
CASE 2 DEVOX (INDIA) LIMITED : A LESS EXPENSIVE BUT COMPLAINING CUSTOMER

Structure

- 2.0 Objectives
- 2.1 Introduction
- 2.2 Company Profile
- 2.3 Sales Interaction
- 2.4 Post Sales Consultation
- 2.5 Discussion Questions
- 2.6 References

2.0 OBJECTIVES

The specific objectives of this case are to:

- Identify the reasons for a conflict in a sales situation both from the point of view of a customer and the organisation
- Identify the bridging factors in resolving a conflict.
- Learn the negotiation process by observing that each situation is a unique situation.

2.1 INTRODUCTION

In this case an attempt has been made to describe a sales interaction between a sales person and a complaining customer.

To familiarise you about the organisation, in the beginning of the case the profile of the organisation has been given. In addition, the 'Indian Sports Shoe Industry' scenario, has been detailed as an annexure to the case.

After going through the case you may like to attempt answering the questions, given at the end of this case study.

2.2 COMPANY PROFILE

Devox is the Indian subsidiary of the \$3.6 billion Devox International. In June 1998, Devox unveiled one of the bigger incentives for its weak markets of U.P. and M.P. - a Rs.990 all-leather shoe named Racer. It is the company's first serious attempt to break the Rs.1,000 price barrier, that often comes in the way of ensnaring prospective customers. The first attempt in June 1996 -- a canvas shoe for Rs.490 -- had an image problem. It was cheap for a Devox but expensive for a canvas that looked much like any other. On trade demand, its price was brought down to Rs.290, recalls a distributor, after which it was withdrawn. In the process, it provided enough meat to critics to casually dismiss what they dubbed as Devox's 'mass market aggression'.

Sales in the first six months of 1998 were Rs.20 crore (including apparel). A major push came from the two-week-old exchange scheme launched at some 20 outlets in Delhi wherein any old pair could be exchanged for a Devox on discounts ranging from Rs.500 to Rs.1,300.

It is believed that the exchange scheme alone might touched sales of Rs.1.25 - 1.5 crore as against the nearly Rs.1 crore of average monthly sales in all the outlets put together in the capital.

This case is prepared by Dr. Mukesh chaturvedi, Professor of Marketing, MDI, Gurgaon, for classroom discussion.

Devox had estimated market potential of 5 lakh pairs in the Rs. 1,100 plus sports shoe category for 1996-97. Details on the Indian Sports Shoe Industry are given in the Annexure. It was easier said than done. But, Devox though it knew the answer: trade. Get in distributors and begin placing Devox at shop-in-shops and 'A' class dealer outlets.

When the first distributor was appointed around June 1996 for Gujarat, Maharashtra and Punjab (servicing some 80 dealers), Devox's product range was not geared for the trade. The Classic range of shoes sold from Rs.1,990 onwards in showrooms, much higher than, say, a Rs.1,155 Woodland. Apparel started at Rs.500. Distributors were not ready to accept that.

So the first change Devox made was to bring down the entry-level price to Rs.1,090. The other was a compromise on returns. Since both did not know what exactly could sell in the mass market, distributors were sceptical. Devox agreed to take back goods for the first six months.

Since 1994, Devox International's sales have not moved much beyond \$3 billion (from \$3.3 billion in 1994 they were up to \$3.6 billion in 1997, a period in which Nike sped past it from \$3.8 billion to \$9 billion). Devox was pipped to the second spot globally by Adidas. Again, the US has been Nike's stronghold (sales of \$3.8 billion and a market share of 47 per cent), followed by Japan. Devox's US footwear sales have dipped from \$1.4 billion in 1995 to \$1.3 billion in 1997.

What Devox did:

- Launched affordable canvas shoes as a new fashion statement
- Retailed initially at Rs.490, then down to Rs.290 on trade demand, creating lot of dissonance
- Started with sportstar-centred advertising that did not click
- Opened to trade to address the problem of availability without reconfiguring the product portfolio and logistics
- Became bold on discount sales to shed the premium image.

What Devox corrected :

- Launched a Rs.990 all-leather shoe which clearly addressed affordability without losing out on the essence of a Devox, plus also started working on high-end shoes
- Turned to product-related advertising
- Carefully separating product portfolio for showrooms and dealer outlets
- Trying novel stock liquidation schemes and for small time periods

What Devox now needs to focus on:

- Selective retailing and a control over the retailing environment
- Better co-ordination between marketing and production to tap trade-spotted gaps
- A cohesive aspirational campaign, probably on a higher budget, but on a non-premium platform so as to relate to youth beyond metros

2.3 SALES INTERACTION

Sunday, around 11.40 a.m., the showroom of Devox sports shoes and sports wear in a posh market of a metro city. Mr. Oberoi walks towards it from the parking lot with a box of Devox shoes along with his wife. Mr. Oberoi is sporting a brick red T-shirt outside of a pair of khaki long shorts and sandals. Mrs. Oberoi is wearing a light blue plain salwar suit. She has a shopping bag on her and a small money bag. Mr. Oberoi enters the shop first as Mrs. Oberoi decides to stay on for a while to do some window shopping. Mr. Oberoi is an HRD executive with a multinational company. On his entering the shop, he is greeted by Rahul, the young sales executive trainee who is on a visit to this showroom from the headquarters.

Rahul: Good morning sir! May I help you.

Mr. Oberoi: Oh, yes. Well, I had taken this pair last Sunday. I have just worn it twice. I have a feeling that they are from a "seconds" lot. (Tries to hand over the box, but Rahul has his hands behind the back).

Rahul: Sir, we don't have "seconds" stock in this showroom.

Mr. Oberoi: (Opening the box of shoes) It did strike me here itself but I was more keen on the colour; may be, therefore, I overlooked it. (Pointing at the toes of the shoes) There is a difference between the two shoes here. The strips are not aligned identically. It seems to be a manufacturing defect.

Rahul: (Looking at the shoes but still with his hands behind the back) Sir, this is the way they are designed. It is not a manufacturing defect.

Mr. Oberoi: (Getting closer to Rahul and trying to hand over the pair to him to have a look himself from his side) This can't be design. It is an alignment defect and it looks a "second" pair.

Rahul: (Still not taking the pair) Sir, I can show you other pairs also. They are all made the same way. (He asks one of the shop assistants to get a couple of more pairs of the same make, and moves on to attend to other customers. When he returns after about six minutes, he finds Mr. Oberoi trying a different colour pair) See, I said that they were all made the same way. It is design, not a manufacturing defect.

Mr. Oberoi: Then, I have a feeling that this showroom is selling defective pieces. They are not fresh stocks.

Rahul: I told you. As a policy, we do not keep "seconds" pairs in company's showroom. In fact, we don't have much of "seconds" stock because our production line is most modern.

Mr. Oberoi: (Picking up *his pair of shoes*) Any way I want to return them. I don't want to wear a defective pair.

Rahul: Sorry sir. We can't take it back. We don't have a policy of accepting sold goods back.

Mr. Oberoi: , *What !* (Raising his voice) First you are not accepting that this is a defective pair. And, then, you are telling me A; I can't return A. What kind of shop you are?

Rahul (Looking grim but speaking steadily) Sir, I told you that they are no defective. Secondly, you have already used them. How can I take them back?

[At this moment, Mr. Sharma, the showroom manager, coming from behind the shop notices them and walks up to Mr. Oberoi.]

Mr. Sharma: May I help you, gentlemen.

Rahul: He is Mr.....(trying to introduce Mr. Oberoi).

Mr. Oberoi: (Interrupting Rahul) I'm Oberoi. I bought this pair (showing him the shoes) last week from your showroom. I find that there is something wrong with the design at the toes. In fact, a couple of my friends pointed it out.

Mr. Sharma: You had not seen it at the time of buying them?

Mr. Oberoi: I had noticed it but didn't bother much.

Mr. Sharma: Why?

Mr. Oberoi: May be I was more busy deciding the colour.

Mr. Sharma: Well, Mr. Oberoi, this is no design or manufacturing defect. On the contrary, this is the way they are made to look. You can see that all of them (pointing at the pairs lying on the floor) are having the same pattern.

Mr. Oberoi: But; they look old. And, I don't want to wear some thing, which can be taken as "seconds".

Mr. Sharma: Mr. Oberoi, we don't have a policy of.. -

Mr. Oberoi: (Interrupting him) Then, I am leaving them here (drops them at the floor). Please do whatever you want to do with them.

Mr. Sharma: (Looking down at the pair for a while) Do you have the receipt?

Mr. Oberoi: (Searching for a while in his wallet and the box of shoes) Let me check with my wife (and turns to look for her; she is coming towards them only) You have the receipt for these shoes?

Mrs. Oberoi: No, I don't think you gave it to me (and starts looking into her money bag). No.

Mr. Oberoi: I don't know. May be I have left it at home.

Mr. Sharma: Please give us a moment (and asks Rahul to accompany him to his chamber on the backside of the showroom).

Mrs. Oberoi: What are they saying? (asking Mr. Oberoi)

Mr. Oberoi: They don't have a policy to take the sold goods back.

Mrs. Oberoi: I told you; they won't take them back.

Mr. Oberoi: Is it? They will have to take them back; you will see.

[In the meanwhile, Rahul emerges from behind the shop and approaches Mr. Oberoi].

Rahul: See, we will have to check with our head office regarding ". You may find out after two days.

Mr. Oberoi: I can't come on week days.

Rahul: Then, on next Sunday?

Mr. Oberoi: But, I don't have just this to do on every Sunday.

Rahul: Then, you can find out over phone (and gets him a card of the showroom with phone number from the counter).

Mr. Oberoi: (Instead of taking the card, he takes out his own business card from the wallet and gives it to him) Why don't you inform me?

Rahul: (Taking the card) Sure, we will, but, in case we are not able to get through to you, you could also try.

Mr. Oberoi: (Reluctantly) O.K. (take the card and turns to exit).

Rahul: (Picking up his pair from the floor) You may keep them with you in the meanwhile.

Mr. Oberoi: (Moving back towards him) What will I do with them?

Rahul: Sir, unless and until I hear from my head office, I can't accept them back. Secondly, in absence of any receipt, they might just get misplaced.

Mr. Oberoi: (Looking hard at him and thinking for a while) O.K: But do let me know soon.

Rahul: (Packing the pair back in its box and handing it over to him) Sure.

2.4 POST SALES CONSULTATION

On the advice of Mr. Sharma, next day, Rahul speaks to Mr. Khare General Manager (Sales) at the headquarters. Mr. Khare asks him to fax the details. Rahul sends the following communication:

Dear Sir,

One customer, Mr. Sunil Oberoi, wants to return a pair of shoes, which he had bought from this showroom a week back. He says that there is a manufacturing defect, which shows in the design. In fact, he is accusing us of selling "seconds" from this shop. Mr. Sharma and I told him about our policies and tried to make him see the point; but, all in vain. Finally, to prevent him from making an ugly scene, we promised that we would let him know our decision after consulting the head office. I have also been successful in convincing him to take the pair back with him. But he will certainly want to get an answer from us within a couple of days.

Please advice.

Regards

(Rahul)

The following day being Tuesday, Rahul left the station as he was on tour. On Wednesday morning, Mr. Sharma found the following message from Mr. Khare on the fax machine:

"If he is a Rs.4,500-rupee customer, don't ask any questions, take the shoes back, give a new pair, and salute him. But if he is a Rs.1,250-rupee customer, then tell him clearly that it is not possible.

Please remember that customer is king; but, kings are also big & small and rich & poor."

2.5 DISCUSSION QUESTIONS

1. What do you think is the real reason why Mr. Oberoi wants to return the pair of shoes?
2. Was Rahul able to handle Mr. Oberoi's complaint competently?
3. What do you think of Mr. Khare's fax? Would you like to advise Rahul differently?

2.6 REFERENCES

1. Business Standard THE STRATEGIST, 30 June 1998, pp.1&3.
2. The Financial Express BRAND WAGON, 20 December 1996,p.1.
3. BUSINESS WORLD, 7 August 1996, pp.42-43.

Annexure

THE INDIAN SPORTS SHOE INDUSTRY

Rs.5,100/- crore Indian shoe industry includes the global contenders, Nike, Adidas and Reebok, well-matched in product excellence and formidable brand equity.

Reebok appeared in Phoenix-owned Sports Infiniti stores in October 1995, with Nike following suit in March 1996 followed by Adidas in November.

The Sports Infiniti stores stock both Reebok and Adidas products, while Nike gear is to be found in either exclusive outlets, premium Bata stores or shop-in-shops like Shopper's Stop and Varma. Sports World, a sports supermarket located in the capital, is the only store in the country which stocks all three brands, in addition to equipment for cricket, golf, soccer and tennis.

The three mega-brands have come into the country through diverse routes. Adidas, the German sports giant, is here with a \$2.5 million joint venture with Delhi-based Magnum International, a Rs.350 crore export house, while Nike has a licensing arrangement with Sierra Industrial Enterprises. Reebok has tied up with Phoenix to set a subsidiary in India, with the Indian company holding 20 per cent of the stake.

Not surprisingly, each of the three dismisses the threat from the others. Adidas, because of the earlier tie-up with Bata, is better known to Indians than the competition is, except perhaps to the select few who have links with the US, which is where the other two players are really strong. Despite having been here longer than Adidas, neither Reebok nor Nike has been able to establish itself in India. In fact, they're making the same mistake that some of the other multinationals have already made in India -- providing outdated, sub-standard products at affordable prices or good products at absurd prices which the middle-class Indian can't afford.

Adidas prefers to sell its shoes through multi-brand stores, since that is how the world shops. In India, sales are divided along these lines: 60 per cent of the shoes sold are Reebok, Nike is 20 per cent and Adidas is 20 per cent. Sports World, however, sells an average of 12 to 15 pairs of shoes of each brand daily.

While Nike is sourcing all its shoes from Moja Shoes, Reebok has spread its net wider, sourcing its canvas shoes from Lakhani, and the others from Bata and Phoenix. Adidas is sourcing its entire shoe range from Lakhani.

Worldwide, Nike outsells Adidas which in turn outsells Reebok. The German brand is number one in Europe, but the other two are dominant in the US, which accounts for 45 per cent of the world's sports shoe market. Unhappily for Adidas, it has only a six per cent market share in the US, that too garnered only in the last three-four years. "But going by its current growth pattern, Adidas hopes to be No.2 in the US by 2000. At present, Adidas has only five per cent market share in the US compared to Nike's 32 per cent and Reebok's 25 per cent share.

There are two outstanding features of the Indian market. First, there are few takers for sports shoes. So, a few tennis and cricket players might wear their shoes but that is about all. The second and vital point to remember about the local market is that it is very price sensitive. Keeping this in mind, Reebok is the only premium shoe company in India which sells shoes from Rs.990 to Rs.4,990.

Today, the country's sports shoe manufacturers have realised they have put their collective foot in their mouth. Plunged into a slowdown that was supposed to be a thing of the past, the notoriously seasonal Rs.300 crore industry has been witnessing sliding sales, rising inventories and production cutbacks.

Nearly every major sports shoemaker has been feeling the pinch though few are willing to admit it. Liberty's Geosport range of speciality shoes, which was launched in 1995, was selling, in 1996, only 8,000 pairs a month, against anticipated sales of 15,000 pairs; its Force 10 range was suffering 40% lower volumes every month.

While long-standing multinational brands such as Lotto and Puma have virtually disappeared from shopshelves, even a high-profile new entrant like Reebok is believed to be selling well below expectations. To top it all, though the American shoe major launched operations only in October 1995, the sluggish offtake forced it to recently hold a seconds' sale in Bangalore. Nike, too, has been moving in slow Motion, at about 200 pairs a day.

Industry sources point out that a large chunk of Nike's initial sales could be attributed to customers' urge to try out a new product. Otherwise, there are fewer takers for high-priced sports shoes (Rs.1,000 and above). The downturn has not spared cheaper brands either. The slowdown makes a mockery of claims made by industry observers and

sports shoemakers over the last few years that the domestic market was sprinting at over 30% every year; growing health awareness was fuelling a fierce demand for specialised footwear; and that the industry's seasonality (summer and rainy months always see a drop in sales) was gradually coming to an end.

Footwear dealers have attributed slow sales to a range of factors -- from the obvious, to the somewhat farfetched. In Delhi, they say, one reason has been the reintroduction of lotteries after a gap of one-and-a-half years. Dealers point out that the high price of lottery tickets, up to Rs.2,000 each, has left many middle-class households with less money for 'luxuries' like sports shoes. But, there's no doubt that the financial crunch in the economy is affecting this industry too.

Between 1993 and 1995, the production capacities of several manufacturers had more than doubled. In June 1996, for instance, Lakhani Footwear raised Rs.50 crore from the market to expand its production capacity of non-leather shoes from 3 million pairs to 6.165 million pairs. Before that, Phoenix industries also added new capacities for its sports; today, it can make up to 10 million shoes a year.

Though exact figures are hard to come by, one estimate places the total installed capacity of the industry today is not less than 40 million pairs. Domestic sports shoemakers raised capacities on the basis of two assumptions: first, that Reebok and Nike would source their shoes from them both for the domestic as well as the export market. Second, that the global giants would pump in money to expand the existing market for sports shoes in the country. But, both expectations failed to materialise. Reebok and Nike have not sourced the anticipated volumes from domestic manufacturers (by end 1996, Reebok had exported only 500,000 pairs from India), nor has the domestic market grown. Sports shoe sales peaked at 15 million pairs in mid-1994 and then plateaued; one year later, they began to tumble. By March 1996, less than 10 million pairs had been sold. Phoenix has not utilised even 5% of its installed annual capacity of 10 million pairs. And Lakhani Footwear is suddenly saddled with an idle capacity of over 3 million pairs. Even market leader API Polymer is scaling down the production of its Action shoes to about 300,000 pairs a month, against an installed capacity of about 500,000 pairs.

To make matters worse, the sports shoe has not really created its own specialised niche as yet; the Indian buyer continues to perceive sports shoes as casual footwear. In other words, sports shoes find themselves thrown into the same segment as casual shoes, where the competition is even greater. In the case of premium-priced models, they are considered fashion statements. In these cases, the market is very small. Either way, the industry is in a jam.

It's not as though sports shoemakers can quickly shift gear, by adopting other styles to bypass the jam. To do that, they will have to rejig their entire assembly lanes. So, they have no other option but to push sales of existing styles. Not surprisingly, manufacturers are adopting all manners of techniques to move their ware. Liberty recently started an exchange offer: buyers bringing in any old pair or sport shoe receive a Rs. 100 discount on a Liberty shoe that costs more than Rs.495. .

Some of them are eyeing the rural market. Lakhani Footwear and API Polymer have begun making forays here in a small way. Even Liberty has been thinking on similar lines. But that still leaves them saddled with premium-priced models. If the market continues to slide, they may have to scale down prices. The reason? Indian buyers still don't want to spend more than Rs.500 on a pair of shoes -- especially sports shoes.

Reebok appears to have already read the writing on the wall and has launched a range of sports shoes at Rs.990 per pair. While the introduction of a range substantially lower than its usual range may not entirely be a fallout of the downturn, it could soon become a trendsetter. As one shoe manufacturer says; "It's like white-water rafting. All you can do is to try not to hit the next rock". That's easier said than done, especially when the market itself is careering into obstacles. Clearly, for the sports shoemakers, the race against time has begun.