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Penguin appliances (P) LTD: the way forward

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Abstract

Penguin Appliances (P) is a start-up company, manufacturing and marketing brown goods for the Indian consumers. The case revolves around environmental scanning and how the company positions itself vis-à-vis competition including designing a marketing mix for the products. The company is not able to book profits in its initial years and the founders rethink its very existence.

Keywords: Consumer durables, brown goods, competition, marketing mix

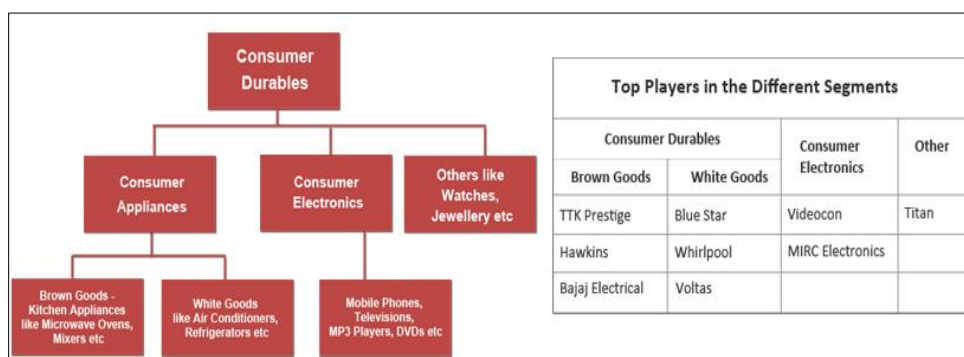
Introduction

PAL is a newly started company registered under the Indian Companies Act of 1956 as a private limited company with some family/friends and bank resources funding the venture. The company wishes to foray into the brown goods segment (consumer durables) currently estimated to be around Rs 6000 crores with CAGR of 12% to 15 % p.a.

Relatively unknown till 1990's this segment grew exponentially from 1990's. This was primarily due to new investments and long term marketing efforts of local players. All set to be the youngest country by 2020 with 64% of population in the working age group. Rising incomes accompanied by life styles will fuel higher spending in discretionary products. Consumer demand remains high when compared with other developing countries. Clocking a growth rate of over 11% in FY 2012-17 - aggregate value of roughly 1.4 trillion INR, the industry estimates to double the turnover (3 trillion INR) through sustained penetration and government's efforts- housing, power for all etc., at the macro level.

With organized players increasingly focusing on expanding the distribution reach, it is very much likely that the total industry will grow exponentially, creating a market space for the unorganized in the short run.

Structure of the Indian consumer durable segment



The Indian consumer

Key triggers for growth in consumer durables in India:

1. Growth in personal Income /double income families
2. Migration to cities and nearby towns / increase of nuclear families.
3. Accessibility and adaptability of new technologies
4. Usage of state of the art products has been on the increase during the last decade.

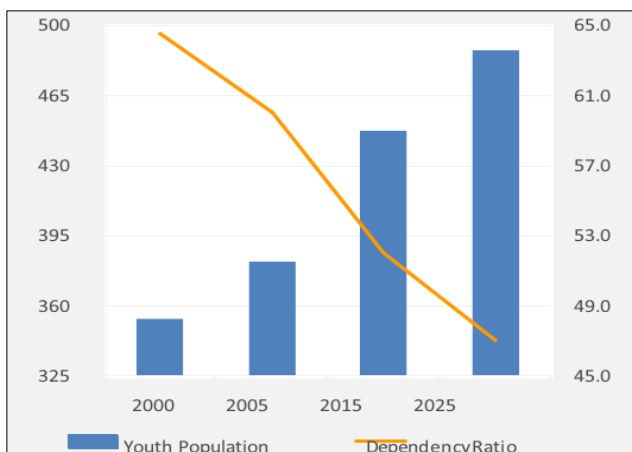
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A late entrant into the market, Penguin Appliances Ltd wants to create a niche for itself in the brown goods category and after a thorough qualitative analysis it has decided to enter the electric fans segment initially and then foray into the kitchen chimney segment. Head quartered in Thiruvanniyur, Chennai, the initial plans are to market these two products. The plan to launch ELECTRIC fans is based out of its marketing strategy to reach the depth and width of Tamil Nadu outlets (25 lakh outlets approx) (Chennai -10 lakh outlets and Rest of Tamil Nadu-15 lakh outlets). The overall number of outlets in India selling consumer durables stands at 1.35 crores and is growing at a scorching pace of 20% +.

The annual sales of electric fans All India for the year 2016 -17 is estimated to be 3 crores in volume, with the organized sector contributing 40 % and the rest by the unorganized sector. The annual sales figures for Tamil Nadu is around 40 lakh units (set to grow by 15 % in 2017-18) with more than 80% of the sale coming from the sub –economy and the economy segments.

P.N: The market for fans are based on price on the popular end and aesthetics/quality at the other end; v.i.z., Sub economy - < Rs 900, Economy - > Rs: 900 and < 1500, Premium > Rs: 1500.

Exhibit: Youth Population Vs Dependency Ratio



Consumer insights

- Demographic: Mundane product - Low involvement category with buying decisions normally taken by the male member/head of the family and/or by the electrician.
- Psychographic: Increases in per capita income, nuclear family, dual employment are seen as triggers for up market models in the fan market. Peer influence plays a vital role in brand choice. Movement from fans to Air-Conditioners and Air-Coolers is on the increase.
- Overall, the electric fan market is crowded with many brands. Due to this heavy competition in this segment, the market has been commoditized with leading players resorting to aggressive selling tactics such as extension of credit period, selling without proper bills, extra discounts (volume and value), overseas leisure trips etc.

The company launched its first product in the economy segment branded Shakkthi in July 2016 and after a month it launched its premium variant Chilllzza. Both were aggressively priced vis-à-vis competition and the roll out

were done with much extravaganza in Chennai; actress Anu officially launching the brands on both the occasions. The company employed 5 sales executives who were experienced in this trade. They were under the direct control and supervision under one of the founding directors. The promotions were limited to trade discounts, often matched with what was offered by the competitors. The first year sales were not as per the expectations of the company yet they were able to make some dent in the wholesale markets due to the personal influence of the sales executives.

On April 18th 2017 around 5.00pm, Mr. Austin Jose, Managing Director of Penguin Appliances called on his team mates Pavitra, Dilani and Churchill. Circulating the financial statements to them, he stood up and quipped ‘our idea is wrong’; ‘we cannot move further’” “can we close shutters’.

The members were taken aback by the remarks of Austin. After remaining silent for some time, Pavitra, Head –Human Resources raised her voice “If you don’t have any interests, you may go out, please don’t discourage others” After a long silence the team agreed to meet for dinner and look at the financial statements for taking appropriate decisions.

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