatlal's product superiority.

NFC placed a floor price of IRs 321,467 (482,200 / 1.5 = 321,467) based on alternate products in the market. A bargaining range was then established based on a ideal price of IRs 250,000. The system was ultimately purchased at NFC's starting point of IRs 250,000.

Because NFC was unsure of Mafatlal's commitment to the Nepalese market, they wanted to monitor the relationship over a period of time. So NFC focused on the proposed payment terms and conditions, i.e., 50% in advance and 50% after installation. NFC proposed the entire balance be paid in installments over a period of 12 months. This would ensure Mafatlal installed a system to NFC's requirements and satisfaction, while monitoring Mafatlal's ability to perform required systems maintenance. These payment terms were accepted by Mafatlal, in addition to a warranty extension of one year. The reasoning behind this logic was that TCS could probably be relied upon after one year. In the event Mafatlal did not carry out its obligation, NFC shifted legal recourse to TCS in the Memorandum of Understanding, which was eventually signed by all parties.

Negotiation allowed NFC and Mafatlal to achieve their real interests in the case. According to Max Bazerman, "negotiators who mistakenly see their interests as perfectly aligned with their positions are less likely to shift issues creatively. Once the distinctions are made, the participants may then move on to making trade-offs, it is hoped through integrative bargaining (win-win) as opposed to distributive bargaining (win-lose). Integrative solutions are a way to expand the fixed pie, a means to reconcile both parties' interests to yield a higher joint benefit than is possible through compromise."