

Re-engineering Voltas

By redefining its goals, building a new framework and creating a new engine for growth, Voltas aims to script a Swift new future

Sanjay Johri, the newly-appointed managing director of Voltas, is a man of firm convictions. His two-point management mantra, which has served him well so far, is simple: one, all businesses are similar in management practices; and two, a good manager is one who creates a clear value proposition for the customer, instead of being tied down by technical details.

The efficacy of this mantra was tried and tested when the company's room air conditioner business, after being many years in the red, was hoisted back into the black by the efforts of his team. Pioneers of air conditioning in India in earlier decades, Voltas had lost its way in the mid-nineties. Its market position was under threat from multinational companies and its profit margins had eroded.

Mr Johri explains: "We were at a disadvantage because we didn't have a unique customer value proposition. And we also didn't have the economies of scale of global MNCs." So the challenge was both to connect more effectively with the consumer, as also to change the company's cost structure.

The turnaround came in 2006-07, when the company pioneered power-saving air conditioners for the value-conscious Indian consumer. The Unitary Products Business group also restructured its supply chain, cutting costs ruthlessly and instilling a sharp profit focus among

its entire team. The strong consumer response to the new value proposition enabled Voltas to increase market share steadily. The larger sales volumes and leaner cost structure generated the margins required to wipe out the division's accumulated losses; today, the business contributes substantially to the company's bottom line.

The company also embarked upon an ambitious programme, Megavol, setting itself a target of ₹100 billion turnover by 2010-11,

including inorganic acquisitions, with a 10 per cent profit margin. In November 2005, with a turnover of ₹14.41 billion, these were definitely aggressive targets, but the top management was clear that only an aspirational goal could galvanise the employees and change the mindset of the nineties.

All the seven divisions of Voltas responded to the challenge. "We are reasonably on track with our organic growth," says Mr Johri. "We closed 2009-10 with a turnover of almost ₹50 billion and a profit before tax of over ₹5 billion." More importantly, Voltas has managed to break free from the vicious cycle of low turnover growth and low profit margins that had plagued it till 2004-05.

Unlike other Tata companies, though, Voltas did not effect any large international acquisition, hence a shortfall in turnover against its ambitious target is likely: ₹30 billion was to have come in 2010-11 from such acquired businesses. This could perhaps be a blessing in disguise today, given that the acquisition would probably have been in the Middle East, a region which faced a fairly severe downturn in the recent global turmoil.



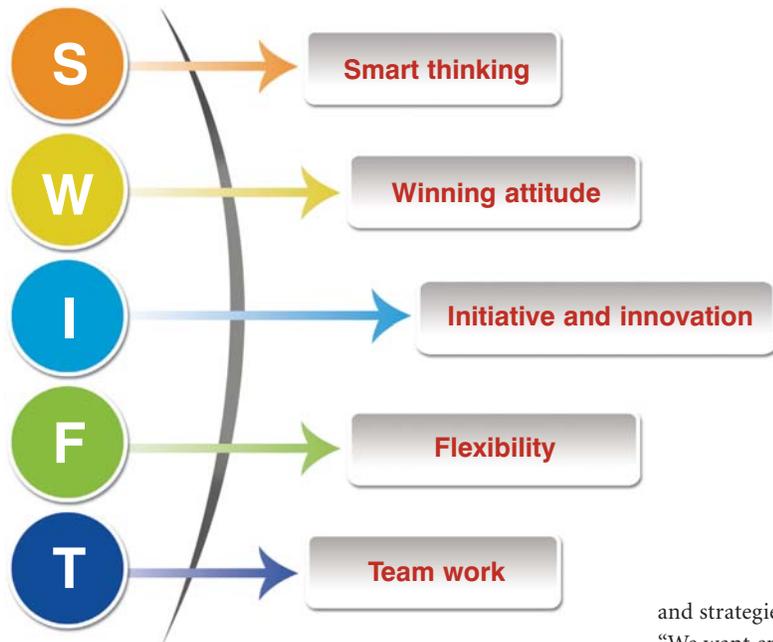
"This [Swift] will make Voltas smarter, innovative, faster and more effective in taking advantage of the opportunities available, and stronger in responding to market challenges"

Sanjay Johri

Changing perspective

Today the company is applying the experience gathered earlier to redefine its goals to create a new engine for growth in the coming decade. A team of senior executives studied the opportunities and challenges in the changed economic environment; the result: a new framework for inspiring growth and success at Voltas.

Mr Johri explains: "The goal of profitable growth has been firmly established. We decided that we are not



The building blocks of a 'swift' organisation

going to define ourselves only by numbers, any more. We need to also change the work culture in our company.” He believes that these new values and behaviours will help the company respond with agility to new opportunities and challenges in a fast-changing world. And the desired culture is embodied in the acronym Swift — smart thinking, winning attitude, initiative and innovation, flexibility, and team work.

Swift, says Mr Johri, must be demonstrated in the direct example of the senior leadership within Voltas. And it must help Voltas engineer change at a different level.

Smart thinking: Smart thinking implies a rigorous application of logic to hard facts in every business. It calls for critical insights, through relevant research and experience, to evolve new solutions. This worked very well in the room air conditioning business.

In 2006, to win the customer back, the company had carried out a detailed consumer study. It revealed that many consumers might be willing to pay a premium to buy energy-saving air conditioners. This insight was then translated into a new product range by the engineering department. And, within a few years, Voltas’s air conditioners found their way back into customers’ homes, riding on the back of a money-saving, customer-friendly value proposition.

Winning attitude: The company now places a lot of emphasis on the right attitude, looking for candidates with a strong ambition to succeed. “We will hire for attitude and train for skills,” says Mr Johri, “and this is the challenge for HR today.” This is going to be critical as Voltas goes for larger, more prestigious and global

contracts in its various businesses.

Using the analogy of the unitary air conditioning business, he says: “Even in the face of fierce competition, our managers were not willing to give up. Once the customer research showed us a way to win, our managers went all out to quickly create a new product range, expand distribution and advertise aggressively. That fierce drive to win left the competition far behind.”

Innovation and initiative: At the organisational level, the company is looking to be more innovative with products as well as with its processes and strategies. At the individual level, says Mr Johri, “We want employees to be proactive and not reactive, they must take the initiative. So the ‘I’ in Swift stands for both initiative and innovation.”

The unitary air conditioning business too, in its own way, has innovated within an old product category, by creating a new value proposition and driving it forcefully in the market. This is what the company must do across all its businesses.

Flexibility: To stay in step with fast-changing markets and customer needs, a company has to be flexible as well as fast, just as the unitary products business was during the crisis.

“Multinational competitors were sourcing cheaper air conditioners from suppliers across the world and we were out-priced. So we realised that we too had to build a different supply chain. Instead of manufacturing everything ourselves, we changed our sourcing model significantly. We right-sized our factories and developed a new make-versus-buy model for selectively sourcing raw materials, components and even full products from different vendors, including reputable partners in China,” says Mr Johri. He would like to see the same kind of flexibility and agility in every employee and every business.

Teamwork: There is no place in the company for lone rangers, says Mr Johri. Success is a team effort. With over 10,000 employees in a dozen countries and 5,000 dealers, distributors and retailers, he believes that the company must effectively combine forces with all its stakeholders and associates. “So there is a tension to be nurtured”, he says, “where employees demonstrate individual initiative, smart thinking and an aggressive attitude, but at the same time, people shouldn’t put their individual goals above the team goals.”

Future track

“My main objective,” says Mr Johri, “is to see Voltas become ‘Swift’-er, culturally and organisationally. This will make it smarter, determined, innovative, faster and more effective in taking advantage of the opportunities available, and stronger in responding to market challenges.”

With Swift in place, Voltas will look to widen its scope of work and expand into new geographies. The company has already built up a strong reputation for electro-mechanical work on iconic project sites in the Gulf market (*See box: Bridging the Gulf*) and is now stepping up the pace in the region.

Voltas will also be expanding its global footprint in other businesses. A team from the mining and construction equipment division of Voltas is exploring opportunities in Mozambique. The objective is to develop a business model for leveraging Indian technical skills in the maintenance of high value equipment, work that Voltas has been doing in India for decades. Says Mr Johri: “We believe that what oil

did for the Middle East, minerals could do for Africa; it is the next horizon.”

Closer to home, the company is expanding its electro-mechanical projects and services business, hitherto focused on buildings (offices, hospitals, hotels and malls), to the industrial sector. The focus is also on expanding the air conditioning business and taking it to its full potential, given the increasing income levels in the country. Voltas is also concentrating on the textile machinery business, which is expected to see a significant upturn in the coming months.

The potential, as Mr Johri says, is promising all round. And Voltas is making sure that no opportunity is lost, nor any effort spared to grow its businesses in every sector and across all geographies. “We now have four new COOs for the four business clusters of Voltas, all of whom are highly motivated,” Mr Johri says in conclusion, “We have posted a robust financial performance in the first quarter of the financial year 2010-11, and we are all charged up to face the challenges in the future”. ●

Arundhuti Dasgupta

Bridging the Gulf

Over the past few years, Voltas has focused on the international market in a big way, especially the Middle East; in 2009-10, nearly 40 per cent of the company’s turnover came from international contracts. In fact, Voltas has made quite a mark with its work on iconic projects such as the Burj Khalifa in Dubai (the world’s tallest building) and the Formula One race track in Abu Dhabi.

“We completed the race track just in time for UAE’s first Grand Prix event. That earned us an unprecedented letter of appreciation from the chairman of Aldar Properties, the developer,” says Voltas MD Sanjay Johri.

The Middle East has several interesting big-ticket projects on offer. The crude oil price is likely to remain at a reasonable level for the next few years, and Gulf Cooperation Council governments are investing to rapidly create physical and social infrastructure facilities. “We are expanding our focus from UAE, Qatar and Bahrain, our traditional strongholds, to Oman and Saudi Arabia, so that we are better-placed to capitalise on the opportunity,” says Mr Johri.

Voltas is also scaling up in the countries where it is already present. “With the order for Sidra Hospital and Medical Centre in Doha, we

have reached the ₹10 billion mark in terms of the total value from a single job. We are in the process of expanding our scope of work in the projects space, especially in electrical works, to the power, oil and gas sectors,” says Mr Johri.

But how did Voltas cope with the economic slowdown which has not spared the Gulf countries? The slowdown did affect the region and the impact was particularly pronounced in Dubai. Says Mr Johri, “Fortunately, a few years ago, our chairman Mr Ishaat Hussain advised us not to pursue new business in Dubai and to focus instead on Abu Dhabi and Qatar. The decision was prescient and very prudent.” As a result, Voltas was not as badly hit as other companies in the region.

The other challenge for the international business is managing global commodity price and currency fluctuations. “Most of our international projects are lumpsum fixed price contracts of high value and long gestation, and we need to protect profitability in an uncertain environment.” This is done by diversifying the supply chain to get raw materials from different countries to get the best price, and through judiciously hedging currency exposures.