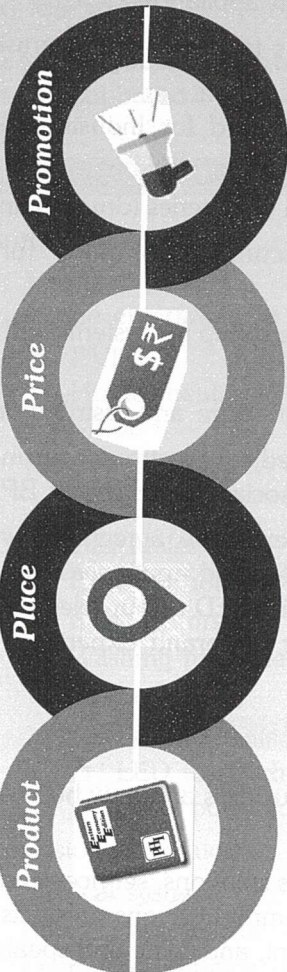


CASE

7

BRITISH PHYSICAL LABORATORY (BPL)

MARKETING



INTRODUCTION

British Physical Laboratories (BPL) is a private sector company, which is a consumer durable major. In 1963, BPL started manufacturing hermetically sealed precision panel meters, and later, they forayed into electronics and telecommunication sectors. After the failure of BPL-Sanyo (Japanese electronics major) joint venture in May 2007, BPL concentrated on healthcare business and started sales and service support operations under 'Sure Care' brand. The range of healthcare products include patient monitoring systems, central nursing stations for cardiac monitoring, defibrillators for cardiac resuscitation, stress test systems, nebulisers, oxygenators, ultrasound scanners, foetal monitors and dopplers.

History

1963: British Physical Laboratories India Private Limited established for the manufacture of hermetically sealed panel meters in collaboration with BPL (Instruments) Limited, UK.

1967: Commencement of manufacture of electrocardiographs in technical collaboration with Fukuda Electric Works Co., Limited, Japan.

- 1971:** Commencement of manufacture of power line carrier communication equipment.
- 1972:** Technical collaboration with Nihon Kohden Kogyo Co. Limited, Japan for patient monitoring system.
- 1975:** Formation of BPL independent marketing and sales department.
- 1979:** Manufacture of plain paper copier in collaboration with Gestetner, UK.
- 1982:** Made a foray into consumer electronics.
- 1984:** Commencement of manufacture of EPABX and telephone instruments.
- 1985:** Secured industrial license for manufacture of VCRs in collaboration with Sanyo.
- 1989:** Diversified into home appliance business in collaboration with Sanyo.
- 1994:** Commencement of the manufacture of kitchen appliances.
- 1995:** Commencement of Mobile Telephony Services in Mumbai, Maharashtra, Tamil Nadu and Kerala.
- 1996:** Took over the Uptron CPT company from Board for Industrial & Financial Reconstruction (BIFR); BDDL made profit in 2001–02.
- 1997:** Diversified into the manufacture and distribution of batteries (dry cells and alkaline).
- 2000:** Strategic alliance with Slovenian Manufacturing Company for off-shore manufacturing in Europe.
- 2001:** State-of-the-art design and development centre set up for systems and embedded software solutions at BPL Telecom.
- 2005:** Entered into a JV with Sanyo for CTV manufacture and distribution.
- 2013:** During 2013, the company transferred its Medical Electronics business to BPL Medical Technologies Private Limited, which is an associate company of BPL Limited.
- 2015:** On 15th July 2015, BPL entered into an exclusive agreement with Flipkart India Pvt. Ltd. (Flipkart), for sale of consumer durables and appliances under the BPL brand. This initiative of the company initially started with LED colour televisions, washing machines and refrigerators with a new positioning for the brand Experience it.

BPL: STRATEGIC BUSINESS UNITS (SBUs)

The company is divided into two broad areas—core business and new business. Different business unit profiles are as follows:

BPL Telecom Private Limited: Company provides solutions, services and products in the areas of consumer telecom products, enterprise communications products, power line communication equipment for the power utility segment, and cable and speaker products.

BPL Techno Vision Private Limited or BTVL: It is one of the BPL group of companies set up as the joint venture with SANYO holding 40% of equity and was

known as BPL Sanyo. As per registrar of companies, the name has changed to BPL Techno Vision Private Limited in 2006.

BTVL manufactures products under different segments like home power, home entertainment, home appliances, energy security and community lighting.

BPL Healthcare: With the failure of BPL Sanyo (Japanese electronics major) joint venture in May 2007, BPL concentrated on healthcare business and started sales and service support operations under 'Sure Care' brand.

The range of healthcare products include patient monitoring systems, central nursing stations for cardiac monitoring, defibrillators for cardiac resuscitation, stress test systems, nebulisers, oxygenators, ultrasound scanners, foetal monitors and dopplers.

BPL Auto: Under this segment, BPL has products like moulding shop and engineering design and tool room.

BPL Power Projects Private Limited: It is a BPL group company which is implementing coal-based thermal power station in Andhra Pradesh.

CURRENT PRODUCT OFFERINGS

1. Consumer products

- Landline phones
- Home entertainment
 - DVD
 - Home theatre
- Television
- Household products
 - Home UPS
 - Gas tables
 - Cooking hobs
 - Refrigerators
 - Washing machines
 - Home lighting
 - Rechargeable lanterns
 - LED torchlight
 - Solar powered products

2. Professional products

- Medical systems
- Enterprise communication
- Energy communication

3. Other products

- Engineering design and tool room
- Moulding shop
- PCB
- GSM modules

STRATEGIES FOLLOWED

BPL's grand strategy for growth combines intensive, integrative and diversification strategies.

Intensive Growth

BPL adopts product development in current markets, and also, penetration in current markets/products. It does not resort to much market development as such. Diversification is resorted to, of late.

Integrative Growth

BPL has gone in for backward integration by indigenising component production and reaped huge benefits by it. It has also done forward integration by establishing a channel network of fully owned exclusive showrooms and galleries (160 in number) which form the largest owned network in the industry. This gives around 10–20% sales to BPL.

Diversification

The company has diversified into soft energy, telecom and power sectors. Operations are yet to start in all these sectors in full swing. BPL is increasing its capacity and constantly upgrading its technology and adopting it to Indian conditions. Accessibility is sophisticated and the latest technology of Sanyo Technologies enables BPL to use technology as an important, effective competitive edge in the market. BPL Sanyo Finance (which is a 50–50 joint venture) has been a great help for financial needs of the group companies.

PRODUCT QUALITY PHILOSOPHY

Strategic marketing is never complete without product planning. A clear product quality philosophy is what gives long-term market share and loyalty. The philosophy institutionalised in BPL has two core beliefs:

- Make your components yourself.
- Adapt technology to match conditions of the market.

Make Your Components Yourself

Three companies forming an SBU are meant only for manufacturing components. BPL went in for colour TVs in 1983 and started producing key components by 1985. Today,

all components except picture tubes and semi-conductors are produced by BPL in-house apart from meeting captive needs. This backward integration enables BPL to meet 65% of its competitor's need too (flyback transformers, deflection yokes).

Benefits from this step. This is the distinct strength of BPL in the industry.

- Backward integration results in low cost of components.
- In-house production gives high control on quality.
- Low cost accrues from better quality (because quality is free).
- Easy inventory management and faster supply of components are possible.
- Flexibility in changing features and models is possible.

In the market, it is perceived that this high degree of indigenisation has given BPL a competitive edge, superior quality, and also, a corporate image of being a prestigious Indian company.

Adapt Technology to Match Market Conditions

The company believes in "Thinking Global, Acting Local". This is not a blind take off from the products of Sanyo, but a careful adaptation. BPL has put in place an elaborate system for new product development and technology adaptation.

Steps for New Product Development

1. The marketing department gets inputs (ideas) from various sources, viz.,
 - Sanyo
 - Survey of competitors' products
 - Foreign customer requirements
 - Domestic market survey
 - Product exhibitions
 - Product use feedback survey
2. Along with a new product planning department, it works out plans for design development and specifications.
3. For joint product development following approval by management and marketing, four parallel teams are set-up.
 - Team 1 works on base design, processes and training (Sanyo).
 - Team 2 works on modifications, tool design, etc.
 - Team 3 works on product mock-ups, proto types, and so on.
 - Team 4 works on marketing and advertising plans.
4. Simultaneous working results in lower cycle time.
5. After approval, the concept is ready for manufacture.

Techniques Followed

1. Four parallel teams work together. This has cut down cycle time from 16 months to 4 months.
2. KANBAN (similar to just-in-time inventory) system.
3. Fast technology and flexible manufacturing system.
4. Adaptation criteria, like suitability to infrastructure realities, climate acceptance, and aesthetics.

Examples of BPL's product adaptation: Some examples of BPL's product adaptation are as follows:

1. Sanyo VCR could not take the Indian voltage fluctuations. BPL added a surge protector, which enabled the VCR to operate at voltage as low as 165 volts.
2. When power went off, the preset program of VCR was erased. BPL built a back-up system to overcome this.
3. After customer feedback, BPL reduced the freezer size in the refrigerators and enlarged the vegetable tray. Also, it changed the conventional capacities of 165 and 230 litres to 185 and 250 litres.
4. In audios, BPL built passive radiators in speakers for better bass effect.

Benefits from the system: Following benefits can be drawn from the system:

1. Lower time for new product development
2. Higher rate frequency of new product development.

Annual addition: 9 models (average)

Annual deletion: 2 models (average)

Future Product Plans

Future product plans include door phone, 3D TV, Internet TV, massager and system kitchen.

PRICING

BPL's pricing is premium pricing for all its products (15% premium is a must, they say). This has led to a high price-high quality perception in the market. Premium pricing has helped create a status for the brand, but at the same time, it has also given it an aura of 'snob value'.

Though BPL does offer some models in the economy class on value for money platform, these models are very few and BPL does not focus on them.

DISTRIBUTION

BPL has a wide channel network of multibrand outlets (dealers and distributors), and also, 160 exclusive outlets and galleries. This is the largest fully owned network in the market as against Videocon's 27 and Onida's 6. Competitors put a lot of stress on 'push'. Hence, BPL casts a wide channel network. Channels play a crucial role since it is found that 50% of customers come to a shop with a brand preference, but the dealer can switch 70% of them. Hence, channel losses can be substantial. BPL's exclusive outlets and galleries bring in 10–20% of sales. After partnering with Flipkart, the products are now sold through a network of 250 plus service points PAN India, including recently added Kerala.

PROMOTION

BPL believes in 'pull' rather than 'push'. Hence, there is more emphasis on advertising and brand building than on sales promotion.

Typical market share by early 2005–06 of some major players of colour TVs is shown in Table 1.

TABLE 1 Market Share of Some Major Colour TV Manufacturers

Company	Market share (%)
LG	26.4
Samsung	15.1
Onida	11.0
Sony	9.4
Videocon	7.9
Philips	7.4

BPL is facing tough time, experiencing drastic decline in market share.

Weakness in promotion. BPL has adopted different ad objectives, USPs and positioning for different products and models. However, lack of a coherent strategy has resulted in diffused image and blurred positioning across segments.

Solution contemplated. A strategic solution contemplated attempts bringing TV, audio and appliances into one common **umbrella campaign** for advertising. Advertising will be for all three products. Where the company perceives it is a leader (premium segment), the strategic solution centres on a defensive strategy. For the functionalist segment, the solution envisaged is multiple USP.

Image leader and premium segment. This is the segment that looks for important features. Here, the importance of brand equity is low. Hence, a simple USP is suggested for this top segment—a defensive strategy.

Functional segment. Here, the concept pillars are at work and brand equity can be used. For an aggressive stance, a multiple US formula is suggested.

CURRENT SCENARIO

BPL's balance sheet and Profit and Loss account for years 2015 and 2016 are given below in Tables 2 and 3.

TABLE 2 Balance Sheet

Particulars	Note No.	31st March, 2016	31st March, 2015
I. EQUITY AND LIABILITIES			
(1) Shareholders' Funds			
(a) Share capital	1	2,18,47,26,130	2,18,47,26,130
(b) Reserves and surplus	2	20,71,37,512	29,16,05,306
(2) Non-current Liabilities			
(a) Long-term borrowings	3	6,52,07,671	—
(b) Other long-term liabilities		—	1,90,12,532
(c) Long-term provisions		1,57,76,509	1,57,51,191
(3) Current Liabilities			
(a) Trade payables	4	10,38,29,319	9,62,56,918
(b) Other current liabilities		42,64,06,819	4,68,59,202
(c) Short-term provisions		47,49,865	19,952
Total		3,01,38,33,825	2,65,62,35,831
II. ASSETS			
(1) Non-current Assets			
(a) Fixed assets	5		
(i) Tangible assets		11,61,29,896	11,87,46,571
(b) Non-current investments	6	21,05,10,000	21,05,10,000
(c) Defened tax assets (net)	7	46,53,95,293	68,95,20,888
(d) Long-term loans and advances	8	70,44,78,635	24,53,79,505
(e) Other non-current assets	9	2,02,27,935	1,79,29,564
(2) Current Assets			
(a) Inventories	10	4,74,35,334	2,13,35,964
(b) Trade receivables	11	1,15,35,61,986	1,15,59,76,200
(c) Cash and bank balances	12	2,63,51,375	3,52,83,671
(d) Short-term loans and advances	13	25,74,30,874	15,90,00,821
(e) Other current assets	14	57,12,447	25,52,647
Total		3,01,38,33,825	2,65,62,35,831
Contingent Liabilities and Commitments	15	63,12,72,168	65,35,73,892

TABLE 3 Profit and Loss Account

Particulars	Note No.	For the year ended	
		31st March, 2016	31st March, 2015
REVENUE			
I. Revenue from operations (Gross)	16	43,74,36,916	26,21,94,614
Less: Excise duty		3,38,68,817	2,33,25,992
Revenue from operations (Net)		40,35,68,099	23,88,68,622
II. Other income		16,45,73,110	6,65,89,281
III. Total Revenue (I+II)		56,81,41,209	30,54,57,903
IV. Expenses			
Cost of materials consumed	17	17,42,33,732	13,40,72,875
Purchase of Stock-in-trade	18	15,15,80,297	1,24,02,057
Changes in inventories of finished goods			
Work-in-progress and Stock-in-trade		(2,42,16,026)	(10,69,166)
Employee benefits	19	4,59,79,898	4,27,90,696
Depreciation and amortisation	5	49,18,109	1,66,47,652
Other expenses	20	7,33,21,207	4,50,03,873
Total Expenses		42,58,17,218	24,98,47,987
V. Profit before exceptional items and tax (III-IV)		14,23,23,991	5,56,09,915
VI. Exceptional items		—	—
VII. Profit before tax (VII-VIII)		14,23,23,991	5,56,09,915
VIII. Tax expense:			
(1) Current tax		(10,93,886)	—
(2) Prior period tax		(15,76,904)	—
(3) Deferred tax		(22,41,25,595)	—
IX. Profit/(Loss) for the period from continuing operations		(8,44,72,394)	5,56,09,915
X. Profit/(Loss) from discontinuing operations		—	2,23,34,425
XI. Tax expense of discounting operations		—	—
XII. Profit/(Loss) from discontinuing operations (XII-XIII)		—	2,23,34,425
XIII. Profit/(Loss) for the period (XI + XIV)		(8,44,72,394)	7,79,44,340
XIV. Earning per equity share:			
(1) Basic		(1.73)	1.59
(2) Diluted		(1.73)	1.59
No. of equity shares		4,88,84,813	4,88,84,818

Financial Performance and Analysis

The cost cutting exercise and strict funds management led the company to register a small growth in operations of 5.6% compared to the previous year.

Share Capital

During the year 2015–16, there was no change in the share capital of the company. The paid-up equity share capital of the company as on 31st March 2016 was ₹ 48.88 crore comprising 4,88,85,793 equity shares of ₹ 10 each fully paid up. The paid-up preference share capital of the company as on 31st March 2016 was ₹ 169.58 crores consisting of 1,69,58,682 redeemable preference shares of ₹ 100 each.

Reserves and Surplus

There was a reduction in the reserves and surplus of the company from ₹ 29.16 crores in year 2015 to ₹ 20.71 crores in year 2016.

Borrowings

Total borrowings of the company as on 31st March 2016 stood at ₹ 6.52 crores.

Depreciation and Amortisation

The details of depreciation and amortisation have been provided in the notes to accounts. No significant changes were made in the depreciation policies.

Corporate Tax

Since the company has not generated any taxable income for the period, no provision for taxes has been made in the books.

The company is facing stiff competition from its competitors—Videocon, LG, Sony, Philips, Onida, Samsung, Sansui, Sharp and Thomson. This is likely to result in further reduced margins. Unless the company shows volume growth in sales, it may be difficult to survive.

Ratios

Table 4 shows the key ratios from year 2012 to year 2016 calculated to check the financial performance of the company.

TABLE 4 Key Ratios

Year	2016	2015	2014	2013	2012
Debt-equity ratio	2.53	2.17	2.41	0.86	0.94
Long-term debt-equity ratio	2.53	2.17	2.41	0.86	0.94
Current ratio	4.83	12.93	4.11	7.24	6.80
Turnover ratios					
Fixed assets	0.57	0.34	0.63	1.22	0.89
Inventory	9.22	12.29	25.06	12.31	8.18
Debtors	0.67	5.52	4.20	6.11	5.02
Interest cover ratio	25.60	103.92	32.16	10.18	15.77
PBITM (%)	-2.89	-3.41	-15.79	-4.70	-11.94
CPM (%)	-14.00	23.65	-211.46	-6.68	46.26
ROCE (%)	6.02	2.26	1.84	8.83	14.32
RONW (%)	-12.13	9.98	-181.22	-5.20	29.16

SUMMARY

BPL has followed a combination of intensive, integrative and diversification strategies for growth. It has been through a major restructuring exercise. It claims to be a close challenger in its core business segments and leader in a few segments. It follows a clear product quality philosophy (indigenisation and technology adaptation), premium pricing, strong distribution and promotion. BPL is at present contemplating a major change in promotion strategy. However, as it stands now, BPL is facing stiff competition from other major players and its market share is showing continuous decline. Unless drastic correction course is initiated, there is fear that BPL may become part of history.

ISSUES FOR DISCUSSION

1. What, according to you, are the main considerations for BPL going for different strategies in different segments? Is its perception correct?
2. The consumer electronics market has undergone a sea change with the entry of brands like LG, Samsung, Sansui and Sharp. In the changed context how far will BPL's USPs hold? Justify your answer.
3. Competition with MNCs has to be fought with technology. Competition with domestic players is mainly price-based. Suggest a strategy that reconciles both these concerns. Can BPL successfully adopt such a strategy?
4. How do you visualise the future of BPL in the next three years?