THE OPEN UNIVERSITY OF SRI LANKA

COMMONWEALTH EXECUTIVE MASTER OF BUSINESS/PUBLIC ADMINISTRATION

FINAL EXAMINATION – 2007

MCP 1653 – STRATEGIC MANAGEMENT

DURATION : THREE (03) HOURS

Date : 01.12.2007 **Time: 1.30 p.m. 4.30 p.m.**

Instructions to candidates: The examination consists of two parts. Part 1: Case study, and Part 2: Theoretical foundations. Answering all the questions in part 1 is compulsory. Part 1 carries 55 marks. Part 2 presents a choice of five questions of which three (3) should be answered. Part 2 carries 45 marks. Incomplete answers and illegible handwriting face the risk of losing marks. The examination is of three hours duration.

Part 1: Case Study – Titan Watch Company Ltd.

1. What are the main features of the business strategy followed by Titan Watch Company? Comment on the effectiveness of this strategy in creating and sustaining competitive advantage.

(20 marks)

2. a) Analyze the business environment of Titan Watch Company and identify the distinct competencies that can be leveraged by the company in the given environmental context.
   b) Do you think that there should be a change in the strategic direction of the company? Elaborate and justify your answer.

(20 marks)

3. What are the arguments for and against the view that Titan should "stick to its knitting" (in other words, follow the business that it knows best)?

(15 marks)

Part 2: Theoretical foundations.

4. Explain using relevant examples how strategic vision, business mission and goals serve as the foundation of strategic management.

(15 marks)

5. What do you mean by positioning a firm in the market? Explain with reference to key organizational components how the concepts of 'fit' and 'stretch' can be applied for effective positioning.

(15 marks)

6. Outline the generic competitive strategies and analyze the practical application of one of them with respect to any one of the following:

a) A manufacturing firm involved in exports
b) A selected service organization in the business of banking and finance, hotels and tourism or healthcare industry.

(15 marks)

7. Explain how Porter's Five Forces Model can be applied to ensure strategic effectiveness with regard to a medium sized firm engaged in a competitive manufacturing industry of your choice.

(15 marks)

8. The purpose of business strategy is to create and sustain competitive advantage by creating superior customer value. Discuss this statement with reference to the concept of value innovation.

(15 marks)

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Titan Watches*—Redefining Time

Titan celebrated two decades of high-profile existence in 2006 (another such company being Gujarat Ambuja Cement). In its relatively brief period of existence, surveys have consistently shown Titan to be the most admired consumer durables brand name in India. A survey conducted by the prestigious *Far Eastern Economic Review* of Asia's 200 leading companies placed Titan in the seventh position among the best-managed Indian companies. Titan is a success story of managerial decision-making, strategy and organization, state-of-the-art technology, and innovative, aggressive marketing strategies, combining distribution, positioning, brand power, and product integrity.

By 1999, Titan had emerged as the sixth largest 'manufacturer-brand' in the world after Casio, Citizen, Seiko, Swatch and Timex of America, in the watch business. A 'manufacturer brand' is one that is owned by a company which also manufactures the product. It differs from the likes of 'Guess' where owners have rights only over the name. In the case of Titan, it manufactures virtually all its watch components. In 1998–99, the company sold 4.76 million watches in the domestic market. Cumulatively it had sold more than 30 million watches till 1999. The return on capital employed for the domestic watch business is over 20 per cent. Titan Industries considers brand as one of its most important assets. It has taken steps to get a complete brand valuation. Strategically, the company aims to be present in all product segments. Truely with the times, it has shifted its growth strategy from emphasis on equipment and manpower addition (assets) to fresh ideas and greater operating efficiency by benchmarking best global practices.

* This case was prepared by Professor Arun Kumar Jain.

BACKGROUND: THE WATCH INDUSTRY: A HISTORICAL PERSPECTIVE

Historically, the watch industry can be studied in terms of the major inflexion points that have occurred over the years.

Pre 1950s

The Swiss who had reputation for precision machining dominated the industry. The watches were sold through jewelry shops.

1950–'70s

The introduction of standardization and mass production in watch manufacturing led to Timex becoming the dominant player in the industry while the Swiss were relegated to the premium and super premium by catering to the end of high precision. The distribution of the watches also moved out from the hands of jewelers to specialist watch shops.

1970–'80s

The introduction of quartz movements by Seiko created a major impact as good precision watches could be manufactured at low cost. The quartz watches were also very user-friendly in terms of doing away with the concept of daily winding and were lighter in weight. The Japanese troika of Seiko, Casio and Citizen dominated in this period.

1980-till date

The Swiss staged a comeback with Swatch group redefining the way watches were marketed. They brought in the concept of specialist watch boutiques and tied the product to changing fashion trends. Also, the demand for watches as a status symbol surged, thus helping the Swiss industry to come out of hibernation.

Today all the players have learnt to coexist in their own dominant markets and niches. The Japanese have been focusing on digital watches while the Swiss continue to retain the super premium market on the strength of their enormous credibility and very high precision performance. Timex continues to hold its own in United States where it is still the largest player.

GLOBAL ENVIRONMENTAL CONDITIONS

The global watch industry is fragmented and diverse, as there are umpteen countries and umpteen regions that have varied environmental conditions. The main divide that can be seen in between the developed and the developing/underdeveloped countries. The environmental factors below try to represent the characteristics on a general level.

Socio-cultural: Fashion Statement

The watch that a consumer possesses has come to represent the underlying fashion trends. This can be best seen with the global fashion houses having come up with their own watch offerings. This has also led to decrease in the throwaway life of the watches.

Multiple Ownership

An average consumer today has more than one watch for use on different occasions. A Swatch watch would be used in beaches, a digital watch would be used on a workout while a formal style watch would be used for office.

Politico-legal: Differential tariffs

A plethora of tariffs exist in India which restrict free trade of watches. These have been erected to offer protection to the domestic watch industry in their respective countries. These discriminating tariff barriers are slated to go down once the WTO regime comes in to full force. This is a significant opportunity, as it will lead to opening of those markets that have been closed to the existing global players, as well as a threat to those players who have been prospering under the protective tariff regime.

Economic

In the last few years the surge in the expansion of the world economy as a whole has led to the increase in the disposable incomes of people across the world. This increase in the disposable income is going to create a favourable situation for the producers and marketers of watches.

Technology

Ever since the introduction of quartz movements, key technology, have been stable but there have been improvements and these have acted as differentiators. Most notable would be the digital and analog-digital watches that have been introduced over the years. Apart from these, technological developments in the field of design using CAD/CAM have significantly brought down the time and costs of new model developments.

TITAN'S ENTRY STRATEGY

In 1985, Titan Watches Limited came into being as a joint sector company promoted by Tamil Nadu Industrial Development Corporation and Tata Sons. The company was founded in technical collaboration with France Ebauches, part of the world's largest manufacturers of quartz movements with an installed capacity of 2 million quartz analog watches at the company's plant at Hosur (Tamil Nadu).

Titan is credited with having revolutionized watch marketing in India. Titan entered the market in

1987–'88 with nearly *70* models, each targeted for a different market segment. The only other established Indian player, HMT, then had 40 odd variants of just 4 basic designs. Titan underpriced replacement costs for repair and the battery was priced below its cost. Titan took the watch to unconventional outlets like boutiques and jewelry shops. A market survey at that time showed that consumers perceived existing outlets as 'watch stores' and not showrooms. Titan changed this perception. It embarked on a three-pronged strategy. First, it made the product visible, affordable and available at unconventional locations like bookstores, gift shops and boutiques. Second, the company upgraded the sales outlets. Third, it set out to advance the average first watch buying age from 21 to 19. As an extension of the third strategy, Titan persuaded customers to own more than one watch. Titan, with the first ever colour campaign released by any Indian watch manufacturer, tapped the latent demand for quartz watches in the country.

In order to get an initial edge, Titan heavily advertised the various designs and models through attractive layouts, thereby offering consumers the convenience of making a preliminary choice at home.

Product Range

Titan started off with Exacta—stainless steel watches for rough day-to-day wear, Classique—gold case and leather strap fashion watches, and Royale—gold case and gold strap elegant dress watches, which are still in vogue. Later it added the Spectra—gold and stainless steel watches, and Raga—ladies watches with an ethnic appeal. It introduced Aqura—a sporty watch with plastic casting, which was later merged with Timex. Titan also revived the concept of pocket watches. It later added a range called Regalia which is basically a lower priced dress watch and several multi-functional watches like Calendar, World Time and Galileo. In 1994–'95, Titan introduced a European collection.

Gradually, Titan has built up a very strong brand equity in India. It has almost 100 exclusive retail showrooms and another 100 Titan Shops across the length and breadth of India. With its exclusive showrooms and display counters Titan has succeeded in attracting discretionary spending from other commodities to watches. Titan successfully changed the attitude of Indians from purchasing a watch as a well-planned decision (shift from consumer-durable mentality) to an impulsive one (FMCG mentality). The launch of Raga collection in 1992 was to reinforce this strategy.

Market Segmentation

Internationally, the watch market has been traditionally segmented into three categories based on offered prices. The first category is low priced "C" watches and includes watches sold at a retail price of under Sfr.120. The mid price or "B" watches range from Sfr.120 to 700 at retail. Electronic watches dominate both the C and B price segments. The third or "A" category are watches ranging from Sfr.700 to 5000. Manufacturers of luxury watches, the "AA" class, sell to a small exclusive group willing to pay several thousands Swiss francs for a special, custom-designed jeweled watch.

Close on the heels of its launch of Dashl for kids, Titan made a foray into the digital watch market with Fastrack Digital. Jacob Kurian, vice-president-marketing, explained that "the decision to enter this segment was inspired by the resurgence of digital watches internationally and the need to revitalize a dormant segment of the Indian watch market. It also extends the width of our offer to the fashion conscious youth of India." Breaking away from the traditional, functional platform, Titan positioned the Fastrack Digital collection on a fashion platform. The range consisted of full function chronographs with features that include multiple time zones and alarms, countdown timers, stopwatch and lap times functions, chime and a distinctive large format digital display. Designed exclusively for the young, sporty and trendy, the watches come in 22 designs—from the simple classic to the latest space-age looking digitals and the futuristic ana-digi model. The price ranges from Rs 600 to Rs 1,500.

The new range is retailed through the 'World of Titan' showrooms, Time Zone and select premier outlets in New Delhi, Mumbai, Kolkata, Chennai, Bangalore, Hyderabad, Ahmedabad and Pune. Titan is the third player, along with Timex and Sitco, in the 1.6 lakh digital watch market. From a strategic perspective. Titan is gearing itself to competition from Swatch—a Swiss major brand in promoting trendy watch-wear especially amongst the young and sporty.

Positioning

A key factor in Titan's success has been its ability to position watches as lifestyle products as opposed to time-keeping devices. The use of innovative marketing techniques and access to a strong distribution network has enabled Titan to carve out a niche in the quartz market. The company offers over 550 different models and has pioneered a range of jewelry watches as well as jewelry products. Grant Walker (an UK firm) was the prime consultant to the jewelry project. The jewelry watches are being marketed worldwide through a subsidiary company controlled by Titan with its main operating base in London. Specimens and designs of jewelry and jewelry watches of Titan have been displayed at the Inhorgenta Fair in Munich and at the Basle fair, where the designs won much acclaim.

Neutralizing the Gray Market With an intention to neutralize the burgeoning gray market for cheap imported watches in India, Titan tied up with Timex, the world's fourth largest watch making company. Before its break with Timex, the company offered about 250 styles in four distinct ranges under the Timex name. The company plans to launch more than 800 models in a phased manner over a period of five years. The selling and distribution model is designed for full utilization of the Titan infrastructure. Timex watches are presently sold through all the existing exclusive show rooms and retail outlets of Titan.

Titan started targeting the upper end of the market by a launching jewelry watches. It launched massive road shows in the metros and several towns for its *Celeste* range of jewelry and jewelry watches, the cost of which ranges from Rs 25,000 for 9 carat going up to Rs 1 lakh plus for a diamond studded model. By moving into the jewelry and jewelry watch business, Titan also reiterated that it was not in the business of making time keeping devices but had a wide concept of watches as fashion accessories. A point to note is Titan's decision to change its name from Titan Watches Limited to Titan Industries Limited.

Titan refuses to go rural where a huge market exists for a good quality, rugged and reasonably priced watch. Timex was launched to cater to the lower segment of the market, but the perception is that of fragility with its plastic body.

TITAN'S INTERNATIONAL OPERATIONS

India has a minuscule presence in the world watches market. Few Indian companies have shown interest in exploring the international market since there has always been a large unsatisfied domestic demand. Another factor could be the negative 'Made in India' label. Given this constraint, Titan has been proactive. It decided to go international sometime in 1990. This was because the Indian economy was liberalizing and it was felt that global players would come to the Indian market sooner than later. This prompted Titan to test out the international waters to acquire competencies to combat the incoming competitions. Thus, it was a proactive strategic move rather than merely a disjointed export thrust.

Titan took the crucial decision of selling under its own brand name rather than under a private lable. Investing in a brand calls for an enormous amount of financial, marketing and strategic commitment which would pay dividends in the long run. By going in for a long-term brand building exercise rather than short term profits, Titan showed its intention of capturing and retaining a large market share in due course of time.

Titan decided to enter the Middle East market first as it provided them with a somewhat familiar potential clientele in the Indian expatriates and yet provided the opportunity to compete with all the global brands.

Titan Watches took its first step to go global in the second week of November 1992 when it registered a company in UK in the name of Titan International Marketing Ltd., for spearheading Titan's European rollout. Titan launched 4 models of its watch in the United Kingdom in 1993. The importance of the international division can be gauged from the fact that its chief executive reports directly to the Managing Director. Thus, Titan progressed from an exclusively domestic operator to a consistent exporter. HMT remains a peripatetic exporter. Titan is currently in the process of becoming a company with operations abroad with the long-term intent of becoming a multi-country operator. The floating of companies in the UK and Netherlands was a step in this direction.

As of March 31, 1999, Titan had invested \$37 m in its European operations, of which Titan Industries in the form of equity, loan and credit provided \$22.4 m. The balance was raised abroad. The funds mainly went into brand building and stocks. Europe, according to Titan, was its 'most important though most difficult overseas market'. Titan could sell 3.5 lakh watches in this market since its inception. Titan International Holdings BV, Titan's wholly owned subsidiary in the

During the year, the rights to the Titan brand were transferred to a wholly owned subsidiary in the Netherlands Antilles, for technical reasons. These rights are only for the international markets.

Titan's exports declined in 1998–99 for the second year in succession from Rs 35.8 crore to Rs 31.6 crore. This was mainly due to a fall in jewelry exports to the US and a decline in watch exports to the Middle East.

Titan's Strategy in The Middle East

Titan's first export was to Bahrain in mid-1991. Its international operations started initially by the appointment of a distributor who ordered watches on a demand basis. Today, Titan has grown to be a fairly important player in the Middle East market with showrooms in Dubai and Oman.

Titan exports to five middle-east countries, namely Bahrain, Qatar, Oman, UAE and Kuwait. In these markets, the distribution is through one main distributor in each country who in turn supplies to downstream retailers. Titan chalked out an elaborate entry strategy for the Middle East markets. Some of the steps were:

- Titan conducted detailed market studies of customer preferences and competitor strengths before it entered the market. It was observed that Titan had a cost advantage due to lower domestic labour costs.
- The design of Titan watches required some adaptation to suit the customer tastes in these markets. It became necessary for Titan to create new product offerings and establish a distinctive product line. For example, the Exacta range was not found acceptable whereas the all-gold finish Classique and Royale were accepted.
- Titan did a detailed analysis of the distribution channels before choosing its distributors and showrooms. Since most distributors were new and had little experience of selling watches, Titan had to provide the necessary training in this regard.
- In the initial years, Titan faced problems with the established retail network since many of them did not want to carry an Indian brand. Moreover, consignment sales terms.
- Titan ensured that its advertisements were adapted to suit local tastes and cultures. It has been basically indulging in product advertising with little emphasis on lifestyle as the products are still in the introduction phase.

THE INDIAN WATCH INDUSTRY

The Indian watch industry is nearly three decades old. It started in the early 1960s with the setting up of Hindustan Machine Tools (HMT) in collaboration with the Japanese Citizen Watch Company in order to meet the domestic demands and also to restrict smuggling of watches. In 1972, licenses were issued to companies like Hyderabad-Allwyn in joint sector and Jayco, Purewal, Indo-Swiss, Bifora in the private sector. HMT was heavily protected by the Government and thus became the major watch manufacturer in the country. By 1982, the objective of increasing the watch production in the country had not materialized. As a result, the Government approved that the indigenous watch manufacturers step up established capacities. The expansion of HMT and Bifora was approved.

The size of the Indian watch market is estimated to have increased from 16.9 million watches in 1990–'91 to 24.0 million watches in 1995–'96. The organized sector production accounts for about 13 million watches a year while the balance is accounted for by the "gray" sector which comprises smugglers or Indians returning from abroad. Recessionary pressures adversely affected the watch industry's performance in 1992 and 1993, and, with the exception of Titan, all other firms registered negative rates of growth in this period.

India with its large population is potentially one of the largest markets in the world. The Indian market is expected to grow both at the lower and (less than Rs 500) and higher end (above Rs 7,500). This has prompted many major international players to come to the Indian market. This is because the number of watches per thousand people is as low as 21 and a huge potential exists for companies which can penetrate markets by proper customer education and addressing customer needs.

INDUSTRY STRUCTURE

India's 700-crore plus watch industry can be classified broadly in three categories:

- the organized sector, with HMT in the public sector and Titan in the joint sector and Timex, being the leading players;
- the small-scale sector where popular names are Bifora, Jayco, IST, Purewal, etc;
- the invisible sector, i.e., smuggled and spurious watches

At present, three major players i.e., Titan, Timex and HMT dominate the industry. Titan dominates the upper end market with its exclusive range of watches and its access to world-class technology. The public sector giant has been trying to compete with the other two players by launching new brands and watches for the lower end of the market. Though Titan entered into a partnership with Timex Inc. to compete with HMT in the lower-end segments, Timex is now more identified with the active urban youth.

Mostly smuggled watches have served the luxury segment of the Indian watch market. Brands such as, Cartier, Piaget and Patec Philippe are popular. Till recently, Raymond Weil and Longines were the only foreign brands available through regular channels in India. Raymond Weil has a wide range of watches with prices ranging from Rs 5000 to Rs 50000, while Longines models cost between Rs 9000 and Rs 30000. The final cost, however, depends on the individual choices of the customer. Hence, a watch worth Rs 10,000 may cost a lakh of rupees. Raymond Weil and Longines are marketing the models as a part of male jewelry sets which usually contains a pair of cuff-links, tie pins, collar pins and sometimes wrist bands.

Titan has launched a new range of jewelry watches called Tanishq to compete in this segment. These are available in the range of Rs 20000 to Rs 100000.

By end of 1999 the Indian markets were liberated. The time-keepers to the nation now come from almost every nationality. The Swiss, the French and the Japanese, among others, have hurriedly added to their sparse product range, opening exclusive showrooms and even appointing Indian brand ambassadors.

Ever since the government liberalized import of watches in the Exim (Export-Import) Policy in April 1999 and allowed watches below Rs 35,000 to be brought in directly, the approximately 40 million pieces

While some brands like Givenchy and Casio have decided to make a debut following the announcement, almost every other brand has expanded its range, bringing in watches in the lower price segments. The more ambitious ones have already reached small towns like Sultanpur, Sambalpur and Muzaffarnagar.

With the liberalization of the Indian watch industry, now a larger range is available from the Swatch group, which sells Omega, Longines, Rado and Tissot, besides Swatch in India. Its price range across various brands now swings from Rs 1,250 (for Swatch) right up to Rs 30,000-plus (for Omega). Similarly, Egana Intergold has introduced a new line that starts from Rs 3,500 onwards. The company, which also sells Espirit in India, brought in a range that starts at Rs 1,750. And Casio, among the recent entrants, beings at Rs 495.

And this is despite the tariff barriers still remaining high. Says Ravi Thakran, regional general manager (South Asia), Swatch group: "Duties are still considerable. For example, there is a customs duty of 40 per cent and a countervailing duty of 16 per cent. Furthermore, the company also has to surrender SIL (special import licence) three times the value of imports, which further inflates the costs." The April Exim Policy had also shifted watches from restricted to SIL list.

However, the announcements were obviously enough to create a minor stampede in the Indian marketplace for watches. Casio, for example, had been watching India for quite some time. Kulbhushan Seth, senior manager (marketing) of Casio India said that: "we were keen on manufacturing and hence thinking of a one-year timeframe to start our operations in India. Once the policy was announced, we decided to move in immediately and were in the market in June." There was a minor change in plans though. Instead of manufacturing watches, Casio India decided to import them for some time. Seth put the blame squarely on the high duties: "It is more economical to import a complete unit since duties on components is still high. We will have to import components to maintain quality." Manufacturing plans have not been dropped, though. Casio is studying the market and trying to identify fast-moving models that can subsequently be manufactured.

Others are also thinking along similar lines. Says Vishal Gurtu, country manager (sales and marketing) of Egana Intergold: "We want to make India a manufacturing hub for exports of watches by the year 2002." In fact, the Hong Kong-based Egana, which entered India in 1997, bought out its Indian partner, Intergold's, stake in the joint venture completely barely a fortnight back, a fact that further illustrates the group's growing interest in India. There are reasons, of course. The brand's sales have grown three times in the last nine months. The fallout: The brand will now travel to the smaller towns with an expanded (read lower priced) range. The names that came immediately to Gurtu's mind included Nasik, Kolhapur, Rajkot, Ludhiana, Agra, Patna, Sambalpur and Muzaffarnagar. The company has already more than doubled its outlets from 30 to 75 in the last nine months.

The Swatch group too has similar plans. Says Thakran: "Since our products are fashion statements our initial focus has been on the top eight cities. Now we plan to expand to the top 15." Westend Watches from Switzerland, which have maintained their presence in the country by bringing in semi-knocked pieces (a common practice before the policy announcement), has reacted by launching a wider range in August. Says Francis Mendonca, representative: "While we were selling 2000–3000 watches a year earlier, we are now selling 1000 pieces a month." The company has worked out a publicity budget and is talking of upgrading dealers. The reason for the sales surge is not merely the wider range but also the fact that they are now completely imported pieces and not "semi-knocked down and subsequently assembled-in-India" watches that customers regarded with suspicion. As Punit Chainani, who sells Givenchy in India says: "The change in policy allowed us to be free with the customers. Now we can tell them it has been imported directly and not assembled. That makes a difference in perception."

Echoes Mendonca: "Earlier the small scale units were obtaining import licenses and assembling these watches. This meant that one had little control over quality. Now that we are importing directly, it makes a difference to both quality and consumer perception." Of course, what the industry is waiting for now is a slash in the tariff barriers. Thakran of Swatch estimates that if duty levels come down to 10–15 per cent, as is the case in rest of South East Asia, the market size could almost double in 10 years to 80 million pieces.

THE INDIAN CONSUMER—CHANGING TRENDS

Consumer preferences for watches are undergoing change. With increased literacy and urbanization and exposure to the outside world through satellite television, the desire to own a watch has increased among Indian consumers. Watches are being bought much earlier in life; among the more affluent families, a seven year old child may now possess an imported watch. There is a change in the attitude towards watches and it is being seen less as a time keeping device and more as a statement of an individual's taste and style. Therefore, products with high style and design content are in demand. Simultaneously, consumers are owning more than one watch, primarily to suit different occasions like daily wear, casual wear and evening wear.

A watch is also seen as an ideal gift with a wide range of prices and variety, and thus competes with many other gift items like clothes, kitchenware, crockery and even jewelry. A new segment that is steadily growing is the institutional buyer. Watches are being given as gifts to employees, used for dealer promotion schemes and as gifts to customers with other purchases.

MAJOR DOMESTIC COMPETITORS

HMT was set up in 1961 in technical collaboration with Citizen. Presently it has five watch manufacturing units and thirteen assembly units across the country with an installed capacity of 7.2 million watches annually. HMT is into both mechanical and quartz watches. Since the inception of Titan, HMT has lost market share rapidly. HMT's first calculated response to Titan's strategy came in 1990, when it recognized the need for aesthetics details and introduced Elegance—a dress watch priced at Rs 1000 plus. In 1991, HMT set up a product development centre for watch design for the first time. In the same year it also launched Pace and Astra ranges. In 1992, HMT pre-empted Titan with its Zap-children's watches. HMT launched *Utsav*, a brand adorned with ethnic motifs which positions itself directly against Titan's Raga range of watches.

HMT does not focus on its sub-brands the way Titan does. It still continues to position its watches as time-keeping devices and does not stress on the aesthetics and prestige value of a watch. This limits its segmentation of the market and also pricing flexibility. HMT incurred a loss of Rs 10.70 crores on a sale of 246.43 crores in the year 1992–93. The company has of late has not been as aggressive as in the past in its

marketing and advertising. The other problems it has are common with several Indian public sector undertakings, such as lack of freedom in decision-making, and political interference.

To counter the internal and external worsening competitive environment, HMT has gone in for market-oriented production, better working capital management, cost reduction, waste elimination and creating demand pull schemes. HMT initiated a dialogue with global groups to explore the possibility of a joint working in the areas of technology transfer, equity participation and marketing infrastructure. The government has approved HMT's restructuring plans over a period of ten years. As a part of this plan, the watch division will become a separate company which then will align itself with a multinational. HMT has already negotiated with Japan's Citizens Watch Co. but the matter is still in abeyance. HMT International has also set up an office in Hong Kong. While the movements (the time base) are being sent from India, the cases are procured in Hong Kong. The watches assembled in Honk Kong are then exported to the Middle East by the HMT.

THE WATCH-MAKING TECHNOLOGY

Every watch is composed of four basic elements: a time base (movement), a source of energy, a transmission and a display. Movements come in two major technologies, viz., mechanical and electronic. Mechanical movements can be further subdivided into manual and automatic winding types. In an automatic watch, the movements of the wearer's wrist wind the mainspring. Electronic watches use batteries for power and a quartz crystal to generate pulse. These watches are of three types, namely, quartz analog, quartz digital and quartz ana-digi. The most important difference between an electronic watch and a mechanical watch is that the former is much easier to manufacture. A mechanical watch is an intricate piece of machinery whose assembly necessitates high human skills, a tradition associated with the Swiss watch craftsmen. The electronic watch on the other hand lends itself well to mass production and automated processes.

The quartz crystal watch appeared in the marketplace at the end of the 1960s. An electric current is passed through a quartz crystal to stimulate high frequency vibration which can be converted into precise time increments. Micro-circuitry sub-divides the crystal's frequency into an electric pulse which drives the watch. The pulse operates a tiny electric stepping motor or is transmitted through conductors and integrated circuits to drive the gears and watch-hands.

The technology has now been developed where wrist watches can connect remotely with computers and telephone networks. This promises to initiate a high technology revolution. Consumers can enter and edit data on their PCs and select information on the screen to download into the watch by holding its face 6 to 12 inches from the monitor.

TANISHQ TO NEBULA

In order to revamp its Tanishq foray, Titan decided to discontinue selling its gold watches from the Tanishq division and to launch it as Nebula brand. Consumer feedback had revealed that Tanishq was seen more as a jewelery brand and, therefore, a feminine brand. Nebula will be under the umbrella of Titan Industries and would be available in all World of Titan showrooms, Time Zones and other select outlets across the country. "We felt that the best opportunities for tackling the gold watch business existed under Titan," said Jacob Kurien.

Further, it was felt by Titan that gold-watches were in good demand from business executives and sportsmen and hence it could launch this category of watches under its brand name. According to Kurien, 'Titan will be a complete watch company. It will now focus on developing the market and addressing the opportunities that exist in this area.' Under Tanishq, watches were secondary to the jewelry business. For Titan this marks a move up the value chain, giving consumers a chance to upgrade to a higher value product. Kurien said it was difficult to estimate the market size as, traditionally, Indian consumers have been getting their watches gold electroplated or attached to a gold bracelet by a jeweler. The company was expecting a turnover of Rs 15–20 crore from gold watches in the first year of their launch.

Pricing

Watches with solid gold cases and leather straps were priced in the range of Rs 5,950 to Rs 13,500. The all-gold women's collection was priced between Rs 15,000 to Rs 32,000. The Nebula leather collection has 12 watches, eight designs for men and four for women. All watches are crafted in 18-carat gold.

The pricing was kept affordable for the Indian market, considering that a similar international brand is valued above Rs 80,000. Prices also lower than of watches under Tanishq. The company had test marketed these watches in the markets of Mumbai, Delhi and Vijayawada and found the response to pricing favourable.

FUTURE OPPORTUNITIES

Titan's growth has been impressive thus far. Yet, it was far removed from its stated target of Rs 1000 crore turnover mark by year 2000 AD. On March 31, 1999, the company's turnover stood at Rs 484.45 crore, with jewelery accounting for Rs 100 crore.

For the future, there exist opportunities for Titan to take advantage of, viz.:

1. Titan has set up a good introductory network in the Gulf. It is already present in five countries in the region and is entering the large market of Saudi Arabia which it had been studying for last three years. Even though there are strong international brands in this market, Titan hopes to establish itself as a major player here. Concomitant with brand building exercises, it is also establishing exclusive showrooms in countries of its operation.

   An important point is that Titan has a limited offering in the "Royale" segment (golden dial and strap watches). The Gulf market is characterized by a strong demand for these kind of watches. This may necessitate Titan to come out with an extended range of models in this category.
2. There is a good prospect for Titan to enter the CIS market. The "Made in India' label does not have a negative connotation there as in the developed markets. India was one of the largest exporters to the erstwhile Soviet Union and it has a good image in that market.
3. Titan has taken a bold step by setting up two subsidiaries in UK and the Netherlands. It has also enlisted the services of French designers for its Euro collection of watches and jewelers for competing in the super premium AA category. Titan has been selective in choosing its distributors and retail outlets for the Euro markets.
4. African markets offer a sizable potential. Egypt Nigeria, Libya, Kenya. Tanzania, Ghana, South Africa have a burgeoning consumer market. Titan has already supplied watches to Ghana. India has a favourable image in these countries and there is a sizable Indian population there. Importantly, Tata Exports had a long standing market expertise in these countries which could be successfully leveraged by Titan.

FINALLY . . .

Titan laid out its corporate objectives clearly: these read

To be a significant and respected global Watch, Clock & Jewelry brand and also be the market leader in India, including being the premier retailer of these products

The company strongly believed that success in global markets in crucial to its future well-being, especially since the Indian market is quite restrictive. It had already secured significant market beachheads for its watches. It has developed several competencies to latch upon the major opportunities in the entire range of lower, middle and upper segments and has exhibited a strong commitment by allocating some of its best human and financial resources for the purpose.

Swiss Protectionism

Titan planned to sell over 700,000 watches and jewelry pieces in international markets at a total export value of over US$ 25 million, i.e., almost Rs 100 crores by the end of year 1997–'98. However, it encountered unexpected resistance from the Swiss watch industry which sought to exclude Indian products from the International Watch, Clock and Jewelry Fair held annually in Basel, Switzerland. Participation in this Fair is important for a watchmaker or jeweler especially if it has global aspirations. Titan had been participating in this fair for a number of years, but was denied the opportunity in 1995–'96 and '96–'97 for the ostensible reason that the Government of India's import policies were 'too' protectionist for outside-India products to be brought in. Titan's executives, however, felt that the attempt to debar Indian products from this international Fair is motivated by the Swiss authorities' desire to wrest concessions from the Government of India and to thwart Titan in its bid for a significant share of the

European market. According to Swiss authorities, all they were demanding was that India should remove all quantitative restrictions and that duties be brought below 20 percent as per the international norms for free and fair competition in Indian markets.

Leveraging Core Competencies

For the strategist, however there was an interesting question looming ahead. Over the years, Titan has built an impressive array of complex competencies and skills in the areas of micro-precision engineering, electronic assembly, prestigious personal use articles, decorative objects and retailing (especially of luxury goods and brands). The question is: should Titan diversify into these product-markets or should it stick to it's knitting, i.e. watch-making (and jewelry!)?

appendix | 1

Annual Results

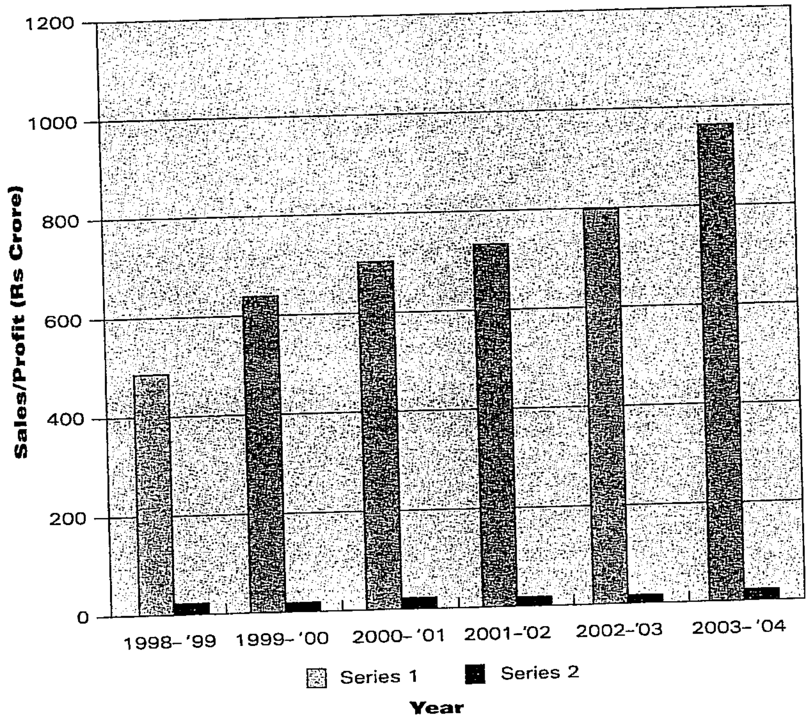
Profit & loss account						
Titan Industries Ltd. Rs Crore (Non-Annualised)	**Mar 1999 12 mths**	**Mar 2000 12 mths**	**Mar 2001 12 mths**	**Mar 2002 12 mths**	**Mar 2003 12 mths**	**Mar 2004 12 mths**
Income						
Sales	483.61	632.23	699	727.69	800.54	961.12
Other income	13.12	6.58	6.06	8.24	19.76	9.54
Change in stocks	0.41	10.03	-28.27	-18.84	5.04	34.66
Non-recurring income	0	10.38	9.66	1.06	2.99	6.45
Expenditure						
Raw materials, stores, etc.	218.53	313.31	341.2	379.23	473.23	593.47
Wages & salaries	54.04	72.18	74.06	76.32	71.56	84.97
Energy (power & fuel)	7.05	7.81	8.55	7.85	8.16	8.9
Indirect taxes (excise, etc.)	52.64	72.6	69.03	69.98	72.48	76.63
Advertising & marketing expenses	28.93	54.37	54.1	52.49	65.05	79.32
Distribution expenses	8.8	0	0	0	0	0
Others	31.2	42.79	41.86	37.85	44.07	72.28
Less: expenses capitalized	1.04	0.5	0.78	0.74	0.91	0.81
Non-recurring expenses	0	0	0	0.4	11.76	10.33
Profits/losses						
PBDIT	96.99	96.66	98.43	94.77	82.93	86.68
Financial charges (incl. lease rent)	57.92	54.82	51.93	52.28	50.71	45.07
PBDT	39.07	41.84	46.5	42.49	32.22	41.61
Depreciation	20.14	20.4	20.93	23.28	21.14	21.47
PBT	18.93	21.44	25.57	19.21	11.08	20.14
Tax provision	1.87	2.16	2.09	6.12	4.87	8.96
PAT	17.06	19.28	23.48	13.09	6.21	11.18
Appropriation of profits						
Dividends	16.7	16.79	16.95	10.13	8.44	8.52
Retained earnings	0.36	2.49	6.53	2.96	-2.23	2.66

appendix | 2

Yearly Sales and Profit Details

Year	Sales (Rs Crore)	Profit (Rs Crore)
1998–99	483.61	18.93
1999–00	632.23	21.44
2000–01	699	25.57
2001–02	727.69	19.21
2002–03	800.54	11.08
2003–04	961.12	20.14

Sales and Profit Details between the year 1998-2004



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appendix | 3

Investment indicators

Titan Industries Ltd. Share price performance		Finance year Trading date	: Mar 2004 : 9-Feb-05
Market price (Rs)	225.1	Face value (Rs.)	10
EPS (Rs)	4.67	Beta	0.87
CPS (Rs)	9.26	P/E (times)	48.16
BV per share (Rs)	30.67	P/B (times)	7.34
Turnover	18.354	Market capitalisation	951.64
(Rs Crore) Financial indicators (Rs Crore)		**(Rs Crore)**	
Net worth	131.83	Total assets	759.85
Equity capital	42.28	Sales	961.12
Borrowing	406.71	PAT	11.18
GFA	393.4	PAT/Sales (%)	1.16
Capitalization ratios			
Bonus equity/eq. cap (%)	0	Mkt. cap/ent. val(%)	70.06
Free reserves/eq. cap (%)	195.65	Capital gearing ratio	3.389
Mkt. cap/eq. cap+prem (%)	914.95	Debt equity ratio	3.085
Enterprise value	1358.35	Current ratio	1.136
(Rs Crore) Yield analysis			
Dividend rate (%)	10	Dividend cover	1.51
Yield (%)	0.44	Div./Net worth (%)	3.94
Pay out ratio (%)	46.51		

Stock returns & volatility	1 Month	3 Months	6 Months	12 Months
Returns (%)	20.89	30.68	94.89	136.63
Volatility (%)	28.08	12.79	11.54	11.98
High price (Rs)	225.1	225.1	225.1	225.1
High price date	9/2/05	9/2/05	9/2/05	9/2/05
Low price (Rs)	155.1	155.1	114.5	83
Low price date	17/01/2005	17/01/2005	16/08/2004	17/05/2004