Faded glory

Transportation, Public Transport

Faded glory Case study: Will Philips' attempt at repositioning its products work? Manu Kaushik Edition: Sep 30, 2012 Tags: Philips | Philips products | Philips LCDs | case study STORY TOOLS * Change font size * Print this story * E-Mail this story * Comment RELATED * Philips launches new entertainment products in India Executive Summary: Once a household name, Dutch consumer electronics major Philips has slipped over the years to become an 'also ran'. Its repeated attempts to rekindle its mojo have failed. Will its attempt at repositioning its products at the youth work? This case study looks at what went wrong and what the company needs to do in order to succeed. In April 2010, when Philips Electronics India Ltd announced its plan to outsource its TV business to Videocon Industries, the decision came as no surprise. The five-year pact, under which Videocon is handling Philips's TV manufacturing, distribution and sales in India, is aimed at restoring the profitability of the TV business. Philips was once a dominant player in the segment, with a market share of around 15 per cent in the early 1990s, but business eroded as Korean and Indian brands grabbed market share. As volumes fell, the company struggled to run its TV factory in Pune efficiently. It took the third-party route to manufacture CRTs and imported LCD screens, but this didn't help. Then the company licensed the unit to Videocon. The downfall of Philips's consumer business - especially TV - began in late 1990s Through the arrangement, Philips will get royalty income based on turnover. Videocon's economies of scale in manufacturing and its strong distribution network will help the Philips brand reach more outlets and reduce the cost per unit. The downfall of Philips's consumer business - especially TV - began in late 1990s. The reasons were beyond the control of the management. The

entry of Korean chaebols such as Samsung and LG started eating into the market share of older players such as Onida, Videocon and Philips. Philips decided to stick to its usual strategy: relying on technology rather than strengthening distribution and marketing. It didn't want to compete with the Koreans on pricing, and thought the superior technology of its products, be it picture or sound quality, would stand out. " We took a conscious decision not to cut prices," says Kris Ramachandran, former CEO of Philips Electronics India. LOW-VOLTAGE BRAND THE PROBLEM The companyÃ¢€™s brand image has declined over the years, and has very little recall value among youth THE CAUSE Despite its technological strengths, the company failed to market its products well, which hurt its brand perception THE CHALLENGE The company rolled out multiple strategies to overcome its problem, but they failed in a market dominated by fleet-footed Korean companies | In no time, the strategy flopped. The slow-moving Philips couldn't sustain its top position and its market share fell to some 3. 5 per cent by 1999. After losing its relevance in the consumer business, Philips did take some steps to address the situation. In early 2000, it roped in PwC to revamp its consumer products portfolio, set up new processes and overhaul the supply chain. After this, it launched a new range of CRT TVs under the brand name EyeQ. " The idea was to Indianise products to suit local tastes," says Rajeev Karwal, who headed Philips's consumer electronics division in 1999. The new sets had 300 channels, as opposed to 60 channels in older ones. High-end plasma TVs were also introduced. " The earlier TVs were more suited for Europeans, who like subtle colours. Indians, on the other hand, have a fondness for saturation and bright colours. The later versions of our TVs focused on targeting this

issue," says S. Venkataramani, Non-Executive Director, Philips India. In lighting, Philips has historically been the segment leader in India, with a market share of around 30 per cent " Philips was strong in innovation, but lacked aggressive marketing," says Karwal. " When I joined Philips, I brought in fresh blood to challenge internal systems. A country like India requires go-to-market strategies. We tied up with dealers and proved that the technologies of our Korean counterparts are no superior to ours." Philips also rejigged its skills portfolio. Its workforce went from more than 11, 000 in the early 1990s to around 3, 500 by 2005. From six legal entities, it became one legal entity. " The focus was on reshaping the company to ensure sustainable, profitable growth," says Ramachandran. A 2001 survey by ad agency JWT further helped Philips improve its brand image. Although the brand was iconic in India for several decades with customers associating the transistor radio and incandescent bulbs with the Philips name, the survey found that people did not associate the brand with high-end technology. To revive its past glory, Philips's product offerings have undergone a sea change So from 2001 on, most of Philips's ad campaigns emphasised the advanced features of its products. Gradually, the company reclaimed some lost ground. The TV market share went up to eight per cent in 2002. Although Philips sustained its TV market share at around six per cent in the following years, it lost the way when it shifted focus from TVs to lowmargin products such as DVD players, MP3 players and headphones. When the consumer electronics and appliances market exploded - it went from Rs 20, 000 crore in 2005 to Rs 33, 000 crore in 2010 - Philips's revenues from the consumer business declined - from nearly Rs 1, 091 crore in 2005 to Rs 659

crore in 2010. The revenue mix got overhauled. From over 42 per cent of turnover in 2005, the consumer business fell to some 28 per cent in 2010. According to some senior executives, this was partly because the CRT division was given less importance at a time when the CRT market was growing in India. " Since the parent company exited the CRT industry in 2006, the Indian arm, too, showed little interest in the business, and it affected growth momentum," says A. D. A. Ratnam, President of Philips India's consumer lifestyle division. While the consumer business hit a brick wall, exponential growth in the lighting and health care segments kept Philips going. In lighting, the company has historically been the leader, with a market share of more than 30 per cent - more than twice that of its nearest competitors, Bajaj Electricals, Havells, Wipro Consumer Care and Lighting, and Surya Roshni. " Whether it's CFL or LED technology, Philips is a pioneer in bringing lighting solutions to India," says Nirupam Sahay, President of Philips's lighting division. " We have a big distribution network and reach out to one million electrical and non-electrical outlets." For professional lighting, Philips's client portfolio includes corporate and government customers such as Asian Paints, McDonalds India, Cognizant Technologies and Kolkata Municipal Corporation. In 2005, lighting accounted for slightly over 34 per cent of revenues. In the past five years, the company's dependence on this segment has grown - it now accounts for 51 per cent of Philips's revenues. But even the lighting business has seen plenty of ups and downs. To streamline this segment, the company had to shut down a factory each in Kolkata and Mumbai in the late 1990s. Later, the dumping of Chinese lighting products affected its market share. Timely government intervention in the

form of anti-dumping laws helped CFL manufacturers. Today, Philips gets a big chunk of its revenues from audio video multimedia (AVM), which includes DVDs and home theatre systems. In fact, it leads the DVD market with a share of over 24 per cent. This, though, could be shortlived. Sector experts say changes in the AVM in-dustry will keep Philips's consumer electronics business under threat. " The DVD market is dying," says Deepa Doraiswamy, Industry Manager for electronics and security at Frost & Sullivan South Asia & Middle East. " The transition to store movies and music on a pen drive is already occurring at a fast clip." Still, Philips is doing all it can to revive its past glory. Product offerings across all three categories - consumer lifestyle, lighting and health care - have undergone a sea change. Starting with the launch of MP3 players in 2009, Philips has come out with new products, many of which target youth. " India has a huge young population, so we decided our target customers should be 15 to 30 years old, because that's where buying is going to happen," says Ratnam. " We have to get into the lifecycle of consumers earlier." It has launched devices priced as low as Rs 150. " The focus is to make products that are not overengineered and are easy to replenish," says Ratnam. " Youngsters don't want to hold on to a product for 10 years." Philips has revamped its personal care portfolio, and introduced shavers, body groomers and epilators. It roped in John Abraham and Kareena Kapoor as brand ambassadors. This is the first time the Philips brand has been promoted by celebrities in India. Since 2009, Philips has opened 75 exclusive 'light lounges' in 40 cities. They sell decorative home lighting products priced between Rs 575 and Rs 45, 000. Besides, Philips has 750 'light shoppes' - shop-in-shops in stores such as the Future Group's

HomeTown and Lifestyle International's Home Centre. In 2011, Philips acquired leading appliances maker Maya Appliances, which owns the Preethi brand of kitchenware. " For each segment, Philips is trying to redefine the market," says Rajeev Chopra, Philips India's Managing Director and CEO. Philips's record inspires little confidence in its comeback attempt. Philips lacks a clearcut strategy for India, says Karwal, the former MD. " They are like a bull in a China shop." Will the current strategies work? Does Philips lack a clear vision in India? Does it need to focus more on marketing efforts? 'All Is Not Lost For Philips'The mantra for Philips's rejuvenation is more relevant products, better price points, and the will to fight: Y. L. R. MoorthiPhilips is first a technology company and then a marketing company. The reverse is true of Samsung and LG (though they enormously improved their products in the last decade). Philips should emulate the marketing aggressiveness of the Korean majors. HereÃ¢€™s how. The one thing that sets the Koreans apart from not just Philips but all other competitors is their speed of execution. Even tried and tested players like Nokia are not able to take the heat. The Korean majors brought their best products globally with little or no time lag to India. They managed to put up manufacturing plants in record time. They showcased their good products through savvy marketing (Ã¢€Å“ Golden EyeÃ¢€� TV and umbrella Ã¢€Å“ healthÃ¢€� branding by LG). They recruited dealers at an astonishing pace in the early years. In the 1990s, it was Videocon that headed the table for dealer promotions. In the new millennium, the Korean duo launched a promotion broadside that left little to chance. It touched all stakeholders Ã¢€“ dealers, customers and even shop boys. All these are object lessons in marketing for competitors like

Philips. Besides, there is a certain law of gravity in electronic hardware. Prices of electric goods always fall, be they laptops, VCRs, audio gadgets or mobiles. A company that doesnÃ¢€™t prepare itself for constant product upgrades and a simultaneous price squeeze will fall by the wayside. The Koreans excelled at this balancing act to lead the charts. That said, all is not lost for Philips. At one point of time it was the benchmark of innovation in audio. Also, inspired leadership intermittently did boost market share in categories like DVD players for them. There are also bright spots like the lighting business and the acquisition of Preethi. Though a multinational, Philips is seen as a home-grown brand like Bata, Surf or Lifebuoy. Strangely, they never quite leveraged this strength. Thus the mantra for PhilipsÃ¢€™ rejuvenation is more relevant products, better price points, aggressive marketing and the will to fight. Maybe we can encapsulate the Philips story in just one line: past imperfect, future tense. Y. L. R. Moorthi, Professor (Marketing), IIM Bangalore'Milking A Dying Cow?'Philips tried to revive its profitability by focusing on the bottom line and neglecting its strength: innovation: Ankan BiswasAs a brand, Philips was very strong in India till the end of 1990s. A 1997 survey showed that brand awareness was higher for Philips than Coca-Cola. Today, the Philips brand has little significance among youth Ã¢€“ the most important market. Its brand dilution happened globally, at a different pace in different regions. Although it started as a lighting company, consumer electronics became its face. It was R&D, not marketing, that gave the brand its strength. Inventions such as the cassette tape, CD and 100Hz TV kept Philips in a leading position in consumer perception. As the market became competitive and margins razorthin, Philips started losing

money in consumer electronics. Philips CE tried to revive its sagging profitability by neglecting its strength: it focused on the bottom line and marketing without strengthening innovation. Its consumer electronics patent pool steadily eroded over the last decade. It tried one strategy after another but failed. Many of its divisions were connected with consumer electronics, such as semiconductors and components. Philips got rid of these as they did not fit into its new game plan. The last nail in the coffin is the licensing of the TV brand to its lesser competitors. The strategy of Ã¢€Å“ milking a dying cowÃ¢€� does not augur well with consumers. PhilipsÃ¢€™s strategy today is to become a leader in health care, and retain its top position in lighting with new technologies such as LED. Managing LED will bring back challenges similar to those of the semiconductor division. Philips used its global strategy in the Indian market scenario where the dynamics are different. While Korean brands invested in manufacturing in India, Philips closed its plants. While the Koreans developed India-specific models, Philips tried to introduce expensive models with a bit of tinkering, ruining a once vibrant brand. The brand transformation of Philips is a lesson for all marketers. Ankan Biswas, Chairman, Digital Broadcast Council, Consumer Electronics and Appliances Manufacturers Association | Home /Archive /Business Today /Case Study /July 8, 2012 /Story Going places How Volvo changed the way Indians travel Geetanjali Shukla Edition: July 8, 2012 Tags: Volvo | Volvo buses | Volvo buses in India | Transport | Tata Motors | Askok Leyland | Commercial Vehicles STORY TOOLS * Change font size * Print this story * E-Mail this story * Comment Executive Summary: In 2001, Volvo Buses India sold 20 coaches. By December 2011, 5, 000 of them were running on Indian roads. Volvo did

not achieve this by toning down its products or cutting prices as multinational companies often do. It developed the market and waited for it to mature. Volvo now has 76 per cent of the Indian luxury bus market. The company changed the way Indians travel. Now, as the competition closes in, it is preparing to launch products that could transform the market - again. A decade ago, buses were more or less a by-product of trucks. They were built on truck chassis. Body builders bought chassis primarily from Telco (now Tata Motors) and Ashok Leyland. The difference between city and inter-city buses, or regular and 'deluxe' ones, was reclining seats and a stylish paint job. That is how things were when Volvo Buses entered India. The Swedish company bid for a tender by the Delhi Transport Corporation (DTC) in 1998 while showcasing its B10LE low-entry city bus in several cities. The bus drew much interest. Akash Passey, Senior Vice Presidentregion international, Volvo Bus Corporation, who headed India operations then, says many people came to see it at the 1998 Delhi Auto Expo. He laughs, recalling an animated discussion between two youngsters he overheard. " The older of the two, in an attempt to explain how the bus loses height, said: 'When it halts, the driver jumps out and deflates the tyres'," he says. The coach prompted more weighty concerns too: were India's roads and travellers ready for rearengine buses? What about prices? Volvo city buses cost up to 10 times more than those used by state transport corporations. Meanwhile, the DTC tender was shelved. Selling to state companies was proving tough, so in 2000, Passey changed tack. He imported two Volvo B7R inter-city buses from Hong Kong and Singapore, and sent them out on a six-month demonstration drive. The B7R cost five times more than a 'deluxe' bus. But he persevered. " I felt

there was little reason why an airconditioned bus would not work in a tropical country like India," he says. THE ROAD TO SUCCESS CHANGE STRATEGY Volvo brought in its inter-city bus when it saw the market was not ready for a city bus SELL THE CONCEPT, NOT JUST THE PRODUCT Volvo engaged with all stakeholders - from operators to passengers to drivers - to sell its buses USE MACRO CHANGES TO YOUR ADVANTAGE When Volvo saw that increasing congestion and growing environmental awareness were making public transport attractive, it brought back the city bus CHANGE THE GAME When the competition started to close in on Volvo, it introduced products that would increase the number of passengers | The changing economic landscape strengthened his resolve. The company approached private operators who ran inter-city 'deluxe' buses and could price tickets higher. Volvo refused to compromise on product specifications . Passey points out that inter-city buses are 12 metres long everywhere in the world. Volvo departed from the industry norm by offering service support for the entire bus, and not just parts" But in India, bus length was capped at 11 metres. " We got the regulation changed," says Passey. It was a good thing Volvo had a wide range of products. " All I had to do was choose the one best suited for India," he adds. " I did not choose the most sophisticated, because operators were used to frontengine buses, very little suspension and ordinary brakes." To persuade operators that Volvos were profitable, the sales team drew up a lifecycle cost comparison. Volvos had a few more seats than others - a disadvantage in the early 2000s, when states taxed operators per seat. But the biggest advantage was that they could run for 22 hours without maintenance. Operators were concerned whether Volvo would provide

maintenance centres every 25 km, as was the usual practice. Passey says: " We told them you don't need that with a Volvo. We'll give you one every 400 km." Volvo also departed from the norm by offering service support for the entire bus, and not just individual parts. With maintenance hassles reduced, operators could focus on routes. For example, Mumbai-based Neeta Tours and Travels, which had 20 Volvos in 2004, figured it could serve seven destinations. A bus could leave Ahmedabad at 10 p. m., reach Mumbai at 6 a. m., then go to Pune and back, and then head back to Ahmedabad at 10 p. m. Operators could also focus on sprucing up service with hot towels and entertainment. This also meant they could raise ticket prices by as much as Rs 100 on some routes. Phanindra Sama, founder and CEO of redBus, a portal that sells bus tickets, says, " The Volvo phenomenon coincided with higher per capita income, more awareness about luxury, and increasing migration to cities from Tier-II and Tier-III towns." As Volvos could run farther than buses used till then, routes such as the 1, 000-km Bangalore-Mumbai run became popular. Being faster, they could depart later than a deluxe coach, yet arrive at the same time. SPECIAL: Can Tata's Divo beat Volvo in the luxury bus market? In 2001 - within a year of demonstrating the inter-city coach - Volvo sold 20 of them in India. That figure reached 1, 100 in 2006, and 5, 000 by December 2011. Volvo now has 76 per cent of the luxury bus market. The market itself, according to industry estimates, is growing at around 10 per cent a year. Volvo expanded gradually, starting with South and West India. It was not until 2004 that it had a countrywide presence. " It was of utmost importance to us to have service leading sales and not the other way round," says Passey. Volvo stuck to its product

specifications. It got India to change a regulation that capped bus length at 11 metres Volvo also reached out to not only operators, but also other stakeholders. It ran commercials in film theatres. Before launching the B7R in 2001, it sought driver and passenger feedback. " We realised we wouldn't sell much if we sold merely the product," says Passey. " We had to sell the concept of luxury bus travel." Eventually, state bus companies not only bought Volvos but also built brands around them: Garuda in Andhra Pradesh, Shivneri in Maharashtra, Airawat in Karnataka. The development of expressways such as the Mumbai-Pune one helped things along. Volvo became a ticket brand - something no other commercial vehicle has achieved anywhere in the world - as passengers asked for Volvo tickets, rather than an operator or a route. More case studies As with the inter-city coach, the success of the city bus was gradual. In January 2006, Volvo sold its first city bus to the Bangalore Metropolitan Transport Corporation. Under the Jawaharlal Nehru National Urban Renewal Mission, Volvos now ply in 13 cities. Volvo hopes to make second-tier city connections viable, as traffi c is set to grow in this segment The company is again looking to change the market, especially with rivals such as Mercedes-Benz and Tata Motors tail-gating it. Its 14. 5-m inter-city bus is the longest in India, with more space for passengers and luggage. Its 14. 5-m multi-axle city bus is being pitched as a solution for urban traffic congestion. With the 9, 100 medium-haul bus (for distances of 300 to 400 km), Volvo hopes to make second-tier city connections viable, as traffic is set to grow in this segment. This move - changing the market when the competition closes in - is possible because of a previous strategic step. In 2008, Volvo started manufacturing buses near

Bangalore. It makes 1, 100 buses a year, and hopes to raise production to 2, 500 by 2013/14. Sama of red-Bus says: " The fact that Volvo manufactures its own buses works to its advantage. Mercedes still depends on its body maker, Sutlej." Would any other bus company, had it entered India in 2001, have done as well as Volvo? Perhaps, if its product range was comparable, and if it were patient enough to develop the market. After all, one of the crucial factors in Volvo's success in India is that it has invested in changing the circumstances. EXPERTS SPEAK To fare better in the transport market, Volvo should offer a systemic solution: Geetam Tiwari'THINK BEYOND BUSES' Local manufacturers did not upgrade bus technology almost until 2004, because there was no demand for a better product. Given this environment, Volvo's strategy of bringing state-of-the-art products and creating a market for long-distance luxury travel has been commendable. Higher disposable incomes and other changes in the economic landscape have certainly contributed to the success of inter-city travel driven by Volvo. But it was also because local manufacturers could not create this market successfully. {quote}Urban public transport remains a challenge because it requires not just state-of-the-art buses, but also state-ofthe-art roads designed for public transport. This means creating central lanes for buses, stops for level boarding, passenger information systems, and making streets safe for pedestrians (because every public transport user is a pedestrian at the beginning and end of the journey). Also, money cannot be recovered from fares alone. There is need for thought on financing public transport systems. To fare better in the urban transport market, Volvo should offer a systemic solution, not just buses. It could form a consortium of planners, operators,

and IT service providers and offer comprehensive solutions supported by local or state governments. As the urban population is going to double in 25 years - about 600 million people by 2040 - the urban transport market will grow and could attract more investment. Growing environmental concerns and easy availability of information technology will fuel this growth. So demand for good quality buses will grow. Most Indian cities will not be able to meet mobility demand without state-of-theart bus transport. The country requires about 5, 000 more buses a year. It is up to the government and the mobility service providers, and not just vehicle manufacturers, to create a financially viable market. Geetam Tiwari, Ministry of Urban Development Chair Professor of Transport Planning, IIT Delhi Volvo's success lies in converting its belief that there was a market for luxury travel in India into a value proposition: Abdul Majeed 'FILLING IN THE QUALITY VOID' The bus industry in India started with a focus on public transport, especially to cater to the common man. There were quality issues, but no one really cared. Things began to change with liberalisation, as more people began to move from the middle class to the upper middle class and above. They sought better quality travel. You needed to book months in advance for trains, and air travel did not suit them. They were willing to pay a premium for bus transport, but no such service was available barring a few air-conditioned buses. {quote}Volvo was first to spot this opportunity. It firmly believed there was a market for luxury bus transport in India, for which commuters would pay a premium. Volvo's success lies in converting this belief into a value proposition. Its buses were many times costlier, and the operators needed to charge higher fares to make money. A comfortable journey that

reduces travel time by a few hours was what Volvo bus operators offered to justify the premium fares, and people bought into it. The rest is history. What Volvo has demonstrated is that though Indians are traditionally cost conscious, there is a growing crop of customers who demand quality. As road infrastructure improves and people get richer, the luxury bus segment, especially for inter-city travel, will grow faster and larger. We are far away from a bullet train era, and the poor state of the railways would only catalyse this shift. Volvo's success has triggered the entry of more players into the luxury segment. The Swedish company is best placed to take advantage of this transformation, as luxury bus travel in the country has become synonymous with Volvo. Abdul Majeed, Partner and Leader - Automotive, PwC |