

Case

Titan Company: Mining for Gold through Innovation and Entrepreneurship

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As Titan Company's (Titan's) 31st annual general meeting concluded on July 31, 2015, the company's managing director, Bhaskar Bhat, reflected on its accomplishments. Its watch business, which had given the company its start, had launched in 1987 and was still going strong. The jewellery division, launched in 1994, was nearly six times as large as the watch division. Titan had also entered new retail businesses such as eyewear and fashion accessories for young people. By 2015, the company had multiple retail businesses, with more than 1,300 outlets in more than 240 towns and cities in India, selling various categories of personal accessories. Its products were also being sold abroad through more than 2,300 outlets in 32 countries.

However, everything had not always gone smoothly, particularly in the jewellery business. Bhat vividly recalled the challenges and the difficult board of directors meetings. But he and his team had trusted their instincts and were able to turn the business around to be profitable. He gave much of the credit to his team members, who had always shared his vision and supported his decisions. They had diligently and carefully selected the personal accessory categories to enter; some of those businesses were now firmly established, while others still needed to be nurtured to achieve their full potential.

Bhat threw a dinner party to celebrate this success with the entire Titan workforce. He thanked them for being a part of the organization. "I am delighted to inform you that Titan has achieved 120 billion¹ in revenues and 8.2 billion in profits in its 27th year of operations," he said. He then expressed the board of directors' desire to reach 300 billion in revenues and 30 billion in profits by 2020. How could the company achieve these goals? What should Titan's future strategy be? How should the company balance a focus on current businesses with the continuous search for new opportunities? Innovation and entry into new business areas had been key drivers of Titan's success to date. Should Titan continue to launch new businesses, or had the time come to focus on achieving the full growth potential with its existing enterprises? Bhat decided to discuss these issues in a brainstorming session with his team.

Titan Company: An Overview

Titan began in 1984 as a joint venture between the Tata Group and Tamil Nadu Industrial Development Corporation, the industrial promotion agency of the state government of Tamil Nadu. The watch business was launched in 1987. Titan was the market leader in the Indian watch industry with an estimated 65 per cent share of the "organized sector," and was a major national player in the jewellery business. In fiscal

year (FY) 2014–15, Titan’s watch business had revenues of ₹19.19 billion, a fiscal year-on-year increase of 7.3 per cent. Its jewellery business, which was launched in 1994 and commenced operations in 1997, achieved revenues of ₹4.21 billion, representing annual growth of 9.2 per cent. The other product categories (which included eyewear and accessories) had revenues of ₹5.64 billion, representing 13 per cent annual growth. Titan’s overall revenues were ₹19.74 billion in 2014–15 (9 per cent annual growth). See Exhibit 1 for the evolution of revenues from 1987–88 to 2014–15.

By focusing on quartz watches instead of mechanical or automatic watches, Titan set itself apart from its largest competitor, Hindustan Machine Tools Limited (HMT). As a result of its in-house product development team and by integrating backwards into the manufacture of critical watch components, Titan ramped up quickly and expanded its portfolio of watches from 200 to 850 models in just three years. It also developed an innovative retail network featuring modern, air-conditioned shops with attractive product displays. Customers could browse its outlets and receive assistance from well-trained store staff.

Titan created a strong brand through advertising. Its watches were sold through 452 World of Titan outlets, 159 Fastrack outlets, and 41 Helios outlets (all three retail brands were owned by Titan). Approximately 11,000 dealers also sold Titan watches in 2,500 towns. The company entered the international market in 1991 and was present in nearly 2,300 outlets in 32 countries.

The company launched jewellery and watches under the brand name Tanishq in 1996 (but started operations in 1997). Tanishq was the first Indian retailer to make instruments available in store so that customers could test the purity of

its merchandise, and this emphasis on quality was part of its branding. It was also the first to launch a chain of modern jewellery retail outlets nationwide. Tanishq had 195 outlets located mainly in 111 larger cities and towns in India.

In 2005–06, Titan launched a new jewellery business, Gold Plus, which targeted more traditional lower- and middle-class consumers in small towns, primarily in southern India. Gold Plus slowly expanded from two stores to 32 Gold Plus retail outlets in 2015. Under the brand name Titan Eye+Eyet, Titan launched its first prescription eyewear store in 2007, and by 2015, it had 407 Eye+ stores across 170 towns in India. Titan then leveraged this scale by integrating backwards into lens manufacturing.

Titan excelled at exploring new customer segments and quickly growing its retail network. Its keen consumer insights and design skills allowed for rapid new product innovation and brand building. National surveys named both Titan and Tanishq as the most admired brands in their categories. Titan targeted various customer segments by introducing new brands each year. Aviator watches targeted men, the relaunched Raga watch collection was for women, and Fastrack merchandise was aimed at youth. Jewellery brand Zoya and Swiss-made premium watch Xylys targeted upscale, urban consumers.

The Jewellery Industry in India

India’s high-skilled labour pool and low costs put it at the hub of the global jewellery market. In 2013, the market size of India’s gems and jewellery industry was ₹2.51 trillion. A healthy business environment and investor-friendly government policies were expected to drive growth to reach ₹5 trillion to ₹5.3 trillion by 2018.² The sector contributed significantly to the country’s foreign exchange earnings, with US\$36.3 billion³ in exports in FY2015. It was

also a focus for the government's export promotion. According to India's Department of Industrial Policy and Promotion, cumulative foreign direct investment inflows in diamond and gold ornaments were \$751.37 million from April 2000 to December 2015, and export of cut and polished diamonds reached \$23.2 billion in FY2015.

The Eyewear Industry in India

According to a study by the Associated Chambers of Commerce and Industry,⁴ the Indian eyewear market, comprising contact and intraocular lenses, lasik surgery, lens cleaning solutions, spectacle lenses and frames, and sunglasses, was expected to grow at a 27 per cent compound annual growth rate from 210 billion in 2012 to 430 billion in 2015. Industry experts estimated that the market would continue to grow at approximately 30 per cent annually over the next three years. In 2007, spectacle lenses, sunglasses, and frames represented 51 per cent, 13 per cent, and 11 per cent, respectively, of the overall market. Despite the strong growth, the retail segment of the industry was intensely competitive and retailers often used discounts to lure customers.

Titan's Innovation and New Business Culture

Titan's former chief executive officer, Xerxes Desai, insisted that forays into new businesses bring in more pride in the organization, and bring in new people with new ideas. There is a lot of cross-fertilization that goes on. There is competition between watches and jewelry and watches and eyewear, and so on, and between the different shops. There are two things that are extremely important for any organization: excitement and pride. You have those two things, and you can get somewhere and lead with effect.

A Retailing Pioneer in India, But not A "Retailing Company"

Bhat said the company was a category player and not a retailer. According to him, retailers were merely aggregators of brands in various categories, and were neutral in terms of what was sold in their outlets, as long as the margins were right. A category player, on the other hand, promoted a category of products to a targeted segment of consumers to try to grow the category along with its own market share. Titan's retail outlets were designed to help the company promote the categories it wanted to play in.

Desai saw Titan not as a watch or a jewellery company, but as a "personal adornment company." "We are in the field of personal adornment," Desai said. "In spectacles the frame is an article of adornment. In India for personal adornment, we make the badge items, items with which one makes a statement about oneself." He added that the company's core competency was not the products it sold but its people and its ability to manufacture precision products, "in doing anything to decorate the human being."

Senior company executives believed Titan was unique in its ability to create and develop top brands in unorganized markets. When Titan first entered the watch market in India, it completely changed the retail experience for this sector. The market leader at that time was state-owned HMT. Most HMT watches were sold through individual dealers across the country. A consumer would visit a shop and describe the style and price range of watch they wanted. The attendant would then go to the backroom and bring a few watches to the counter for the consumer to consider.

Titan entered the watch market with a modern storefront. Consumers could walk around on their own in an air-conditioned store and see a wide

range of different watches displayed in glass cases. They could choose for themselves which watch they wanted to try on, and ask the store clerks to change the strap colour or help with other adjustments. It was a completely different experience.

With its Tanishq brand, Titan brought a similar level of innovation to India's jewellery sector, which was an unorganized or informal sector. Most people bought gold jewellery not as a fashion accessory but as an investment, in the same way people in developed countries invested in real estate. Gold jewellery was sold mostly by itinerant artisans or goldsmiths who would visit a family in their home and help them to either design new pieces or remake existing pieces. Titan changed the market by introducing modern-designed studded diamond, gem, and platinum jewellery that was intended to be worn as a fashion accessory, not stored in a safe. It was sold in upscale retail outlets at a high price point that targeted a more upscale, urban, and fashion-forward clientele.

The head of Titan's jewellery division, C. K. Venkataraman, said the different brands did learn from one another. For example, Tanishq learned some basics from the watch division, such as how to set up stores and deliver the customer experience. However, many differences separated jewellery and watch consumers in India. Tanishq could not simply take the watch division's retailing blueprint and apply it to jewellery; it needed to respond to consumer behaviour in each category and adjust its strategy accordingly.

The idea for Gold Plus came from the jewellery division's chief manufacturing officer and his team, which were from Tamil Nadu, a south Indian state. They had observed that Titan's Tanishq brand was aimed more at upscale, urban consumers. They suggested that Titan launch a

new jewellery retail brand to capture the more traditional, conservative semi-urban and rural consumers. "It's interesting that this idea came from someone who was in manufacturing and not in a kind of customer-facing role," said Venkataraman.

The Future Shock Program

Both Gold Plus and Eye+ originated from a program called Future Shock, started by Bhat in 2004. It identified approximately 200 young managers in the company and divided them into 10 diverse, cross-functional teams; five focused on ideas for improving existing businesses and five focused on exploring new business opportunities that the company might pursue over the next five to 10 years. Each team included a senior Tata Group executive to help develop the business plan. After presenting their ideas, five teams were shortlisted for evaluation by a panel comprising managing directors of various Tata Group companies, as well as faculty from leading institutions. The panel chose Gold Plus and Eye+ for implementation.

The Ignitor Program

In 2013, the company launched another new internal business program, Ignitor, which was open to participants company-wide. It challenged them to propose a case for new businesses for Titan for the next five years, within certain parameters. Bhat said it was less a business discovery program and more of a human resources program to encourage a start-up mentality among employees. However, similar to

Future Shock, the presenting teams were shortlisted, and those who made the cut were provided with mentors from within the company to help them develop their case. The company received 780 applications, of which 14 were selected for presentation to a jury similar to a

team of venture capitalists. Three applications were selected for further consideration by an existing division of Titan that saw potential synergies, and three others—silk sarees (traditional Indian women’s dress), decorative lighting, and silver articles—were being further explored by the teams that had originated them. “We have a separate office for them so they break away from their work. They have a very nice environment where they can think freely, work freely, with facilities for proto-typing, including a three dimensional printing machine,” Bhat said. “It will be no holds barred until the pilot . . . we will support market research, we will support everything. We told them don’t worry, make a success of the pilot.”

The New Business Division

Following the launch of Gold Plus and Eye+ out of the Future Shock program, Titan set up a New Business Division to give a more structured approach to moving new business ideas forward.

The Titan Hexagon

The company used what it called the Titan Hexagon to evaluate whether to pursue a new business to launch. First, it wanted growth. Ideas with the potential for high growth, high margins, and high return on investment would receive priority attention and resources from senior management. Next, the company expected business managers to achieve two of three goals: high growth, high margins, and return on investment. Once an idea had shown the potential to meet the company’s growth threshold, it needed to meet the following additional conditions:

- cost should not be the fundamental driver of success, because Titan was not a cost-driven company;
- it should fit the design and style competencies of the company;

- it should avoid intensely competitive categories; and
- its appeal should prioritize underpenetrated, unorganized, or underserved markets.

With Gold Plus and Eye+, Titan also began to pilot new business lines, which allowed it to fine-tune operations based on market responses. Once the company was satisfied with the pilot project results, it would expand by adding more stores in more cities.

Developing Gold Plus

While Titan’s Tanishq brand targeted consumers at the upper end of the market, Gold Plus was aimed at the mass market. R. Sharad had begun his Titan career at the Jewellery Factory in Hosur, moved to Gold Plus at its launch, and was heading the retail operations at Eye+ in 2015. He noted that 63 per cent of India’s jewellery consumers were in smaller towns. By focusing on consumers in Tier 1 and Tier 2 cities, Tanishq could hope to reach, at best, only 37 per cent of the market. Gold Plus was the only Titan business to reach profitability in its first year of operation; after its initial pilot store proved successful, more retail outlets were soon opened.

The Gold Plus business model was low-cost, low-margin, and high-turnover. The low margins concerned Titan’s board, which kept the pressure on managers to raise Gold Plus’s profit before tax to 3 per cent of revenues. Once it reached this objective, the target was raised to 4 per cent, which the board felt was more sustainable in the long term.

To achieve its margin targets, company managers created Diamondtine, a cubic zirconium stone coated with diamond dust that cost one-tenth to one-fifteenth of a diamond, and delivered a 10 to 15 per cent margin. Although Gold Plus consumers

tended to be more conservative, and focused mostly on buying traditional gold jewellery, the company managed to generate 5 per cent of its revenues through this new product. Diamondtine provided the boost the company needed to improve its profit margin to reach the board's targets.

Competition for Gold Plus

Traditional gold consumers represented the largest potential market in India; however, when Titan entered this market it was fiercely competitive and still unorganized in many places, although some consolidation had begun. Many small gold artisans had developed into thriving family businesses that were adopting more modern retail methods. For example, having seen the success of Gold Plus, competitors began entering the same smaller town and city markets as Gold Plus and opening large jewellery stores carrying huge inventories. The growth prospects of this market segment were so promising that U.S. private equity firm Warburg Pincus had invested \$176 million in a family-owned business, Kalyan Jewellers India Ltd., valuing the company at approximately \$2 billion. With 32 stores, mostly in South India, the Gold Plus business had begun to plateau. To boost margins, Gold Plus needed to find a new way to drive sales. Its business model depended on high turnover, but increasing volume by expanding its footprint would not necessarily increase profitability, especially considering the fierce competition it was facing (see Exhibit 2). Titan's board would need to decide what it could do with Gold Plus in the long term. Many were pessimistic about its future growth prospects.

Developing Eye+

India's eyewear industry was still highly unorganized when Titan launched Eye+ in 2007. Many Indians wore glasses but had never seen a licensed optometrist, and thus did not know

whether the lenses in their glasses represented the appropriate prescription.

One of the innovations Titan brought to the eyewear business was staffing its retail shops with licensed optometrists, to provide professional eye exams for customers. It also had the equipment on premises to test the prescriptions of lenses, which enabled it to prove to customers the accuracy of its products, and to show, in many cases, the inaccuracy and thus the unsuitability of lenses they had purchased elsewhere.

Unlike Gold Plus, the Eye+ business model had a lower turnover, and higher margins and costs. Titan initially thought the best way to achieve its targets for Eye+ was through large stores on high streets. However, Titan soon realized this strategy was a mistake. Consumers did not want to travel far to purchase glasses, and service was important: customers wanted to be able to visit the store occasionally to have their frames adjusted or a broken lens fixed. Staffing costs were high; each store needed to have an optometrist and knowledgeable staff who could help customers decide which frames to buy, take their measurements, and fit their frames. Salespeople were focused on trying to upsell customers to more expensive frames. This atmosphere created a consumer perception that Eye+ was too expensive and not a mass-market brand.

At first, business did not go well. To turn things around, Titan decided to shut the large high street stores and instead open smaller neighborhood retail outlets in an effort to be more accessible to a larger number of customers and enter more cities. The company also reworked its product line to offer frames at a variety of price points, and shifted its branding to focus on affordability. Titan supported this shift with a mass-market advertising campaign that included television advertising, which had not previously been used

in this category. Recognizing that 40 per cent of eyeglasses were dispensed by hospitals, Eye+ set up retail outlets in hospitals; though, to access those locations, it had to share some of its margin with the prescribing doctors. By 2014, Titan had 258 Eye+ retail stores and approximately 42 hospital-based Eye+ Specs retail outlets.

Competition for Eye+

When Eye+ launched, the company easily dominated the largely unorganized market. However, its success led many small domestic players to try to copy its retail model, and within four years, some big international players had entered the market. The biggest competitors with a national presence were Vision Express (165 stores), Lawrence & Mayo (90 outlets), and GKB Optical (60 stores). Several regional competitors also operated in the market. Eye care hospital chains such as Vasan Eye Care, with 170 hospitals nationwide, also sold prescription eyeglasses, and had expanded into sunglasses and manufacturing its own lenses.

Fastrack and More

In 2003, Titan launched its Fastrack outlets, which sold a range of youth-oriented merchandise such as watches, bicycle helmets, backpacks, and bags. Titan had also recently launched a fragrance line, and had plans to introduce a line of pens and other writing instruments.

Looking Ahead

Bhat and his team asked themselves whether Titan would be able to keep up with the competitive and changing business environment as a result of the various business lines it had created. Should Titan stop looking for new business opportunities and focus on achieving the full potential of those businesses it had already created? Which business lines would offer the most long-term growth potential if properly managed? Which, if any, should be discontinued? Bhat needed to explore these questions with his team in an effort to plot Titan's long-term growth path.

EXHIBIT 1: TITAN'S FINANCIAL STATISTICS

PROFIT & LOSS ACCOUNT	2001-2002	2002-2003	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2019-20	2020-21
Revenue from Operations	170	1,910	4,420	6,300	6,970	7,250	7,980	9,590	11,350	14,810	21,360	30,410	38,480	47,030	65,710	89,710	102,060	109,550	119,370
Watches	170	1,910	3,820	4,760	4,930	4,570	4,530	4,700	5,460	6,280	7,380	8,760	9,070	10,250	12,650	15,200	16,670	17,890	19,190
Jewellery			600	1,540	2,040	2,680	3,450	4,250	5,340	7,760	12,900	20,260	27,600	34,970	50,120	69,900	80,320	86,270	94,210
Others								-	-	360	630	920	1,360	1,520	2,440	3,280	4,140	4,990	5,640
Add: Excise Duty								640	550	410	450	470	450	290	500	1,330	930	400	330
Revenue from Operations	170	1,910	4,420	6,300	6,970	7,250	7,980	9,590	11,350	14,810	21,360	30,410	38,480	47,030	65,710	89,710	102,060	109,550	119,370

EXHIBIT 2: SNAPSHOT OF INDIA'S JEWELLERY MARKET (in millions)

Name of Player	Revenue	Profit	Market Cap
Rajesh Exports Ltd.	504,630	6,549	65,695
Gitanjali Gems Ltd.	72,098	189	4,033
Titan Company Ltd.	120,000	8,230	347,650
Kalyan Jewellers India Ltd.	94,730*	N/A	130,000
PC Jeweller Ltd.	64,077	3,782	56,909