

# Case 2A

## Type: Market Entry



# PROBLEM STATEMENT

**Your Client is a US-based chemical company looking to enter the Indian market. You need to evaluate if the market is attractive for the client to enter.**

| <b>SCRIPT KEY</b>            |  |
|------------------------------|--|
| <b>Interviewee/Candidate</b> |  |
| <b>Interviewer</b>           |  |

|   |  |
|---|--|
| <p><b>Client is a US-based chemical company looking to enter the Indian market. You need to evaluate if the market is attractive for the client to enter.</b></p>   | <p>Only certain Northern states receive snowfall, which is approx. 20% of the country. Therefore, area under snowfall will be <math>20\% \times 35,00,000 = 7,00,000</math> sq km. Now I will calculate the amount of chemical needed to melt the snow in this area. Can you tell me how much chemical is needed to melt snow and what is the usage frequency?</p> |
| <p>I have a few preliminary questions. What kind of chemicals does the client sell? Why have they chosen India as the target market?</p>  | <p><b>Seems good. You can assume that these regions receive approx. 100 cm of snowfall each year, and snow is to be melted at least 20 times a year. On average, 10 mL of chemical is required to melt 1 cubic metre of snow.</b></p>  |
| <p><b>We sell chemicals used to melt snow. It is used in regions with heavy snowfall. We have chosen the Indian market as it is a large country and the current players are fragmented.</b></p>   | <p>Using these numbers, the total chemical needed is <math>7,00,000 \times 1000 \times 1000 \times 1 \times 20 \times 0.01</math> litres = 140 billion litres of chemical is needed in India every year. What is the price of this chemical?</p>   |
| <p>That's interesting. I'll structure the problem in two major parts – Estimating the market size and then the potential market share the client can capture if the industry is attractive.</p>   | <p><b>You can assume the average price is 50 cents per litre.</b></p>  |
| <p><b>Sure. How would you estimate the market size?</b></p>   | <p>Alright. This makes the market size as <math>140 \text{ billion} \times 0.5 = \\$70 \text{ billion}</math></p>  |
| <p>I would use an area-based approach – I'll estimate the area of India which receives heavy snowfall as that is the reason where the product will be relevant. Thereafter, I'll estimate the amount of chemical needed to melt the snow in these regions, and multiply the total amount by price to estimate the total market size.</p>  | <p><b>Great. This seems like an attractive number. How would you decide whether we should enter or not?</b></p>  |
| <p><b>Seems right. Go ahead.</b></p>  | <p>I would like to understand the current distribution of players. Who are the major players and what is the industry growth rate?</p>   |
| <p>To estimate the area of India, we can assume that it is similar to two triangles placed over each other. (The base of the triangle will be the east to west distance of India and height of each triangle will be half the distance between top and bottom points of India). Making this calculation, Area of India will be <math>2 \times (1/2 \times \text{base of triangle} \times \text{height of triangle}) = 2 \times 1/2 \times 2500 \times 3000/2</math> which is approx. 35,00,000 sq km.</p> | <p><b>The industry has 8-10 players currently and none of them have a share of more than 8%.</b></p>   |
|   | <p>This seems like a fragmented industry. I would like to benchmark our offering against that of the competitors before making my judgement.</p>   |
|   | <p><b>Alright.</b></p>   |

**Our client has come up with a patented solution in an independent research which melts snow using lesser amount and this would bring down the cost of thawing. So, given the scenario, should we enter or not?**

The calculated market size is attractive. With a patented product in a fragmented market, I believe that the client can garner good market share and should enter the market.

**Alright. How should the client enter the market?**

The client could either enter independently, acquire small sized players in the market, or do a joint venture with one of the major competitors. I would suggest it would be better if the client goes into a Joint Venture with a couple of the existing local players as the client would be able to use their local understanding and B2B local distribution network, which coupled with the strong R&D capabilities and product of the client would ensure success.

**Sounds good. Thank you!**

## QUALITATIVE INFORMATION

### Case Background:

Client is a US-based chemical company looking to enter the Indian market. You need to evaluate if the market is attractive for the client to enter.

### Case Facts:

1. Client deals with chemicals to melt snow.
2. Targeted regions receive snowfall of 100 cm each year.
3. Snow is to be melted at least 20 times a year.
4. For every 1 cubic meter of snow, 10 ml of the chemical is required.
5. Price of 1 lt of chemical is 50 cents.
6. The market has 8-10 players. Each have a market share of less than 8%.
7. The client has a patented solution which melts snow using lesser amount of chemical.

## CLARIFYING ANSWERS TO BE PROVIDED ONLY WHEN ASKED BY THE INTERVIEWEE

| <u>Interviewee</u>  | <u>Interviewer</u>  |
|---|---|
| What kind of chemicals does the client sell?  | Client deals with chemicals to melt snow.   |
| Why have they chosen India as the target market?  | They have chosen the Indian market as it is a large country and the current players are fragmented.   |
| Can you tell me how much chemical is needed to melt snow and what is the usage frequency? | These regions receive approx. 100 cm of snowfall each year, and snow is to be melted at least 20 times a year. On average, 10 mL of chemical is required to melt 1 cubic metre of snow. |
| What is the price of this chemical?   | Assume the average price is 50 cents/litre.   |
| Who are the major players and what is the industry growth rate?                           | The industry has 8-10 players currently and none of them have a share of more than 8%.  |

## RECOMMENDATIONS

With a patented product in a fragmented market, the client can garner good market share and should enter the market. It would be better if the client goes into a Joint Venture with existing local players as the client would be able to use their local understanding and B2B local distribution network, which coupled with the strong R&D capabilities and product of the client would ensure success.