



ABHYUTTHAN

VENUES

beyond horizons, beyond limits **2011**

बेहोराउ मलरसुअ' बेहोराउ रलरर 2011

and



In Association with

Carrier Air Conditioning & Refrigeration Ltd.

Presents

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Knowledge Partners



Carrying forward “Carrier”

It was time for a review of the summer season sales of Carrier India and the Regional Manager of Mumbai was sitting with the reports of the market share post the extensive marketing initiatives taken by his team during the summer season. The reports showed that they had done spectacularly well on the light commercial side however the residential segment did not follow the same trend. This got the regional manager thinking as to how they could increase their hold in the Residential Air Conditioner market.

Company Background

Carrier is a part of United Technologies Corporation conglomerate based in USA which operates in the high technology space. The UTC group operates in aerospace and building systems through subsidiary companies like Carrier (air-conditioning), Otis (Elevators), Pratt & Whitney (Jet- engines), Sikorsky (Helicopters), UTC Fire & Security (Chubb & Kidde), Hamilton Sundstrand and UTC Power. UTC was ranked 37th on the 2009 Fortune 1000 List of America's Largest Corporations.

The company was founded in 1915 by Dr. Willis Carrier, the inventor of modern air-conditioning. Carrier Corporation provides heating, ventilation, air conditioning and refrigeration (HVACR) systems, components, controls and services for residential, commercial, industrial and transportation applications and food service equipment. It has operations in more than 170 countries, employing approximately 41,000 people worldwide and revenues of \$11.4 billion in 2009. Over the decades, Carrier has tried to inspire reliability, innovation, commitment, superior technology, cutting-edge manufacturing and world-class performance with its brand. It also has one of the most prestigious installation bases in the world.

Carrier in India

Carrier started its operations in India with setting up of companies namely Carrier Aircon Limited in 1986, and Carrier Refrigeration Private Limited in 1992. Carrier brought to the Indian consumer, access to advanced technology and air-conditioning and refrigeration products from the worldwide product portfolio of Carrier. In October, 2006, Carrier Aircon merged with Carrier Refrigeration and the name of the merged entity was changed to “Carrier Air conditioning & Refrigeration Limited” (Carrier India). Carrier classifies its market into three segments, namely residential, light commercial and commercial.

Within India the company works with two brands, the one being Carrier and the second is Toshiba which is predominantly in the residential segment. The company has built a strong distribution network on a platform of partnership and trust. It was the first to develop an exclusive dealer network in the country. Today the company boasts of a strong network of over 630 sales and service dealers and 1000 distributors and retailers. Carrier India has many firsts to its credit and it was the first air conditioning company to introduce the concept of comfort shop. It has pioneer in technology and has set up the Willis Carrier Engineering Centre to provide technological support to develop new products and upgrade existing ones.

The company's vision is *"to be recognized as the leader in every segment"*. It operates by being *'customer focused'* and delivers the *'best in class'* quality through its products as well as after sales service. The company aspires to be *'environmentally conscious'* and aims to optimize energy consumption in all its endeavours.

Residential Air Conditioning Market in India

The Indian Air Conditioning market can be broadly divided into three segments as per the usage and installation types. The three segments being residential, light commercial and commercial applied. The total market size of the HVAC market (heating, ventilation, and air conditioning) which deals with indoor and automotive environmental comfort division is \$ 1.3 billion; the bifurcation of which is given in the Exhibit 2.

In earlier times an air conditioner was considered to be a lifestyle product, but it has entered the mainstream and is increasingly regarded as more of a necessity now. Increased disposable income, rising mercury levels and high humidity in addition to the declining unit prices has boosted the demand for air conditioners in recent times. The availability of easy access to finance has improved the demand for air conditioners even in smaller cities as well as more households join the buoying middle-class segment. Despite expensive running and maintenance costs, air conditioners recorded strong retail volume sales growth of 33% in 2009 and 32% in 2010.

With the household penetration rate as low as 3% in 2010, air conditioners are expected to register the fastest retail volume CAGR of 18% over the forecast period of five years. This clearly signifies that there is huge scope for the segment. Sales of split air conditioners are predicted to grow by a 21% retail volume CAGR compared to a 10% CAGR for window air conditioners.

Competition Scenario

For the first time after March 2009, index of consumer durables recorded a single digit growth in November 2010. The index recorded 4.26% growth in November 2010 compared with 36.33% increased recorded in the same month a year ago. The market currently has 15 players fighting over the market.

LG is the leading player in air conditioners with a 25% share of retail volume sales in 2010. Despite growing competition the company has maintained its leading position in India. The reasons for LG's success are credited to wide product portfolio which is supported by high brand equity and after sales services and an extensive distribution network. While Samsung is the second-ranked player in air conditioners, it is aggressively strengthening its position by launching new, customized products in India. The company is raising its brand awareness in semi-urban areas through promotional initiatives like Dream Home road shows and mobile vans. Samsung recorded the biggest retail volume share growth in air conditioners in 2009 and 2010 to reach 22%. There are Japanese companies like Hitachi and Daikin which have been present in the premium segment. However they have currently launched entry-level ACs at competitive prices. This initiative has led to a gain in the market share of these players in this segment. The other significant players include Whirlpool, Videocon Industries, Blue Star, Godrej & Boyce, Electrolux, MIRC Electronics, and Panasonic.

The companies in this market strive to push their products not only on the strength of their competitive pricing but also through auxiliary attributes for instance *anti-bacterial systems, vita air, power cool, oxygen, aroma pure system, 30 minutes fast forward cooling, and eco patrol* to attract customers.

Product

The company caters to three segments - Commercial, Light Commercial and Residential. In the commercial segment, it provides air control and refrigeration solutions to industries. In the light commercial segment, it provides high quality and high tonnage air conditioners to educational institutes, offices and so on. The residential segment takes care of the retail household purchases.

In the light commercial segment the company has products ranging from Cassette ACs which fit into the ceiling just like an audio cassette fits into a cassette player. These ACs are highly effective and efficient. Slimpack ACs are floor standing ACs and are compact. Ducted ACs

provide central cooling solutions used for large buildings. In the Residential Segment it provides Window ACs and Hi Wall ACs (Split ACs) which are two to five star-rated products. Carrier provides these AC solutions at a competitive price range, the details of which are given in the Exhibit 4.

Distribution Channels

In India air conditioners are largely distributed through independent and multiple consumer durable retailers. In general, independent durable goods retailers accounted for a 59% share of retail volume sales in air treatment products in 2010.

Carrier was the first company to partner with its dealers and let them provide after sales services. It provides the dealers with technician training to help them provide better service. The backbones of the distribution network for carrier are the Willis Carrier Club Dealers (WCCD). These are exclusive dealers of the company who sell only “Carrier” products. They are loyal dealers of the company since many years and the main sales drivers of the company.

Apart from WCCDs Carrier also has Exclusive Sales & Service Dealers (ESSD). These are the exclusive dealers of Carrier who provide sales and after sales service. They differ from WCCD as they are relatively younger dealers and their sales contribution is lower than WCCD. For an ESSD to qualify for becoming a WCCD and avail the corresponding benefits they either have to increase their sales and they have to stay with the company for a long duration. These dealers are trained by Carrier for dealer and technician services. The entire Air conditioning industry faces a problem with ESSDs that there is less loyalty and after the firms have invested in their training these dealers prefer to go the multi-brand way. This default not only causes a loss in channel volume but also results in a waste of money and effort invested in training.

Carrier heavily focuses on quality and does not compromise it for anything else. High quality comes at a high cost of manufactured goods and in view of the fact that the competitive scenario does not allow increase in pricing. This results in a low margin for the company and consequently for the others involved in the entire supply chain. Apart from these, Carrier also uses Multi Brand Sales & Service Dealers (MSSD) which keep not only Carrier products but also products of other companies and retailers. The retail distribution is further bifurcated into modern retailers and traditional retailers. The modern retailers comprise of outlets such as Vijay Sales, Croma and Snehanjali.

Consumer Markets

With increased focus on environmental issues world over, there is a growing consumer awareness of star rated products and such classification is mandatory for room air conditioners. Thus, manufacturers are increasingly looking to introduce higher star rated products to help lower electricity bills for consumers. Although star rated products are relatively more expensive than standard products, a huge number of consumers are choosing them in order to reduce long-term operational costs and bills.

Aesthetics also plays an important role in the choice of air conditioners in India. More consumers are choosing aesthetically appealing colourful and designer air conditioners which match their house interiors. This trend provides manufacturers with the opportunity to develop innovative designs and boost sales.

Manufacturers are also focusing on launching new products with innovative technologies. For example, many companies have introduced air conditioners with inverter technology that have shorter motor run times and are more energy efficient.

Marketing Initiatives

Carrier India mainly operates in the retail, light commercial and commercial space. The RLC Division of Carrier Air Conditioning and Refrigeration Ltd. looks after the Residential and Light Commercial segment of the business.

In the light commercial space Carrier mainly promotes its brand through consultants and architects by conducting conferences, seminars and exhibitions. Recently the company conducted a design tour in which it invited eminent architects and thought leaders for a panel discussion. These promotional activities have brought Carrier much success on the light commercial front. Currently Carrier enjoys about 28% of the total Light Commercial air conditioning market in India.

The regional manager is contemplating about how to establish a stronger foothold in the residential space. In the first season of 2011 they carried out an OoH (Out of Home) advertising campaign where advertisements were put up on Meru cabs, BEST buses and bus shelters. This was done to target the middle and upper middle class office going Mumbai customers who travel regularly to different parts of the city to work. The company came up with Print advertisements in Hindustan Times Cafe' on the occasion of Gudi Padva in Mumbai and Pune.

In addition road shows were conducted in various parts of Mumbai in collaboration with the dealers in each location. During the campaign leaflets and complimentary newspapers were distributed with Carrier stickers on them.

These initiatives did not convert into corresponding expected sales because of shrinking market and a poor season for this year. The market share is about 6% of the total Retail air conditioning market in India. This is substantially below the target of 12% which the company wishes to achieve. To reach the target market share an intensive marketing strategy is required but the company has certain constraints. They have limited budgets to indulge in heavy promotions for the residential business.

The other consumer electronic goods companies have an entire portfolio of products to bring revenues from and the marketing spends are done for the umbrella brand which contains an entire gamut of products like air conditioners, washing machines, televisions, mobiles. They are therefore in a position to channelize large funds for aggressive marketing campaigns. In case of Carrier RLC there is a single product that bring the revenues and the marketing spends have to be done on the single product. This factor leaves Carrier with limited budgets and hence on the retail front the company is not in a position to indulge in aggressive advertising campaigns like their competitors.

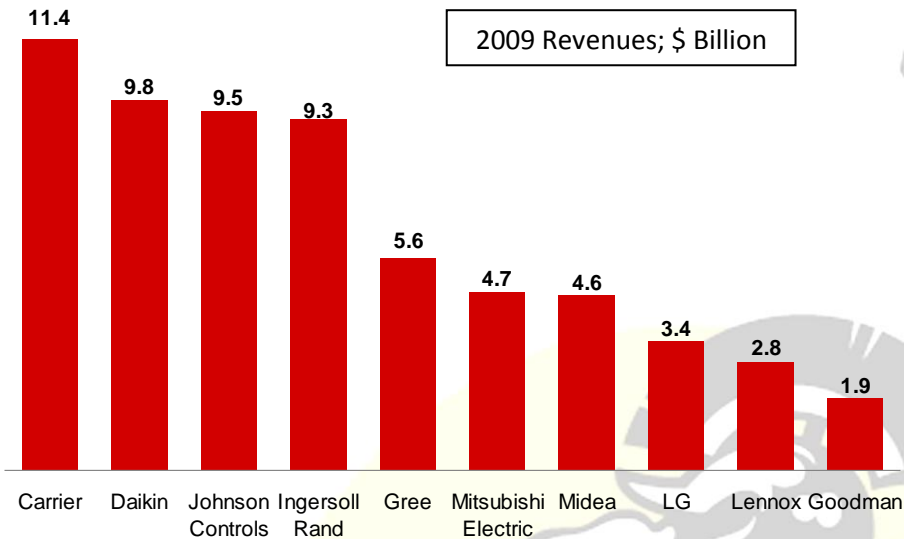
Carrier India Mumbai branch carries out its promotional activities in two seasons, the major season that covers the pre summer sales phase in the months of April- June and the second season that covers the major Indian festivals in the months of October- November. The 2010 budget totalled approximately ₹ 2 million with ₹ 1.5 million for the summer season and ₹ 0.5 million for the festival season. The Regional Manager is aware that the steering committee is looking to curb excessive marketing expenses and hence there is no possibility of negotiating for an increase in the budget. The Regional Manager was faced with a challenge to come up with an innovative strategy to steer revenues upwards while at the same time optimizing and effectively utilizing the currently allocated budgets.

What should the Regional Manager do?

Exhibits

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Exhibit 1:



Global Revenues in HVAC market

Exhibit 2:

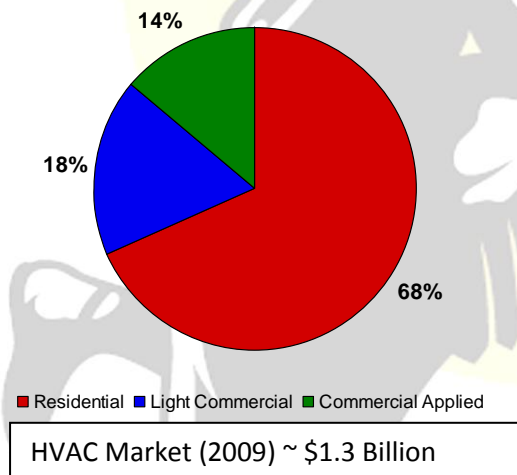
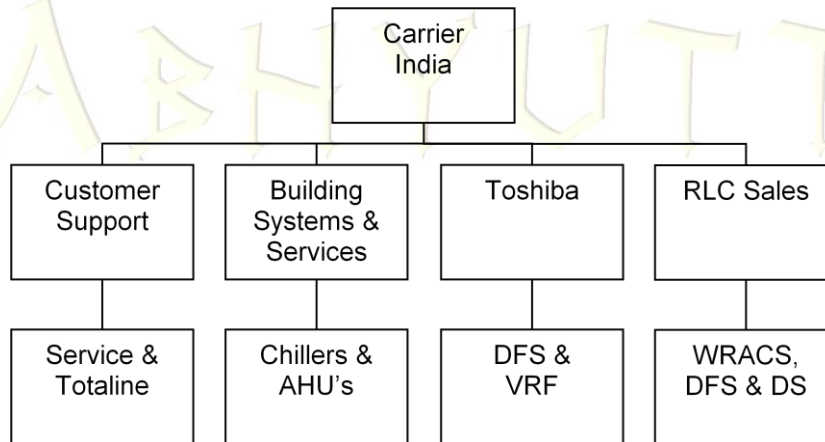


Exhibit 3:



Carrier India Operations and Business divisions

Exhibit 4:

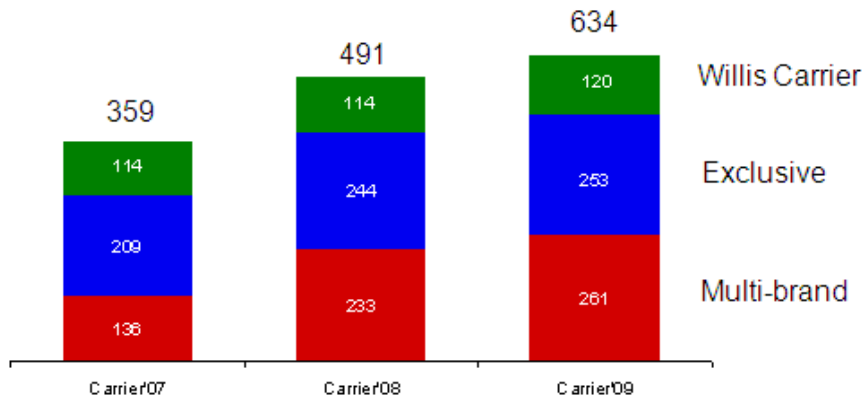
Product	Tentative Price Range
Cassette ACs	₹ 53,000 to ₹ 1,00,400
Slim pack ACs	₹ 87,300
Ducted ACs	₹ 30,200 to ₹ 3,07,125
Package ACs	₹ 2,58,100 and ₹ 3,45,100
Window ACs	₹ 20,700 to ₹ 25,300
Hi Wall ACs (Split ACs)	₹ 20,700 to ₹ 45,000

Pricing of Carrier Products

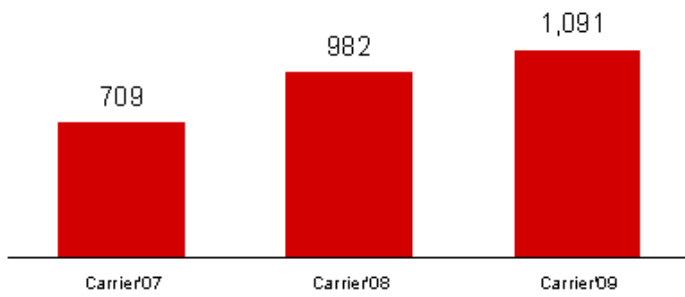
Exhibit 5:

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Sales and Service Dealers



Retail Outlets



Channel distribution data for Carrier India