

Mercan system inc.



The company was established in 1980 by Eugene Mercan and the first product was a desalinator. In 1996, the product line included desalinators, particle filters, ozonators, ion exchange resins, and purifiers. In 1996, sales revenues was almost \$400 million (annual growth average 12% for past five years), with an expected profit close to \$50 million. In 1999, water purifier was added to product line by using brand name “ Delight”.

The company has identified a market for its water purifier in developing countries where there is a huge, profitable and attractive market for clean water. Rahul Chatterjee, an International market liaison has been gathering information about the Indian market for home water purification devices. Statement of the Problem Mercan Systems would like to thrive in developing countries. They are seeking market entry elements and entry strategy to the Indian market for home purification devices.

The entry strategies would then be compared with those of two other Mercan liaisons who focused on Argentina, Brazil, and Indonesia. Indian Market for Home Water Filtration and Purification The characteristics of this market is complex but Chatterjee found out that there are about four or five competitors in the market with only one or two companies in India’s 25 states. The market may be in its early growth stages and many Indians felt the need for improved water quality. Target Market 44million households comprising of: 40 million households of middle- and upper-middle-class households in the United States and the European Union

4 million households who had similar values and lifestyles In addition, 50% of our target market used boiling to make clean water, 40% of our target market used a mechanical device to improve their water quality while 10% of

the target market owned neither a filter nor a purifier and seldom boiled their water. Market Segmentation Traditional Method for Home Water Purification: Boiling- Two to five liters of water for 10 minutes, allow it to cool, and then transfer it to containers for storage (often in a refrigerator). This procedure is cumbersome, time consuming, and ineffective in removing physical impurities and unpleasant odors. Before storage they will filter their boiled water through “ candle filters”. Water can become recontaminated during handling and storage. Mechanical Methods for Home Water Filtration and Purification: Candle Filters -Low price depend on material (plastic, porcelain or stainless steel) and easy to use. Candle filters were slow, producing 15 liters (one candle) to 45 liters (3 candles).

It is needed to be removed, cleaned, and boiled for 20 minutes. Price Rs. 350 to Rs. 1, 100. Water Purifiers - These are better than Candle Filters. There are three steps, the first removed sediments, the second objectionable odors and colors and the third harmful bacteria and viruses. Price is Rs. 2, 000 to Rs. 7, 000. The remaining 10% of the target market owned neither a filter nor a purifier and seldom boiled their water. Strategic alternative courses of action: Market Entry Options 1)Whether to go to Licensing

- Whether to go to Joint Venture
  - Whether to go to Acquisition
  - Do Nothing Decision Tree Factor to Consider
  - Qualitative information
1. Quantitative analysis
  2. Recommendation
  3. Qualitative Information

Foreign Investment in India Licensing: Involves supplying key purifier components and license fees will be calculated by per unit basis over the item of the agreement Joint Venture Company: Involves partnering with an existing Indian company and splitting profit equally. Acquisition: Involves purchasing an existing Indian company, then expand to include the water purifier with this arrangement. All profit will belong to Mercan Systems, Inc.

### **Three Business Plans for Indian**

1. Apply for market entry to the Foreign Investment Promotion Board, Secretariat for Industrial Approvals, Ministry of Industries.
2. Approval of any royalties and fees, remittances of dividends and interest by Reserve Bank of India, Ministry of Finance.
3. A consulting firm has assured Chatterjee that approval is “ Virtually guarantee” by his consulting firm.

Attractiveness of the Indian Market Tax Rates and Average Return on Assets: Corporate tax rates in India probably were somewhat higher than in the United States

The average return on assets for all Indian corporations in recent year was almost 18%, for United States corporations was about 11%. Delight Purifier: Uses a combination of technologies to remove four types of contaminants found in potable water: sediments, organic and inorganic chemicals, microbials or cysts, and objectionable tastes and odors. This technology is used to purify water to a level beyond WHO standards. There were two models that were countertop and wall-mount. Positioned as a quality product

Competitors There are many competitors though the three major competitors are: Eureka Forbes This is a Joint venture company between <https://assignbuster.com/mercan-system-inc/>

Electrolux (Sweden) and Forbes Cambell (India) which began operations in 1982. The company first brand name was “ Aquaguard” (used ultraviolet rays to kill bacteria and viruses) with a price of Rs. 5, 500 and second brand was “ Puresip” (used polyiodide resin to kill bacteria and viruses) with unit price of Rs. 2, 000. The company used 2, 500 person salesforce (directly on households) to sell Aquaguard and independent dealers to sell Puresip Ion Exchange

The company began operation in 1964, they use brand name was ZERO-B (Zero-Bacteria). The product ZERO-B purifiers uses a halogenated resin technology which helped prevent iodine deficiency diseases and permitted purified water to be stored up to eight hours without fear of recontamination. Consumer needs to replace the halogenated resin at a cost of Rs. 200 every year. Singer This is a company that might be a suitable partner to manufacture and distribute the Delight purifier. Singer’s product contained nine stages (removed sediments, heavy metals, bad tastes, odors, and colors, killed bacteria and viruses, fungi, and nematodes).

The product life of flow rate is at 3. 8 liters per minute was at 40, 000 liters (4. 4years for 25 liters per day), but slower liters per minute was 70, 000 liters (7. 6 years for 25 liters per day). They described their product as “ state of the art” and singer was a well-known and respected brand name in India Other competitors include: The Delta – Is a carbon copy of Aquaguard, Alfa Water Purifiers, Symphony’s Spectrum, The Sam Group – is “ WaterDoctor” purifier, and lastly Batliboi Other Relevant Information about Competition

Sales volume of ZERO-B and Singer was around 60, 000 units in 1996. Sales volume of Aquaguard and Puresip was 190, 000 units.

More than 100 Indian companies made and marketed candle filters.

All of purifier sales came from large urban areas and only ten to fifteen percent of the entire Indian population could be reached. Pros & Cons of alternative means of entry Licensing Pros: There is relatively low risk and low cost associated with this alternative. Also there will be no need for Mercan to study India's culture Cons: Mercan will not have control over activities of Licensee and they may lose image Joint venture

Pros: Mercan will be actively involved and would have control over business activities Cons: High cost and high risk is involved. There will be low returns and long-term payback period Acquisition Pros: Cost savings and fewer local restrictions may come with this mode of entry Cons: High cost and high risk is involved Distribution Channel/ Place used by competitors Eureka Forbes: Uses 2, 500 persons sales force and independent dealers. Ion Exchange: Uses door-to-door sales force and consumer advertising. Singer: Uses 3, 000 independent dealers, 210 owned showrooms, and 400 salesmen.

## **Recommendation**

From both quantitative and qualitative analysis strategic focus on rural or smaller urban areas would not be wise, at least at the start. Cost of skilled labor in India was around Rs. 20 to Rs. 25. Mercan Systems Inc. should find an Indian partner. Joint Venture/ Acquisition using the skimming pricing strategy with dealers will be most profitable. Need to use promotion like TV commercial, magazines etc. The company can invest 1% of total contribution

for promotion activities by using TV commercials and magazines (1% of 279, 500, 000= Rs. 2, 795, 000 advertising).