**Debacle of HMT Watches Ltd: The Microeconomic Issues**

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# Watch Industry in India

When India got independence in 1947, its manufacturing base was quite weak due to economic exploitation by the British rulers for about two centuries. As a result, Indian citizens had to depend heavily on imported goods for a variety of manufactured products, including watches. Switzerland was the acknowledged leader in mechanical watches and the wealthy families from India used to buy watches manufactured in Switzerland. Even though the wristwatch was a utility item, its prohibitively high cost kept the common men out of its ambit. So, in the early 1960s, the then government under the influence of socialistic thinking undertook watch production within India to make the product available to the masses. The then existing public sector unit, HMT, was given the responsibility of manufacturing, thus ushering in a new era of home-grown watches in India.

During the next two decades, HMT was practically the only manufacturer and seller of wristwatches in the country. Therefore, the story of the Indian watch industry in this period was no more than the portrayal of HMT’s solo performance. Hindustan Machine Tools offered a large number of watch varieties for the Indian consumers who liked them for their look, price and more importantly, the reliability. The most popular mechanical hand-wound watch from HMT was Janata. There were other variants of mechanical watches under HMT’s umbrella such as Pilot, Jhalak, Sona, etc. Although the technology life cycles used to be long during those days, HMT successfully absorbed the new precise manufacturing technology for mass production and assembly of micro-sized components. As HMT watches gained a special place in the hearts of Indian consumers, the company emerged as the incontestable ruler of the watch market. The scenario, however, changed a bit with the market entry of Hyderabad Allwyn in 1981 and Titan in 1987. But HMT’s growth saga remained more or less unaltered, though Titan displayed its early promise.

The year 1991 saw an addition of a new chapter in India’s economic history when the crisis-ridden country adopted several radical measures leading to liberalization, privatization and globalization. It brought remarkable changes in the macroeconomic environment where private and foreign firms got preferences from the government policy in matters of trade and investment. With domestic players like Titan and many foreign brands entering into India, the watch market in the country became highly competitive. Hindustan Machine Tools slowly lost its place of prominence. However, Titan gained considerable strengths in the Indian watch market by offering a wide range of quality products at relatively low prices. Soon, the yesteryear’s market leader HMT was relegated to the position of a laggard legacy. Titan, on the other hand, emerged as the leading watchmaker from India and the fifth largest integrated brand watch manufacturer in the world (Titan, 2017).

# Hindustan Machine Tools Watches Limited

Hindustan Machine Tools Limited was incorporated in the year 1953 by the Government of India as a machine tool manufacturing company. The company’s primary objective was to produce a limited range of machine tools for supporting the country’s nascent industrialization programme of the post-independent era. Over the years, the company diversified into watches, tractors, printing machinery, metal forming presses, dye casting, plastic processing machinery and CNC systems and bearings (*Business Standard*, 2017). Its watch business made a beginning in 1961 with the establishment of a manufacturing plant in Bangalore in collaboration with Japan’s Citizen Watch Company. Japan was then a leading producer of watches along with Switzerland. In the early years, HMT used to manufacture watches with the machinery supplied by the Citizen. Besides taking technological support, HMT used to send its employees to Japan to get trained from Citizen on the production processes and machinery. Slowly, HMT gained control in its operations and manufactured the first batch of the company’s hand-wound wristwatches which was released by the then Prime Minister of India, Jawaharlal Nehru. Later, HMT Watches expanded its manufacturing base by establishing new plants at Bangalore, Srinagar, Tumkur and Ranibagh. A special division was also set up in Bangalore. Table 1 depicts the brief timeline of the HMT Watches.

In the initial years, HMT stood as a symbol of both hope and aspiration towards India’s ‘tryst with self-reliance’. The company experienced stable growth till the late 1980s, and in the process, it emerged as the leader in the Indian watch market. However, economic liberalization from the early 1990s facilitated the entry of many private players that included Titan Watches of the Tata group. Being a public sector company with large governmental control, HMT could not compete successfully with its private competitors, having agile management. As a result, HMT’s growth got shaken, and its market dominance declined. In the later period, HMT started trembling due to one reason or the other and finally reached a situation of near oblivion.

# Timeline of HMT Watches

|  |  |
| --- | --- |
| Year | Milestone |
| 1961 | Factory set up at Bangalore in collaboration with Japan’s M/S Citizen Watches |
| 1972 | The second unit was set up at Bangalore to manufacture automatic day date watches the third unit came into existence at Srinagar |
| 1975 | Manufacturing facility setup at Tumkur to manufacture quartz analog watches |
| 1994 | Started incurring losses |
| 2000 | According to the turnaround plan of the Government, the HMT Watch Business group was restructured as HMT Watches Limited, a subsidiary of HMT Limited |
| 2006 | A revival plan mooted by the board for the reconstruction of public sector enterprises |
| 2014 | Board for the reconstruction of public sector enterprises suggested its closure |
| 2016 (January) | Cabinet Committee on Economic Affairs, Government of India, gave the approval for the closure of HMT Watches |

Hindustan Machine Tools long journey in the watch business since the early 1960s can be divided into three distinct sub-periods, namely, 1961 to 1981, described as the golden era; 1981 to 1991, the pre-reform period and then post-1991, when economic reforms dictated the fate of many Indian industries, watches included.

# Hindustan Machine Tools Golden Era

The first two decades of existence, that is, from 1961 to 1981, were a smooth ride for HMT. It was the period when mechanical watches used to be the market trend, and HMT mastered the art of manufacturing mechanical watches which were sturdy and maintenance-free. There was not much competition in the domestic market with Time star Watches as the only other player with notable presence. The government policy also imposed severe restrictions on the import of watches into India. All these helped HMT to rise to a position of near monopoly in the Indian watch market. The company’s market share started soaring high, reaching up to 90 per cent for some brief periods. Besides gaining market dominance, HMT was able to make good profits by reaping the benefits of economies of scale through its mass-production strategy. In 1976, HMT achieved a landmark when it doubled its capacity. The company’s dependence on imported components got reduced substantially with in-house manufacturing of parts and components. But by the end of this period, consumers’ preference indicated a distinct shift towards quartz watches. Hindustan Machine Tools market share started declining due to this.

# Competition in the Indian Watch Market

Around 1981, the global trend for quartz watches became very prominent. The major watchmaking companies progressed from mechanical watches to quartz watches. Hindustan Machine Tools was quick to join this bandwagon by launching quartz watches in India. However, its market success remained limited because price-sensitive Indian consumers found HMT’s quartz watches a bit too expensive. As a counter strategy, HMT’s management decided to refocus on mechanical watches only. It also upgraded the production capacities of mechanical watches.

While HMT was trying to cope with the changes in consumer preference, another public sector watch company, Hyderabad Allwyn Limited, entered into the Indian market with the support from a Japanese company named Seiko. But HMT could more or less hold on its customer base as the new entrant did not pose any major threat. By the middle of the 1980s, there was a visible change in the political leadership of the country with Rajiv Gandhi taking charge of the Indian government, following the shocking assassination of the Prime Minister Indira Gandhi. The new government at the centre emphasized on the then sunrise industries like information technology (IT) and telecommunications, besides bringing several trade liberalizations including the softening of import restrictions. It made imported quartz watches available in the country at affordable prices. By 1984, Titan entered into the Indian market as the third watch company after HMT and Allwyn. Titan was born out of a joint venture between the Tata group, the biggest business conglomerate from India, and Tamil Nadu Industrial Development Corporation (TIDCO). Titan brought about a paradigm shift in the Indian watch market by offering quartz technology with international styling, manufactured in a state-of-the-art factory at Hosur, Tamil Nadu. Hindustan Machine Tools, on the other hand, continued manufacturing traditional mechanical watches. Within a short span of time, Titan appeared to be a challenger forcing the market leader HMT to rethink its strategies.

# Reasons behind HMT’s Downfall

Hindustan Machine Tools downfall was imminent, given that the company was in a loss for a long time since 1994. While it is difficult to pinpoint at any single reason behind the fall of this public sector giant, it is argued that the company’s management could not cope with the changing business environment in the country. That’s why a new competitor like Titan with a good understanding of the Indian market could march ahead, whereas an old and established company such as HMT lost its way at the same time and under similar macroeconomic conditions. The following paragraphs outline the principal reasons behind HMT’s fall.

**Rs. In Cr.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Year** | **2017-18** | | **2016-17** | |
|  | **Nos.** | **Value** | **Nos.** | **Value** |
| **Production** | 121 | 12.53 | 437 | 9.58 |
| **Sales** | 107 | 11.32 | 475 | 10.14 |

## Centralized Decision-making

In HMT, being a state-owned enterprise, the decision-making power was vested in the government. Needless to mention, the decision-making in HMT was highly centralized. Quite often, the senior management of the company would lament about the bureaucratic hurdles leading to delays in critical decisions like the launching of new products. During many occasions, manufacturing decisions could not be timely which caused the loss of sales and hence financial losses.

Factors like shortages of working capital, attrition of trade channel and the high cost of borrowing adversely affected the company. It is also claimed that the wage bill of the company stood at a very high level all through the years with no commensurate gain in labour productivity. Hindustan Machine Tools continued to accumulate losses, which eventually led to its inevitable fall.

## Lack of Research and Development

The primary role of HMT was to manufacture watches for the Indian public. But being a part of the pre liberalization era, HMT confined itself to produce basic utility watches only and did not pay adequate attention to manufacture technologically advanced products. Most of its designs were the copies of some foreign brands. No special focus was put on research and development (R&D). Similarly, the company lacked efforts on aesthetics and design aspects which are very critical for the market success of a product like a watch.

## Weak Organizational Culture

Hindustan Machine Tools was known for its typical public sector culture. The company management did not show any entrepreneurial spirit. The employees, on the other hand, remained crippled with the old mindset and presumed themselves only as job seekers. There was a lack of team spirit and near absence of motivational strategies. When the company entered into a phase of poor financial health, the HMT employees were not even paid their wages. Of late, at the *time* of the announcement of the closure, HMT Watches had more than 920 employees spread over its production facilities at Bangalore and Tumkur in Karnataka and Ranibagh in Uttarakhand. All these employees were forcibly given the ‘voluntary’ retirement. Overall, the weak organizational culture at HMT did not help its cause and had adverse effects on its physical and financial performance.

## Less Control over Retail Trade

Hindustan Machine Tools had a limited chain of distributors. The company was selling watches through its branch offices. Hindustan Machine Tools watches were also available from Defence Canteen Store Depots (CSDs) and a few designated wholesalers. Initially, when the demand for HMT watches used to be high, these wholesalers sold watches at a premium price. Slowly, HMT lost its command over retail price and subsequently it lost control on the trade completely. The resultant outcome was that the trade was controlled by a few wholesalers.

## Inability to Understand Changing Consumer Preferences

Hindustan Machine Tools used to conduct occasional consumer surveys to gain an understanding of the consumer preferences. However, the company rarely used these survey results for making changes in the product line or formulating appropriate marketing strategies. Hindustan Machine Tools missed on a very crucial aspect of the industry, that is, a watch is no longer considered as a time-keeping machine, it is becoming more of a fashion accessory for both men and women. Modern consumers had the desire for designer watches to match their styles. But HMT failed to understand the mindset of aesthetics-seeking consumers, which hit it hard. In contrast, its competitors with a better understanding of the market got the upper hand.

## Focusing on Obsolete Technology

In the late 1970s, HMT was the first company in India to launch quartz watches. It released its quartz watches under the brand names HMT Sona and HMT Vijay. These watches were ahead of their time and positioned themselves to cater only to the premium segments of the market. Strategically, HMT kept its quartz watches under the high-price category. Later on, when the quartz watches became more popular during the late 1980s, HMT continued with its high-price strategy. Hindustan Machine Tools presumed that quartz watches would have a limited market in the country. Henceforth, it fixed its quartz manufacturing capacity to just 5.6 lakh units annually and kept on focusing at mechanical watches. Subsequently, it stopped advertising quartz models.

## Inadequate Advertisement

Hindustan Machine Tools did not pay much attention to promotional strategies either. Specifically, when the competitors started invading the market, HMT should have made adequate efforts on making its products appearing in various media to have a permanent space in consumers’ minds. As a market leader, HMT appeared to be complacent and very few aggressive advertisement campaigns were released by it for augmenting the visibility to its products. This is another aspect where HMT lost to the competitors.

## Poor Strategy and Losing to Competition

Hindustan Machine Tools, though it had a good brand image, was recognized just as a typical mechanical watch manufacturer. Titan, on the other hand, was seen as the ‘Today’s watch manufacturer,’ with its range of sleek designer watches. Hindustan Machine Tools quartz range had almost similar watches as that of the Titan but the brand’s association with quartz watches was perceived to be weak. Rather, HMT came to be known as an old watchmaker.

In the early years, HMT used a two-pronged strategy. These were as follows:

1. It established itself as a strong brand which could stand in the competition and
2. It produced large volumes to ensure easy availability of the product to the customers.

Hindustan Machine Tools failure, however, can be attributed to its inability to deliver differentiated products, which had a large demand in the market. On the other hand, HMT’s main rival Titan offered the best and the most desirable range of watches to its customers at a very affordable price. Titan’s portfolio contained around 14 different products with about 2,000 different varieties. Thus, Titan was almost in a position to offer a watch for everyone and for every purpose.

# Lessons to be Learnt

It is said that time and tide wait for none and the same applies to HMT watches. From the position of an industry leader once and capturing an endearing place in the hearts of millions of customers, HMT watches will now be remembered as a brand of the bygone era.

Hindustan Machine Tools Watches, in spite of being a part of India’s large and lethargic public sector system, was one of the strongest brands in the country. It took a long time for HMT to earn this reputation. But, in the end, its strong brand image could not save the organization from failing. Many companies spend considerable time and resources to create a brand and then nurture it ceaselessly for ensuring sustained market performance

Hindustan Machine Tools spectacular growth in the initial decades was more because of the favourable macroeconomic conditions prevailing in India during that period which provided HMT the immunity from competition. As HMT was the sole player in the market, the customers had very little choice when it came to buying watches. But with competition emerging after economic reforms, HMT watches started losing their market shares, sometimes too much, too fast. Its competitors could easily win over the watch buyers by offering a large variety of products at multiple price points. They also adopted aggressive marketing strategies to attract the Indian customers. Hindustan Machine Tools, on the other hand, failed to understand the pulse of the market and continued, more or less, with the same product and strategy, which could hardly meet the needs of the modern customers.

In a period of intense competition with shortening of product life cycles, innovations play a key role in determining a product’s long-term success. Hindustan Machine Tools undertook several product related innovations. The company successfully launched India’s first quartz watch, automatic day-date watch, first Braille watch, first Ana-Digi watch and many other products. Hindustan Machine Tools also offered customized watches for various institutions, mostly from the public sector. But the majority of HMT’s innovation efforts were sporadic in nature, more to deal with a particular problem in hand. Those innovations were neither disruptive nor were they followed on a continuous basis as a part of a well-planned strategy. The case, therefore, offers an important lesson that innovation is not a one-time investment; it is a continuous journey to be pursued by an organization for securing a prominent place in the market.

Finally, the case reminds us of an adage that says, ‘the only thing that is constant is change’. It is perhaps applicable to an organization’s life as much as it is to human life. And the business environment is one of the intervening factors that forces organizations to adopt changes. India’s economic environment of business has undergone sea changes since 1991. However, HMT as an organization did not change much to adjust to the vagaries of the business environment in the post-reform era. It maintained its old style of management which was not in sync with the economic realities of the twenty-first century. This fastened HMT’s inevitable downfall.

# RECOMMENDATIONS

Following are few more things that HMT could have done:

1. Spin off a subsidiary for Quartz segment. While HMT’s mechanical watches ought to have focused the quality, class and elegance clients. Quartz subsidiary should have targeted the lower end market.

2. Innovation changed into the maximum crucial missing element from HMT’s way of life and strategy at some point of years. It ought to have innovated diverse approaches of commercial (celebrities, discounts, sponsoring occasions and many others.), advertising (renovating shops, making distribution channel greater green and many others.), getting customer feedback, adopt the changing market conditions and so on. Attracting the younger generation thru media become completely missing.

3. HMT could have invested into R&D or employed a few exact designers to design new fashions of the watches. With purchaser searching out new kinds of watches after 2000, this can have boosted their market percentage.

Four. HMT should have promoted special watches for distinct moods (e.g. Formal, casual etc.). This could have resulted into income of a couple of watch to the identical customer.

5. HMT should have collaborated with a number of the best stores of various brands (with huge distribution network and desirable retails showrooms) to display and promote some newly released models. An example can be television show rooms, which is found in nearly all of the cities. HMT could have been collaborated with a few jewellers to launch the jewel watches.

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