



ORGANIC / INORGANIC BRAND GROWTH: THE TWO FACES OF EXPANSION (Case study of Indian Multinational- Videocon group)

Ravi Bhasin*

ABSTRACT

The terms organic and inorganic looks very simple as of organic and inorganic food that we consume in our diet, but when we transform our growth in terms of our business these two terms becomes very vast and multidisciplinary. The turbulent environment and slowdown of the economy in the recent times makes organic and inorganic growth more conceptual and complex than before.

The study of two different terms becomes more meaningful, creative and innovative when we come across. The first one emphasis on the direct, long and Greenfield route to assess the resources, manpower and different available alternatives. The second one (inorganic) which is becoming more and more suitable for the different segments of the

* Lecturer, Amity School of Business, (ASB), Noida.

industry emphasis on the short cut methods like acquisitions, mergers and takeovers to become the part of the international markets. The cross functional approach, the supply chain management, marketing and finance, interface, human approach, organizational behavior, strategy and manufacturing and service operations and implementation are the keys. It implies PROACTIVELY, INNOVATIONS, VALUE ADDITION, TRANSFORMATION, CROSS FUNCTIONALITY, SIMPLICITY, HUMAN APPROACH, INTELLECTUAL and CORE DOMAIN OF DECISION MAKING.

The social dimensions starts where operations end, means intellectual and emotional control strength are the most powerful weapons of any organization with defining workable boundaries. The overlapping of different boundaries of world with different functional departments leads to the interdisciplinary approach to the business. The core and fundamental view to the growth is to identify, extend, and unify knowledge so that management defines the value for society. The lightening and immediate start is required to enhance momentum.

The first and immediate requirement of any company to have a successful launch outside the border is the cultural adaptation, rationalization of the work force, gender, values, ethics, social other environmental factors.

We explain and try to understand the various organic and inorganic concepts used by the Indian Multinational Videocon to enter the world market (both organic and inorganically).

Introduction

Growth is the key of success, but question arises which type of growth, either organic or Inorganic. The fundamentals of every company are different from one another, which cannot be measured on any scale but the ultimate aim is the level of growth.

There are several examples of growth by different companies based on their core competencies and values; e.g. Sony, L.G, Toyota production system, which aims the transformation process of the inputs in to the value added end product which provides excellent meaning to the society, is an immediate requirement. With the passage of time the department had a variety of titles and up & downs. Most of the early research was based on Simplicity, like algorithms and methodologies using mathematical models. The social dimensions starts where operations end, means intellectual and emotional control strength are the most powerful weapons of any

organization with defining workable boundaries. The overlapping of different functional departments proves very beneficial for the growth of the organization as a whole.

We have chosen Videocon because it helps us to understand the psyche of the Indian Multinationals and the shortcuts which are now the parts of the developing companies.

“INTERNATIONAL BUSINESS ENVIRONMENT IS MORE COMPLEX AND MORE DIVERSE THAN THE DOMESTIC BUSINESS ENVIRONMENT”.

“Technology has provided a very important and a catalyst role in the cross boundary advertising and promotion. Similarity in the tastes and preferences between countries is an important factor. The geocentric approach is an attempt to identify similarities among markets and the implementation of the standard products”.

Cultural disparities can be a major stumbling block for the generation of the trans-national brand names of one company. But by standardization of the products we can increase the efficiency of the firm to a great extent. Companies from the emerging markets can become global and can launch global products. The low cost of wage and proximity to the raw materials also provides competitive advantage to go global (as did by Videocon International). The home advantage of being having good brand name can be an asset for expansion in the neighbouring countries. Bajaj's expansion in the south East Asia is an example of the international growth in the analogous market.

If global pressures are low and company cannot afford to transfer its assets globally, company should not go global, but if company has transferable assets then the company should look for the extension which is similar to the domestic market.

Case Study

Indian Multinational-Videocon.

It is essential to understand WHY VIDEOCON WENT GLOBAL:

Pre liberalization the Indian electronic market was ruled by companies like Videocon , Texla , televista , BPL , Weston , Sakura , Konark , Onida and

many other local brands , the market was then a low capacity utilization market the consumer was offered low quality product with basic designed models.

1980's period changed the entire structure of the electronic industry , Indian electronics companies benefited from the economic liberalization policies of the 1980s, including the loosening of restrictions on technology and component imports, delicensing, foreign investment, and reduction of excise duties. Along with opportunities came in competition from Global players like L.G , Samsung , Whirlpool , Sony which had highly advanced technology , deep pockets and great infrastructure .

Videocon in order to leverage its position in the domestic market and offer tough competition to its Korean competitor (holding 50% of the India Electronic market) needed to

- Procure & manufacture Cheaper Raw material
- Increased production for TV , CPT , glass shells , AC and other range of products
- Offer the consumer the widest choice of product at all price point.
- Competitive Price to compete with MNC.

Videocon Operations

Videocon is the only group worldwide to have implemented backward integration from sand to color televisions. Videocon units in India have a capacity to churn out 4.5 million TV, 2.5 million refrigerators, 1 million washing machines and 300,000 air conditioners. Whereas in terms of components, in India it manufactures 5 million compressors per annum, 24 million glass panels and 6 million glass funnels.

The company is going the global way by acquiring plants overseas thus strengthen their base in the domestic market, The company has R&D units in Italy , China and Korea. With overseas acquisitions in Poland, Mexico, Italy today the company manufactures 19 million color picture tubes and 32 million CPT Glass. Videocon new plants located out of India will help them catapult to become one of the largest electronic groups all over the world.

It is an ISO 14001 and OHSAS 18001 certified company and has received the CE approval for exports to the EU. It has also been certified by the VDE Testing and Certification Institute and corresponds with British standards as well.

The company is aiming at organic growth along with acquisitions in space of assets where linking our existing strength will turn them around.

Backward Integration to achieve cost efficiency and higher capacity and emerge as leading multi brand company to offer quality products to its consumers.

Videocon makes no bones of the fact that his role models in this game are the successful Korean and Japanese firms. Cost effectiveness & higher Capacity are the trump card of the group.

At global level the company will leverage its strength of being end to end integrated player to eventually enter the global brand space. But initially the company will look at building volume in the end product space by OEM (original equipment manufacturer).

For example in Thomson acquisition strategy is to synergize its acquired picture tube plants with glass shell tube plant in India which shall reduce the cost of picture tube making and give a ready market to glass shell unit.

Videocon currently has production facilities in

- Aurangabad: Manufactures color television, glass shells and does OEM.
- UP , AP, Gujarat , Maharashtra, Bengal , Karnataka : Manufactures color television
- Bangalore: Production for OEM.
- Bharuch : Manufactures color television & glass shells
- Oman: With a capacity to manufacture 100,000 AC per annum. The plant shall also manufacture CTV.
- Poland: Manufacturing of color picture tube and picture tube glass with capacity of 5 million.

- Anagni, Italy: Manufacture LCD / plasma panel manufacturing facilities. The total capacity of the plant is 100,000 pieces of LCD / plasma panel per annum.
- China – Foshan & Dongguan : Manufacturing of color picture tube and picture tube glass with a capacity to produce 11 million tubes
- Mexico: Manufacturing of color picture tube and picture tube glass with capacity of 3 million.
- Paris, France : Manufacture CPT

Overseas Acquisitions

Some of the significant acquisitions by Videocon are:

Thomson's acquisition- JUNE 2005: Videocon International Ltd has acquired the French technology and media services giant Thomson SA's entire global color tube manufacturing business, including units in China, Poland, and Mexico for 240 million euros. The acquired units have an aggregate capacity of around 19,000,000 units of Color Picture Tubes along with 4000,000 pieces Color Picture Tube Glass, per annum.

ELECTROLUX acquisition- AUGUST 2005: VIDEOCON acquired the entire (91.85 per cent) shareholding of AB Electrolux (ABE) in its loss-making Indian subsidiary, Electrolux Kelvinator Ltd (EKL). In addition to gaining control of EKL's three facilities in India, Videocon, under a separate license agreement with ABE, will distribute/market products under the Electrolux, Kelvinator and Allwyn brands in India and other SAARC countries

Foreign Direct Investment Made by Videocon

Videocon started its operations in the region through its air conditioner manufacturing unit in Oman in 2003. The ground work started within a month and the production by middle of 2004.

The investment was made in two trenches, the production capacity for CTV and AC would be half a million piece each. The products would be sold under Videocon brand itself.

INVESTMENT IN GREEN FIELD PICTURE TUBE IN ITALY: After becoming one of the largest global producers of cathode ray tubes, consumer electronics Major Videocon Industries is beefing up its presence in LCD (liquid crystal display) panel manufacturing. The company today announced investments worth euro 1.06 billion (Rs 6,100 crore) to set up a Greenfield LCD panel manufacturing facility in Italy.

Competitive Advantage - How will these acquisition help VIDEOCON

Synergy with Eastern Europe, CPT Product Advantage, and Glass shells Product Advantage,

Brand Advantage, Multi Brand Advantage, OEM Advantage,

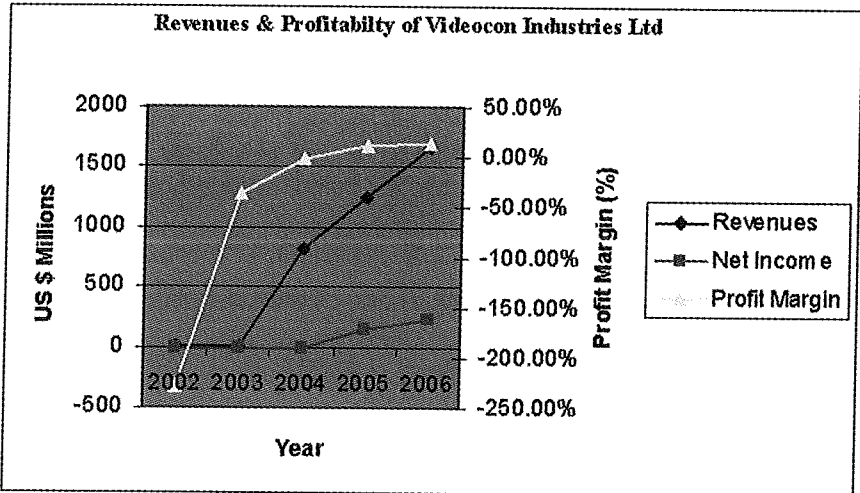
OEM Advantage, Distribution & Sales Network: Videocon's distributed capacity has ensured that it has gained ample experience in managing a complex supply chain - a fact that will come to its aid in its spread out ventures abroad.

The company has its consumer electronic retails outlet NEXT to target the end user direct.

The company has recently sign a memorandum of alliance with Future group to leverage the presence of its product in the market.

On the customer service front, the company pioneered the concept of a mobile service center called Videocon on Wheels. The mobile workshops offer door-to-door service to Videocon customers in locations where the company does not have an authorized service center. Its service network includes 85 mobile vans, 410 authorized service centers, and call centers at 30 strategic locations across the country. It also consists of a team of 1,000 service engineers and more than 100 spare-parts dealers.

Key Financial of Videocon Industries Ltd					
(Figures in US \$ Millions)					
Metric	2002	2003	2004	2005	2006
Revenues	3.7	13	817.6	1247.6	1672.7
Net Income	-8.5	-4.8	-9.1	152.3	238.6
Profit Margin%	-229.20%	-36.90%	-1.10%	12.20%	14.30%
Total Assets	22.2	18.8	15.8	985.1	965.4
Total Liabilities	25.9	37.4	29.3	160.4	206.5



Future plans of the company

Consumer durables heavyweight Videocon Industries is venturing into the grocery and lifestyle retailing space through cash & carry format across the country.

Videocon is investing Rs 100 crore in its plant in Kolkata's Taratola for manufacturing high-end LCD panels. Post the investment; the plant will have a latest technology in India.

Videocon Group interested in acquiring the U.S. Company's mobile- phone operations MOTOROLA .Videocon, which plans to start wireless operations in India this year.

The company plans to manufacture photovoltaic (PV) cells, which are used to generate solar energy. Production will happen in a special economic zone that will house both semiconductor and photovoltaic units.

Videocon is also planning to set up in a year a manufacturing base for programming integrated circuits (ICs) used in color television and computers at the group's Aurangabad factory

On oil and Gas front, Videocon Industries Ltd will spend Rs 800 crore in overseas exploration and production activities over the next two years

Videocon is currently on acquisition run, they believe acquisitions are fast mode of evolution for the company. The team identifies possible company for acquisition, currently they are eying on many ones.

Conclusion

Organic & inorganic growth together is the key of success; contingency approach is the best one which can be very fruitful when properly executed.

G = GO INTERNATIONAL With all factors considered.

R = RESEARCH & DEVELOPMENT for Home advantage.

O = OUTSOURCING.

W = WORLD OUTLOOK.

T = TRADITION AND ENVIRONMENT.

H = HUMAN RELATION ASPECTS.

GROWTH (Organic + Inorganic) means the sustainability of the business with the prime focus on the domestic and international outlook.

The international brand and domestic brand differs a lot in their meaning and reputation across globe.

Both domestic and foreign vision is required to fulfill the needs of Globalization and without cross culture experience it is very difficult to sustain and grow in this turbulent environment.

Videocon vision and synergy make it possible to withstand with Multinational companies like L.G and Sony worldwide and having a global presence under umbrella brands.

Bibliography

1. International Business, Environments and Operations; Daniels, Radebaugh, Sullivan; 12th Edition, August 2008, Pearson Education.
2. International Business, Jastin Paul; Third Edition, PHI.
3. Various online business magazines, like Outlook business, BW, etc.
4. www.videoconworld.com.
5. www.ibef.org.
6. Search engine www.google.com, to find relevant data about Videocon.
7. TV Veopar journal (monthly magazines).

Declaration

I Ravi Bhasin hereby declare that I have carefully read and understood the instructions and particulars supplied to me, article is original and has not been published nor submitted elsewhere for publication.

Software used

Microsoft Word.

Microsoft Excel.

RAVI BHASIN.

Lecturer - Amity School of Business, ASB- Noida.