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johnson controls-hitachi: moving out of the core PRODUCT RANGE[[1]](#endnote-1)

Sandeep Puri, Shubham Sharma, and Shivani Upadhyay wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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The quarter ending December 2016 revealed some serious problems at Johnson Controls-Hitachi Air Conditioning India Limited (JCI-Hitachi). The company not only reported a ₹79.7 million[[2]](#endnote-2) loss, but its standalone net profit for fiscal year (FY) 2015–16 was also down 35.73 per cent to ₹499.8 million.[[3]](#endnote-3) What was alarming was that the net profit for the previous fiscal year (2014–15) was ₹777.6 million[[4]](#endnote-4) (see Exhibit 1). Despite the dip, Franz Cerwinka, JCI-Hitachi’s director and chairman, was upbeat about the company’s future in India. He expected India to be among the leading markets for JCI-Hitachi by 2020. At the end of 2016, India accounted for nearly 10 per cent of the company’s revenue and was among its top 10 markets.[[5]](#endnote-5)

In 2015, with an eye on a promising future based on expected growth over the next five years, JCI-Hitachi launched a new range of imported air purifiers.[[6]](#endnote-6) The intent was to expand the business into different segments such as air and water coolers and water purifiers in the face of established competition from market leaders such as Voltas Limited (Voltas), Blue Star Limited (Blue Star), LG Electronics India Private Limited (LG), Samsung India Electronics Limited (Samsung), and Whirlpool India (Whirlpool). Given the dip in earnings and competition, was the launch of new products a good idea? If JCI-Hitachi were to go ahead and enter these new segments, what strategic capabilities could it leverage? What were the possible obstacles to success in the new segments?

company background

Hitachi Limited

Hitachi Limited (Hitachi), headquartered in Tokyo, was a highly diversified Japanese manufacturing corporation comprising more than 900 subsidiaries.[[7]](#endnote-7) Hitachi’s journey began in 1910 when its founder, Odaira Namihei, while still an employee in the electric shop of a Kuhara mining company, began experimenting with his own designs and made the first domestically produced five horsepower electric motor. This electric motor became Namihei’s company’s first product, and he made two Japanese characters—*hi* (meaning “sun”) and *tachi* (meaning “rise”)—enclosed in a circle as the Hitachi logo.[[8]](#endnote-8) In its

initial years, Hitachi manufactured heavy electrical equipment and industry machinery. However, by 2016, it was a global conglomerate in a wide range of sectors: information technology, automotive, electronic, railway, urban and power systems, digital media, consumer goods, financial services, construction machinery and equipment, high-functional materials and components, social infrastructure, and other systems.[[9]](#endnote-9)

Launch of JCI-Hitachi

Hitachi entered the Indian market in 1998 as Amtrex-Hitachi Appliances Limited in a strategic alliance with Amtrex Appliances Limited. By 2003, Hitachi had acquired the entire stake from Amtrex Appliances Limited and the company was renamed Hitachi Home and Life Solutions Limited.[[10]](#endnote-10) In 2016, it had a production plant with a capacity of 430,000 room air conditioners (RAC) per year, five regional offices, 20 branch offices, 203 exclusive sales and service dealers, over 4,000 dealer points, 33 exclusive showrooms, and a wide-ranging product portfolio.[[11]](#endnote-11) The company was a major player in both commercial and household air conditioning (AC) segments. It depended on energy-efficient, eco-friendly AC solutions for its future growth strategy and brand identity.[[12]](#endnote-12) It won many awards between 2013 and 2016, such as the Frost & Sullivan award for product leadership in 2013[[13]](#endnote-13) and the best manufacturer brand of BEE[[14]](#endnote-14) star labelled appliances in the AC category in 2014.

In October 2015, Hitachi Appliances, Inc. and Johnson Controls, Inc. entered into a joint venture, and Hitachi Home and Life Solutions Limited became Johnson Controls-Hitachi Air Conditioning India Limited. This partnership aimed to capitalize on the strengths and distribution networks of both companies by combining their diverse product portfolios and marketing channels. The combined company focus was to provide better, more energy-efficient and eco-friendly cooling solutions to the Indian customer.

To improve the business of its commercial AC segment, JCI-Hitachi identified the need to invest in channels, marketing, promotion, and product development.[[15]](#endnote-15) It also aimed to improve its after-sales service by introducing various new modes of complaint registration such as the Hitachi Care mobile app, live chat lines, and the Hitachi 24x7 customer care service number.[[16]](#endnote-16)

PRODUCT PORTFOLIO

JCI-Hitachi’s wide product portfolio included window, split, cassette, and duct ACs; tropical inverter product lines; variable refrigerant flow (VRF) systems; as well as chillers, refrigerators, air purifiers, and washing machines (see Exhibit 2).

Room AC Segment

In 2016, the window AC share was 14 per cent of the RAC market and contributed 22 per cent of JCI‑Hitachi’s overall RAC sales.[[17]](#endnote-17) The company was not promoting the window AC aggressively, and promotions were confined to print advertisements. Split ACs had 76 per cent share in the RAC market; JCI‑Hitachi’s market share in this fragmented segment was 10 per cent.[[18]](#endnote-18) The inverter AC market, which formed 10 per cent of the RAC market, contributed to 40 per cent of JCI-Hitachi’s overall sales.[[19]](#endnote-19) The company expected to add another 10 per cent to overall sales by 2020. JCI-Hitachi promoted inverter ACs extensively in outdoor promotions, press advertisements, television (TV) commercials, and online campaigns, focusing on energy saving, consistency, and uninterrupted cooling in Indian weather conditions.[[20]](#endnote-20)

Commercial AC Segment

The commercial AC segment consisted of business-to-business splits, cassette ACs, ductable ACs, VRF systems, and chillers. Used in commercial, institutional, and industrial buildings, this segment contributed to approximately 37 per cent of the ₹59 billion market.[[21]](#endnote-21) JCI-Hitachi’s most promising segment, VRF, continued to show robust growth because of its widespread use in the hospitality, entertainment, banking, education, residential, and industrial sectors.[[22]](#endnote-22) The company’s ductable range had four different models designed with built-in features unique to each model, and was used in small corporate offices, banquet halls, small hospitals, and so on.[[23]](#endnote-23) Chillers were used for wider application areas and had larger cooling capacity.

Application-Based AC Segment

Application-based ACs reflected rapid growth as a result of considerable progress in the parent industries of telecommunications (telecom) and banking. In 2016, demand from the telecom industry substantially decreased because of the increasing debts of telecom players. JCI-Hitachi’s Spacemaker AC, however, had a near monopoly in this segment and was expected to continue serving its existing base. The company was continuously developing new products and technologies to meet the evolving requirements of the industry.[[24]](#endnote-24)

Home Appliance Segment

JCI-Hitachi marked its entry into the home appliance segment in 2005 with refrigerators and washing machines. Despite a limited range, it was a niche player in that market.[[25]](#endnote-25) In 2016, the company’s refrigerator and washing machine segments had 43 and 4 stock-keeping units, respectively.[[26]](#endnote-26) The home appliance segment contributed to 9 per cent of the total business share.[[27]](#endnote-27) In 2015, the Indian refrigerator market was worth US$1.45 billion and was expected to grow by 10 per cent by 2020.[[28]](#endnote-28) In the same year, JCI-Hitachi’s refrigerator segment had a market share of 0.6 per cent, and the company was looking to expand it to cater to a larger market.[[29]](#endnote-29) Because of low demand for its self-cleaning washing machines, JCI-Hitachi was struggling in this segment.

The air purifier market size of ₹7.5 billion was expected to grow threefold because of concerns over deteriorating air quality; JCI-Hitachi entered this market with a range of air purifiers to capitalize on the situation.[[30]](#endnote-30) With a market share of 23.6 per cent, Crompton Greaves Consumer Electricals Ltd. led this segment. Usha International Ltd. followed with 15.7 per cent. Other brands were Bajaj Electricals Ltd. (9.2 per cent), Orient Heating, Ventilation and Air Conditioning Service (9.0 per cent), and Havells India Ltd. (7.2 per cent).[[31]](#endnote-31) For JCI‑Hitachi, this product category showed a positive response and looked promising for future growth.[[32]](#endnote-32)

MAJOR COMPETITORS

Voltas

With multiple products, an ever increasing distribution footprint, and high dealer margins, Voltas was the market leader in the AC segment. The company reported revenue of ₹58.32 billion in FY 2015–16, a growth of 13 per cent over the previous year.[[33]](#endnote-33) It also led the RAC segment with a market share of 21 per cent.[[34]](#endnote-34) It had products such as water coolers and water dispensers in addition to ACs and commercial refrigeration products.

LG

LG was a major player in the domestic electric appliances segment with a wide and innovative collection of refrigerators, ovens, cooktops, microwaves, dishwashers, washers, dryers, window ACs, water purifiers, vacuum cleaners, TVs, mobiles, music systems, and computer products. LG’s aim for a growth of 30 per cent in 2016 with a focus on new categories like water and air purifiers paid off. Its gross revenue reached ₹144.98 billion in 2015–16 compared to 139.37 billion in 2014–15.[[35]](#endnote-35)

Blue Star

Blue Star had a wide portfolio of products such as commercial refrigeration, ACs, water purifiers, water coolers, and air purifiers. The company reported revenue of ₹35.47 billion in FY 2015–16, a growth of 15 per cent over the previous year.[[36]](#endnote-36)

Samsung

Samsung provided solutions in the consumer electronics, information technology, and telecom sectors. Its product range included colour TVs, mobile phones, home appliances, and different types of ACs. The company’s revenue crossed the US$7 billion mark in 2015–16, a rise of 19 per cent over the previous year.[[37]](#endnote-37)

Whirlpool

Whirlpool was another major player. The company’s product range included home appliances, ACs, water purifiers, air purifiers, and built-in appliances. Its revenue reached the ₹38.55 billion mark in 2015–16, a 7.8 per cent growth over the previous year.[[38]](#endnote-38)

FUTURE POSSIBILITIES

Because the AC business was highly dependent on seasons in India, JCI-Hitachi could, like most of its competitors, consider expanding its product range in the following markets.

Air Coolers

The air cooler market sold 7 million units worth ₹30 billion in 2015, but only 20 per cent of this volume came from the organized sector.[[39]](#endnote-39) Sales were likely to grow to 10 million units by 2020, as high and rising temperature levels were expected to create greater demand for cooling solutions. In 2015, Voltas launched its range of Fresh-Air Coolers to be a leading air cooler brand within the next three years and bridge the wide gap between fans and ACs.[[40]](#endnote-40) Blue Star followed Voltas into this segment in 2016 with the intent of achieving at least ₹1.5 billion in business from the segment in the next three years.[[41]](#endnote-41)

Air coolers, with less ownership and running costs than AC, had become the mass market option for Indian consumers.[[42]](#endnote-42) With a 50–55 per cent market share in the organized sector, Symphony Limited was the market leader. It was followed by Kenstar India at 35 per cent and Bajaj Electricals Ltd. at 15 per cent.[[43]](#endnote-43)

Because of rising income and aspiration levels, greater brand awareness, and a possible reduction in taxation after implementing a proposed goods and service tax, air coolers had become a lucrative market for organized players.[[44]](#endnote-44) In 2016, the market penetration was only about 8 per cent, whereas more than half of the country’s households were in hot and dry climatic areas, which was a big growth opportunity.[[45]](#endnote-45)

Water Purifiers

Increasing water pollution and depleting water tables had damaged the quality of drinking water in India. Because water-borne diseases accounted for 77 per cent of all diseases in the country,[[46]](#endnote-46) the water purifier market had immense growth potential. In 2015, this ₹42 billion market was considered niche, but growth by at least 23 per cent was predicted over the 2014–19 period, reaching US$4.1 billion by the end of 2024.[[47]](#endnote-47)

The water purifier market in India was highly price sensitive. Intense competition among leading players centred on quality, durability, price, after-sales services, and product innovation through technology. The top five players included Eureka Forbes Limited, Kent RO Systems Limited, Hindustan Unilever Limited, Ion Exchange, and Tata Chemicals Limited. Eureka Forbes and Kent RO had a combined market share of 65 per cent. Other prominent players included Kelvinator, LG, Panasonic, and Whirlpool.[[48]](#endnote-48)

The availability of low-priced purifiers and vendors’ improved distribution networks led to penetration in lower income and rural households.[[49]](#endnote-49) In 2016, Blue Star entered the residential water purifier segment, hoping to capture a 15 per cent market share within three years. According to Blue Star joint managing director B. Thiagarajan, the decision to enter the segment was to leverage the Blue Star brand and get more mileage from its installation and after-sales service businesses.[[50]](#endnote-50)

Water Dispensers

Rising disposable incomes, surging demand across industries, growing contamination and water resource concerns, rapid population growth, urbanization, industrialization, and better health awareness all propelled the demand for water dispensers in India.[[51]](#endnote-51) The promising growth projections of the water dispenser market made it very attractive. The market was expected to grow annually at more than 13 per cent between 2016 and 2021, to a total value of ₹3 billion by 2018 for an estimated 30,000 units.[[52]](#endnote-52) Besides market leader Blue Star, with a 35 per cent share, and major players like Voltas, Atlantis, and Carrier Midea India Private Limited, Chinese products made water dispensers a competitive market.[[53]](#endnote-53)

THE WAY AHEAD

Besides the AC, air cooler, and air purifier markets, competition was rife in newer segments like water dispensers, water purifiers, and water coolers. Although JCI-Hitachi was an established player in the AC market, its decision to enter newer markets was fraught with challenges. The company backed its intention to achieve sustainable, profitable growth by investing in new technologies and eco-friendly, cost-efficient solutions. It also introduced air purifiers in 2015.[[54]](#endnote-54) Yet with competitors such as Voltas, Blue Star, LG, Samsung, and Whirlpool already present in the various air and water solutions segments, JCI-Hitachi had to carefully consider its decision to enter newer segments and assess whether the entry would be timely. If the timing indeed was good, what strategic capabilities could it leverage? What were the possible obstacles to its success in the new segments?

EXHIBIT 1: SELECTED FINANCIALS FOR JCI-HITACHI (IN ₹ MILLIONS)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2011–12** | **2012–13** | **2013–14** | **2014–15** | **2015–16** |
| Net revenue | 7,989.6 | 9,316.0 | 11,054.7 | 15,800.0 | 16,613.0 |
| Total expense | 7,961.7 | 9,109.4 | 10,941.5 | 14,790.0 | 15,925.0 |
| Profit before finance cost, depreciation, and tax | 311.4 | 480.5 | 533.1 | 1,452.0 | 1,245.1 |
| Depreciation and amortization expense | 183.2 | 201.8 | 300.4 | 359.3 | 455.5 |
| Profit before tax | 27.9 | 206.6 | 113.3 | 1,010.1 | 688.4 |
| Tax expense | 4.7 | 53.6 | 32.8 | 232.5 | 188.6 |
| Profit for the year | 32.6 | 153.0 | 80.5 | 777.6 | 499.8 |

Note: ₹ = INR = Indian rupee; US$1 = ₹67.9047 on December 31, 2016.

Source: Created by the authors based on Hitachi Home & Life Solutions (India) Limited, Annual Reports 2011–2016, accessed December 22, 2016, www.jci-hitachi.in/content/investors.

EXHIBIT 2: JCI-HITACHI PRODUCT PORTFOLIO

Notes: AC = air conditioner; VRF = variable refrigerant flow; TM = Twin Motor; QA = Quadricool.

Source: Created by the authors based on “Products,” Johnson Controls-Hitachi Air Conditioning, accessed December 14, 2016, www.jci-hitachi.in/product.

endnotes

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in the case are not necessarily those of Johnson Controls-Hitachi Air Conditioning India Limited or any of its employees. [↑](#endnote-ref-1)
2. ₹ = INR = Indian rupee; all currency amounts are in ₹ unless otherwise specified; US$1 = ₹67.9047 on December 31, 2016. [↑](#endnote-ref-2)
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