

The Case Of Re-invention

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This is the final hoarding call for Abhinav Kumar taking 9W 682 to Mumbai," Kumar heard the airport pager say, as he made his way to the check-in counter.

"The flight is ready to leave, and you will have to rush, Sir," the counter girl told him.

"Sorry for being late," Kumar gave a sheepish smile, grabbed his boarding card, and ran for the security check.

Kumar had little reason to be a hostage to the schedules of private airlines. As the owner-manager of the Rs 6,085/- crore Total Industries, he could afford his own aircraft—say, a Piper Saratoga. His family had interests in consumer durables, batteries, switchgears, and soaps and oils. But, then, it was not in the grain of this third-generation scion to indulge himself. And not at this juncture of his group's history, where it had its share of laggards in its portfolio. In fact, in the last one-year, his travels had become more hectic. About 20 days in a month, he was out meeting customers, suppliers, and visiting branches to pep spirits.

The whirlwind trip to Delhi was one such. He had started off at 8:30 in the morning, meeting 2 of his biggest switchgear customers, trying [o convince them to buy the new low-tension switchgear his R&D team had developed. Then, he had a luncheon meet with 30 of his TV and refrigerator dealers. It was 3:00 in the afternoon before the pow-wow wound up. From the hotel, he had to dash across to the industry ministry on a courtesy call, and onwards to his Delhi office, where he gave an informal ups-a-daisy to his staff of 60.

The seeds for Total Industries had been sown by Kumar's grandfather Lakshmandas Kumar in 1927. He had started off as a textile merchant, peddling his ware in Mumbai. By 1940, Lakshmandas had his own soaps and oils mill, and a textile mill by the time India became Independent. His son, and Abhinav's father, Deepak, joined the business in 1960 at the age of 20. After his father died, Deepak sold off the textile business and ventured into consumer electronics, making black-and-white Televisions and, later, refrigerators. It was not until 1980 that they had their switchgear business in place.

"From Rs 15,000 in grandpa's first year in business to Rs 6,000 crore today. We haven't done too badly, I guess," Kumar reflected. Yet, he knew that all was not well with Total. He tried to mentally capture the competitive positions of his 4 divisions. "Let me start with the biggest, consumer durables," he said to himself. The all-too-familiar face of Srikant Suresh, the President of the division, popped up in his head. Total had a sizeable 17 per cent of the CTV and 20 per cent of the refrigerators marker, with total sales of Rs 3,900 crore. It was known in the market for its high reliability and low costs. But in the last 1 year, it had taken a lot of retail push to meet the sales targets.

He knew that, this year, it would be almost impossible to expect the channels to

deliver more than what they did last year. Unless, of course, Total cut prices or increased the dealer margins. To fight the battle on its own terms, Total had to beef up its product pipeline, upgrade quality, and deliver better after-sales care.

Things were relatively comfortable in the switchgear business. Total's second big business, it made low- and high-tension switchgears, and was market-leader with a 23 per cent share. Sales had been clipping at a decent 15 per cent in the last 4 years, and it closed March 2000, with a figure of Rs 1,750 crore. In a way, Manoj Kohli—the switchgear President—was the happiest, and may be the smartest, of his senior executives. Every year, he reported bottom line figures that would make the other division heads cringe.

The potential of the switchgear market was much bigger, and Kumar wanted to tap it to the fullest. The challenge now was to come up with a wider range of switchgears, particularly the smaller speciality variety of switchgears, which were being imported.

"Soaps," Kumar moaned, as he thought about the weakling in the Total fold. The Rs 105-crore division eked out a bare Rs 2 crore in profits each year. The business was a baggage from his grandfather's days, and because of reservations and supply problems, they had been unable to grow it.

For the last 2 years, Kumar had been trying to sell the unit. But nobody seemed interested in buying an old and overstaffed mill.

Guneen Roy, the division chief, had worked out a new plan for soaps. But it needed a huge cash infusion, management time in developing the supply chain, and a coordinated marketing push. Kumar had not been convinced that Total could do all that without getting distracted from the more profitable divisions, which needed consolidation. What was very clear to him was that he had to take a decision one way or another within the year.

Kumar liked to believe that the batteries business made a nice fit with consumer electronics. While the retail channel of batteries shared more in common with the soaps', the brand association between Total's durables and batteries was greater. That's why the same agency handled advertising for both the product lines.

The Total Snapshot			
PRODUCTS	MARKETSHARE	TURNOVER	PROFITS AFTER TAX
Switchgears	23%	Rs.1, 750 cr	Rs. 210 cr
Refrigerators	20%	Rs.2, 100 cr	Rs.126 cr
CTVs	17%	Rs.1, 800 cr	Rs. 90 cr
Cons. Batteries	6%	Rs.330 cr	Rs. 20.5 cr
Oils	3%	Rs.45 cr	Rs. 1 cr
Soaps	2%	Rs. 60 cr	Rs. 1 cr
Total		Rs. 6, 085 cr	Rs. 448 cr.

Kumar was happy with the way Ratika Sahai, the division's President of 2 years, was shaping up. At 34, she was the youngest president at Total, and Kumar himself had

handpicked her to head the post. She wasn't one of those high-flying MBA graduates, but she had a keen market sense. The 3 brands that she had launched since her promotion had been received well in the market. On a turnover of Rs. 330 crore she managed to return net profits of Rs 20 crore.

Kumar had no doubts about Sahai's ability to grow the sales figure. It was the bottom line which he sensed coming under pressure. The task ahead for Total was to establish its superiority over the transnational brands, nor just through a marketing pitch but via a strong quality drive.

Then, there was a dire need to get Total's e-commerce in place. Sure, it had a website, but an organisation-wide-strategy was missing.

The chief flight stewardess' announcement over the intercom broke Kumar's train of thoughts. The glass of fresh orange juice was lying untouched on the tray in front of him. In 2 quick gulps, he downed the juice, and then pushed his seat back upright and fastened the seat belt. It was nearing 10 in the night, but Kumar had enough time to catch 8 hours of sleep before, the review meet kicked off at 9:00 next morning.

All the tier 2 executives, and Sahai, were seated when Kumar and his Chairman father, Deepak, walked into the boardroom at 8:55 a.m. There were 10 of them, and he knew all of them, and he knew all of them by their first names. Within seconds of Kumar taking his seat, Suresh, Kohli, and Roy (the other 3 Presidents) walked in together.

"Good morning, gentlemen. I hope your coming in together does not mean anything more than that," Kumar said with humor.

"We were just talking about our bonuses this year," said Kohli, the blue-eyed switchgear head, not to be outdone.

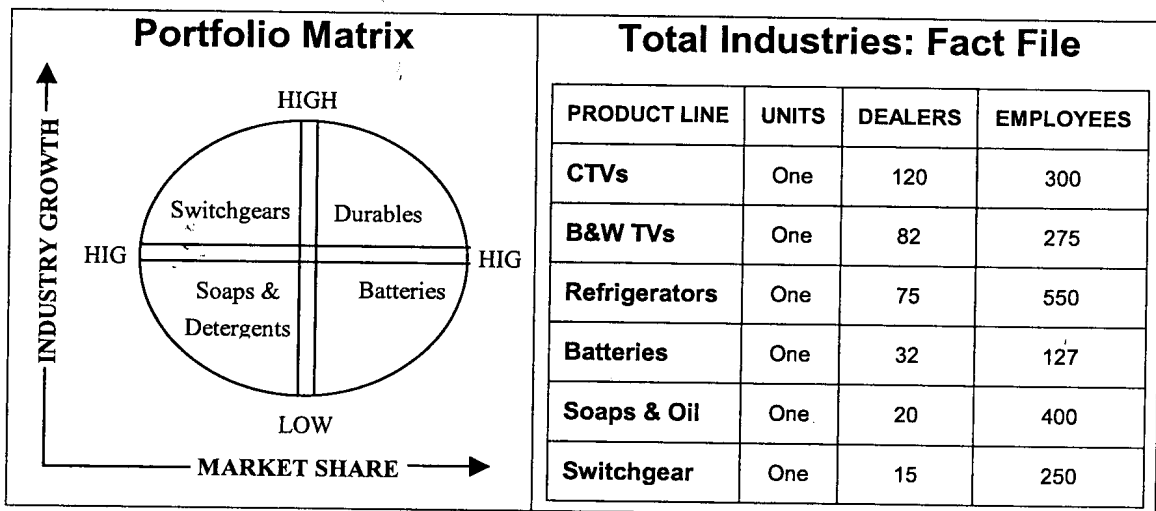
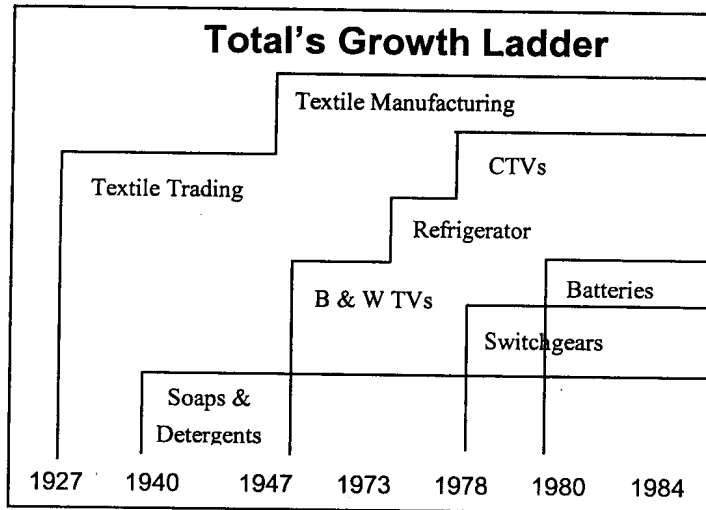
"Let's get down to brasstacks, then" Deepak chimed in.

"I suggest we start with Kohli as there isn't much to thrash out in switchgears," Kumar proposed.

Kohli got up and walked along the horse-shoe-shaped table to where the overhead projector was kept, picked up the infrared pointer, and returned to his seat.

"As we all know," Kohli said, pointing to the slide on the screen, "the switchgear market is growing at about 20 per cent a year. Our growth has been above average at 23 per cent. But PLT, which is our closest competitor, has increased its market share from 13 percent last year to 16 per cent this year. That worries me. When you examine the market growth," Kohli moved to the next slide, "there has been a greater demand for small, speciality switchgears. It is my belief that if we, as the industry leader, were to innovate in this segment, we could expand the market significantly.

"PLT, on the other hand, has been pushing the smaller switch-gears into the market at regular intervals. It clearly means that their production systems are more flexible than ours."



"Can't we get our lines to produce different types of switchgears in a day?" Deepak wanted to know.

"We can, Sir, but not with the current systems. Our tool change time is as much as 4 hours for some machines. Besides, we have some imported components whose lead-time for ordering is at least 2 months. Daily changes in product variety will mean that: we either airlift the components, or plan our schedule several months in advance."

"That is not at all realistic," Kumar said.

"I agree. We need to focus on making the existing shopfloor more flexible, working on our supply chain, and try to find local suppliers for the components we import."

"That was fine, Kohli. Let's get the tea in before Roy starts off with his presentation," Kumar said.

Refreshment was rolled in from the adjoining room where it had been waiting. Roy, the soaps and oils honcho, got up for his presentation even as tea was being served.

"Let me give you the good news first since that is scarce. The soaps and oils division has been able to reduce our sourcing costs by 5 per cent, and that the Total Productive Maintenance (TPM) programme we rolled out 6 months ago is working, and the capacity utilisation is up at 60 per cent. And, instead of spending money on new markets, the division has been focusing on raising its share in existing markets. We have also decided to identify better job shops to source soaps and oils from. I expect huge savings in inventory costs, and higher retail satisfaction."

"What about the core problem of productivity?" Kumar asked.

We are working on it. I agree that the division's sales-per-employee figure of Rs 5 lakh is way below our competitor KLL's Rs 40 lakh level. But we must recognise that ours is really an old plant, and we haven't invested either in upgrading its capacity or its technology."

"It was Total's first manufacturing unit," Deepak said gravely. There was momentary silence in the conference room.

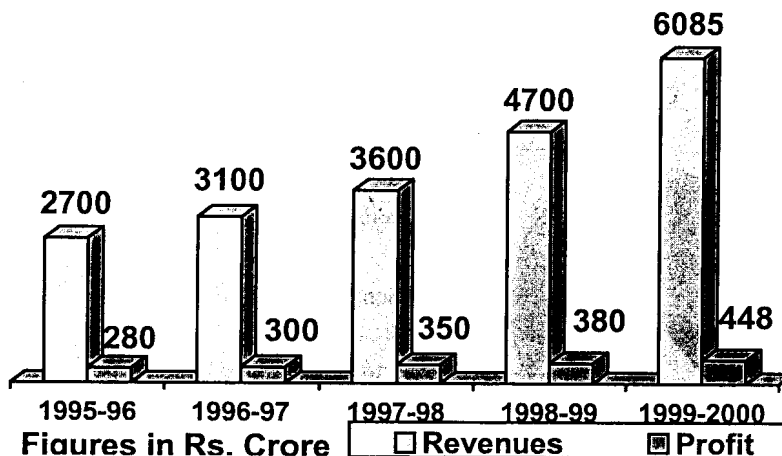
"Yes, Sir, that's why our soap brands still have their traditional markets. But, perhaps..." Roy said.

Kumar interjected, "we need to either sell the plant or align the brand with the new consumer tastes. There is no point in keeping it in a limbo."

"It's not in a limbo. I still use our Tulip soap," said Deepak.

"So do several others of your generation, dadI mean, Sir. But there's a big market, which doesn't.

The Financial Statement



We need products to tap that," Kumar reasoned.

"It's your call to make, Kumar. And thank you, Roy," said the old man, abruptly cutting the presentation off.

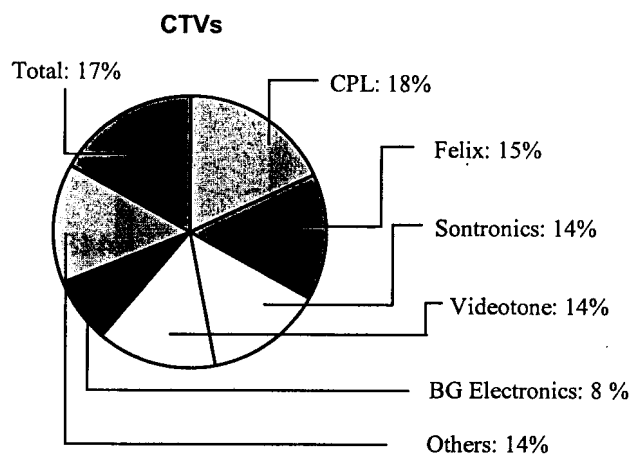
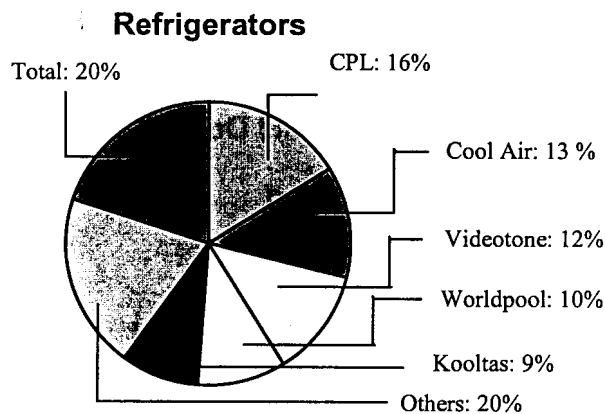
"Thank you, Roy. And will you please see me tomorrow at 10," Kumar said, in a bid to undo the damage his father had done. Roy nodded his head.

"Who do we have next? Aah... Ratika, our turbo-charged batteries chief. Why don't you begin by telling us how your new brands are doing?" Kumar suggested.

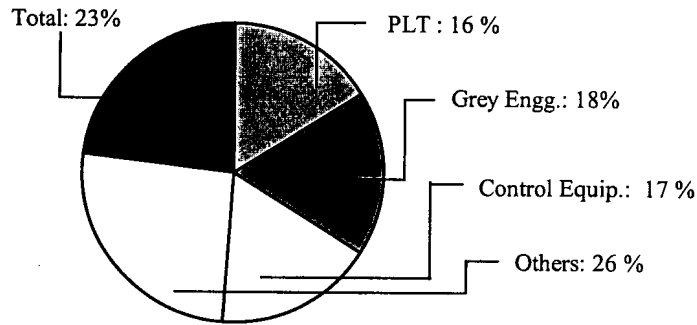
"I am happy to tell you that they will be contributing 15 percent of the battery sales, and 22 per cent of the net profits this year. We have targeted these low-cost, longer-lasting brands at the rural markets."

"What about the existing brands of the division? How are they doing?" Kumar posited.

"A major chunk of our sales—in fact 70 per cent—still comes from brands 5 to 10 years old. Although the brands are old, they have been upgraded almost every year."



Switchgears



"I feel that we also need to re-design our consumer communication before the new competitors enter retail," Kumar opined.

"I'll look into it. But before I wrap up, I want to share my sales and profit projections," Ratika said- "Go ahead."

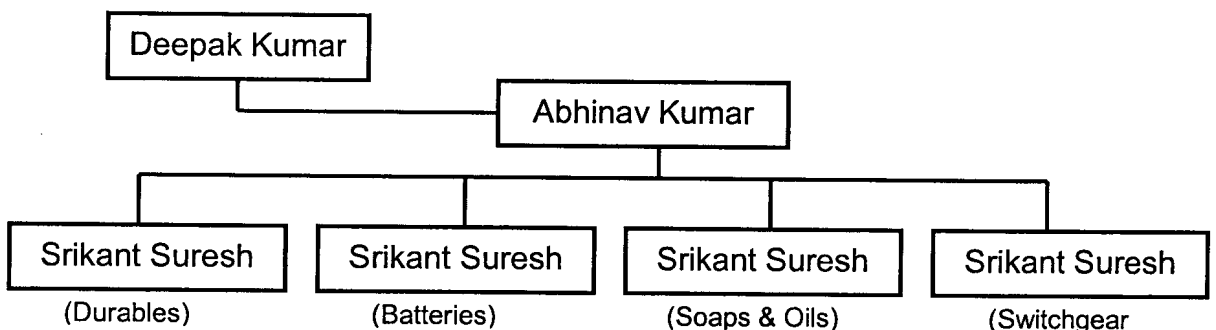
"H-1 sales are going to be at Rs 180 crore and PAT at Rs. 10 crore."

"Looks like profitability is going to be an issue. We'll see. Thank you, Ratika. The floor is yours, Suresh," Kumar said to the avuncular figure—nevertheless an old fox— sitting 2 chairs away to his left.

"Last but not the least," quipped Deepak, reminding everybody that Total's biggest and most high profile business was still consumer durables.

Suresh smiled back at Deepak, "As all of you in this room have heard me say it before, consumer electronics' is a dog-eat-dog world. At last count, there were 20 companies and 34 main-line brands in B&W and colour TVs, 10 refrigerator-manufacturers and their 40 brands. In the last 3 months, at least 3 CTV and 2 refrigerator brands have been hitting the market every month. We are lucky that we have a large part of the market still with us. But this is not a market where we should — not that we do — count on luck. The name of the game is brand management and retail management."

Who's Who



"What is Total's CTV growth versus segment growth?" Kumar asked.

"Since we are the market-leader, our growth matches the market growth. But it is

becoming difficult to sustain the growth. We need more product launches. Especially, feature-rich products since that's what the average consumer equates technology with."

"Hasn't the last 1 year been a little slow for the division?"

"Yes, Sir. We didn't want to bring in too many brands into the market with little to differentiate one from another. What we do need is new products with rich features since that's what consumers understand by quality."

"How much does it cost the company to launch a new product?" Kumar queried.

"Excluding a lot of shared expenses, it works out to Rs 2 to 3 crore. But the pay-back in our case is less than 2 months if the product clicks."

"What about Nutripreserve?"

"Since we've been a little late in introducing the so-called health-friendly refrigerators, we need to make sure that our launch is perceived as giving greater value. We have made several innovations, and the launch is due early next month."

"And are you making money for me?" said Kumar and laughed.

"Oh, yes. Q-I projections are Rs 1,000 crore turnover, and Rs 55 crore in profits."

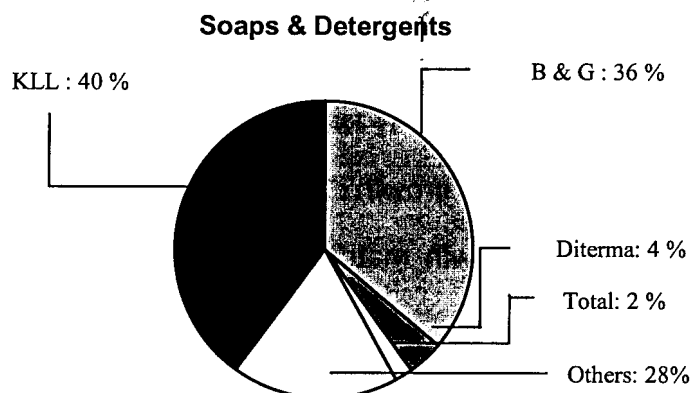
"I see a slowdown in net profits," Kumar quickly noted.

"Yes, but we hope to make up towards the festive season."

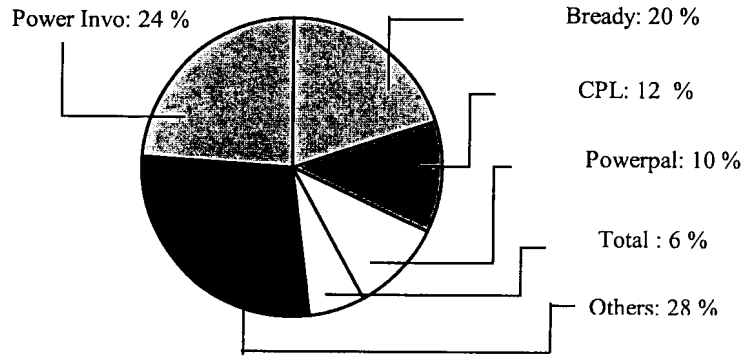
"Gentlemen, that's what I have been trying to tell you all. It was easy surviving the first 50 years of Total's history. We'd be lucky if we survived the next 5. Each one of us has to figure out ways of doing better things better. Or, I can guarantee you, Total will not live to see the end of this decade."

His presidents nodded their heads in agreement.

"With that, let's wrap up today's meeting. On your marks, folks. The coming months will decide whether we make it or break it."



Batteries



Total's Key Ratios	
Assets-Turnover	1: 0.8
PAT-Sales	0.07: 1
Debt-Equity	1.25: 1
Debt Coverage	1.20x
P-E Multiple	10
<i>PAT: Profits after tax</i>	<i>P-E: Price-to-Earnings multiple</i>
