A case study of Brand Rejuvenation – Voltas Ltd

As the management of Voltas sat together in the August of 2006 to analyze their performance over the past quarter, which also was the peak season for their cooling products they pondered over the past five years with a big smile and huge relief over their faces after being back in the business with the number two spot in the Air Conditioners market, their flagship product, but with the onerous task of being the market leader. Having lost its top position in the Indian market that it held for forty long years to multinational brands like LG, Carrier and others in the mid 90's, the turnaround was nothing short of spectacular for Voltas. Scripting the success story was not that easy since it meant taking the likes of LG, Carrier head-on which had penetrated deep into the Indian consumer minds as brands that have something new to offer.

VOLTAS – the initial years

The Company was incorporated on 6th September 1954 at Mumbai as a joint venture between M/s. Volkart Brothers and Tata Sons Pvt. Ltd., to take over the Engineering & Import Division of the former in India. The Company's manufacturing activities were originally carried on at its factory at Chinchpokli, Mumbai and covered air-conditioning and refrigeration equipment, mining, electrical and agricultural equipment. It had inherited the legacy of Tata's, the most respected brand in India.

Founded by Jamsetji Tata in 1868, Tata's early years were inspired by the spirit of nationalism. It pioneered several industries of national importance in India: steel, power, hospitality and airlines. The Tata name has been respected in India for 138 years for its adherence to strong values and business ethics.

For the major part Voltas enjoyed a good equity with its customers, being the market leader in refrigeration, air conditioning and water coolers. But with intensified competition in the sector it started to falter. It's success was more a result of being the sole player in the segment rather than its brand value which kept Voltas in the position of a market leader for forty odd years of its operation. The US headquartered Carrier entered the Indian market in 1987-88, to challenge Voltas' dominance in room air-conditioners. It quickly relegated Voltas in the second spot garnering, as it did, about 32 per cent of the window AC market.

In 1992 Voltas restructured its operations into product groups comprising refrigerators, pharmaceuticals, consumer products and beverages. While product group I included textile machinery, product group II consisted of machine tools, materials handling facility, industrial machinery, air-conditioning pumps and projects. Group III comprised of chemicals plant, chemicals division and agro-industrial products. Air-conditioning and refrigeration business and agro-industrial products and pumps division suffered a setback due to prevailing recession in the market and non-availability of Government funds as well as political disturbances from December onwards. Voltas though absorbed the shock well as both products garnered enough market share till 1997 when the Koreans i.e. LG and Samsung, other MNCs and joint ventures came in to change the rules of the game. The foreign giants had deep pockets to pursue market expansion. They extended liberal credit terms, spent on brand building and ran trade offers, which eventually helped them in competing with the reigning market leader, Voltas. The increasing cost of shelf space in multi brand outlets put additional pressure on their margin. The MNCs had the financial wherewithal to woo the distributors who were the mainstay of Voltas so far.

Turbulent Times

Between 1995 and 1998, Voltas went through rough times. After a bad investment decision in the acquisition of Hyderabad Allwyn, the company went in for a major restructuring effort, including several divestments, a VRS*, and hiving off of its huge white goods business to Electrolux. The foods division was closed down and the company decided to concentrate on what it felt were its core competencies -- air-conditioners and engineering goods. In 1998, it launched as many as 44 models of room ACs under new range of air conditioners named Voltas Vectra, Voltas Verdant, Voltas Vertis and Voltas Visionarie. *Verdant* occupied the premium segment, for the A1+ income group, with international-class features comparable to MNC benchmark products. *Vertis* was intended for the A1s, also world-class, with electronic controls, at more affordable prices. Vectra was intended for A2 and B1 income groups, priced comfortably within the reach of middle income groups. And finally there was Visionaire, mainly for the rate contract segment.

Its troubles, however, were far from over. The company having lost significant market share to Carrier, continued to be burdened with excess manpower that kept it from achieving much needed profits. Voltas was now trying to undo its past misfortunes by concentrating on activities that it believes will give its products the much-required boost. It had committed itself to an investment of Rs 70 crore in research and development, in order to enhance product features and diversify its range of room ACs to satisfy emerging customer needs in different segments. The company had adapted technology from Toshiba and tropicalised its products for optimum performance in Indian conditions -- in terms of local climate and erratic power supply. Its advertising, handled by O&M, highlighted the size of the company, it's expertise in air-conditioning equipments and emphasised its wide product portfolio. Its ad strapline said: "You name it, we cool it." The company also initiated certain customer focused programs which it felt will improve its image in the market. These programs focused on improving product delivery schedules, setting in place customer contact points and efficient after sales service. But the competitive scenario had changed and other players were offering a host of choice to the consumers.

The company's fortunes hit a nadir in the wake of one-time leader's share — that has been manufacturing A/Cs for the last three decades when its share dipped to 6 per cent in theRs 300-crore home A/C market in 1999 (in 1987, the company controlled 40 per cent market share). To understand that, let us first consider the dynamics of the Rs 800-crore (in 1999) branded A/C market in India.

THE A/C MARKET IN INDIA

The segment is divided into three categories: room A/Cs (half-tonne to three-tonne), commercial A/Cs (over three-tonne and under 30-tonne — used in corporate offices) and central heating/ventilating A/Cs (over 30 tonne). Growth in the last two categories has hit a plateau over the past four-five years, and they are growing at a compounded annual growth rate (CAGR) of 5 per cent. The action in the room A/Cs category has been hotting up since the excise cuts in 1993 (from 110 per cent then to 24 per cent now), the entry of multinationals and the consequent drop in prices. In the 1980s, a branded 1.5 tonne A/C would have set you back by almost Rs 40,000 while in 1999 a branded A/C sells for Rs 18,000. The category, which is valued at about Rs 800 crore, is growing at a CAGR of 15 to 18 per cent.

1999 proved to be the watershed year for the company. In 2000, Voltas realized that it was time to get into the control mode. But for this to happen, the company had to remodel a lot of its settings. Explaining the dip in 1999, K J Jawa, vice president, sales and service, Voltas Limited, says, "Voltas was increasingly being looked upon as being an engineering company, rather than a consumer durables company." The other problem was its advertising strategy. Voltas always had a "fuddy-duddy" image having technologically obsolete products with low levels of innovation. It's products were known more for its reliability of operation and traditional product portfolio. "Therefore, in the eyes of the average consumer, who, thanks to the influx of the increasing number of brands in the category were getting flooded with greater options, didn't really stand out as a pick-me-up," admits Jawa. From the consumer's point of view, Voltas, will probably have to show clear indications of shrugging off its baggage of its 'protected economy' past and of carrying forward its inherent strength in its core areas of expertise, to reflect modern cutting-edge vibrancy. Till 2001 the situation had worsened with the management facing the reality of putting the shutters down. It was ranked 6^{th} in terms of market share with LG leading the market. Dealers had little confidence and accumulated financial losses made the situation worse. Losses of Rs. 3.7 Crores in 2001 led to accumulated losses of Rs 11.7 crores.

This is the tale of a company that felt so secure in its dominant position in the room AC market that it completely failed to anticipate the changing challenges in a liberalizing market environment. Plus, it made very expensive mistakes, so that by the time it realized it must focus, it had lost major ground. Towards the end of 2000, the Tata Strategic Management Group undertook a root-cause analysis. It was understood that if the strategy didn't work out, the A/C division would be closed down. Voltas had to be among the first three brands for it to survive the haul. It was a case of shape up or ship out. And the scenario was: 17 players, mostly well-established MNCs, are fighting for their share of the 7 lac units which made up India's AC market. The market leader, an MNC with deep pockets, holds a 24% share which is growing at an exponential rate. In this fray, Voltas has a mere 6.8% share, ranking a low 7th, and losing ground rapidly. This was the situation in 2001, when even staunch loyalists had written off Voltas Cooling Appliances Business. It seemed to be a white elephant which no one could budge.

THE GREY AREAS

The inference drawn from the above analysis wasn't heartening. "We had to agree that our A/Cs were in the consideration set but not in the choice set. The task on hand was to make both sets overlap," says Jawa. Voltas was acknowledged as being the oldest and most reliable player, but it was increasingly being looked upon as a "tired brand" that had outlived its utility. Says Jawa, presently Senior VP - Unitary Cooling Products: "When we worked out the 'Big Bang' we knew that Voltas was a giant, which would take some time to move, but which had the strength to regain leadership position. It was a question of putting the basics in place, and that is precisely what Big Bang was all about. We put together a plan covering the areas of product, people, service, distribution and brand."

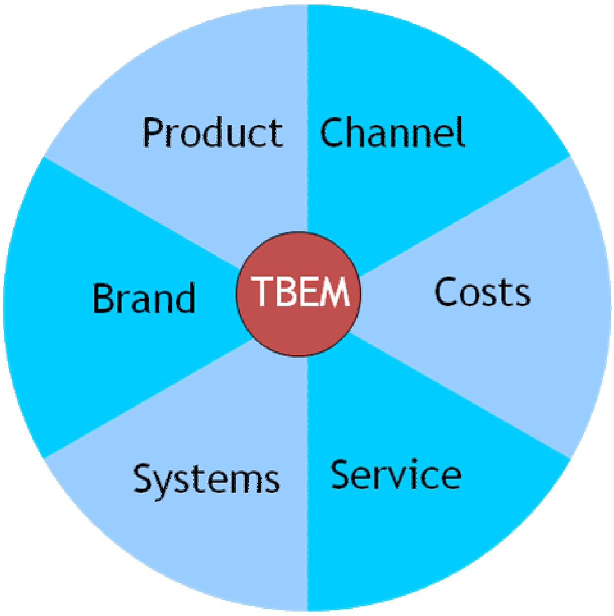
As a first step, Voltas tied up with the $ 4-billion Fedders, the US-based air treatment company. Fedders bought 50% equity of the A/C division and made an investment of Rs 20 crore in the company. Infused with fresh blood, the company embarked upon identifying the problem spots, sprucing up the advertising strategy and hiring professionals who were in the know of things (Voltas recruited people from white goods companies such as LG, Carrier, Samsung, and so on). “There was nothing inherently wrong with our products since we had the best technology all through, and now with the Fedders’ tie-up things could only get better,” says Jawa. What was needed was a better marketing and distribution strategy. On the marketing front they were portraying the image of an old dud with little or no innovation. Their share of voice was as low as 3%. Till this point, Voltas A/Cs sold out of 400 company distribution centres. It was absent from white goods retail stores. “Customers did not really want to travel all the way to a distribution centre to pick up an A/C — they were much more comfortable picking it up from the local store,” reasons Jawa. Voltas also realized that in the absence of proper monitoring some of the distributors had become liabilities: around 60 were weeded out, and some new faces were inducted, and the number of distributors now stands at 450. This time round, the company kept tabs on their “blue books” which tracked details like the dealer’s infrastructure and response time (the real time taken to install or repair an A/C). How did all this come about? Let’s take a retrospective look at the workings and winnings of the ‘Big Bang’ strategy.

BIG BANG: More bang for the buck

It was a new game, with new rules. The arena in which ‘Big Bang’ played out was one in which intense competition, and the arrival of MNCs, had led to a basketful of benefits for the consumer, in the form of low prices and attractive offers. For the AC players, however, margins were shrinking. The concerns, as expressed by Jawa: “Gone are the days when we could earn huge margins. Our industry faces an intense competition, and volumes are critical for survival.” Keeping that in mind, ‘Bang Bang’ focused on measures to increase revenues and realizations from sales achievements. It was not enough to be India's lowest cost manufacturer in this sector, with efficiencies which had slashed manufacturing costs by 35% since 1999. Post-manufacturing cost/unit too would be rationalized, overall value creation would be enhanced, and ROCE would grow from 13% to 29% by the target year. Putting the plan together required a hard diagnostic look at where Voltas products stood, based on numerous feedback points from dealers and branches. The management established an 8-point agenda covering People, Products, System, Brand, and Distribution. The program emphasized on Carrying out an effective brand-building and communications strategy to create high visibility, customer pull, and reaffirm leadership. Also target was building customer loyalty by strengthening after-market operations through service, which would also make a growing contribution to the bottom-line. The total overhaul was made and 360 degree approach worked out that emphasized on all the aspects of organization. Building and reviving the brand became the priority.

360° APPROACH

BUSINESS EXCELLENCE THROUGH EVERY FACET OF THE ORGANISATION



TBEM: TOTAL BUSINESS EXCELLENCE MODEL

The current Voltas AC's quality was reasonably good, and durability was high; but researches revealed that the product was perceived as 'an old, outdated dubba'. There was no clear benchmarking against competing brands, whose new-generation entrants had a serious head-start. There was no model, which cater to the low end market, nor any which responded to the shift of AC's from the technical to the 'white goods' category, from premium to affordable, from luxury to comfort. As Jawa points out, "The immediate need was to infuse a much-needed jolt of advanced manufacturing and design know-how, such as new invertor technology in splits, and sleek contemporary styling." This need was addressed by a joint venture with Fedders International, the leading player in the US room AC market, with a major worldwide presence as well.

Besides that, the critical task was to create a mechanism for aligning Voltas' market-oriented requirements with the JV's manufacturing operations. There would also be an eye on product trends and benchmarks - by Fedders International at the overseas level. The offshoot of this manufacturing JV was the VERTIS brand. The emphasis on products can be gauged from the fact that Voltas launched close to 74 new products in just 3 years, many of them firsts in their category, such as the 1.5-ton Slim Line. Also introduced were new products specifically for telecom and IT sectors, a competitive range of split ACs, multi-split configurations, ductable and small package units.

THE BRAND AGENDA

This was one of the biggest concern areas for Voltas. Research showed that Voltas was invariably in the consideration set of consumers, but it rarely moved to the choice set. Says Jawa: "We knew we had a task at hand. After all, transforming the old 'Dilip Kumar' image to a new-age dashing 'Shahrukh Khan' called for some drastic measures." Perhaps strengths were in a way weaknesses too. Certainly the Voltas name was deeply entrenched as an age-old Tata company with years of experience. But that very same traditionalism could mean a lack of freshness and innovation, which led to poor recall and a fuddy-duddy image, especially in the household segment. Certainly the new generations of consumers were more aware of newer and 'hotter' names in cooling, with their combination of high-tech and international agendas. The all-important positioning strategy had to pick from several options (including several existing competitor positions).

Would it be based on features such as remote control, digital operation, power saving, styling, aesthetics? Or would it highlight benefits like speed, uniformity, precision, quietness or efficiency in cooling? Ruggedness and endurance, maybe? Or perhaps health, or filtered air, or value for money? Should it be more aspirational, with triggers like best-in-class, perfection, and status symbolism? Or could the entire edifice ride on superlative service? Why not a range of products spanning the entire spectrum of positions, occupying all the slots in the retail market? A key thought driving the campaign creation was: let's move from a lower to a higher order of platform. What does this mean? Lower-order position is based on mundane features and product promises - power consumption, ruggedness, wide range, and noiselessness. At a higher order, these translate into benefits, and address universal human concerns. Typical of these, for example, are health, peace, mother love, quality of life and environmental sensitivity. Voltas decided to jump to a higher order which would grow out of its defining features: uniform cooling, energy-saving, timer and air filters. These were attributes of an AC which operates intelligently, and is therefore the choice of any aware and intelligent person.

In other words, *Intelligent Qooling- AC's with IQ*, a position which could encompass future product developments and feature additions as well. I.Q. was introduced in summer 2002. In 2003 further changes were made to the product portfolio, separating the Voltas sub brands on the basis of end users - home and business instead of the current model focus of low end, mid and premium segment of Vectra, Vertis & Verdant. The end products currently under Verdant umbrella were moved into the Vertis Gold Brand while retaining the existing Vertis products under it. It also did away with the Vectra brand and brought all its models into the Vertis low end fold in order to reduce additional branding expenditure. Rationale for separating into two brands for the two users- home & business

- Business users may feel that a home AC will be more fragile and ill equipped to meet the harsher conditions in a business environment.
- Home owners on the other hand may feel that AC meant for business use would not be aesthetically suited for home.

SPREAD THE WORD: Charging ahead with communications

In the gap between an excellent product and a delighted customer, there lay the need to communicate effectively and deliver efficiently. A complex communication plan was detailed, with a rich mix of elements: Obviously there would be wide-reaching yet cost-effective media coverage, with accurate segment targeting. Additionally, there would be locational tactical doings, such as banners, kiosks, road shows, hoardings; as well as events like customer meets and promotional schemes, with rewards designed to woo customers from MNCs.

The entire market would be sub-divided into small pockets, with apt initiatives decided for each in a micromanagement approach. The media too would have to be won over, to engage their support with press coverage and third-party articles. At the channel level, tangible support would be provided in the form of dealer identity imaging, stationery, signage, showroom exhibits and dummy product displays. Where necessary, dealer resources would be enhanced with additional manpower and IT tools. Communications would also pin-point to unsatisfied customers, who would be won over with service/parts freebies and goodies. All this had to be backed by centrally collated information and data by market, product and segment; and a continuing eye on changing brand equity. The roles of channels in market outreach were clearly defined. Retailers would lead the thrust into households, while institutions and government would be approached by exclusive dealers. In metros, retailers would be serviced directly by Voltas representatives, while elsewhere distributors would perform that function (with, of course, Voltas staff support). Similarly, after-sales service would be undertaken directly by the company in metros and mini-metros, while dealers would shoulder the responsibility in other locations.

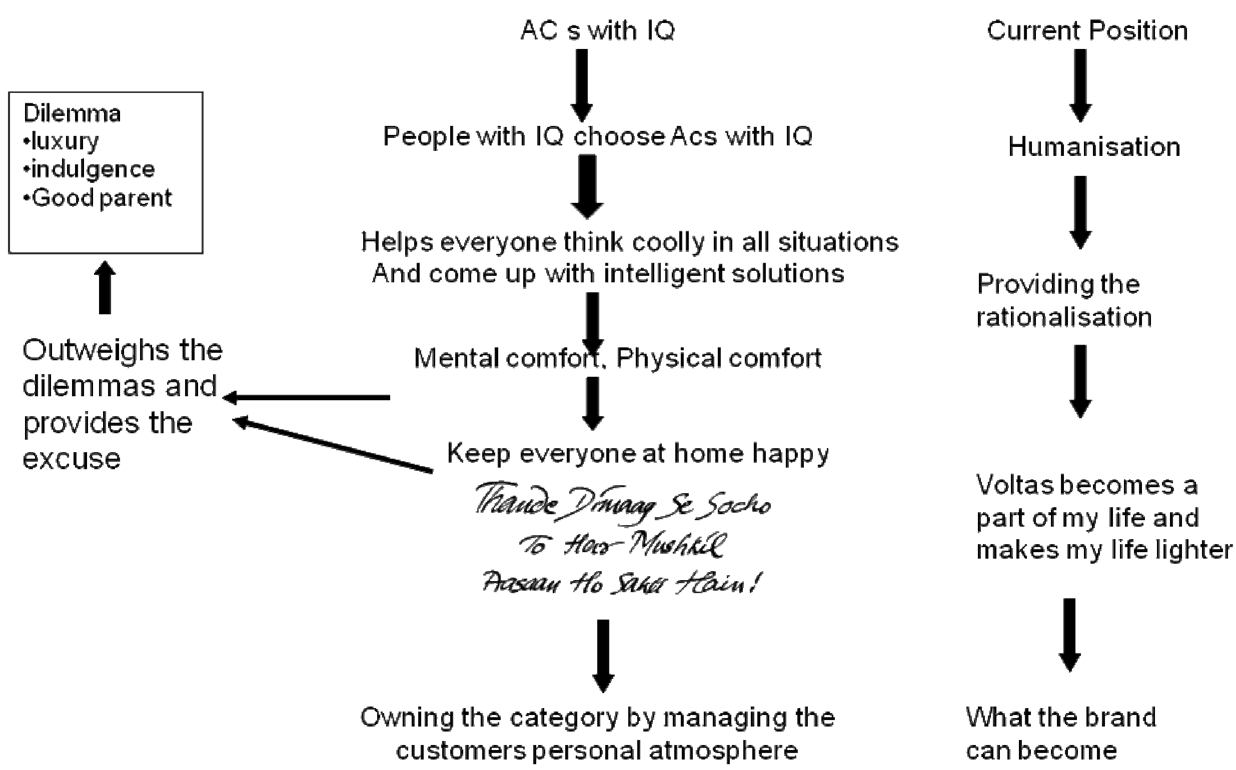
BUILDING BRAND: Advertising strategy

Around the year 1998 its advertising, handled by O&M, referred to the size of the company, it's long past as air-conditioning major and the emphasis was on its wide product portfolio. Its ad strapline says: "You name it, we cool it." Then it moved onto the ad strapline that says: "Spreading happiness everywhere." But with the implementation of the Big Bang strategy the advertising took a giant leap. It allocated a budget of 50 crore for the next three years for marketing related activities. The ad agency was also changed from O&M to Euro-RSCG. Voltas came out with a series of new television ads, which went on air in end of 2001. Created by Euro-RSCG, the campaign (which cost the company Rs 12 crore) was targeted at three different consumer-points: young people, customers who put a premium on timely and effective service, and the traditional Indian family. "All the ads are tongue-in-cheek and there's an element of humor, which was missing in the A/C category — since it is generally too features-focused," says Jawa. Even competitors admit that Voltas's increased market share has to do with its "aggressive advertising". In a year's time, the share of voice went up from 3 per cent to 27 per cent, and in the January 27 issue of Business World, Voltas was ranked the 10th "most remembered" brand. ICE campaign in 2001 was a great success with several ads under the single umbrella. It was covering print media, Radio, and TV spots. The strapline was "Thande Dimag se Socho".

AC's with IQ: Advertising campaign launched in summer of 2002 was an instant hit. It was a single intelligent statement which allowed Voltas to take the high ground among the competition. It provided a weapon against rival feature claims, and a lever with which to prod the trade. It supplied a peg on which to hang awareness-building advertising, and a memorable phrase suggesting all kinds of versatility in the product. Finally, it had a cerebral and cultural ring entirely suitable for the Voltas ethos. The campaign kicked off with the Vertis flagship, and went on to extend the proposition to every AC bearing the Voltas tag. A series of press ads spelt out exactly what was so intelligent about the range. A second campaign added charm and appeal by bringing kids to center-stage. A series of TV ad-films brought each feature to life.

The entire company too had to be taken to a higher order in public perception. After all, these were products of a global standard, and the company needed to issue its international credentials - which it had aplenty through its stellar overseas operations, the 'untold stories' dramatized in a corporate press campaign. And a series of TV spots literally bringing home Voltas confidence in providing service which the customer could count on, literally day and night. As the service team summed it up amongst themselves at their annual meet in Goa: Service is a product. Service is a competitive differentiator. Service is an enduring business stream. They focused on Voltas Crystal Care, a service brand bringing in maintenance and repair revenues for service providers, while ensuring quick access and response for the customer through 24-hour call centres. Critical complaints would launch uniformed 'Crystal Care Commandos' into action, speeding to the scene on 2-wheelers or in vans adorned with Crystal Care signage, armed with standardized tool kits, and flashing their standardized branded ID cards on arrival.

The Brand with IQ Solution



Festival promotions were also promoted during this period with festival discounts and offers. In 2004 strengthening its association with air conditioning and refrigeration, Voltas Limited unveiled its nation-wide marketing campaign "*Ab har koi le sake AC ka maza*" for its ACs. In addition, the company also unveiled a new television commercial for the year 2004. Voltas, for the first time, introduced a range of air conditioners that is affordable (below Rs 10,000) and accessible to the larger section of Indian households.

With its new range, Voltas breaks the price barrier and highlights that the dream of buying an AC has now become a reality for every Indian consumer. The new commercial had been woven around the slogan "*Aapka aur koi sapna poora ho na ho - AC ka sapna poora ho gaya na*". The commercial and the print campaign pique curiosity and build on the idea of breaking the barriers of price perception and high running costs. The commercial, conceptualized and created by Euro RSCG, India, reflects a shift from aspirations to reality, expressing a common man's desire to achieve a larger-than-life status. Elaborating on the marketing initiatives and plans for 2004, Mr. Jawa said, "We have earmarked an amount of Rs 12 crore for 2004. Over and above the advertising and below the line activities, we would be looking at a figure of Rs 5 crore for a special consumer promotion in 2004." Combining the advertisement campaign with general election, to be held that year and cricket, the national passion helped in bringing it closer to general public. In 2006 the strapline read*" India Ka Dil, India Ka AC"*

THE HEARTENING FACTS

The efforts of the highly aggressive and motivated team started yielding clear-cut gains in all the above areas. Though the time span established for achieving the objectives was three years, Voltas leap-frogged to the no. 2 position in the first year itself. The company's share of market grew from a meager 6.8% in the room AC segment to 9.7% in 2002 and its position rose to no. 2, a quantum leap away from 7th place; split ACs spurted from 2nd place (19.9%) to 1st (25.4%).Other areas also showed tangible gains. During this period Carrier lost leadership and slumped to an all time low. Distribution was revamped. Exclusive sales and service dealers grew in number from 270 in 2001 to 405 in 2003. 70 non-performing dealers were weeded out. Retailers grew from 400 in 2001 to 1300 in 2003. And the product portfolio became one of the strongest around, with 74 launches in two years.

In the previous year i.e. 2005 the situation was: National and O General finding it hard to survive the onslaught, Whirlpool and Electrolux register record losses, Hitachi and Carrier barely managed to survive, LG and Samsung draw support from their international/diversified portfolio and thereby sustaining. Only Voltas was flying with high profits due to cut in operating costs with increased sales. And above all a profit of Rs. 6 crores up from a loss of Rs. 11 crore in 2002. Looking forward, the dream that has to be realized is to gain the market leader position that was once the privilege of Voltas. But the question is how? By going ahead as it is or foresee another Big Bang i.e. BIG BANG II.

Exhibit I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Number of Employees
Sales and Services - Rs.lakhs
(USD Mn)

Exhibit II

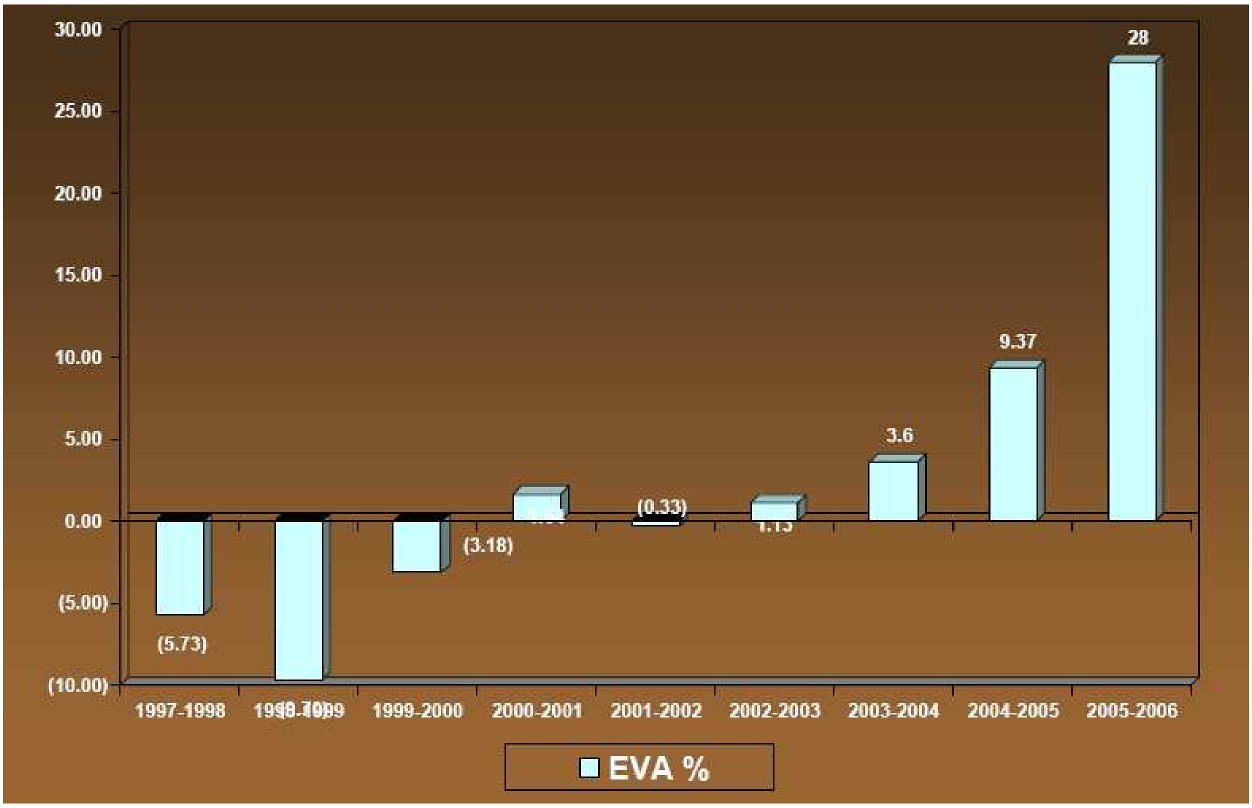
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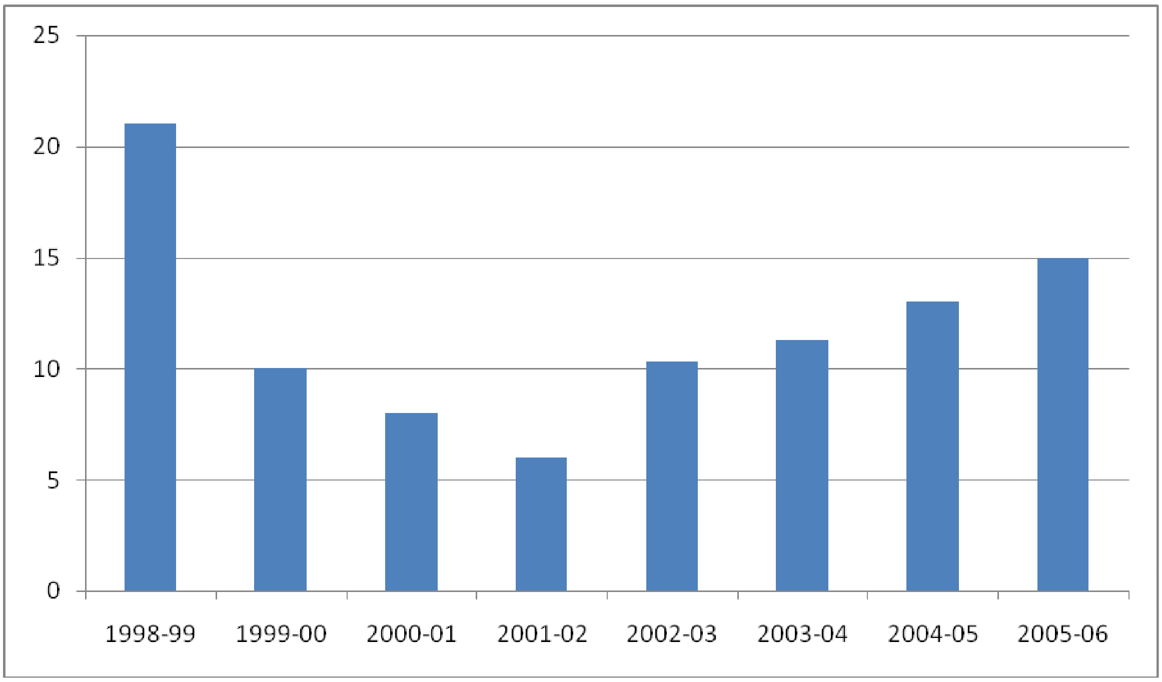
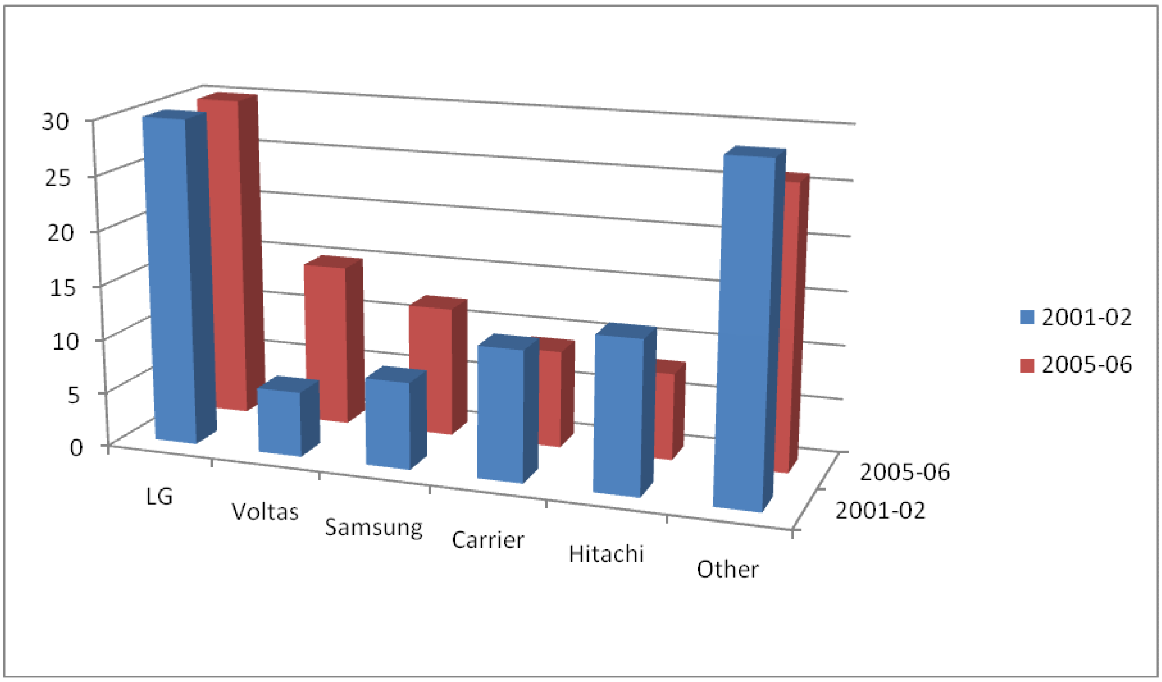
Exhibit III



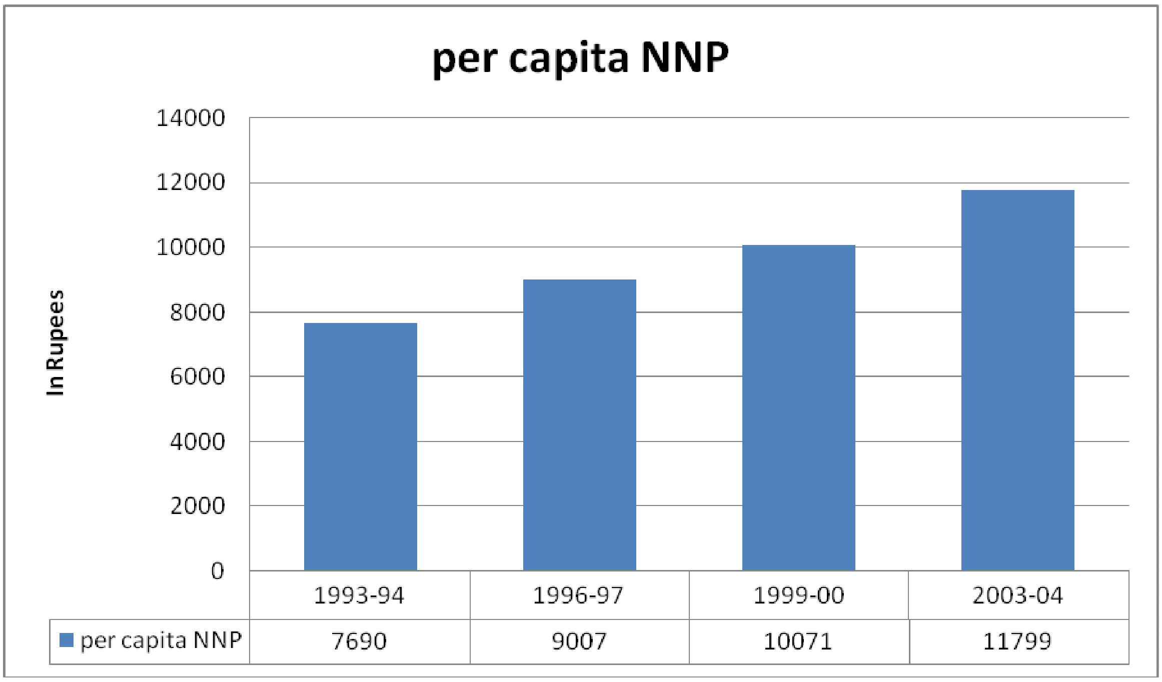
Market Share of Voltas in AC Segment

Exhibit IV



Relative Market Share

EXHIBIT V



Per Capita Income (At constant 1993-94 prices)

EXHIBIT VI

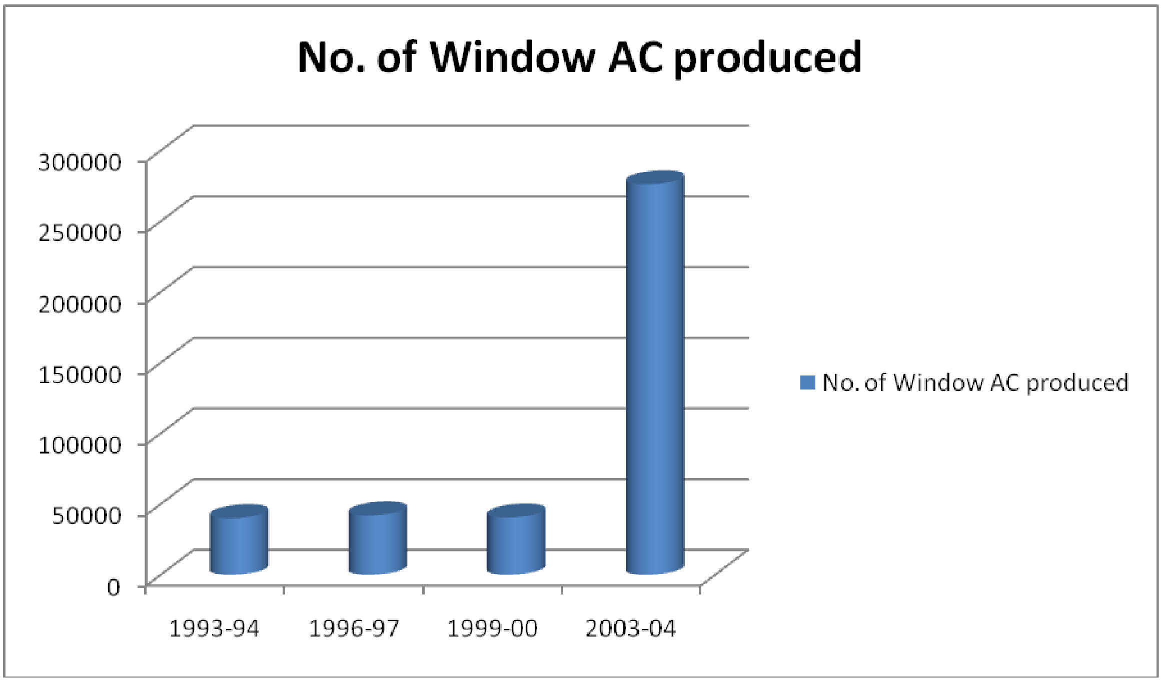


EXHIBIT VII

VOLTAS BUSINESS ORGANIZATION