The Indian Institute Of Business Management & Studies

Subject: Business Management **Marks: 100**

Attempt Only 4 Case Study (20 Marks Each Case)

CASE – 1: Where Do We Go from Here?

As one of the many seminars held to discuss the corporate response of family-owned business to liberalisation and globalisation, the keynote Mr Gurcharan Das concluded his speech by saying, "In the end, I would say that the success of Indian economy would depend on how the Indian industry and business respond to the reform process."

As the proceedings of the seminar progressed it became clear that there was a difference of opinion in the perception of participants. Those who were supporting the case for letting the family-owned businesses face competition opined that such businesses in India have exhibited financial acumen; its members have generally adopted an austere life style; they have demonstrated an ability to take calculated risks, and an ability to accumulate and manage capital. They have devised unique managerial style and led the creation of the equity cult among Indians. Several of them are low-cost producers.

The participants critical of the role of family business had this is to say: "There has been a tendency to mix up family's intent with that of businesses managed by them. There is a lack of focus and business strategy. Family businesses have generally adopted a short-term approach to business causing less purposeful investments in specially critical areas such as employee development and product development. Customers and development of marketing skills have been neglected."

The valedictory session of the Seminar attempted to bring out the issues clearly. It culminated in an agenda for reform by the family businesses. The points highlighted in the agenda are:

1. Indian family-owned business organisations need to professionalise management,
2. they need to curtail the diversified of their business groups and impart a sharper focus to their business activities, and
3. they need to pay greater attention to the development of human capital.

Question

Suppose you were an observer at the seminar. During tea and lunch breaks you had an occasion to meet several people who were skeptical and felt that the reform process was having only a superficial impact on the corporates. Express your opinion that you form about the issues at the seminar.

CASE – 2: A Healthy Dose of Success

Muhammad Majeed represents a typical Indian who has created success out of sheer hard work and commitment through his education and expertise. At the age of 23 years, Majeed, after graduating in pharmacy from Kerala University, went to pursue higher studies in the US. He completed his masters and PhD in industrial chemistry. Armed with high qualifications, he became a research pharmacist and eventually, as most expatriate Indians do, set up his own company, Sabinsa Corporation. Experiencing difficulties with the long-drawn drug approval process of the US Food and Drug Administration and his own dwindling savings, Majeed focussed on ayurvedic products based on natural extracts. He returned to India in 1991 (incidentally, the year when liberalisation started in India) and set up Sami Chemicals and Extracts Ltd, late renamed as Sami Labs Ltd (SLL), Bangalore.

SLL has over three dozen products, and seven US patents. There are 25 European and other country patents pending approval. SLL has four manufacturing units all based in Karnataka. The sales is Rs 44.5 crore and the profit-after-tax is Rs 5.89 crore. It has pioneered specialised products based on Indian herbal extracts relying on the principles of ayurveda. The major thrust is on remedies for cholesterol control, fat reduction, and weight management. As against several Indian companies exporting raw herbs, SLL specialises in value-addition through extractions. The result is encouraging: SLL's products typically fetch an export price that is more than double the price of raw herbs.

SLL thinks of its business as "manufacturing and selling traditional standardized extracts and nutritional and pharmaceutical fine chemicals". Sabinsa, its US-based company, secures contracts from the US companies to manufacture certain chemicals in India. Its business plans are quite ambitious. Setting up a product management team, assisting farmers in cultivation of pharmaceutically useful herbs, and international collaborations for developing research-based intellectual property and its commercialisation are some of the strategic actions on the anvil.

SLL looks forward to being a Rs 500-crore company by 2005 when the World Trade Organisation's patenting regimes comes into force.

Question:-

How will you define the business of SLL? Comment on the business of SLL and your opinion on the likelihood of its success.

CASE – 3: No Chain, No Gain

Textile industry is one of the oldest industries in India. Several business houses have their origin in this industry. In the mid-1980s, the powerloom sector in the unorganised sector started hurting badly the interests of the composite textile mills of the sector. Their cost structure, with lower overheads and no duties, was less than half of that of mills for equivalent production. While the powerlooms sold cloth as a commodity, the mills tried to establish their products as brands. The post-liberalisation period has seen a large number of foreign brands enter India. It is in this scenario that the Mayur brand of Rajasthan Spinning and Weaving Mills (RSWM) had to carve out a place for itself.

RSWM is the flagship company of the LNJ Bhilwara group. It has been the largest producer and trader of yarn in the country and caters to the large demands for blended yarns and grey cloth fabric used for children's school uniform. In 1994, the yarn business faced a severe crunch owing to overcapacity. From 1995 onward, RSWM became a late follower of the industry trend as other competitors already moved up the value chain.

Textile manufacturing is basically constituted of the processes of spinning, weaving, processing, and marketing. More than 50 per cent of the value is concentrated in weaving and processing. Moving up the value chain from spinning involves large investments in machinery and labour. Graduating to marketing requires getting closer to the customers. This is the challenge that a traditional spinning mill like RSWM had to face if it was to sustain itself in a highly competitive market.

At another level, for RSWM, it was a matter of cultural transformation of the organisation long used to a conservative, trader mentality. Imagine a company whose main driving force, Shekhar Agarwal, Vice-Chairman and Managing Director having little interest in watching Hindi movies signing up Sharukh Khan at a considerable price for celebrity advertising. From the market side, it has long been troubled with its commitment to the loyal middle-class customers as it had to simultaneously pay attention to the upwardly mobile upper middle class customers. Then there was the dilemma of being too many things to a wide range of audience. RSWM wanted to have a stake in the export markets as well as keep its share in the rural markets. It perceived itself as an efficient producer and wished to become a flamboyant retailer. It excelled in basic textile processing yet dreamt of attaining sophistication in in-house production of readymade garments. And all this while it has been a late mover, losing out to early movers such as Raymonds. No wonder it virtually landed up on the fringes of the industry, far behind formidable competitors like Reliance, Grasim, and S. Kumar.

Question

Suggest how should RSWM manage its value chain effectively. Should it try to imitate the market leaders? If yes, why? If no, why not? What alternatives routes to success do you propose?

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CASE – 4: A Very Intriguing Package

It is not quite often that a positive product feature becomes an albatross around the neck of a company. VIP Industries had held sway for over two decades in the organised Indian luggage market on the basis of the durability of its moulded suitcases. Obviously, the customer perceives value-for-money in the long-lasting, reasonably-priced Alfa brand of VIP suitcases which sells 1.5 lakh pieces a month. But this means that having bought one suitcase the customer can do with it for several years. Market research by the company shows that an average Indian family pulls out the suitcase merely for outstation travel a few times a year. Hence, there is no pressing need for continual replacement of the old luggage.

The VIP products are made of virgin polymer as compared to the recycled grade I and II polymers used by the unorganised sector. They are subjected to stringent stress tests for quality control.

VIP has a presence in a wide range of the market segments within a price spectrum of Rs 295 to Rs 6,000 apiece. It is her that the competition from the unorganised sector hurts the company most. VIP's economically-priced brand, Alfa is widely imitated and sold at much lower prices. This enables the unorganised sector to typically sell 20 times more than VIP can. The lower price threshold seems to be Rs 225 which in nearly impossible for VIP to achieve given its cost structure. In the Rs 1500 plus premium range, VIP has to contend with Samsonite which is a formidable competitor.

The obvious tactic for VIP has been to cut costs. Distribution and logistics is one area where valiant efforts have been made at cost reduction. VIP has four factories located in heart of India. The average distribution costs come to Rs 7 to Rs 8 apiece. Reduction in cost has been attempted through distributed manufacturing by having vendors making the product at different locations, thereby, avoiding transportation of high-volume suitcases across long distances and reducing inventory build-up in the channel.

Severe pressure on sales has resulted in VIP Industries offering discounts and unwittingly entering into a disastrous price war. Promotion of a high visibility product suffered and advertising expenditure has been ruthlessly curtailed from the earlier Rs 11 crore to Rs 2 crore now. Its lead advertising agency is HTA. Action on the promotion front has seen reorganisation of the brand portfolio. Incidentally, earlier its successful and popular *Kal bhi aaj bhi* campaign served to reinforce its durability theme.

There are several roadblocks that the company has to negotiate. Increase in population, rising propensity of Indian to travel, and the insatiable thirst of customers for state-of-the-art technological products with newer designs and innovation, all at an affordable price are the opportunities and challenges before the company. Introduction of new brands, Mantra and Skybags, product range of diversification to include children's bags and ladies' bags, strategic alliance with Europe's leading luggage-maker—Delsey—are some of the steps taken by the company.

Yet, caught in its self spun web of past successes, VIP is today faced with an uncertain future.

Question

How should the VIP Industries get out of the bind that it finds itself in? Outline the contours of the marketing plans and policies that VIP needs to formulate and implement?

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CASE – 5: Let There be Light

Traditionally, power plants, being capital-intensive, have been set up by the public sector and state electricity boards (SEBs) in India. Everyone agrees today that the energy sector is the major infrastructure bottleneck holding up economic development. A critical aspect of economic reforms thus is the reform of the energy sector.

The Madhya Pradesh State Electricity Board (MPSEB) is not much different from its counterparts in other states. It faces similar problems and is opting for identical solutions. The common elements in the power sector reforms are: corporatisation by breaking the SEB into generation, transmission, and distribution; financial restructuring including debt and interest payment rescheduling; reduction of manpower; and improvements in operational efficiency.

Public utilities, like SEBS, have to be commercially viable in order to survive. Yet historically, this aspect of SEB as an organisation has been sacrificed at the altar of political expediency. The ruling party, irrespective of whether it is the Congress at present or the Bharatiya Janata Party earlier, have made pre-election promises of supplying free or heavily-subsidised power. Digvijay Singh, the present chief minister of Madhya Pradesh, a populist politician earlier, on longer sees electoral benefit in providing free electricity. "It pays to pay" is his refrain today, whether it is healthcare or electricity.

Bold steps—bold, as they still carry the risk of a political fallout with fiery BJP leader Uma Bharti breathing down Digvijay's neck or the silent schemers of his own party working overtime behind the scenes—have been initiated to reform the energy sector in Madhya Pradesh. MPSEB is to be divided into generation, transmission, and distribution (T&D), and supply companies. Financial management and cash flow management is to be improved. The retirement age of MPSEB employees has been reduced from 60 to 58 years. Effective operational control is sought to be exercised by metering power supply at division / district level to fix responsibility for T & D losses and power thefts. A sustained drive is on to identify non-paying consumers, install meters, and make them pay their bills regularly.

MPSEB's annual losses are to the tune of a massive Rs 1,600 crore; total liabilities are estimated to be Rs 20,000 crore. Undeniably, are parameters indicating the rot that has corroded the system.

At one level, the reform of the energy sector is a political action but at another, and perhaps, a more fundamental level, it is a question of managing an organisation strategically through strategic actions designed to turn around a vital public utility.

Question

Analyse the problems of the MPSEB from the strategic management perspective. Do you feel that the actions taken or being contemplated are strategic in nature? Propose what else needs to be done to make the MPSEB a viable organisation.