

THE GATEWAY

Rotary Club
of Bombay



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SO LONG, FOLKS!



What a year it has been! A truly memorable one!

And all that happened was showcased at my Final Meeting on June 22nd, 2021.

There were many who worked hard in front of and behind the camera, but first and foremost I thank each and every one of you for coming together on that day to celebrate with me as I acknowledged all the wonderful work done and all those that deserved recognition.

Yasmin, Meher and Gautam, thank you so much for agreeing to step in and being such good sports and amazing Masters of Ceremony. Your wit and humour and one liners were spot on and extremely entertaining. Aditya your ideas and assistance in writing the script were invaluable.

District Governor Sunnil Mehra was very generous in his praises that night and I have to acknowledge his vision for this year and the congenial manner in which he encouraged me and my fellow Visionary Presidents all throughout. Our working relationship has developed into a strong bond of friendship.

PN Vineet, I suppose I owe my biggest thanks to you for not caving under peer pressure and sharing all the 'andar ni vaat' and also for your very kind words. And PE Shernie, thank you for so eloquently

acknowledging all those who were involved with the final meeting.

Khurshed, you're always willing to whip up an artwork or an invite or certificates at the drop of a hat and everything is always so well composed with precise attention to detail and keeping with the theme.

Jamshyd, you have collected, collated, edited all the data and pictures from all committees, as well as from others, and have been a quiet but extremely active behind the scenes person for the final meeting.

Freyan Bhatena of Word It Well, our social media has never been this interactive and the 'Year Gone By', though tedious to put together, was so well received.

Alpana Lath of The Narrators, I know it takes hours to create a look that is both synonymous with the rest of the issues of the year and yet fully different. You have done a stellar job of all The Gateways all through the year.

Ketki Mehta & Monik Doshi of Hansa Events, kudos for making and editing all the slides, for attending practises at all odd hours over multiple days, to bring the final event together seamlessly.

Lindsay & Reena, what an after party! Your melodies coursed through our veins and we were instantly on our feet swaying

away with delight.

Rhea, you have been the awesome conductor waving your imaginary baton and ensuring that everyone performed at their peak and with precision and élan. Thank you for always being there!

I was deeply touched and humbled by the testimonials given by:

President Yosi Agiv of the Rotary Club of Ramla in Israel;

Ms Pratibha Pai of Chirag Foundation; and

Ms Durga Vadilu, Sarpanch of the Vaidu Samaj

For me, it was a night to remember, as I soaked it all in with Zarina, Pheroze, Rohaan, Zahan (from the US) and mighty Samson by my side.

The Presidency, an honour that I shall always cherish, has had its challenges, and rewards; but it has been a journey of learning, maturing and evolving, as I have worked closely with so many of you and have also forged even closer friendships that have played a major role as our Club has once again accomplished so much.

This year will be etched in my memory forever!

President Framroze Mehta





RAJAT GUPTA, SENIOR PARTNER, MCKINSEY & COMPANY, ON TRANSFORMING GLOBAL BUSINESSES THROUGH DIGITAL MANUFACTURING, IN CONVERSATION WITH RTN. MANJEET KRIPALANI

Much of the world is seeking to bring manufacturing home, but how are they going to it? What will enable India to bring back manufacturing to its shores and become a factory for the rest of the world? Does digital have a role to play here?

The trend has been there for a while, geo-politics has demanded it. It was in the opposite direction for 40-50 years and continues to have forces in the opposite direction of off-shoring and making manufacture more competitive. But in the last five years, we have seen some of the forces reverse and then in some ways this has been accentuated by Covid and a few other shocks that have occurred in the last few decades. The current shortage of semi-conductors is an example, perhaps, of things in some sectors going too far.

So, first, it is opposing forces but there is strength in bringing it home. Now if I think of the risks of staying as is, with these long supply chains that the companies have, and we all know of the automotive supply chains when the product goes from country to country, the electronic supply chain... the McKinsey Global Institution work that was done last year on supply chains where they assess that companies can lose up to 40 per cent of one year's profit once in 10 years. This is from disruptions that may come, unexpected and sometimes expected ones. So, roughly if you put that in expected value terms, four per cent of a company's profits in any particular company's year is added risk.

The interesting part is they don't fall every year but may fall once in 10 years and half of the profit of company may get quite down. So, that is the magnitude of risks that businessmen are looking at besides political leaders who are looking at home-shoring for the purpose of employment or for securing products.

The most impacted sectors are ones that are highly traded, like electronics, and concentrated in some countries. Most of us know that semi-conductors are

concentrated in Taiwan and some in South Korea, some in Japan and China also but these two countries dominate. Number one factor around which sectors are going to see a reversal of this trend are electronics, computers, communication equipment, semi-conductors. There are 180 products worth about US\$ 140 billion trade which are effectively dominated by a single country. Some of these we hear about in press. These are the ones that are going to come under the scanner the most. There are others at the other end, the least traded products, which are food, beverages and fabricated metals which are going to be under much less pressure because they are more original supply chains. Let me spend some time to describe what will determine this shift?

Besides this force that we talked about, elements that will determine the shift will be difficulty in making this shift. The factors are – it is hard to move things that are linked to geology, it is hard to move highly capital industries around easily, semi-conductor fab at the highest at its end can take US\$ 10 billion dollars to move down.

The third type of industry is the one which requires a special kind of eco-system either at the supply end or knowledge. In Taiwan, companies are encouraging large numbers of PhDs to help them in the manufacturing process and therefore becoming competitive in semi-conductors. So, these kinds of ecosystems, the university, the students coming out of chain, these eco-systems are also hard to move from one location to another.

That said, when you put the forces together, you continue to see some kind of movement of electronics, pharmaceuticals particularly drugs from China, some will come to India, perhaps there will be things from India that go to other markets. It is a barrel that will continue to move and that barrel can go to low-cost countries – Vietnam and Bangladesh, telecom equipment and petroleum products. So, this is

the rough sense of world. If I come back to India, obviously Indian manufacturing has to become competitive but it also has to become capable.

Digital manufacturing is the new buzz word. Tell us exactly what this means and why is it now possible?

It has been around for 12-15 years in various shapes. In many ways, it has become a reality in the last five to seven years. The trends that make it a buzz word and a reality, if you look at any manufacturing set up and I work in many heavy industrials set up. Mine, being petroleum, oil-refining, we are asset-heavy and technology-intensive by which I also mean the technology of information. If you walk into a steel plant today, something built in the last 15 years you will find that there are already 15000 sensors. If you walk into a refinery, you will find similar number of sensors. You would find that many of the actuators and many of the vans, things that control the plant and make it move are actually controlled by DCS – Distributed Control System which has been in place for 10-15 years and are getting upgraded. So, in many ways the information flow in these plants is already significant. So, what is the next beyond this level of digitization that has happened?

What you see is the use of mathematics and equations and machine learning or artificial intelligence. Using the data that has already been generated in these plants to create better decisions. In my own experience, I have seen companies getting 10 per cent extra production out of these very heavy assets-intensive industries just by using mathematics combining with the already existing hardware and software, process running the plant better. That combination is getting you 10 per cent higher production. I brought in the paper plant where in the pulp portion, where good comes in and paper goes out to manufacture, I have seen 10-12 per cent reduction in chemical composition.



Predominantly, you can now use AI to make predictions about what is going to happen in plants and you can then control it.

The World Economic Forum has the Light house network, how does that inspire the companies to digitise and how does one become a Light House company?

Three years ago, the WEF figured out companies that are more advanced in moving to digital. In four rounds, they assessed around 1500 plants across the worlds, and identified 69 as digital light houses. India has three but China has a large number. Interestingly, the US doesn't have many, Europe has many, Indonesia has a couple.

The intent of understanding what these plants are doing and then spreading the good word so that others learn and adopt. There are four axes on which these firms are reviewed. The first is they have digital technologies across a number of different products and it is not just put a camera over here and sensor there and create a model to control the area but there are 30-40 models in the plant controlling in a better way and new techniques that have been used in creating and planning. So, proliferation of the use of these technologies.

Second is business results, the WEF have seen quality improvement of 14-15 % operating cost reduction from 10-15%, output increase as much as 200%, I have seen 10-15% in the type of industries that I work in, speed to market improvements 50%, so, you get the product in market in half the time. Customization and improvements, for example, minimum model quantity reduction as much as 98%, these are of course few magical cases if you have the

minimum model quantity of 100 you can get down to just 2. So, these are the kind of business impacts.

Third thing is capability-building because a lot of these technologies cannot be adopted by getting a vendor to do something for you. This is about building internal capabilities because in many ways we are only starting to scratch the surface of the new ways of working and companies need to create internal capabilities to spot these technologies and apply them to their business problems.

Fourth is the appropriate use of technology and here is where a lot of people go wrong when they go digital. They go wrong because they start thinking technology first and therefore, they end up with large technology budgets which don't necessarily deliver the business. One of the philosophies of WEF is start with the business problem, is your problem asset utilisation or quality problem, or minimum quantity so you can customise the product more. So, start there and address the issue. Working with current technology, use what is existing, build the necessary capabilities and deliver the business impact.

Tell us a bit about the Indian company that is on the Light House network. I had a chance to visit one of the factories and it was amazing to see that this company did not use software experts but subject matter engineers to create the software and digitisation of their factories.

There are three Indian Light House plants. One is ReNew Power, which is perhaps the largest renewable energy company in India, ReNew power is the latest light house that India has come up with. Two of the Light Houses are Tata Steel's two plants in Jamshedpur and Kalina Nagar. What did they do? Some of the examples that I gave earlier were from there.

This is a plant which has 150 sensors, it is a newish plant but already being designed and built with fair amount of technology. As the plant was ramping up, the management wanted to figure, what next? They had ramped it up, they said that the idea of using advance analytics and machine learning algorithm to keep the plants running better

could possibly give them a boost in performance. And it did, they basically embarked on an effort to build those capabilities, it has unleashed 5-10% extra production in very large pieces of equipment, reduced costs in many parts of the plant and it has improved by 5-15%. Now what happens is if there is an operator sitting in a control room, he is getting a whole flow of information while the panels are there in the control rooms. Now that person can focus on 3-4 pieces of information to react. What the models do is help them process 30 variables that matter instead of three or four and provide him necessary advisory to control the plant better and get that extra 2% production at this point of time and extra 10% at this point of time. So, what has this plant done, 30-40 of these kinds of models and then several hundred people that have been trained to use this technology and build this model, put the mathematical algorithm together, come up with the intelligence and be able to convince the operator to use the model and get the extra 5% production, so, in summary what are they being able to do is get extra business, and proliferate these models across the plants, train and make the workforce capable and leverage the technology that they invested.

So, Tata Steel and Tata Steel's Corus is also on Light House but in Europe. This has been such an inspiration that what we are going to see is a cluster of Indian companies that are all aspiring to be Light House network companies and that is where countries start to get excellence.

The 69 companies that are in the Light House networks, 56 of these are in sophisticated sectors – electronics, semi-conductors, pharmaceuticals, automotive, there are only 13 which are in the resource-based sectors – heavy industrial sectors where the assets that are put on ground are in billions of dollars. And which is surprising because it is these companies that are already in the last 30 years have been investing in a lot of technology, the data technology, heat sensors, movement sensors, etc. out of the 13-odd, there are three of the Tata steel, they have built these mantra and they are using it to drive adaptation across the system.

But there are two other leading steel companies in the world, one is China's leading steel company, power steel and the other is Posco. Five of these 13 are steel plants, one is a renewable company, there is a coal mine out there, there is an oil refinery, a petrochemical and so on and so forth that is why there is huge opportunity. The point is if you look at the manufacturing investment of the world a very large proportion goes to the sectors I am talking about. And these are large companies, large assets who have the potential to adapt the technologies and build the capabilities more so, than many others and that is why there are a lot of opportunities.

How does one link this with Atmanirbhar Bharat? Can we link it up? How does the supply chain of smaller companies participate in this?

One, there is no getting away from the fact that to be a manufacturing hub whether for own domestic use or exports we have to be competitive and for that we do need competitive technologies and absorption of these technologies. I am coming back to this point, you need low-cost power, low-cost logistics, you need capable work forces, you need a large market. On many of these fronts India is at a disadvantage by as much as 5-15%. I think there are a certain set of efforts that the government is making, there capital subsidy programme or PLI government incentive program. So, these are all necessary conditions, they can't be sufficient by themselves.

One part of sufficiency will actually be the digitization. As you step back and look at the best adopters of digital, they are able to get 4-10% points of extra margins relative to those that adopt digital poorly. This starts wiping out the competitive disadvantage that I was talking about and governments pushes and gives you the opportunity to be the lead and most competitive in the world. so, I think that is the link to me between this and Atmanirbhar Bharat, the ability to be more competitive.

The other dimension using digital particularly if you are part of the large supply chain, using digital for visibility to be part of the supply chain and therefore, reducing the

supply chain risk and improving the supply chain resilience which is also one way of using digital.

How can smaller companies benefit from this? Become big, be competitive, invest more, be more profitable, become big. One of the big things in India is missing mid-level companies. The best thing that small companies can do for India is become competitive, absorb technologies, grab markets and reinvest. Second, become parts of ecosystem of bigger companies. The market, the technology and tools and process access that they provide also makes you more competitive. McKinsey Global Institute has again done a research on the topic of markets that have lately emerged, but more recently emerged markets have greatly supported the growth of their large companies and therefore small companies have become larger. So, have ambition.

So, the Indian ecosystem should become like the German ecosystem where the small family own businesses become big and they start becoming powerful and drivers themselves.

Correct!

There are going to be at least 8-10 companies that are going to be on Light House by next year, since McKinsey has been driving a lot of this in the most virtuous manner, helping companies to get up to their digital side. How do you see it?

I don't know how many will go on the Light House status but what is for sure is that India is in a special place as far as technology is concerned because it is a software powerhouse. So, we do have trained personnel who understands where to get data and how to use it at a low cost. And reasonably literate force on the topic of digital. I also think that some of the cases that we talked about are adopting digital technologies. I hope this becomes the catalysis of Indian manufacturing combining with its software province and in some ways us as a nation progress.



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*“May our happiness increase
with our usefulness. What
Rotary will be one hundred
years hence, none living can
imagine.”
Rotary Founder Paul Harris*



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*"Rotary summons men
to respond to their best
impulses. ..their best
selves... [to] lift up their
heads in every land. The
best things in us are not
confined by national
boundaries. "*

*RI President Allen D.
Albert, 1915-16*

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IN PRESENCE OF -
CHIEF GUEST

RI PRESIDENT RTN SHEKHAR MEHTA

GUEST OF HONOUR
DG RTN RAJENDRA AGARWAL

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