

# Fairchild water technologies essay sample

[Environment](#), [Water](#)



## 1. Problem/Issue Definition

Fairchild Water Technology was a company established in 1980 by Eugene Fairchild that focused on water filtration and purification systems. Fairchild was very successful in the industry and wanted to expand internationally and to be known as the producer of the best water purification systems in worldwide. As the international market liaison for Fairchild, Rahul Chatterjee was given the challenge of moving Fairchild from just “dabbling in developing countries to thriving in them.” There were other Liaisons in Argentina, Brazil and Indonesia, but India was the largest project for the expansion and it was Chatterjee’s job to manage India himself. There were many reasons why India was a choice market for Fairchild, all of which will be explained in the situation analysis, but most importantly Indians had a significant need for more sophisticated water purification systems. Since there are many different methods of purifying water, Chatterjee would have to convince the Indian people that Fairchild’s method was best.

One of the most traditional methods, boiling the water, doesn’t rely on any system and was used by about 50 percent of the target market. Boiling was seen by the consumers as the most inexpensive way to get rid of bacteria, but this method left the purified product with a “flat” taste, was very time consuming and failed to remove physical impurities and unpleasant odors. Another 40 percent of the target market used candle filters. These simple mechanical filters were also very affordable costing only about RS350 to RS1100. The issue with the candle filters was that it was a very slow purification process. Others used water purifiers which were considered more sophisticated than candle filters, but the engineers at Fairchild were

skeptical of the claim that these purifiers removed all bacteria and viruses. The remaining 10 percent of the target market didn't own any system and Chatterjee believed that only a select few in this category would even bother to change their habits with the introduction of a new system.

All segments of the market had similar requirements for a water purification system. The most important quality was the system's ability to remove sediment, bacteria and viruses. Price, ease of use and simple installation were also important factors. The main problem facing Fairchild going into India was how they would expand their operations into India and enter the market there. The hardest thing for a company to do is overcome barriers to market entry and the question was how to enter the Indian market.

Chatterjee had three options and he had to figure out which option would be best. The first option was a joint working arrangement. Option two would be a joint venture company and option three was acquisition. In a joint working arrangement it would supply key purifier components to an Indian company and they would be the ones to manufacture and market the product for Fairchild. The Indian company would just pay Fairchild a Licensing fee which would be based on a per unit fee over the term of the agreement.

In a joint venture, Fairchild would essentially partner with a local Indian company for the purpose of marketing and manufacturing the product and the two parties would split profits per an agreement. Finally, an acquisition would have Fairchild buyout an existing Indian company whose operations would expand to include the water purifier and all the profits of the acquisition would in turn belong to Fairchild. Before a company goes into any

country there are local rules and procedures that govern any company trying to import their product into the country. For example, the website for anyone trying to import a product to the United States <http://trade.gov/faq.asp#import> discusses the regulations for importing products to the USA. As

discussed in Chapter 5, there are political and legal environments encountered when entering into other countries.

Chatterjee knew that he was not an expert in the legal aspects of the project and he would have to apply for a market entry. Trademarks and Patents were protected by law in India as well. Foreign companies were also taxed on income from Indian operations; however, the Indian government offered many incentives for foreign companies to enter their market. Chatterjee had to make a decide which option would not only be best for Fairchild entering the Indian market, but would also be most profitable for the company. 2.

### Situation Analysis

Fairchild left his position as head of Research and Development at Culligan International to start Fairchild Water Technology. His new company started by selling a product for mobile homes called a desalinator which removed salts from well waters for residents. This product was very successful and company expanded to include the markets of nearby municipalities, small businesses, hospitals and bottled water for consumers. In addition to expanding to new markets such as the southwestern United States, Fairchild added many new products to their line. They were so much more successful than their competition because their product line was of much higher quality than those of their competitors who were equally priced.

Revenues in year 2000 were \$400 million of which they profited about \$50 million. There were over 4000 employees in the company.

Export sales began in 1985 and by 1990 they grew so fast they needed to create a separate international division. Company executives watched as the two filters grew and the market for clean water in developing countries was really huge, profitable and attractive. India appeared attractive to many foreign investors in the 1980s because of government actions that encourages foreign imports. Liberalization opened the Indian economy to foreign investors, and this meant many changes in approval requirements for new commercial products, taxation procedures and most important government officials. This is why Chatterjee saw India as such an opportunity since it was developing country the need for the product. The product that Fairchild would bring in would be the delight purifier which used a combination of technologies to remove four types of contaminates found in potable water.

There would be a lot of testing to go through before entering the market. Also they would have to decide if the filter was better to put on the wall or countertop. The Indian market would require two models at the outset of market entry. The main player in Fairchild was Rahul Chatterjee who was the international market liaison for Fairchild water technologies and was in his eighth year at the company. His job was to help Fairchild thrive in developing countries. He took trips abroad and on his second trip he saw how in Calcutta and Bangalore where he studied customers and the company's competitors, there were a lot of problems with the water supplied to the local residents.

He was under a lot of pressure as Executives at Fairchild would compare Chatterjee's recommendation to his counterparts who were focusing on Argentina, Brazil and Indonesia. SWOT analysis

Strengths -High sales revenues and high profits. In year 2000, Fairchild had sales of almost \$400 million dollars and profit was \$50 million. Export sales were growing as well, with \$140 million dollars in sales with half of that coming from countries in Central and South America and the rest from Europe, Southeast Asia and Australia. There was a lot of potential for growth and profits in countries that were still developing. Product performance also was much better than the current methods that were being using in India at the time. All segments in the target market showed that Fairchild's product did great in all aspects which included sediment removal, bacteria and virus removal, capacity in storage or flow rate and safety while still maintain low cost. Ease of installation was also important and Fairchild did a good job in all of these areas.

#### Weaknesses

They were new to the market of home water filter systems and new to the foreign market. Fairchild entered the market in 1990 and only in 1995 did they start with development and marketing of the company's first product targeted for consumer households. No Brand recognition -Eureka Forbes was the most established competitor in the water purifier market which was a joint venture between Electrolux from Sweden and Forbes Campbell from India. They produced all the " modern products " including vacuum cleaners. The brand name they had for the water filters was Aqua guard which was the

market leader and became close to becoming India's only National brand. These products were sold with "personal selling" which would be hard to compete with. The competitors had salesmen knocking on doors in upper class areas showing people why their product is the best even if it wasn't and the company paid a lot of sales commissions Opportunities

New Markets -Fairchild was in an early growth stage and they had plenty of product design options and materials. Need in India - Due to the polluted waters and landscape there was a significant need for clean water in India. Wealthier people and the growing upper class cared more about their health and wellbeing and took steps to be healthier. Large number of potential customers—Chatterjee estimated around 40 million households as potential customers and these people were similar to the upper and middle class in the United States and Europe. Potential for changing habits/traditional systems—90 percent of India was using some sort of system already to purify the water such as boiling, candle filters or other purifying methods. Favorable tax conditions -India's changing government created incentives for foreign companies to import and reduced taxes for them. Cheap labor - labor in India was much cheaper than American labor, at rates of 20-25 RS per hour. Rural markets - More than 80 percent of the market lived in rural areas where the water quality was even poorer. Threats

Market Uncertainty—Over 100 companies competed in the Indian market for home water filters and purifiers. Chatterjee was able to develop descriptions of three major competitors. Long and difficult process to enter the market - Fairchild would have to apply for market entry from the foreign investment

promotion board. If approved it would go to the reserve bank of India for approvals for any royalties and fees, while time consuming and cumbersome the consultant told Chatterjee he could virtually guarantee “ final approval.” Intellectual property rights – will be expensive to litigate in court. Higher taxes –Foreign companies paid taxes on any income from Indian operations, and tax on any interest, dividends, royalties and any capital gains on sale of assets. Competition – over 100 companies were already in the field, Singer being the biggest threat. Alternatives for Action

The main issue with Fairchild, and what Chatterjee had to figure out, was the best and most effective strategy for entering the market with three possible ways to enter the market. A joint working arrangement in which a licensing agreement with Fairchild would supply the key purifier components to an Indian company, and the Indian company would manufacture the final product in India while paying a licensing fee to Fairchild. Option two would be a joint venture, in which Fairchild would partner with an existing Indian company to specifically manufacture and market water purifiers and split the profits down the middle. The third option would be an acquisition where Fairchild would have to buy an existing Indian company and all the profits would belong to Fairchild. There were advantages and disadvantages to each option.

The pros of a Joint working arrangement would be that the financial investment would be very minimal costing \$30, 000 for production facilities and equipment and another \$5, 000 for office facilities and equipment. These costs would be offset by the fact that the licensee would pay for technology



transfer and personnel training. Annual fixed costs would not exceed \$40,000 at the beginning and would decrease to \$15,000 once the Indian national would be hired, trained and left in charge. Additionally the licensee would pay royalties ranging from rs. 280 for a domestic market sale and rs. 450 for an international sale. The negatives of this arrangement though would be that Fairchild would have no control over the licensee's operation. Another possible disadvantage is that the licensee could eventually become a competitor. Under a joint venture approach profits would be split between the two parties, which is better than just a royalty fee. There would also be more control over operation and product distribution.

On the other hand there would be a much higher investment and increased annual fixed costs, depending on the scope of the operations. Here is an article also showing some advantages and disadvantages of a joint venture. The main advantage is it opens up new opportunity but at the same time the partners could not communicate well especially in a case like this where they are in different countries and poor communication leads to failure.

[http://www.businessbrokeralberta.com/uploads/9/5/9/4/9594203/wp8-pros\\_and\\_cons\\_of\\_jv.pdf](http://www.businessbrokeralberta.com/uploads/9/5/9/4/9594203/wp8-pros_and_cons_of_jv.pdf) Under an acquisition there are some huge advantages such as Fairchild would receive all profits and have sole control. This option would have the most control over operation and product distribution. The issue with acquisition would be larger initial investments and higher annual fixed costs. Success also strongly would depend on the relationship with the selected partner. Recommended alternatives and action

Chaterajee had some tough decisions to make and he had several options. If he was going to go with a joint venture or acquisition approach the financial investment would be higher and he roughed out estimates based on a joint venture entry. He figured the expenses would have the delight purifier to be sold through dealers or door to door. He also estimated costs for a joint venture or acquisition would be about the same. The pricing strategy would be the most important decision. If a skimming strategy would be used using dealers it would be sold to dealers for RS5500 and to customers for RS. 5900. This would give a RS. 650 unit contribution. If a penetration strategy would be used it would be priced at RS. 4100 to dealers and RS. 4400 to customers. If a direct method was used without dealers the cost would be about the same but sales commissions would need to be paid, under a skimming strategy 550 a unit and under a penetration strategy 400 per unit. Skimming vs penetration would be more than just pricing.

Product design would be better and of higher performance and quality, a longer warranty period and a more attractive appearance. The recommendations would be to not go into rural or smaller urban areas as there is a lack of adequate distribution and communication, so it would be best to start in a big city. Market entry would have to be with manufacturing in India because it would be much cheaper. It would also be best to find an Indian partner. On Chaterajee's visits he saw many reputable companies who manufactured high quality products and had strong brand names and they were all a good size for Fairchild to partner with. He only had to convince them that Fairchild would be a good fit. The best thing to do would be a joint venture, finding a partner in India, to help with the manufacturing and

distribution. They would have to move quickly as the window of opportunity was open, but if the competitor Singer were to be as good as they claimed to be, Fairchild would need a product category that is “ killer” to win.