A jab at co-opetition

Rivals across industries saw virtues in cooperating during the pandemic but it's a trend that is yet to catch on

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A short quiz:

■ *What is the average time it takes to develop a new vaccine from scratch?*

Anything between 10 and 15 years.

■ *What was the development time for Covid-19 vaccines?*

A little under a year

Any guesses how that was possible? The speed at which the vaccines for Covid-19 were developed owes much to information-sharing and collaboration among scientists, universities, biotech firms and pharmaceutical corporations. "It's the positive side of rivalry that can sometimes deliver a compelling advantage," says Monesh Dange, consulting markets leader, EY India.

More than 30 years after *Harvard Business Review* ("Collaborate with your Competitors — and Win") argued that so-called "coopetition" throws open new research and development opportunities, the recent pandemic showed once again that such collaboration among seemingly rival corporations can be a low-cost and efficient way to reach consumers. It can also set them up to solve unforeseen challenges. Or plain survive tough times.

Look at the alacrity with which FMCG giant ITC joined hands with food delivery chains Domino's, Swiggy and Zomato along with community-centric apps such as Apna Complex, MyGate, NoBroker and Azgo to bridge the last-mile delivery gap as the pandemic raged last year. The company had also joined hands with logistics player Dunzo while servicing customers through its direct-to-consumer portal ITCstore.in.

Last year, Dunzo posted a message on social media, doffing its hat to those who were doing the 'ride' thing — it thanked competitors Swiggy, Grofers and BigBasket for their services

In other words, if you're stuck, a careful alliance with a competitor/competitors could very well be in your best interest. So when its own distribution network came up against a wall (read lockdown) ITC roped in delivery experts to get around the problem. Of course, this was tactical but the purpose was served. And who knows? "The ecosystem of collaborations with emerging distribution channels could become mainstream going forward," an ITC spokesperson had told media channels last year.

"The philosophy behind an ecosystem approach is to enable synergies rather than drain them," says Dange. And in a hyper-competitive world, combining "the best of what each element of unpaired conflicting organisations can deliver together versus doing it alone" is plain smart, he adds.

So why don't we see more such collaboration? Which industries or circumstances are amenable to co-opetition?

As it turns out, co-opetition is common in the IT industry. If earlier such cooperation was about building and protecting one's IP, successful co-opetition today is more about opening new market opportunities. This shift has been engendered by the global democratisation of technology that has, to a large extent, removed the previously expensive barriers to innovation, say experts.

Take Amazon and Apple. Their story began in 2007, when Amazon introduced its Kindle e-reading device. Soon after the launch of Apple's iPad in 2010, the two rivals decided to join hands to distribute Amazon's e-books through iPad's Kindle app. It was a win-win: While Apple's iPad became a more exhaustive content provider, Amazon got access to a bigger market for its e-reader. Such efforts are better aligned to client goals than a straitjacket way of doing things, adds Dange.

Although it might take home-grown brands some time to get there, we did see early signs of collaboration during the recent pandemic, though most relate to advertising and communication.

A video posted on actor Kajol's Twitter account some time ago said, "In times like these, the only thing that matters is yours and your family's health. A soap, ANY soap, is the best way to prevent the spread of COVID-19..."

There was also a print ad from Lifebuoy that first appeared in the Mumbai edition of *Hindustan Times*, which said, "Please use any soap nearest to you. Not just Lifebuoy, but any soap like Lux, Dettol, Santoor or Godrej No 1."

"You may call it opportunistic, but the fact that a Lifebuoy ambassador was telling people to use "any" soap because "safety" and not "brand" mattered, gave that brand a halo that no amount of noise could have created", says a brand communication expert. That said, "the concept of cooperation is a lot bigger than the Lifebuoy ad," says Ambi Parameswaran, brand coach and founder, Brand-Building.com. "It would have been real co-opetition if Lifebuoy had roped in the others into a public service campaign on hand-washing."

Then there was Dunzo. Mid-2020 when everything came to a standstill, Dunzo posted a message on social media, doffing its hat to those who were doing the "ride" thing — it thanked competitors Swiggy, Grofers and BigBasket for their services.

Following its post, rival delivery services provider Swiggy launched a video campaign, *Sukhriya Karein,* featuring social media influencers to thank the "heroes who wore helmets and rode scooters" to deliver essential products while risking lives. That advert mentioned rival delivery brands Dunzo, Medlife and Grofers.

Will we see more such efforts going forward? Dunzo is non-committal. "We've always advocated for an inclusive and diverse ecosystem and we strongly believe each of us has a role to play in shaping a better experience for users. At this stage, we are unable to comment on how we collaborate with partners in our space except that it's our small contribution to what's happening at large and we want to use our brand engagement to improve on our customer offering," says an executive speaking on behalf of the company.

"All of this sounds good on paper but business is about competition and not collaboration," says Harminder Sahni, founder and MD, Wazir Advisors. "Real value is created when you challenge the status quo." In fact, he points out, the strategy is risky, and might backfire. Corporations that choose to share resources such as information, data, expertise and other capabilities should be aware of the extent to which they are allowed to engage in cooperative partnerships with rivals. There are regulations in force that penalise firms for collusive practices, such as forming monopolies and price-fixing. "What purpose is served when those who are supposed to challenge monopolies are actually indulging in monopolistic practices?"

"The obvious risk when rivals work together is giving away confidential information, trade secrets and insights on key personnel," says Prasanna Singh, who runs communication firms in the renewables and sustainability space in India.

"The key issue is absolute transparency in the terms of trade as was the case in joint vaccine development efforts. As the economy becomes more formalised with more costs becoming common across companies, I believe we will see many more such examples as, for example, we see in telecom (sharing of tower infrastructure)."

Power play: India wields oil 'weapon' to cut dependence on Saudi Arabia

NIDHI VERMA
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When India's government last month asked refiners to speed up diversification and reduce dependence on the Middle East — days after OPEC+ said it would maintain production cuts — it sent a message about its clout and foreshadowed changes to the world's energy maps.

It was a move that had been in the works for years, fuelled by repeated comments from Indian Oil Minister Dharmendra Pradhan, who in 2015 called oil purchases a "weapon" for his country.

When the Organisation of Oil Exporting Countries and Major Producers (OPEC+) extended the production cuts into April, India unsheathed that weapon. Indian refiners plan to cut imports from the Kingdom by about a quarter in May, sources told *Reuters*, dropping them to 10.8 million barrels from monthly average of 14.7-14.8 million barrels.

Oil secretary Tarun Kapoor, the top bureaucrat in the ministry, told *Reuters* that India is asking state refiners to jointly negotiate with oil producers to get better deals, but declined to comment on plans to cut Saudi imports.

"India is a big market so sellers have to be mindful of our country's demand as well to keep the long-term relationship intact," he said.

Pradhan, who sees high oil prices as a threat to India's recovering economy, said he was saddened by the OPEC+ decision. India's fuel import bill has rocketed, and fuel prices — inflated by government taxes imposed last year — have hit records.

The International Energy Agency forecasts India's consumption to double and its oil import bill to nearly triple from 2019 levels to more than $250 billion by 2040.

An oil ministry official, who declined to be named because of the sensitivity of the matter, said the OPEC+ cuts have created uncertainty and made it difficult for refiners to plan for procurement and price risk.

It also creates opportunities for companies in the Americas, Africa, Russia and elsewhere to fill the gap.

If India is successful, it will set an example for other countries. As buyers see more affordable choices and renewable energy becomes increasingly common, the influence of big producers like Saudi Arabia could wane, altering geopolitics and trade routes.

Diversification drive

India's oil demand has risen by 25 per cent in the last seven years — more than any other major buyer — and the country has surpassed Japan as the world's third-largest oil importer and consumer.

The country has already curbed its reliance on the Middle East from more than 64 per cent of imports in 2016 to below 60 per cent in 2019.

That trend reversed in 2020, however, when the pandemic pummelled fuel demand and forced Indian refiners to make committed oil purchases from the Middle East under term contracts, shunning spot purchases.

As India shifts gears again after Pradhan's call for faster diversification, refineries are looking for new suppliers.

Costly refinery upgrades that allow for the processing of cheaper, heavier oil grades have encouraged importers to seek out far-flung sources. HPCL-Mittal Energy Ltd bought the country's first cargo from Guyana this month, and Mangalore Refinery and Petrochemicals Ltd just imported Brazilian Tupi crude for the first time.

REUTERS

The forgotten case for bank nationalisation

In the recent clamour for their re-privatisation, we seem to have forgotten the rationale for bank nationalisation and the crucial role public sector banks continue to play in India's war against poverty

MIHIR SHAH

The widespread excitement around re-privatisation of public sector banks (PSBs) appears to betray ignorance of both the basics of economic theory as well as large facts of Indian credit markets. I had occasion to revisit these recently when I delivered the inaugural KN Raj Memorial lecture at my *alma mater*, the Centre for Development Studies, Thiruvananthapuram.

The legendary economist and institution-builder K N Raj was the one who explicated the intellectual case for bank nationalisation in the 1960s. Economic theory explains why banking enterprises seeking to maximise their profits would not venture into areas and sectors of activity, which may otherwise have great strategic social and economic significance. As John Maynard Keynes argued, there are two types of risk that affect the volume of investment. The borrower's risk arises because she is unsure whether her business venture will provide the expected yield. As a borrower, she wants a low rate of interest, especially if her venture is a risky one. But the same situation creates the lender's risk of default by the borrower, which can either be voluntary (moral hazard) or involuntary (due to poor returns on investment). This means that the lender must charge a rate of interest high enough to induce him to lend. Keynes expresses the resulting social dilemma somewhat poetically: "The hope of a very favourable outcome, which may balance the risk in the mind of the borrower, is not available to solace the lender." There are also high information and transaction costs of dealing with many small borrowers that act as a major disincentive for lenders.

These insights of economic theory are corroborated by the historical context of 1969, the year 14 private banks were nationalised. At the time, not even 1 per cent of India's villages were served by commercial banks. While industry accounted for a mere 15 per cent of national income, its share in commercial bank credit was 67 per cent. Agriculture that contributed 50 per cent of GDP virtually got nothing from banks. After nationalisation, the number of rural bank branches increased dramatically. By 2019, 99 per cent of villages with a population of less than 2,000 had access to banking services. It is the easier availability of credit that fuelled India's Green Revolution and even today it is these banks that are the biggest formal source of credit at tolerable interest rates for the poor in rural India, who are otherwise forced to pay anywhere between 5 and 10 per cent *per month* as interest to usurious moneylenders.

Of course, there is a definite need for reforms in PSBs, since the policy of "social coercion" adopted after nationalisation achieved only limited success and dependence on usurious rural moneylenders actually grew after strict profitability norms were applied to PSBs in 1991. But over the past 10-15 years, very promising progress has been achieved in resolving the trade-off between access to affordable credit and banking profitability. This has been made possible by linking women's self-help groups (SHGs) with PSBs, which has made inexpensive credit available to the poor, even as banks have reduced transaction costs and improved profitability, thanks to the impeccable financial discipline and extraordinary repayment record of SHGs.

I have been personally involved in the formation of thousands of SHGs over the past decade in the most deprived parts of central tribal India. Now it is not social coercion or even social responsibility that drives the lending to SHGs but robust business considerations of PSBs. We shudder to think of what will happen once PSBs are privatised, as proposed in the Union Budget of 2021. India's most powerful instrument in the battle against poverty could be deeply compromised, since in our long experience we have never found any private bank willing to contemplate lending to SHGs in these remote areas. We must also worry about how the impetus to universal financial inclusion could falter as a result of bank privatisation. Rather than privatisation, what is urgently required are reforms to improve the quality of the PSBs' relationship with SHGs and much greater state support to the SHG-bank linkage programme. This will enable it to reach critical mass and tackle the root of the problem, which lies in unregulated credit markets, where the balance of social and economic power ensures that these markets work against the interests of millions of small and marginal farmers and the landless poor in rural India.

Those arguing for their privatisation overlook the fact that many of the problems facing PSBs have arisen because of a fundamental shift in the thrust of economic policy in India. As fiscal stimuli have taken a backseat within the orthodoxy of austerity and with primacy being given to monetary policy, PSBs have been repeatedly forced into populist measures such as loan waivers or financing infrastructure projects, without requisite due diligence, which have damaged the integrity of the banking system. Such big-ticket loans have led to the burgeoning of non-performing assets (NPAs), which are then seen as a blemish in the performance of PSBs. Real PSB reform will lie in giving them greater autonomy and professional capabilities, rather than their privatisation, which could well be a disaster in the making.

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