



362°

**CASE STUDIES ON SUCCESSFUL
BRAND LICENSE PARTNERSHIPS**

No. 1

Morphy Richards

and

Bajaj Electricals

for

Small Household Appliances in India

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Back in 2002, Morphy Richards of UK and Bajaj Electricals of India announced a strategic alliance and trademark license partnership whereby Bajaj was to develop, manufacture and sell Morphy Richards branded small household appliances in the Indian territory. Morphy Richards would provide some product technology and also source some products from Bajaj's factories for their home market. Bajaj would pay a license fee to Morphy Richards.

THE ECONOMIC TIMES

Morphy Richards re-enters Indian market

PTI Nov 8, 2002, 03.57pm IST

NEW DELHI: Britain's small appliances major Morphy Richards on Friday announced its re-entry into the Indian market by forging a strategic alliance with Bajaj Electricals, with future plans to source some products from the Indian market for worldwide sales.

According to the existing arrangement, Bajaj Electricals will sell Morphy Richards products in the country in return for technological know-how and pay the UK major 2-2.5 per cent royalty, a senior company official said here. The products which include steam irons, coffee makers, toasters and food processors will be targeted at the premium end of the small appliances market.

"We were present in India in early eighties but the arrangement did not work out then. This reentry has been made keeping in mind the growth opportunities the Indian market offers. Whereas the world over we are witnessing growth rates of 2-3 per cent, we expect the Indian market to grow at least 20 per cent in the first year," chief executive of Glen Dimplex Exports Ltd (which owns the Morphy Richards brand) Nei Naughton told newsmen here. He said the company was also keen to source some products from the Indian market. "There are some product groups where India makes world class products. We hope to introduce them to our other markets. For example, we may consider getting dry irons and mixers made in India," Naughton added.

Asked if the Glen will make any equity investments in India, he said no such plans were in the offing. Speaking on the occasion, chairman and managing director of Bajaj Electricals Shekhar Bajaj said, "Through this launch we aim to consolidate our position by targeting premium end of the market. With the prevailing changes in lifestyles and aspirations of Indian consumers, the home appliances market is set to grow at around 12.5 per cent by 2005-06." He said the decision to implement multi-brand strategy was taken to consolidate the company's presence in the small appliances market.

Glen Dimplex is a Rs 6,000-crore company with presence in Britain and other countries of Europe, America, Canada and the Middle East. It sells under various brands including 'Dimplex', 'ewt', 'Faber' and 'Geln'.

Bajaj Electricals is looking at becoming a Rs 500-crore company this fiscal with 19 branches, 230 service centres and over 3,000 authorised dealers.

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THE ECONOMIC TIMES

Bajaj Electric to relaunch Morphy brand in India

TNN Nov 8, 2002, 08.36am IST

NEW DELHI: BAJAJ Electricals (BEL) has entered into a strategic alliance with \$1.2bn Glen Dimplex Group for introducing one of the leading small appliances brand of UK, Morphy Richards, in India.

In what is a relaunch of the Morphy Richards brand in the country it will be positioned in the premium end of the domestic small appliances market. What is of significance though is the multi brand strategy of BEL where both Bajaj and Morphy Richards brand will coexist with few product overlaps.

According to the deal, which has been signed for seven years extendible to another eight years, BEL will look after the marketing and after-sales service of Morphy Richards. In the first year of launch itself the target is to corner 20% of the top end of the market, which is estimated at about Rs 100 cr. Initially all the products — coffee makers, toasters, sandwich makers, steam irons and food processors — will be imported. However, in the second phase volume drivers like ovens and dry irons will be outsourced from the domestic vendors of Bajaj.

Neil Naughton, CEO, Glen Dimplex Exports, said, "Earlier we had a loose relationship where all the products were manufactured in India and only our label was imposed and sold in the market. This time we have entered with a strong relationship with Bajaj Electricals which is more than a marketing alliance."

Shekhar Bajaj, CMD, BEL, informed ET, "At present we don't have plans to set up a different for the brand. However, as and when the Morphy Richards brand is established we might explore that as a possibility." Bajaj, which operates under two sub brands — Majesty and Popular — will see some cross competition for its high end subbrand — Majesty. However, it is of no concern to BEL. The idea being that the top end of the market will double in a few years and there is room to grow for both.

The overall small appliances market in India is estimated at Rs 2,600 crore out of which the low end is dominated by the unorganised sector. Morphy Richards is being targeted at a premium and the top end of value-for-money consumers. At the top end of the market Morphy Richards will be competing with the likes of National, Tefal, Philips, Birla Delonghi, Kenstar, Usha and Moulinex.

Founded in 1936 by Donal Morphy and Charles Richards, Morphy Richards is a traditional British supplier of electrical household appliances. Its early products included electric fires and electric irons. Over the years, they extended the range by adding products like toasters, floor scrubbers, hairdryers, steam irons, convector heaters, electric blankets. Morphy Richards achieved a leading position in the British market in most of its products.

During the 60s, Morphy Richards became part of British Domestic Appliances (BDA), later Hotpoint where it suffered a niche existence within a much larger White Goods business. Although it was the clear market leader in UK, Hotpoint including Morphy Richards faced increasing industrial and financial problems from high-cost manufacturing in the UK. Since 1985, Morphy Richards is part of Irish Glen Dimplex Group, a world market leader in electrical heating. Under Glen Dimplex's direction, Morphy Richards was again focused on small domestic appliances and successfully grew its business.

Today, Morphy Richards sells 4 million appliances every year and has revenues of ~ USD 150 mn. Its products are sold mainly in UK where they can be found in over 90% of all households but are still behind major local competitor Kenwood. Outside UK, Morphy Richards operates through own sales subsidiaries in Australia, France, Germany, Poland and Turkey.

Bajaj Electricals has a similarly long tradition. Founded in 1938 as Radio Lamps Work Ltd., it was renamed in 1960 to Bajaj Electricals Ltd. With revenues of USD 600 mn, it is part of the Bajaj Group of companies with total turnover of USD 7 bn. Bajaj Electricals holds leading market positions in India in lighting (lamps, tubes and luminaires), small household appliances, fans, and project & engineering. In small household appliances, Bajaj Electricals sells 7.5 million pieces and has annual revenues at ~ USD 160 mn, offering a wide range of products including water heaters, mixers, microwave ovens, air coolers, irons, electric kettles, water filters, water purifiers, toasters, oven-toaster-grillers, juicer-mixer-grinder, juicers, hair dryer, hobs, chimneys, gas-stoves, room heaters, etc.

When Morphy Richards analyzed their entry options in the Indian market, they realized a couple of barriers to overcome:

- II High import duties of 40% and more would increase the price of imported products
- II Gaining access to widespread and unorganized distribution channels in India would be extremely difficult for a foreign newcomer
- II Indian consumers had different cooking habits and required different product designs and features

They concluded that starting an own activity in India would be non-competitive and below critical mass, with considerable start-

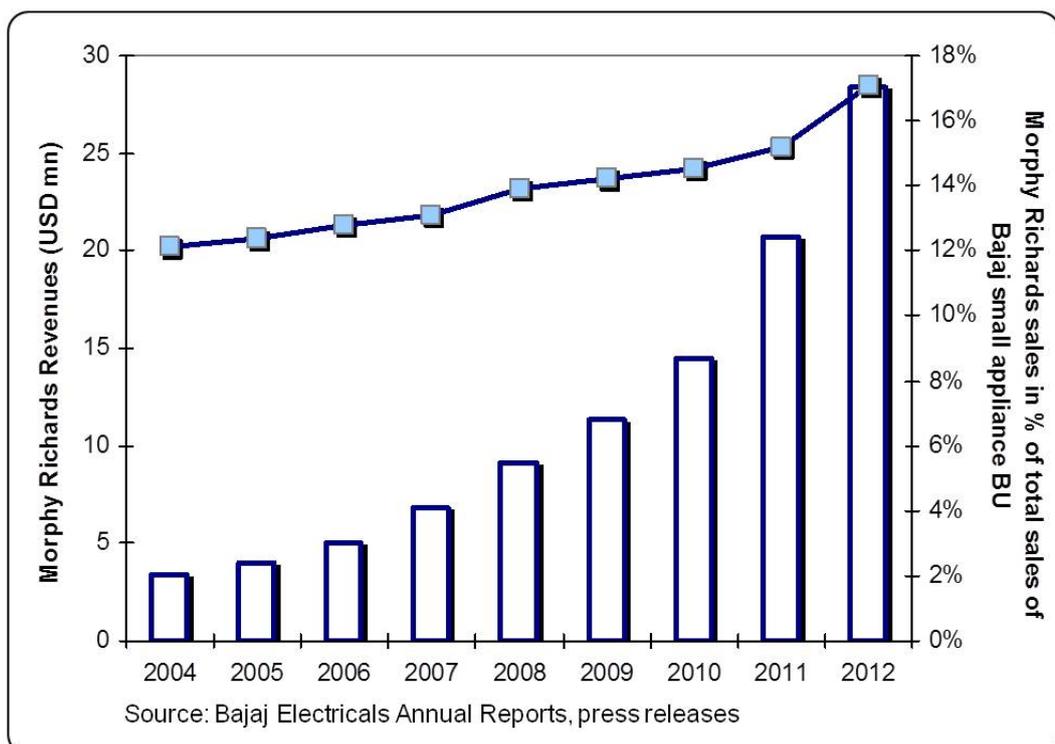
up losses during the first years.

On the other side of the table, Bajaj Electricals had gained a leading market position in the Indian small household appliance market and fans. Bajaj Electricals was analyzing their options in an Indian market which faced an ever increasing competition from foreign brands:

- II the upper to premium segment of the market showed the highest growth rates
- II more and more Western brands had entered the market, including Philips, Panasonic, Rowenta, Braun, De Longhi/Kenwood, and gained market shares from their Indian rivals
- II it became increasingly difficult for traditional Indian brands like Bajaj to compete in the premium segment against Western brands

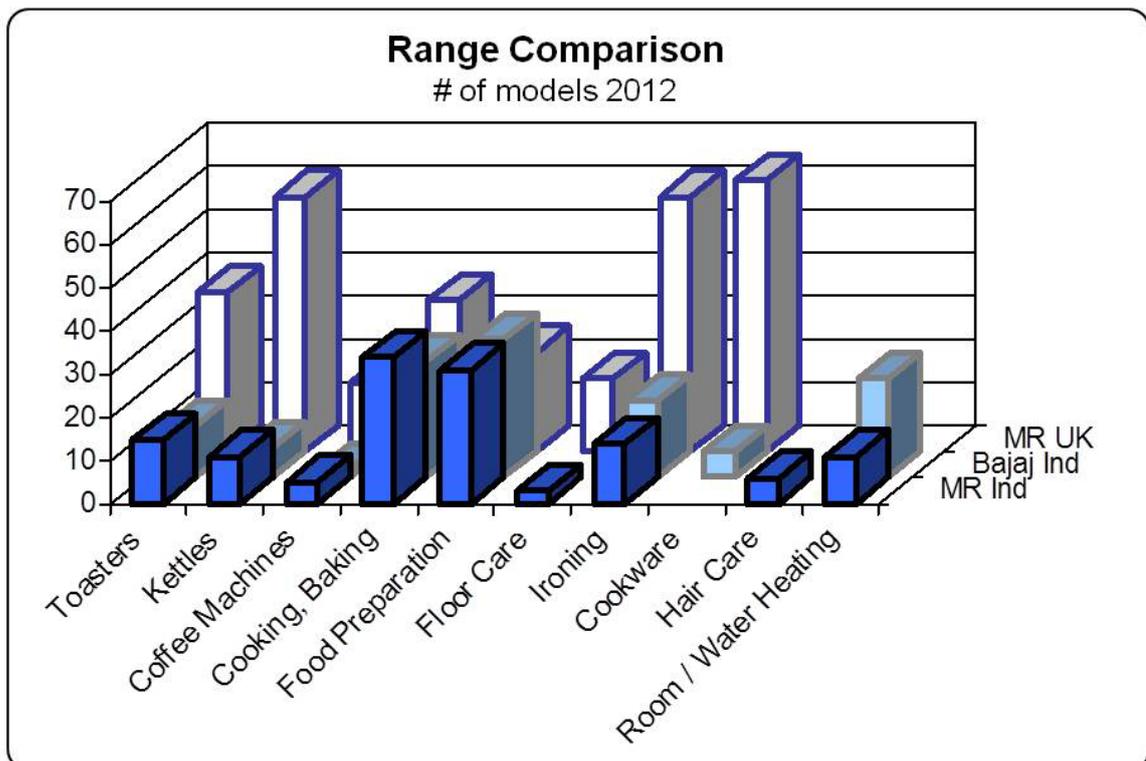
Eventually, Bajaj Electricals and Morphy Richards met for discussions of a mutual partnership and finally concluded a brand licensing agreement for the Indian market in 2002, including some product technology and supply elements.

Since Bajaj launched a Morphy Richards range of products in India later in 2003, the business grew on a constant basis and reached sales of Rps 143 cr in fiscal 2012, corresponding to a compound annual growth rate of over 30% (see chart).



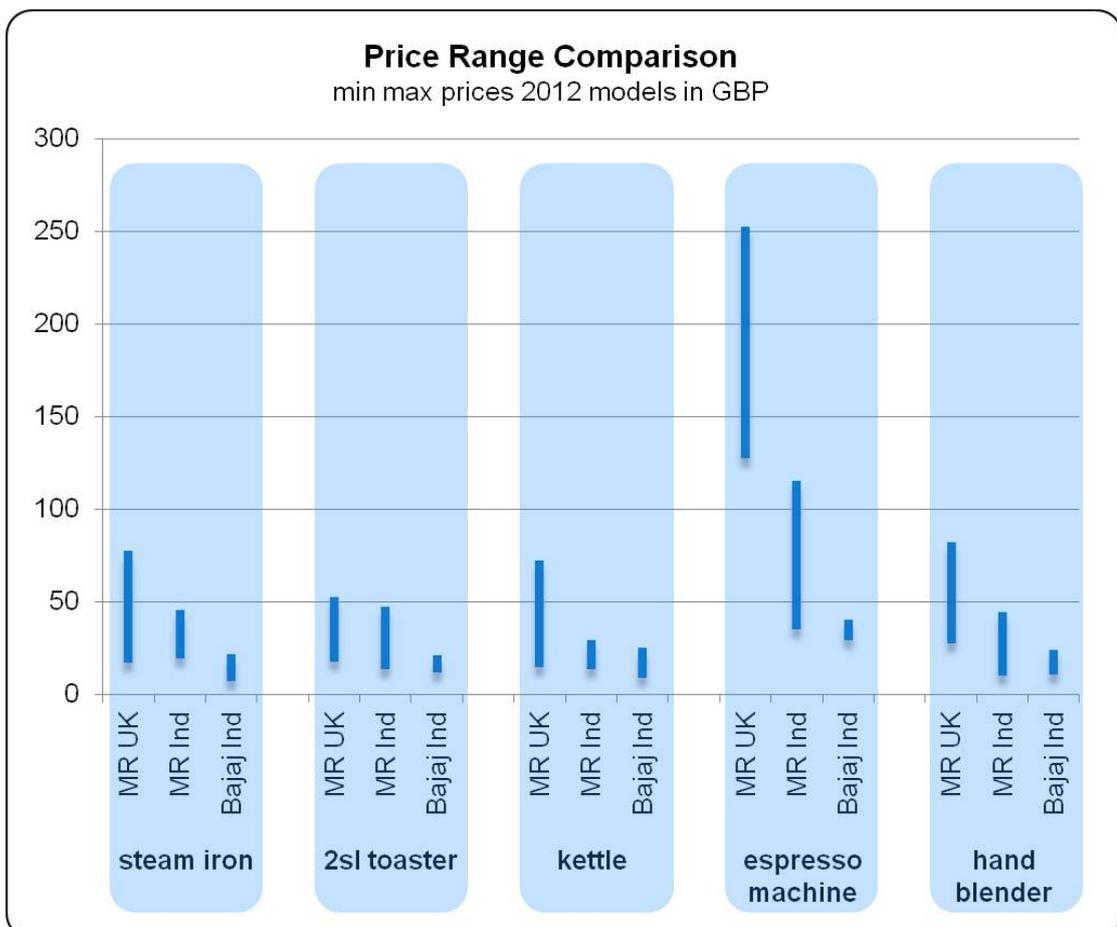
During the same time, Bajaj’s own business in the small appliance sector grew from Rps 137 to 838 cr, an annual increase of 25%. Today, Morphy Richards products account for 17% of Bajaj’s total sales of small appliances which is a very reasonable and “healthy” percentage for both licensor and licensee. From the licensor’s perspective, the brand sales generated in the Indian market through Bajaj represent roughly 20% of the own sales of Morphy Richards in UK and some export countries which is a strong performance considering that Morphy Richards was established already in 1936 and which Morphy Richards would most likely not have achieved without partnering with Bajaj.

Bajaj’s achievements and the current positioning of Morphy Richards in India reveal some interesting insights and differences between the market approach of the brand in UK and India. When comparing product ranges (see chart), it is obvious that the Indian market needs much less product variants. While Morphy Richards UK offers a total of 322 different SKUs, Morphy Richards India has only 124. Even when combining both Morphy Richards India and Bajaj’s own brand, they have only 244 different models on offer in India for a total turnover in small appliances which is higher than that of Morphy Richards UK. Less variants and higher lot sizes per model are clear signs for a market in earlier stage development.



Interestingly, the Indian range exceeds the British range in the food preparation subcategory (i.e. mixers, grinders, blenders, etc.) which is clear evidence for different consumer behavior. While food preparation in good old Europe today is largely limited to heating convenience, frozen and other processed meals, Indian cuisine is still very much based on cooking fresh ingredients, mainly vegetables, spices and herbs. Also interesting is the fact that vacuum cleaning plays a very minor role in India due to the lack of carpets and rugs, and the dominance of tiles and stone. Going beyond the British range, Morphy Richards India offers some hair care appliances for women (dryers, stylers, epilator) and geysers (water heaters for kitchen and bathroom), both subcategories in which Morphy Richards UK is not competing.

Pricewise (see chart), it is very obvious that Morphy Richards UK would not have been able to compete in the Indian market with their own products through an importer or an own sales subsidiary. Based on current exchange rates, Morphy Richards India is positioned considerably cheaper than Morphy Richards



UK. Adding import duties on top of Morphy Richards UK prices would have made that difference even higher. And even though cheaper than in the UK, Morphy Richards India is positioned as a premium brand at the very high-end of the market. With its own brand, Bajaj Electricals serves the even lower priced mid and mass markets in India. For Bajaj, partnering with Morphy Richards gave them a perfect opportunity to successfully establish themselves in the premium segment of the market and to gain a leading position there against all foreign competitors. Interestingly, the pricing difference is not constant over all different kind of products, but seems to be very product-specific instead. Again, this is a clear sign that the Indian market needs a very local approach with respect to product design and pricing.

Resuming, this is a perfect case for a win-win brand license partnership. Morphy Richards would never have had a similar success in India, or alternatively would have faced huge initial investments and losses. And Bajaj Electricals gained access to the premium market segment which would have been difficult to achieve without an established foreign brand.

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Small Household Appliances in India
