

GOURI SHUKLA

Currently based in Washington DC, Gouri Shukla has six years of experience in the field of Journalism. She has worked with publications like The Telegraph, Business Standard, The Asian Age and A&M (Advertising & Marketing). As a Business journalist, Gouri has written features on Management, Marketing, Business Strategy, Human Resources and Advertising. She has also covered social issues, film & television, lifestyle and personalities. She did her graduation in Economics at Ramnarain Ruia College, Mumbai.

Gouri won The PoleStar Award for 'Best Feature in Business Journalism' for 2004 for her article, 'Global Winners, Indian Losers', which appeared in Business Standard.

GLOBAL WINNERS, INDIAN LOSERS

Why have some global leaders been overtaken in the Indian market?

It would have been a natural progression. When the world's leading brands entered the Indian market, they were expected to retain their dominant positions. But in several cases, that's not how it worked out - the global No.1s faced stiff competition from the No.2 player or else failed to rise to the local challenges.

What went wrong? Why weren't these global behemoths able to replicate their success across the world in the Indian market as well?

The strategist examines a few case studies.

Coming apart at the seams

It is a brandname that's synonymous with jeans and denim-wear. But Levi Strauss & Co is not the best-selling jeans brand in India. When Levi entered India in 1995, it was an established global leader. At that time, the Indian denim market was largely unsegmented. Jeans, though, were quite popular in terms of aspirational value, the demand was being met largely by the unorganised sector (through multi-brand garment outlets) and smuggled foreign brands. There were several Indian brands such as Cambridge, Flying Machine, Buffalo and Avis none of which met customers' aspirations or demands. It didn't help that there was little differentiation between men's and women's styles.

Levi's wasn't the first international brand to enter the Indian market - Wrangler and Pepe were already present - but it was certainly the best known. Like Wrangler and Pepe, Levi's too entered with premium imagery and pricing (prices began at Rs 1,100). This was a change from its international mass brand positioning.

The positioning may have backfired, given that Levi's target customer was in the 16 to 25 year age group which would be open to international fashion but unable to afford premium products. Besides, retail consultants point out that the company's advertising and marketing strategies didn't explain why they had to pay a premium.

Around the same time, V F Corporation, one of the world's largest apparel makers, launched Lee in India through a licensing agreement with Arvind Brands. It was a studied choice of partner: Arvind already had strong brands in Flying Machine and Newport.

"This ground level experience was leveraged well through selective distribution, right pricing and fits as well as communication," says Govind Shrikhande, Director, Merchandising, Shoppers' Stop.

Like Levi's, Lee was also positioned as an aspirational brand. At Rs 1,000 a pair, Lee jeans didn't come cheap either, but market watchers say the brand was more successful in building the "American imagery". "We kept the global image intact but adapted it to suit the Indian market," says Suparna Mitra, Business Head (Lee), Arvind Brands.

It also helped Lee that the brand didn't concentrate all its efforts on bottomwear. Lee's premium topwear range, which it introduced in India with its first range of jeans, has consistently grown at over 40 per cent annually. And in 1998, Lee extended the brand into children's wear. The other players, too, didn't fill their shelves with just denim. Pepe, for instance, launched its casual wear and top wear ranges way back in 1996.

Levi's, on the other hand, didn't extend into topwear until 2000. Till 1999, it had a portfolio of only 501s (a button-fly style that is its international bestseller), twills, chinos and gabardines. Even the Dockers range of khakis for men and Sykes, a more affordable sub-brand for topwear as well as treated jeans, were introduced only in 2001.

Product range aside, Levi's distribution strategy also proved a problem. Lee's distribution strategy maintained the brand's image, unlike Levi's, which was sending out confusing signals. Rather than focusing on multi-brand outlets, Lee set up 40-odd exclusive stores across metros. "It helped create exclusivity for the brand," says Mitra.

That's where Levi's erred. It started with 30-odd Original Levi's (exclusive) stores with additional distribution through some 30 Weekender outlets (both brands shared the same manufacturer - Gokaldas Images). That was a complete mismatch because customers saw Weekender as a casual, affordable brand and Levi's as a super-premium offering.

When it realised that there was no positive rub-off on footfalls from the Weekender connection, Levi's started retailing through a mix of exclusive and shops-in-shop. In 1999, however, Levi's went into what a competitor calls a "distribution over-drive", extending its presence to Class A and B towns as well as smaller outlets.

"Levi's equity was diluted as a result. On the one hand, it was exclusive, on the other hand, you could pick up a Levi's from small, mom-and-pop garment stores," says a market watcher.

Levi's, however, did try to redress the balance by launching its first "affordable" range in 1998 at Rs 995 a pair. That did help. And now, with a 20 per cent market share, it's a close No.2 to Lee, which has zipped up 28 per cent of the Rs 250-crore premium jeans market. The next phase of the battle is the one to watch.

Out in the cold

There's a simple lesson to be learnt from Electrolux's India experience: multi-brand strategies work best in low-value, FMCG products. Consumers buying big-ticket items like white goods need the security of a single large, trustworthy brand.

Since its entry into India in 1995, Electrolux has been in a constant state of flux. Until 2002, the Swedish giant focused on a multi-brand strategy, addressing different consumer segments. That didn't work too well. So, in 2002, it opted for brand integration.

The multi-brand approach may have short-circuited in India, but the strategy does work, at least in other countries. After all, that's how Electrolux has grown to be the global leader in home appliances.

Across the world, Electrolux's entry strategy hinges on the acquisition of a strong local brand and adopting a hybrid brand identity for the initial few years. In France, for instance, it was Electrolux Othermatin. Similarly, in India, the strategy was to position master brand Electrolux as a super-premium offering, while the local mass brand could continue generating volumes.

Says a market watcher: “India and probably China were the only markets where this approach didn’t work, not because of the brands Electrolux acquired, but because of what happened after the acquisitions.”

So what did happen? A really long streak of bad luck, for starters. When it entered India in 1995, Electrolux zeroed in on Kelvinator as its entry point, primarily because in the US, Electrolux had acquired Kelvinator’s parent, White Consolidated. Also, at the time, Kelvinator was a strong brand in the Indian market with an over-30 per cent share.

But Kelvinator’s Indian licensee Jamshed Desai had already sold out to Whirlpool in late 1994. After negotiations, it was agreed in 1995, that Whirlpool could “rent” the Kelvinator brand until 1997.

It’s not as if Electrolux had much choice, it didn’t have the manufacturing or distribution networks needed to support a high-volume brand like Kelvinator India. And to develop the kind of capacity it needed would have taken at least two years.

In any case, one thing was certain: by the time Electrolux got back the Kelvinator brand, it had lost the opportunity to exploit the brand’s equity and market share.

Still, Electrolux spent the year-and-a-half before it could begin work with Kelvinator shopping for a manufacturing facility. It took a stake in ailing company Maharaja International, but that didn’t exactly work to plan: the unit continued making losses even after Electrolux got Kelvinator in 1997.

When Electrolux finally started marketing Kelvinator, it began with two brands — Electrolux and Kelvinator. While Kelvinator was to be manufactured locally, the Electrolux home appliance range was imported from Sweden to emphasise the super-premium image.

In the late 1990s, Electrolux added two more brands to its portfolio, it acquired an 80 per cent stake in Voltas and bought out Allwyn. The plan was to target different segments: Voltas was a strong washing machine brand at the time and Allwyn refrigerators were popular in south India.

Allwyn was to be projected as a hardy, value-for-money brand and Voltas as a mid-priced washing machine brand. Electrolux would continue as the high-end, flagship brand. However, it wasn’t easy to sustain a multi-brand strategy: dividing valuable resources among many brands was fast turning into a recipe for disaster.

Meanwhile, Maharaja International refused to invest in expanding capacity at the manufacturing outfit, which resulted in limited stocks of Kelvinator products. By the time Electrolux started sourcing refrigerators from Voltas, the target customer for Kelvinator had shifted to Whirlpool and Godrej-GEs, which were attacking the same mass market segment Kelvinator had created.

Of course, it didn’t help that Electrolux lacked visibility: increasing brand awareness for three brands had proved a gargantuan task. Competitors LG and Philips meanwhile had increased their marketing and advertising efforts.

In 2002, Electrolux discontinued Allwyn, bringing together all its products under an umbrella brand: Electrolux-Kelvinator. That may just have worked, but barely a year later came the diktat from the global parent: all markets would retain only the Electrolux brand. In 2003, therefore, Electrolux reverted to the flagship brandname Electrolux.

The constant brand switch has taken its toll. Currently, Electrolux is the fourth-largest brand in refrigerators and the fifth-largest in washing

machines in India. Dealers say the yo-yoing strategies have left retailers uninterested in pushing the products.

Adds a competitor, “In the durables market, you need good value and a trusted name - that’s all. You may be a global giant, but in India you need to have more than just sophistication.”

Just blew it?

Sportswear major Nike is way ahead in the race for leadership in sportswear. It shot to a 40 per cent share of the US sportswear market - the biggest in the world, which gives it a lead in the global market, even though Adidas leads in Europe. But the headstart hasn’t helped the global sports brand in the Indian market so far. And that’s despite the huge brand awareness the brand enjoyed in India even before it set up shop here in 1996.

According to retail consultancy KSA Technopak, while Reebok has a 45 per cent share, Adidas has 30 per cent and Nike accounts for just 25 per cent of the Rs 375-400 crore branded sportswear market. Ironically, India is the only market where Reebok has sprinted ahead of Nike and Adidas. “Reebok has sustained a good number of exclusive stores for the past few years and that’s a good indicator of healthy retail revenues. Also, in contrast to what happens globally, in India Nike tries to catch up with Reebok in terms of strategy,” says a retail consultant.

How did the swoosh lose its sheen? The biggest hurdles for Nike in India were its entry model and its lack of aggression. When the global sports majors entered the Indian market in 1995-96, government policy dictated that they had to have a local partner. Nike agreed to an exclusive distribution agreement with a Delhi-based trading firm Sierra, in early

1996; Adidas signed up a licensing agreement with Bata for retailing at its huge network of stores; only Reebok entered India as a subsidiary with a 20 per cent equity stake by Phoenix, a distribution and trading firm and Reebok’s distribution partner.

Market watchers say that Reebok was the first to understand the ground realities in the Indian market. It was the first to build its promotions around cricket, not only through endorsements but also through sponsorships of regional and local cricket associations (see “Reebok sprints ahead”, The Strategist, August 10, 2004).

Reebok also Indianised its ad campaigns right from the start, signing on high-profile sportsmen like Mohammad Azharuddin, Bhaichung Bhutia and Dhanraj Pillai. Even Adidas changed its advertising tack by signing on cricket icon Sachin Tendulkar and tennis star Leander Paes in 2000.

But even as Reebok became more aggressive (by 1998 it had invested in as many as 100 stores), Nike was going slow. “It’s up to the global players to use the local partnership to grow in the market,” says a competitor.

Nike clearly didn’t think the same way. Right from the start it has used international ads and sports icons for promotions in India as well - and that hasn’t changed still. “Sports in India largely means cricket and football. A Michael Jordan is irrelevant to the masses,” says Shrikhande of Shoppers’ Stop. And where globally, Nike’s marketing budget is over \$ 5 billion, spends in India are significantly lower. “The biggest splash in Nike’s advertising was when it launched the Presto range (flexi-shoes) in 2001,” says an ex-company official.

Nike’s product range has also been a problem. Globally, the brand is a trendsetter in terms of design and technology. In India, however, Nike was

relatively slow in bringing the latest designs. “Nike started importing more international ranges only after 2000,” admits the former Nike employee.

The biggest problem, say market watchers, is Nike leaving decisions on advertising and store expansion to the distributor. “It’s a risk for global players to leave strategic and branding initiatives to the local partners. They have to take the reins in their hands,” says a distributor.

So while Reebok started with 30 franchisee stores, including the Sports Infiniti shops of its trading partner Phoenix Overseas and expanded to 100 in just three or four years, until recently Nike remained at 35 or 40 stores that were managed by the trading partner.

Also, initially Nike was dependent on Sierra for almost everything: from manufacturing (since it didn’t have an import licence) to distribution as well as retailing.

Things are finally changing. Last year, Nike ended its over - dependent agreement with Sierra and became a 100 per cent subsidiary of the US parent. It already has close to 40 exclusive outlets and is likely to expand further soon. It’s taken Nike almost nine years, but looks like the sports giant is finally trying to catch up.

Stuttering start

The US-based General Motors (GM) is the world’s largest auto behemoth with a dominant presence in the 40-million-car US market too. But GM’s been driving on a potholed road in India and later entrants like Hyundai have zoomed ahead.

The basic problem was GM’s assumption that Opel, its entry and flagship brand in the European market, would have a smooth drive on Indian roads.

GM’s presence in Europe is largely under the Opel brand (GM bought over Opel in the 1970s but retained the brand name in Europe to piggyback on the German engineering brand equity Opel has enjoyed in the continent).

Similarly, GM used an Opel offering - the C-segment, premium car Astra as its launch-pad car in India in 1996. Initially, the decision to bank on the Astra seemed sound, since German engineering is respected in India and, at the time, the C-segment was just opening up in India. But it didn’t work out that way.

GM entered India with a joint venture with the C K Birla group (the erstwhile distributors for the GM brand) and set up a manufacturing plant at Halol, Gujarat. A market watcher points out that a manufacturing base should ideally be near an automotive hub, for easy access to tyre dealers, car part vendors and so on, and Halol didn’t fit the bill in any way. But the Birla group already owned the land at Halol, so GM had little choice but develop a greenfield manufacturing setup there.

Although Astra sold over 10,000 units in the the C-segment in its first year, sales started dropping once competition such as the Ford Ikon (which offered better performance at 10 to 20 per cent lower prices) came in. As the Astra lost power, in 2000 GM moved on to the Opel Corsa, a three-box B+ segment car that competed with the Ikon.

In contrast, Hyundai, which was not among the top three largest carmakers in the world in the mid-1990s, managed its Indian debut quite well. Unlike GM, it launched in 1997 through a fully-owned subsidiary, which gave it a good base in India. Then, Hyundai’s automotive plant in Chennai proved to be a cost-effective manufacturing base in India. Hyundai also chose its entry segment well, the small car segment, where there was little competition to Maruti’s 800 and Zen.

When Hyundai launched the Santro in 1997, it was well-differentiated in terms of looks and performance. Celebrity endorsement (with film star Shah Rukh Khan) also gave the company and the car instant mileage.

Surprisingly, Opel's mediocre performance didn't seem to trouble GM. That's because by the late 1990s, GM was dividing its focus between India and China. China was an open market and promised significantly higher volumes. So the company entered into three joint ventures there in the late 1990s and invested hugely in setting up R&D facility there.

In India, hence there was significantly less activity and no investment until 2002, except for the launch of the Corsa and setting up of a software plant in Bangalore last year.

Last year, though, GM revved up for action. Now, it's looking at reaping benefits in India from its global acquisitions. Attention has now shifted to the Chevrolet, which was launched last year. With Chevrolet, GM's total unit sales have shot up from just 8,000-odd units in 2002 to 21,269 in 2004 till date.

Now, GM is also looking for manufacturing facilities beyond Halol. That's where the 2001 acquisition of Daewoo should help: the Korean company has a plant in Delhi which is a good automotive hub.

GM's strategy in India will now hinge on leveraging the benefits from its stakes in various car majors globally. Its 20 per cent stake in Suzuki will come in handy for accessing small car technology; GM has already leveraged its 45 per cent stake in Subaru and Isuzu by launching the Subaru Forester and Isuzu Tavera under the Chevrolet umbrella. ■■■■■