Can Havells make the switch?

Reo marks the firm's first attempt to go beyondthe brand-conscious upwardly mobile customers in big cities

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Havells India's Deputy MD Anil Rai Gupta says the move to launch Reo is a part of the company's growth philosophy of creating every few years a new category that can be scaled up to a ₹ 500 crore business in three years

PHOTO: DALIP KUMAR

Electrical goods major Havells India is going off the beaten track. Three months ago, Havells launched Reo, its first range of low-priced electric switches targeted at the value conscious consumers in smaller towns and villages.

Reo was initially launched in Uttar Pradesh, West Bengal and Bihar and is now available in 12 states and will go national by the end the year. Reo is a complete break from Havells' past practice of targeting brand-conscious, upwardly mobile consumers in big cities.

Havells says the launch of Reo is just a continuation of its long-term growth strategy. "We follow a simple growth philosophy – every few years, create a new category that can be scaled up to a ₹ 500 crore business in about three years. This way we maintain our growth momentum independent of the underlying business cycle," says Anil Rai Gupta, deputy managing director, Havells India.

For him, Reo is not just another brand extension but a vehicle to penetrate India's hinterland that has been inaccessible to the company due to the lack of a sales and distribution channel and relevant products. "If Reo becomes successful, we may use its sales and distribution channel to push other consumer products in future," says Gupta.

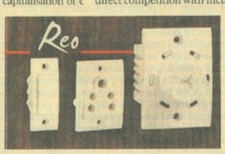
Currently Havells has no presence in 1,200 towns with population of 100,000 and less. The company's dealer network covers only 520 out of 600 such cities. In contrast, it competitors such as Anchor, Bajaj Electricals, Phillips, Crompton Greaves, Usha and Orient Fans have been selling in these markets for decades now. Havells plans to fill this gap in two stages. Firstly, it plans to cover all such cities by the end of the next fiscal. Then the company will establish its presence in towns with population of 50,000 or more. By the middle of 2015, Havells aims to have a pan India sales and distribution network just like its peers.

Analysts are very bullish on Havells' latest growth formula. "The company has always been successful with its diversifications in the past. There is nothing to believe why it would be different this time," says Devang Mehta, vice president and head equity sales, Anand Rathi Financial Services. He still has a buy rating on the stock.

Devang gets confidence from the company's track record. In less than 15 years, the company has transformed itself from a regional manufacturer of miniature circuit breakers (MCB) to India's largest company in low-voltage electric equipment market. Its bread and butter MCB business now accounts for just 10 per cent of its consolidated revenues and the balance comes from new businesses such as lighting, wires & cables, fans, switches and home appliances. In 2007, the company acquired SLI Sylvania for around $ 300 million to become one of the world's top lighting companies with a leading presence in Europe and Latin America. In FY12, it reported consolidated revenues of ₹ 7,100 crore in FY12, 55 per cent of which was accounted for by its India business. Havells is also the most valuable company in its segment with market capitalisation of ₹ 8,400 crore — up 25 per cent in the last 12 months.

Marketing experts are also hopeful of Havells' chances in rural India. "Havells is well established in its category with a high brand recall among urban consumers. It can easily extend this brand equity to smaller towns and villages with small incremental investments," says Arvind Singhal, chairman Technopak Advisors.

The bigger question is whether the company can win over rural India without suffering a backlash from its core constituency in urban India. Havells has been unique in the industry for its singular focus on the brand conscious urban consumer. It offers feature-rich products with superior fit and finish, and charges a price premium for this. This way the company targets the top tier of customers in each segment and avoids a direct competition with incumbents.



Reo is now clocking revenues of ₹ 8 crore per month. At this rate, it will account for a quarter of Havells' switch business in the fourth quarter. In FY14, Reo is expected to clock revenues of ₹200 crore, accounting for 40% of its switch business

This also enables Havells to earn the industry's highest profit margins. In home appliances, including fans, Havells' reported PBIT (profit before interest and taxes) margins of 29 per cent in FY12, is nearly twice Crompton Greaves' margins of 14.5 per cent and three times what Bajaj Electricals earns in its home appliance business. The profit leadership has however come at a cost. Despite being one the most recognised brands in the industry, Havells is a market leader in only one segment –MCBs, its oldest business.

In other categories the company is among the top three, though it claims to be closing in on the market leaders. To the company's credit, it is a relatively new entrant in the non-MCB categories having launched modular switches in 1998 and fans and lighting products in 2003 while its domestic appliance business is less than two years old.

This has prompted some experts to doubt the company's ability to woo value conscious rural consumers. "The brand attributes that resonate with urban consumers doesn't always work in smaller towns and villages. Rural consumers are more value conscious and tend to see through the advertising hyperbole," says Harish Bijoor, brand and marketing consultant. In strategic terms, it translates into more factual advertising and a close alignment between product attributes and price positioning.

The company seems to be aware of the risk but says it has earned the brand premium though systematic investment in branding, manufacturing and product development. In FY12, the company spent ₹ 122 crore on advertising in India, nearly 3 per cent of its standalone revenues, the highest among its peers. Havells' brand campaign is known to be sleek and talks to the upwardly mobile consumers in big cities.

In the back end, Havells made an equally aggressive investment in manufacturing. In the last five years, the company has quadrupled its manufacturing assets by investing nearly ₹ 700 crore in setting up new factories and expanding existing ones. In contrast, most of its competitors outsource manufacturing to small scale units or import from China. "In-house manufacturing enables us to differentiate our products from the competition and results in better quality and higher productivity. Our products are not another me-too product and customers don't mind paying a premium for it," says Gupta.

The company is quite confident of insulating the brand equity of the mother brand from Reo, a value for money product. "We will never compromise the brand equity of Havells. That's the reason we created a sub-brand to enter rural India," says Gupta. Other brands in the company portfolio include Crabtree, Sylvania and Standard.

In another break from the past, Reo is being rolled out in a phased manner without creating too much of a buzz. It is following a push strategy rather than a pull strategy. There have been no mass media brand campaign on Reo as yet and nothing is being planned either. "Right now we are focused on getting the supply chain from our factory to the point of purchase right," says Sunil Sikka, president corporate affairs, Havells India.

With Reo, the company has however signalled its intent to sacrifice a bit of margin in pursuit of growth and lure new customers. At ₹ 20 per unit, Reo is one rupee costlier than market leader Anchor Penta and around 20 per cent more than other regional brands. This is a much lower premium than what Havells charges historically.

"We have surely decided to forego some premium but Reo is still positioned higher than the most popular brand in the category. It perfectly balances our brand ambitions and the need to grow the market" says Sikka..