CASE STUDY

Stealing the show

Taking it from the dust and grime of mandis to air-conditioned retail stores with dozens of branded options at fixed prices—that is what Tata Steel achieved while becoming the first company in India to de-commoditise steel and convert it into a retail brand accessible to people across the country. This customer-centric transformation of the company was game-changing.

In the pre-liberalisation era, India's steel industry was highly regulated. Due to heavy import duties, there was no competition in local markets. Licence Raj ensured that companies like TISCO (now Tata Steel) could not expand their production. As a result, demand was always more than supply, and steel would be rationed based on government directives on price and quantity. With no options for scaling up, Tata Steel ensured that it operated 100 per cent, and ensured efficient production through optimal utilisation of available infrastructure.

The typical scene in the marketing offices of steel companies in those years was of customers requesting prior appointments with sales managers, which would be given after a month. When the customer would come to the office after a month and say, "*Saab se milna hai*" (I want to meet the boss), the secretary's response would be: "*Saab golf khelne gaye hai*" (Sir has gone to play golf)! The situation was no different in Tata Steel's marketing office in Kolkata. Reminiscing about those days, Fusion Engineering's Gautam Mukherjee had said, "In 1989, we ran at 20 per cent capacity and had to almost close down because there was no steel available. I was called a beggar in the marketing department of TISCO." [1]

By the mid-1990s, the steel industry got decontrolled, and new players entered the Indian market. Steel no longer remained a sellers' market. Prices moved from cost-based to market-based, and devising strategies for ensuring sustained profitability amid competition became the need of the hour. Tata Steel realised the imperative of better understanding its customers and their needs, and embarked on re-engineering its marketing and sales approach to remain competitive and ahead of the pack.

The first change it brought was product related—a transition in its product mix from low-margin, high-volume products like semi-finished steel to high-value, flat products that were used in automobiles and consumer durables. (Between 1992 and 2000, the quantum of semi-finished steel in its product mix came down from 54 per cent to 3 per cent, and that of high-value flat products increased from 40 per cent to 65 per cent.)

The second change was customer related. It introduced greater speed in its response to customer requirements for quotations and flexibility by introducing credit sales. Price quotations and delivery schedules were provided within 24 to 48 hours of enquiry by any customer. Earlier, it would take a month even to provide a quotation. From purely cash-based sales, credit sales became a reality in the new situation. Mukherjee was no longer called a beggar at TISCO. He had a new title. He was among the 100 'key customers' identified by the company for 'relationship management'.

"In our marketing initiatives, we started talking about key customers, and percentage of sales from them," recalled Anand Sen, president of steel business at Tata Steel, who was then assistant general manager of marketing and sales. Intra-company analysis indicated that nearly 200 key customers accounted for 80 per cent of sales. The remaining 20 per cent consisted of over 6,000 customers that included wholesalers, traders, and small-ticket customers.[2] This segment of customers was highly disorganised and fragmented. It also included customers at the base of the pyramid, to which Ratan Tata was consistently drawing the group's attention. Although their individual per capita consumption was low, there was a huge market that could be tapped. The company now needed to move from being product-ready to becoming market-ready. It identified a phenomenal opportunity in this untapped retail market by creating significant differentiation in its products and services, redesigning its distribution network, and providing superior value to end-customers.

An unprecedented loss in the third quarter of 1999 to 2000 shook the company and its top leadership and accentuated the need for change. The turn of the millennium became an inflexion point in its commitment to improve its performance on both fronts—intra-organisational efficiency and customer-centricity. The former was achieved by becoming EVA positive. For the latter, it enhanced its journey from being product-driven to becoming

Image courtesy Tata Steel

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market-driven. Tata Steel already had an excellent reputation for its products' core functional quality. It was the market leader in eight of its nine product categories. "Meeting customer needs is just not enough; meeting changing customer demand, shrinking or expanding supply according to his output is important," observed Firdose Vandrevala, the then vice president of marketing and sales. Arthur D Little, leading consultants, assisted the company in its marketing efforts. The recommended approach was to de-commoditise steel and make it a branded product which was sold based on relationships rather than just price.[3]

A soap-like distribution network for steel

To achieve this end, Tata Steel embarked on an exercise called Retail Value Management (RVM) in 2000, with the help of McKinsey. It also initiated a strategy of retaining its key industrial customers through a programme called Customer Value Management (CVM), which aimed at migrating its large and promising customers, especially original equipment manufacturers (OEM), from transaction selling to a collaborative mode of consultative selling and eventually to strategic partnerships that created mutual value by enhancing value chain competitiveness.[4] The CVM approach was highly successful, and much appreciated even in academic circles for its potential across B2B companies. Given the promise of the automobile and construction sectors, it focused on 25 promising clients from the 1,500 business customers it had.[5] While CVM targeted high-margin, high-value B2B markets, RVM focused on low-value, high-volume B2C markets. Given its sheer scale of targeting 19,000 villages across India, Tata Steel's B2C journey was a fascinating one.

RVM consisted of two key steps—mapping the market and modernising retail channel partners. Over a year, the company studied most of its retail market, district by district, exploring the number of shops, buying patterns, and buying behaviour. It was already enjoying a premium of 25 to 30 per cent over the next best competitor in existing products like agricultural implements and hand tools, its oldest retail product category since the 1930s. In rural markets, farmers would tell traders, "*Mujhe Tata ka maal chahiye*" (I want Tata products). "Agrico, Tata Steel's brand was very powerful, particularly in rural areas. The challenge before us was to reach the entire retail market, especially when steel is a very bulky material," said Sen. By 2001, they embarked on a three-phase development process and launched a 'Distribution Dream Plan' with the target of touching at least 10 lakh retail customers. "We wanted to be present in any village which had more than 5,000 people. Our material would be available within five kilometres of where it is required," recalled Sen. As per the 2001 Census, there were nearly 19,000 villages across India that had a population of 5,000 and more, accounting for nearly 16 crore people. This massive, pan-India presence had to be complemented with buyer awareness. While everyone knew where soaps and shampoos are available, the awareness of buying steel products was rather limited. Hence, customer engagement and channel modification emerged as two focus areas.

To gain direct access to prospective customers, and understand their requirements first hand, the company participated in village fairs and *haats*. Through focus group discussions, a lot of ideas were generated at the grassroots level. The company also conducted masons' meet, plumbers' meet, and structural engineers' meet in urban areas to understand their pain points and gain feedback that could be used in product design and channel design. The 'customer week' at Jamshedpur was used as

Tata Steel's dedicated customer account managers were responsible for engaging with channel partners across different territories.

an opportunity to invite customers to visit the plant and engage with them for ideas and issues. The top leadership, including Dr Jamshed Irani and Muthuraman (CEOs of Tata Steel), participated in these interactions with customers and addressed complaints.[6]

The second focus area was redesigning its distribution channel and modernising channel partners. Till then, traders sold Tata Steel products in the mandi and had no regard for end-customers. As part of its new strategy, the rules of appointment were changed. Instead of a trader, it appointed a distributor with exclusive territory. The distributors were selected through a three-step process. Step one involved qualifying criteria on the interested entrepreneur's investment capabilities and market reputation. Step two involved a screening of applications based on criteria such as market knowledge, past performance, and experience in business. Step three was final selection based on an interview by a panel of senior Tata Steel managers. This indicated the rigour the company adopted in selecting those channel partners who would be their representatives in the larger market.

Tata Steel assured these distributors of good business and returns. However, it demanded discipline and grassroots connect from them. The distributors were initially sceptical of the company's assurance as the steel market was cyclical in nature. They thought that one bad phase would reveal Tata Steel's commitment or the lack of it. That happened in 2003-04, when international steel prices increased massively in response to expanding demand and soaring input costs.[7] Domestic prices were much lower. Most Indian steel companies were exporting their products to make the most of the higher international prices. Tata Steel did not. It stuck to its commitment to its distributors and gave them priority by supplying products at pre-fixed prices.

As part of its RVM focus, Tata Steel started appointing 500 to 1,000 new retailers (aka dealers) every year. Within a distributor's territory, there would be 60 to 200 retailers. While dealerships were given by the company, the distributors were their contact points. The company would supply products to its distributors, who in turn would make them available to retailers within their territory. The retailers were the last-mile connect with end-consumers. The company followed a hub and spoke model, Jamshedpur being the big hub with four regional hubs. For example, Nagpur was the regional hub for the west with spokes such as Ahmedabad and Pune, which were stockyards fed on demand. From these places, the distributor lifted products. At the spoke level, for example, the local Gujarat distributor of Tata Steel was an exclusive distributor and picked up his requirements based on his retailers' needs. Each distributor handled a specified territory and 60 to 200 retailers. The retailers were located in the market and sold the products to the final consumer.

Tata Steel's dedicated customer account managers (CAMs) were responsible for engaging with channel partners across different territories. "When our CAMs started visiting retailers, they were surprised. They had never seen anybody from Tata Steel. The distributor was the face of the company. Suddenly, they found Tata Steel asking for feedback. That is when we started getting a very strong band of retailers, some of whom would stock only Tata Steel products," recalls Sen. To ensure that its products reached end-consumers in the most convenient manner, Tata Steel studied leading FMCG companies like P&G, Hindustan Unilever, and Asian Paints, who were highly successful in channel management strategies for B2C products. These companies operated retail channels with different levels, and material

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passed through different hands. By adopting their strategies, Tata Steel transformed the way the retail steel business was done in India. Its focus on B2C made it a pioneer in RVM.

There were nine levers of RVM—company, distributor, retailer, consumer, opinion leader, value influencer, direct marketing, mass media, and word of mouth—that covered the interests of each stakeholder. The pricing and servicing across the value chain was managed by Tata Steel. It used to keep daily track of sales at the retail level. Initially, it was a manual system. The retailer used to fax his sales for the day by evening. Tata Steel's head office would collate all data across 1,000 outlets every evening and analyse demand and requirements at the micro level. Based on sales, products were transported to the distributors' warehouse. With four years of effort, a replenishment-based model that was backed by a robust MIS was initiated to reduce inventory requirements at the retailers' end. Earlier, retailers had to keep two months of inventory. With the new model, the company supplied them products once a week. As a result, retailers had to carry just two weeks of inventory instead of two months, leading to a three-fourth reduction in their working capital requirements. For small retailers, it meant a huge unlocking of liquid funds. The excess retail stock was passed on to the distributors, who in turn passed it on to the company.

By 2005, the entire process ran on SAP, and distributors' and retailers' transactions were automated and seamlessly connected with Tata Steel's systems. The company also became one of the first to adopt the Theory of Constraints. (Popularly known as Goldratt's Theory of Constraints, it is a methodology for identifying the most important limiting factor (constraint) that stands in the way of achieving a goal, and then systematically improving that constraint until it is no longer the limiting factor.) Accordingly, the entire supply chain worked on actual consumption in the marketplace, and inventory kept moving to meet demand. With this replenishment-based pull production system, steel mills of Tata Steel rolled as per requirement, unlike earlier when production targets were set, and products manufactured in batches were sent to distributors for sales. This was a standard approach of a capital-intensive industry like steel, which used batch production systems to save set-up costs and time. The products thus produced in batches were pushed to the supply chain to meet customer demands. The biggest drawback of this system was that it was supply-driven and not demand-driven. Consequently, there were periods of uncertainty leading to unreliability of supplies.

Under the new system, over 90 per cent of retailers lived on a week's stock with full availability of all Tata Steel products. The competition struggled with a disorganised retail market. SAIL and Essar Steel, two key competitors, had no authorised selling agents, had little control over traders, and had no experience of providing technical support to channel members and customers. In contrast, Tata Steel developed dedicated distributors and motivated retailers to cultivate enduring relationships with customers across target markets. This gave the company a sustainable competitive advantage. With this arrangement in place, Tata Steel was now ready to directly approach the consumer. But there was an intermediate step, which was another first in the steel industry—branding steel products.

The first company in the world to sell branded steel

It was during the tenure of B Muthuraman as managing director, and due to his marketing genius that Tata Steel gave a lot of thrust to the retail market and became the first company in the world to sell branded steel products. While

To ensure that customers get a genuine product, Tata Steel embossed 'Tiscon' on its products in a way that was impossible to copy. Same was done with other brands. It became the first company in the world to innovate watermark branding on cold rolled steel.

launching 'Tata Steelium', the world's first branded cold rolled steel in Goa on February 27, 2003, Muthuraman observed, "Branding will give rise to a customised product in terms of value, performance, and pricing that will meet our customers' needs better. Branding will go a long way in meeting the challenge of gaining a sustainable competitive edge."[8] In a nationwide study conducted by ORG-MARG in 2005, all brands of Tata Steel-Shaktee, Tiscon and Steelium emerged as leaders, with the highest brand equity in their respective categories.[9] Shaktee was launched in February 2000; these were galvanised, corrugated sheets for roofing applications in rural markets. In 2007, it won the Best Long-Term Rural Marketing Initiatives Award from the Rural Marketing Association of India. Tiscon was launched in December 2000; these were reinforcing steel bars (aka rebars) used for construction purposes. It was selected as a 'Super Brand' in 2009. Steelium was launched in February 2003; this brand was sold through exclusive Steelium Zone retail shops and was targeted at small consumers for general engineering requirements.

This brand recognition was not without a reason. In an industry with a cost-optimisation focus, Tata Steel committed itself to invest financially towards brand-building. About one per cent of the total revenue from sales of branded products was spent on branding initiatives. A product promotion budget for each brand was allocated in the annual business planning process. Besides the investment, the foundational reason for Tata Steel's success with its brands was the reputation it enjoyed across India. This was visible when both the financial community and public rated Tata Steel as the No. 1 company with impeccable reputation in the 'TNS India Corporate Reputation Study 2005'. Only among business managers did Infosys beat Tata Steel by a margin of a single point.[10] Several competitors followed suit and introduced their own retail brands like Jindal Tiger and SAIL Jyoti.

However, grassroots experiences revealed that it was not enough to build brands, but to ensure that they were not misused. Here is an example. In a 5,000 to 10,000 people village, a retailer was a respected person. Anybody who wanted to buy some form of steel would ask him. He would typically say, "*Yeh wala badhiya hai*" (This one is good). Once that retailer approved the quality, villagers would just go for that '*badhiya*' product. The company realised that many retailers were selling products made by any company as Tatas' Tiscon. This amounted to cheating naive rural customers. To ensure that they get a genuine product, Tata Steel embossed 'Tiscon' on its products in a way that was impossible to copy. Same was done with other brands. It became the first company in the world to innovate watermark branding on cold rolled steel. In 2004, the Tata Agrico hologram was declared as the best by the London-based International Hologram Manufacturers Association.

The other area where consumers were being deceived was product thickness. Nobody would measure whether a product was 0.63 or 0.5 mm, and that is where retailers were taking advantage. Tata Steel started marking dimensions on all its products and designed a simple tool with which retailers could show actual coating thickness. It also mandated its dealers to have electronic weighing machines where customers could see the weight of the product they were buying.

Fair pricing was another key area. For long years, the steel industry followed '*aaj ka bhav*' (today's price). After buying steel from the mandi, each distributor would charge his

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own rate for that day. Tata Steel changed and introduced recommended consumer price (RCP) for its products across all Tata dealers. The RCP rates were stable for a quarter and were displayed in stores for greater transparency. The customers benefitted from this price stability. In fact, there were times when the company even took a beating to ensure fair prices for consumers. Kulvin Suri, chief of corporate communications at Tata Steel, recollects the time when the Australian mines were flooded in 2007-08. In July 2005, Tata Steel had signed agreements to buy a 5 per cent interest in the Carborough Downs Coal Project located in Queensland. Raw material for steelmaking sourced from Australia did not come in, thereby impacting production. The ensuing shortage led to skyrocketing of steel prices to ₹7,000 a ton. At that time, Muthuraman decided to roll back prices by ₹2,000 a ton in customers' interest.

Over time, Tatas' retail stores not only became customer-friendly, but also experience centres. By December 2005, the company launched 'steeljunction', India's first organised steel retail store. A mid-size, specialty store, steeljunction provided a comprehensive range of steel products, superior shopping experience, warm ambience, and pleasant sales personnel. Besides Tata Steel brands, it showcased products from other steel makers, including Parryware, Magpie, Ess Ess, Art-d-inox, Taparia Tools, Godrej, GKW, Neelam, Faber, Franke, ST Unicom, and Glen, among others. This format allowed families to step in, and involved more homemakers in the process of buying steel products—both construction and maintenance products (construction re-bars, pipes, bath fittings, hand-tools, hardware, wire products, galvanised corrugated roofing sheets, etc) and home aesthetic products (stylised furniture, kitchenware, crockery, cutlery, lifestyle products, stainless steel jewellery, lamps, gift items, wrought iron products, and more).[11] Steel was no longer restricted to unglamorous kitchens and washrooms; it had become a trendy product that could make a lifestyle statement.[12]

As if resonating with the company's prudence in proactively targeting retail customers, Tata Steel's sales from branded products increased from 9 to 50 per cent of total sales of over ₹50,000 crore over a 15-year period.

With steeljunction, Tata Steel raised the bar of delighting retail customers. Not surprisingly, it swept all the gold awards for the retail category by the Advertising Club of India in 2006.

From 2008, it started providing integrated solutions. At 500 of its exclusive retail stores, the company provided not just the product, but also the service of installing it as per customer specifications.[13] For example, it not only sold steel for making a shed, but also built the shed for the consumer, who was spared the time and effort of engaging different agencies. Over time, it introduced completely customisable modular wardrobes, an extensive range of smart and stylish furniture, the Pravesh brand of steel doors and windows, portable cabins, and smart sanitation units for addressing urban sanitation requirements. Blending the elegant looks of wood and the inherent strength of steel, Pravesh doors were waterproof and termite-proof. They emerged as a relevant innovation for rural areas but were also used in Bombay House (Tata Group headquarters) for its utility, durability, and visual appeal. Tata Steel's retail stores became one-stop shops providing end-to-end customer service. It empowered consumers to expect a superior retailing experience while shopping for steel.

Mentoring the supply chain to espouse quality and customer-centricity

It was Khalil Gibran who said, "To go forward is to move towards perfection. March on, and fear not the thorns or the sharp stones on life's path." This message is aptly applicable to Tata Steel's journey. The middlemen who had earned crores by manipulating the system and deceiving retail customers made Tata Steel's endeavour of a customer-centric retail business loaded with challenges. Prior to Tata Steel's redesigned distribution network, its steel was bought in bulk by traders, who sold it to the highest bidder through auctions in mandis at Mumbai and Kolkata. Retailers would travel to these mandis, buy their requirement and return to their geographies to sell the product at inconstant prices. The whole market played on uncertainty and shortage. Sadly, consumers' interests were nowhere in the picture.

When Tata Steel introduced its customer-first approach, it met with a lot of resistance as most middlemen made money by hoodwinking consumers on price, quality, and quantity. It also upset competitors who compromised on subtle aspects of product quality. Those traders who were in business for 60 to 70 years and were making a crore a month through dubious means could now earn only a few lakhs. Sen reminisced about how many of them threatened Tata's officers. Some wrote to Ratan Tata seeking redressal. Others filed cases against the company.

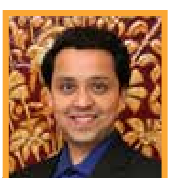
Yet, the company stood its ground. It received full support from the top leadership. To ensure rapprochement, Tata Steel counselled its dealers and distributors on the long-term benefits of customer-centric ethical practices. "If you play by these rules, we will mentor you, and even work with you to recruit people. But you have to recruit people who must engage with customers. You need to organise a fully transparent system." The company's goal was to give each customer a sense of dealing with a professional organisation with the Tata brand by having competent and concerned intermediary employees and installing effective systems of dealing with customers. It stood by this commitment and invested over 10,000 hours in training, development, and customer sensitisation of the channel partners.

Eventually, distributors developed teams of 20 to 30 account managers and proactively engaged with dealers and customers to provide a great buying experience. The channel partners realised that branded products, transparent practices, and defined prices led to higher footfalls in their stores compared to peers. They were making money not by selling more to one customer at a different price, but by selling to more customers. Between 2006 and 2010, the year-on-year increase in sales to dealers rose from 4 to 40 per cent, inventory requirements reduced by 75 per cent, ROCE increased from 11 to 32 per cent, and premium on Tata Steel products rose from ₹4,000 to ₹6,150 per tonne.[14]

By 2017, Tata Steel products commanded a premium of ₹10,000 per tonne as compared to the next competitor brand. It was successful in giving bigger and better business to its dealers and distributors, while also convincing them of doing business, the Tata way. As for customers, the company believed that the relationships it had built with them were not people dependent. Instead, they were part of an institutionalised process. "We want to, where possible, do more than delight our customers; we want to surprise them," observes Debashish Choudhury, chief, business excellence at Tata Steel.[15]

In hindsight, Tata Steel's 15-year retail journey could be classified into three phases. The introductory period between 2002 and 2007 focused on creating brand identity and establishing the channel. The growth period between 2008 and 2012 focused on enhancing capability and consumer experience. The maturity period from 2013 focused on providing customised solutions and redesigning several offerings through innovation. In 2013-14, it reorganised its marketing and sales organisation that focused on two verticals—long and flat products, to market segments—automotive and special products, branded products, retail, and solutions (BPRS), industrial products, projects and exports, and downstream units.[16] As if resonating with the company's prudence in proactively targeting retail customers, Tata Steel's sales from branded products increased from 9 to 50 per cent of total sales of over ₹50,000 crore over a 15-year period. Tata Steel's BPRS business helped it de-risk the inevitable volatility of industrial cycles, especially in B2B segments with an enhanced portfolio of value-added products targeting B2C markets. By 2017, the company had 30 lakh retail customers serviced through a pan-India sales distribution network of 212 distributors and 12,600 dealers and retailers.[17] As much as 60 per cent of its outbound logistics was covered by rail network, and the remaining by roads. It became the first company to have special freight train operations. Another first in the Indian industry was that 100 per cent of its fleet was covered by vehicle tracking systems, and its delivery compliance continued to remain at 95 per cent and more.

Tata Steel has exceeded its own target of 10 lakh retail customers by three times in less than a decade by creating win-win outcomes for consumers, channel partners, and itself. IM



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