Teaching Note

Eureka Forbes – The Direct Marketing Pioneer

This teaching note was written by V. Sarvani, under the direction of A. Mukund, IBS Center for Management Research.
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SUMMARY:

The case examines the strategies adopted (over the years) by leading consumer appliances company Eureka Forbes in India. The case explores how the company built up the vacuum cleaner and water/air purifier markets in India from scratch through its direct marketing efforts. The various initiatives to ensure good customer service and enhance customer satisfaction are examined in detail. The case also discusses the company’s attempt to enter the bottled water business, its decision to increase the thrust on the retail business, and the problems between its owners, Forbes Gokak Ltd. and Electrolux.

TEACHING OBJECTIVES & TARGET AUDIENCE:

The case is designed to enable students to

- Understand the applicability of the direct marketing model to the household appliances category vis-a-vis the traditional retail channels.
- Understand the importance of offering the highest possible level of customer service for a direct marketing business and the various ways of offering the same.
- Understand the rationale behind a company’s decision to adopt marketing strategies that are not its core competence (Eureka Forbes’ decision to focus more on retail instead of direct marketing to households).
- Examine the various issues involved when deciding to enter new product segments.

The case is aimed at MBA/PGDBA students, and is intended to be a part of the Marketing Management curriculum.

TEACHING APPROACH & STRATEGY:

The case can be used effectively for classroom discussions and distance learning programs. The moderator can introduce the students to the following topics:

- The concepts associated with direct marketing – its various forms, and their pros and cons associated with each one of them.
- Issues involved in creating new markets – i.e, creating a market for a product that has not been offered in a particular market before the entry of the concerned company.
- Direct marketing compared with other forms of marketing, and the issues involved in the management of a direct marketing sales force.
ANALYSIS:

1. In accordance with its global strategies, Eureka Forbes followed the direct selling route for marketing its products in India. Since vacuum cleaners and water purifiers were new concepts for Indian consumers, the company had to first establish the concept of vacuum cleaners and water purifiers in India. The efforts to establish Eureka Forbes as a brand came later on.

Eureka Forbes believed from the very beginning that its people were its core strength. The company also believed that direct selling required motivated employees. Therefore, it recruited people who were dynamic and highly motivated, whom it called ‘Eurochamps.’ The Eurochamps projected the image of ‘The friendly man from Eureka Forbes.’ The company advertised in different media (print and TV), to familiarize its target segment, housewives, with its direct sales force and its products. The TV commercials featured actors like Nitish Bhardwaj and Amar Upadhyay who appeared friendly and trustworthy.

The company maintained post-sales customer contacts of the company were very high and gave a lot of attention to Customer Relationship Management (CRM). Towards this, the company set up a 24 hour, 365 day virtual call center. The number of call centers was increased from six to ten by 2002. Eureka Forbes also provided very good after sales service to its customers. The company established over 400 CRC (Customer Response Centers), covering over 98 towns with more than 4000 sales personnel, to cater to the needs of its customers.

Eureka Forbes took many initiatives to enhance the performance of its salespeople. One such step was the implementation of various e-biz strategies, called B2E (Business to Employee) exercises. Normally, the company received sales information on a monthly basis. To reduce the time, the company asked its salespeople to report sales levels to the head office on a weekly basis. This way information could be regularly updated at the head office. As a result of this inventory levels could be reduced. The company also began ranking the performance of its salesmen and put up the list on the Internet so that others could see and improve their performance. The company conducted online training sessions for its new sales representatives, the transcripts of which were made available in printed form later. This helped the company reduce training costs considerably.

The company gave suppliers regular information so that they could plan their production in advance. They were given separate email identities so that they could interact with the company on the Internet. All the above mentioned initiatives taken by the company helped it establish itself in the market as a company that helped resolve the problems of the typical Indian household.

2. According to company sources, the direct sales route contributed 75% of the overall sales, while the dealer network contributed 10%. Eureka Forbes felt that the direct sales approach helped them exploit only the top end of the market. The company felt that it was leaving out the majority of the market, particularly the middle and lower segments of the market. Many urban as well as rural households did not purchase vacuum cleaners because they were not able to find them in any retail outlets. Therefore, to increase its reach and provide more visibility to its products, the company decided to go in for retail sales. The company wanted to double its sales by making them available at as many retail outlets as possible and thus increase revenues.

The company’s decision to introduce bottled water and portable water purifiers was in keeping with its decision to expand its retail business throughout the country. The company stated that this shift was done only to strengthen its core products i.e water purifiers like Aquaguard. That it wanted to extend the concept of ‘safe drinking water’ was evident from its decision to capitalize on its strong brand name. The company also claimed that stated that the launching new products would not be difficult as it had a strong sales personnel network and the required financial strength to push new products in the market.
Eureka Forbes was undoubtedly a very well-known and established player in the market with a lot of experience in direct selling. Considering this, its rationale for entering new segments and new untapped markets seems logical. If the company handles these new initiatives properly and ensures that its tested direct selling expertise does not go waste, the question of ‘injustice to its direct sales’ will not arise.

3.

The vacuum cleaners offered by the company and the advertising strategy that it followed had some drawbacks. The vacuum cleaners seemed very easy to use and handle when demonstrated by the salesmen but when they were used by the customers, they were found to be clumsy and difficult to operate. The vacuum cleaner models which were launched by the company initially were very bulky and came with many weird looking attachments that were difficult to use. For example, the attachment for cleaning walls was so painful to use that the users preferred not use it and instead get the work done by a domestic servant in the traditional manner.

A study conducted by the company revealed that many households did not trust their domestic help with vacuum cleaners. The study also revealed that people allowed their domestic help to use washing machines, but not vacuum cleaners. Therefore, even though they had bought vacuum cleaners, customers used them infrequently. Moreover, since with domestic help was being readily available, people did not prefer to use vacuum cleaners. This was one of the main reasons for the low penetration levels as well as low upgradation levels.

To overcome these problems, Eureka Forbes came out with a new ad campaign (costing Rs 15 million) during November 1999. Instead of focusing on the ‘friendly salesman’ theme, the company released an advertisement campaign featuring a maidservant using the vacuum cleaner. The company also launched a consumer training campaign in which sales personnel trained domestic help about product usage and upkeep. The new campaign aimed at establishing the fact that vacuum cleaners were easy to use and that even maidservants could be trusted with the product. The company also publicized a pager number along with the advertisement, so that customers could request for product demonstration and training by a salesperson.

Eureka Forbes wanted to promote itself as an environment-friendly and hygiene-oriented company. In addition, it wanted to create awareness about pollution and its affects on people and the environment. It also wanted people to become aware of the need to preserve natural water and air resources. Therefore, the company established the ‘Eureka Forbes Institute of Environment.’ The company measured air pollution levels daily in 8 metropolitan cities. This information was aired on Star news channel’s weather bulletin. It was also published on the websites www.ndtv.com and www.webhealthcare.com. The company conducted lectures and cleanliness drives in various parts of the country. In addition, the company held free pollution control camps in 10 metropolitan cities on the World Environment Day in association with TV channel National Geographic and the United Nation’s body UNICEF.

4.

Electrolux’s decided to leave the partnership when Eureka Forbes had already established itself as the market leader in the vacuum cleaner and the water purifier segment, having 75% and 85% market share respectively. The company had 3 million customers in India and a total sales turnover of Rs.3.68 billion, 32% of which came from vacuum cleaners and 45% from water purifiers. It was the market leader in the air purification and electronic security solutions segments as well.

Given these facts and considering the company’s financial strength and in-house marketing expertise, Electrolux’s departure does not seem to be a major problem for the company. Electrolux did not have any management control of Eureka Forbes and gave inputs only in the form of technology transfer. After Electrolux’s departure Eureka Forbes can outsource its technology needs. This would not only reduce development costs, but also reduce the time gap between upgradation of products.
Eureka Forbes was the first company in India to have introduced the concept of direct marketing. The company had gone through the expensive and time-consuming process of building the concept of vacuum cleaners and water purifiers in the country. Due to the company’s people-oriented ad campaigns and its innovative approach for familiarizing the consumers with its products, the name Eureka (brand) became synonymous with vacuum cleaners and water purifiers.

Eureka Forbes also took significant steps to ensure after-sales service to its customers. These services included service contracts, free maintenance, mobile van service facility and water labs. The company also organized contests and schemes to increase interaction between its salespeople and its customers. It even had a 24-hour CRC to cater to customer queries.

To reduce the time lag between the procurement of information and its processing, the company implemented various e-biz strategies, called B2E (Business to Employee) exercises. The company also appraised the performance of its sales force on a regular basis to improve their performance. The company also used an online training system to reduce the time taken to train new salespersons. Eureka Forbes also made use of the Internet to send information to its suppliers so that they could better plan their production.

Due to the above-mentioned initiatives and the company’s innovative marketing strategies, Eureka Forbes became Asia’s largest direct selling organization—a status which none of its competitors could achieve in the past two decades. Though a few competitors did emerge over the years, none of them was able to make a significant impact.

FEEDBACK:

The case was discussed by a group of research associates and faculty members as part of a faculty development program at IBS Center for Management Research (ICMR), Hyderabad, India.

The group felt that the direct marketing method for vacuum cleaners worked well for the company, as Indian consumers were unfamiliar with the concept of electric cleaners and had to be educated about their functioning. They felt that Eureka Forbes was able to establish itself as the market leader and remain so over the years only because of its strong focus on direct marketing.

Most of the participants felt that by providing superior customer services, Eureka Forbes built up a strong brand image. They argued that the company’s decision to concentrate on retailing in the future might not be a wise move, as its core competence lay in direct marketing. The group was of the opinion that the real challenge before the company was increasing the usage of vacuum cleaners in those households that bought them. Some participants felt that with power charges increasing in many Indian states, the above could be a difficult task.
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**Additional Readings & References:**

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