

Strategic Management – The Competitive Edge

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Lecture 21

Case Study 1

So welcome to this session; let us look at what happened with respect to HMT watches, a public sector unit. We are looking at this case at least about 15 years back. Kindly note that the data refer to 2006 at that point of time only the company had problems with respect to watches, so the entry of competition in the form of Titan created this, so just look at this whole scenario.

With respect to HMT watches if you look at the SWOT analysis, if you see the watch model I am giving so many watches in this it had these names, Pace, Shreyas, Swarna, Sangam and Lalit, Roman and Utsav, Elegance. So the market segment for which it was catering to is also given in the next column. The price range as it existed then is also given there in the third column. So if you look at it, the mid-range elegance watches was priced above Rs 1500. So the low end watches between Rs 801 to 1500.

So 40 million watches per annum; annual growth rate of 10 percent. So in 2006 kindly see Titan percentage of market share was more than 20 percent, whereas HMT was much below, so Titan was a later entry into the market, then you had other organized sector players, so many other manufacturers of watches, Unorganized sector, so many, this is what we refer to as grey market. So smaller players also come in not only from with this country, it can be from other countries also.

So market share of mechanical versus quartz watches if you see, mechanical watches was just 10 percent, the quartz watch was very high, that is nearly going up to 90 percent in 2006. So when the quartz watch of HMT was introduced in 1981, it was a rave. So at that point of time it was thought that the quartz watches may replace the mechanical watches in toto.

But when you look at the present day scenario in 2022 especially in the rural areas, you find that the customer wants the mechanical watches of HMT, this is something interesting. He thinks that mechanical watches of HMT is a rugged one and it is much better compared to the other watches available of the mechanical brand from other companies.

This is how it is, the twists and turns that take place in market. So when introduced, quartz was thought it will swamp, it is swamping, but mechanical has not gone out of business yet.

Now, if you look at strengths of HMT at that point of time it had 4114 approved dealers, 79 wholesale dealers, Wide product line, analogous watch, digital watch, auto date watch, three strategically located manufacturing facilities all were having the ISO 9001 certification.

Strength of HMT watches was nearly 2200 employees, compared to this the strength of Titan much smaller. Brand continues to be the mainstream brand among major watch dealers in the domestic market, we are looking at 2006, kindly note that. The quality and reliability of HMT watches has been the main selling feature and attraction for the consumer

So experience of more than 40 years, high volume production, cost advantage.

What are the type of weaknesses which was seen in 2006 with respect to HMT- No strategic long term policy, this company failed on the strategic front kindly note that. Then unutilized machinery and capacity utilization of just that 33 percent, it is what you call you are making use of only one third of your capacity- cruel; actually 33 percent means only one third of your capacity utilization right in 2006, so can understand the type of losses the company is likely to incur.

Then assembly line does not support economical low volume production. So this is where sometimes when I was discussing earlier in the previous sessions, when economies of scale are not able to be operated at least you could you should see whether economies of scope can be put into being. So this is the other thing which the company should have thought about.

Then lack of consumer focus with respect to the aesthetics, so never gave prominence to the look of the watch, like what Titan did, or what Titan projected. Poor advertising and promotional campaign, poor support from retail traders, maybe the margins they were getting from Titan was more attractive than HMT that is also possible.

Weaknesses, poor designs, delay in judging public choice. So in fact, one of the ads which HMT put out at that point of time, they thought that this ad is to cater to the younger market segment that is market segment of youth. But, to their surprise, they found that it was catering to the elder market segment; instead of the youth it was catering to their parents.

Suppose that segment itself does not get targeted by the ad, then the ad is really not serving the purpose for which it was put out. Then virtually no R&D; designs and technology are copied, this was one of the types of allegations which were being made also at that point of time, kindly note in 2006. Poor financial performance, low production per employee, brand name has lost popularity with upper middle class and high class.

But there still existed opportunities for HMT to stage a comeback based on its brand name, untapped market, a huge growing middle class with a high spending power and a watch market growing at 10 percent; any market growing at 10 percent is considered good.

Then the type of threats they face retaining the brand name which customer perceives as number one quality, takeover by competitors, extinction of mechanical watches, then increasing domestic competition, loss of key talent to competitors.

Then, we will look at what went really wrong with the HMT, one point I already mentioned did not pay importance to aesthetics and packaging of watches in attracting consumers. So this watch is not just what do you call a product to give time to the consumer, it should also be attractive to be able to catch the attention of the person who is wearing the watch and also the person who is seeing.

So if you really look at it, even an educational institute like the Indian Institute of Science used to give watches for its employees who put in a certain number of years of service as a memento. This watch was also coming from Titan; So HMT was not able to capture these types of memento market also, kindly note that.

Lack of professional marketing, underestimated the role of retail traders in the distribution chain from manufacturing company to consumers, did not take care of the interests of retail traders, maybe as I mentioned, Titan was doing the job better compared to HMT. Inferences from the sales based on which decisions were made were wrong, so the sales team used to give one type of input and the company used to make decisions and the inputs from the sales team itself was wrong, so that is in fact the irony of the whole scenario.

So if you look at it, you see the key ratios how it is changing. You had the current ratio dipping 0.17 from 0.4 in 2003. Then the fixed assets coming down to 0.12 from 0.24, the debtors are also if you see not very impressive, interest cover ratio again not impressive. Then the profits ratios PBIDTM and PBITM again not impressive.

Then the key ratio current aggregate it is at 0.7, so compared to that some other figures given of Timex, Titan. If you see HMT is at 0.17, Timex at 1.23, Titan also at 1.23. Then the comparisons of turnover ratios also given, HMT at 0.12, Titan at 3.68. Then inventory if you see HMT at 0.33 and Titan at 4.67. The interest cover ratio there is no cover at that point of time minus 0.55 for HMT, for Titan it was 4.83.

So being a public sector unit, HMT had what you call a long decision making chain, it was not immediate /impromptu, you thought that you are in the sales or the marketing team, you can take

an impromptu decision with respect to sales or marketing, no, you cannot, you have to go through a chain and when this chain after you went through and the decision came, again the market would change.

So this is a type of scenario which executives in HMT especially from the marketing team were facing. Knowledge gained from the market is not implemented properly. So this decision making itself is an example; it called for quick decision making and this was not forthcoming.

Then lackadaisical attitude of the management team not really coming out with proactive strategies, especially in the liberalized market, then it is a doomsday for the company, this is what I when we discussed the modes of decision making.HMT should have looked at entrepreneurial decision mode that is you should be what you called dashing to the marketplace, if it is possible, do not keep on waiting for other players to overtake you, this has been the bane of the public sector.

Then improper utilization of resources provided by government. So in the first place government resources are there, sometimes the government gets into decision making by public sector units- all this causes a lot of problems for the public sector. And then as I said to deal with the bureaucracy.

Then the abolishment of key posts in the period of turnaround plan. There was a turnaround plan suggested for HMT, but at that point of time the government or the top management of the company perhaps on the instructions from the higher ups abolished the key posts, a very serious setback.

Accounting practices were not followed as agreed,as pointed out by the CAG. Over ambitious projections that every company does and sometimes scales it down all those types of things but should not be highly ambitious. Then improper cash budgeting, existence of spurious HMT watches, this is what I said the grey market.

Then lack of planned strategies for product diversification. In fact HMT was many times becoming clueless of the market and Titan was capturing the market share and it was in fact a sorry state of affairs for HMT. So the Timekeepers to the nation itself was really finding it hard to keep time with market. Failure to consider the effects of economic liberalization, failure on the part of the ministry/ management to consider the apprehensions.

So this western markets also it was suggested where mechanical watches are in vogue, HMT should look at the market segment and HMT's mechanical watches are quite good as I told you. So even in this era also the mechanical watches are holding or holding their position as against

the quartz swatches, has not become extinct even 2022, the lower market still prefers these rugged mechanical watches of HMT. Come up with attractive promotional schemes, so this was the type of suggestion given.

So if you look at the road ahead in 2006, Godrej and Boyce had signed an agreement with HMT to be its national distributor, so it could leverage on its brand name. So it was suggested reduce these NPAs, motivate the workforce, improve the managerial efficacy and use the technical know-how to reduce the number of components in watch, increase the precision and durability.

One more suggestion which was given was enter into a niche market segment, niche segment of high precision watch manufacturing. So alliances with other business firms to push products in the high class segment. So take care of the retailers which Titan was really taking over from HMT.

If you look at the assets, which were there the land and buildings valued at 218 crores- they were to be disposed of between 2001 to 2005; but HMT realized only 57.59 crores. So all this was really having a huge draw on HMT.

It is a sad commentary when you look at it. A wonderful company like HMT watches, not able to perform to the levels that was expected, so had the tag name of brand, timekeepers to the nation, now finds that HMT itself is becoming extinct, having presence in the rural market segment with respect to its mechanical watches, that also is a very small percentage.

So this is HMT watches - gives you an example of how a good and flourishing company got caught in this economic liberalization process and has almost become extinct.

We stop here. We will continue in the next session. Thank you.