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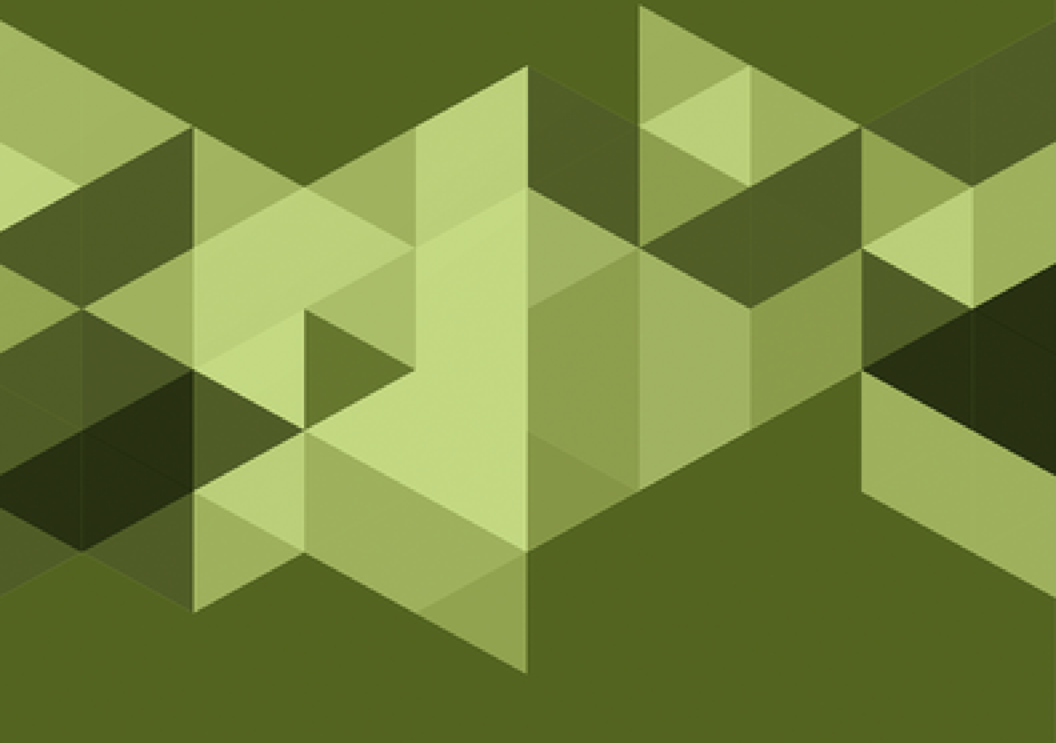

Priti Mastakar | Lalit Kanore

Indian Case Studies in Business Management

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Volume III

LALIT KANORE
PRITI MASTAKAR

Indian Case Studies in Business Management

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Dr R.R. Pachpande

[1947–2009]

‘Education is the Soul of our society’

The series editors and the volume authors of the case volumes titled as ‘Indian Business Case Studies’ published by Oxford University Press have a deep sense of gratefulness while dedicating these case volumes to the memory of Dr Raghunath R. Pachpande, the Founder of ASM Group of Institutes Pune, India.

It was with the untiring efforts and strategic vision of Dr R.R. (as he was known to his close friends and colleagues) which has been Instrumental in ASM group adopting case methodology as a unique element in its pedagogy which motivated the faculty and students of ASM group of institutes to develop business case studies on Indian businesses and use them to teach management subjects in all branches of Business Management studies.

Dr R.R. Pachpande was a leader beyond parlance and ahead of time in establishing educational institutes more so in higher studies in business management specifically in the industrial belts in the state of Maharashtra with a view to providing best of experiential learning to its students through closer interactions with business units around.

Today ASM Group continues the great legacy of Dr R.R. Pachpande under the leadership of his successors and who have succeeded in taking ASM Group to global recognition as a unique group of institutes offering world-class education in all branches of Business Management.

This case volume is dedicated to the memories of late Dr R.R. Pachpande.

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Preface

Many universities and management institutes across the globe have adopted the case study methodology for teaching almost all branches of management studies for several decades. This trend has been seen in India also, wherein the IIMs and progressive management Institutes in private sector have implemented case methodology as an important pedagogical tool in business management education.

However, there is a severe shortage in Indian business case studies faced by the B-schools in India and those global Institutes associated with Indian academia. Majority of the case studies studied at IIMs and other A-grade B-schools in India are from situations in industries in foreign countries and have very little or no relevance to Indian business situations. This acts as a major gap for faculty and students engagement in business management studies both at UG and masters level (PG) studies, wherein for clarification of theoretical concepts is possible mainly through use of case methodology which enables insight into business real-life business situations.

Besides, the objectives and purposes for which case studies are developed abroad are much different from course of studies in Indian B-schools. Therefore, the dependence on foreign case studies for Indian students does not provide any real situational insight on Indian business. Although the curriculum requires taking the students through case study methodology, there are not many Indian case studies for this purpose.

The main objectives of using case-based teaching as a major pedagogical tool in B-schools are as follows:

1. To facilitate students' concept development capabilities through exposure to real-life problems in industries.
2. To enable students to correlate theoretical topics with the techniques used in analysing complex issues in business situations.

3. To develop skills using which students can develop application matrix for the theoretical topics for real-life problem analysis and resolution techniques.
4. Help the students of B-schools to develop orientation towards the important attributes and attitudinal requirements for effective handling of complex situations at the workplace.
5. To develop a clear understanding of the techniques used for problem analysis, situation analysis, and decision analysis and appropriate understanding of the difference between problems and situations in management.
6. To develop the group-based approaches to solving problems and challenges at the workplace by appropriate coordination of and collaboration with all related aspects of a situation.
7. To develop a reference manual for recording the problems tackled and the essential lessons learnt from past incidences for use in future eventualities of recurrence of issues.
8. To develop the preventive steps that must be initiated to ensure the problems resolved once do not recur in the immediate future.

Business case studies are basically oriented towards developing the evaluative and analytical skills of students towards industry situations. Such case studies draw the attention of participants of the case resolution methodology on the in-depth correlative evaluation of the issues in the case study with the various related topics that the students have to study about in their classrooms. These case studies could be on issues related to human resources, industrial relations, product and process, marketing and finance management areas in business management.

The academic environment across the world too is facing a major disruption on account of the global pandemic Covid-19 forcing the offline education system to switch over to online/blended versions of teaching and learning process. And use of case methodology and simulation exercises are the main in gradients for sustaining effective ways of delivering experiential learning through use of case and case lets in an online mode of teaching ensuring student engagements and online interactive ways of knowledge dissemination.

Oxford University Press in association with ASM Group of Institutes Pune, India is publishing for the first time a comprehensive case volumes as series of eight volumes with case studies on Indian businesses selected from all aspects of business functions like HR, Finance Marketing, and Operations + providing an exciting and long waited opportunity to faculty and students across the globe to access Indian business case studies through these case volumes.

We are very confident that the case volumes will receive very good response and will be of utmost use to the readers.

Acknowledgements

The series editors wish to acknowledge with thanks the contribution of case studies from ASM's senior faculty from ASM Group of Institutes for their help in proofreading and editing the case studies.

We also acknowledge the numerous news reporters of daily newspapers in Business and Economics in India which have been rich and authentic secondary data sources for design and development of case studies for the case volumes.

Case Studies on Indian Business—Relevance to Management Education

Many B-schools outside India have adopted decades ago the case study methodology for teaching almost all branches of management studies. This trend has been seen in India also, wherein a majority of the Indian Institutes of Management (IIMs) have implemented case study-based methodology as an important pedagogical tool in business management education. The major issue in India is, however, the inadequate interaction between B-schools and industries. The fault lies with both B-schools and the industry. The B-schools in a majority of cases cannot provide research-based solutions to industry problems due to a lack of necessary infrastructure and facilities. And the industries in the absence of any direct benefit from the institutes are not inclined to waste their time and funds on B-school education.

Hence, there is a severe shortage in Indian case studies through which the B-schools can provide industry insight to its students. Majority of the case studies studied at IIMs and other A-grade B-schools are imported from abroad. These case studies are from situations in industries in foreign countries and have very little or no relevance to Indian students who have to necessarily study the situations in Indian industries.

Besides, the objectives and purposes for which case studies are developed abroad are much different from the level and course of studies in Indian B-schools. Therefore, the dependence on foreign case studies for Indian students does not provide any real situational insight on Indian business. Although the syllabus for management studies requires taking the students through case study methodology, unfortunately there are not many Indian case studies that can be discussed with the students.

Thus, it is a Catch-22 situation. Unless institutes have the capability and the required infrastructure to cater to industry-related issues, they cannot expect any interactive support from the industries; unless institutes get adequate data from industries, their teaching content and quality continue to be much less than the expectations of the industry from students who pass out from such institutes.

This is not specific to Indian environment alone the same situation more or less is prevalent in most of the developed countries as well.

Objectives of Use of Case Study Methodology

The main objectives of using case-based teaching as a major pedagogical tool in B-schools are as follows:

1. To facilitate students' concept development capabilities through exposure to real-life problems in industries.
2. To enable students to correlate theoretical topics with the techniques used in analysing complex issues in business situations.
3. To develop skills using which students can develop application matrix for the theoretical topics for real-life problem analysis and resolution techniques.
4. Help the students of B-schools to develop orientation towards the important attributes and attitudinal requirements for effective handling of complex situations at the workplace.
5. To develop a clear understanding of the techniques used for problem analysis, situation analysis, and decision analysis and appropriate understanding of the difference between problems and situations in management.

6. To develop the group-based approaches to solving problems and challenges at the workplace by appropriate coordination of and collaboration with all related aspects of a situation.
7. To develop a reference manual for recording the problems tackled and the essential lessons learnt from past incidences for use in future eventualities of recurrence of issues.
8. To develop the preventive steps that must be initiated to ensure the problems resolved once do not recur in the immediate future.

Types of Case Studies

The entire gamut of business case studies can be classified as follows:

1. Evaluative case studies—teaching case
2. Task- or action-oriented case studies (including project-based case studies)
3. Research-oriented case studies—case research

Teaching case studies are basically oriented towards developing the evaluative and analytical skills of students towards industry situations. Such case studies draw the attention of participants of the case resolution methodology on the in-depth correlative evaluation of the issues in the case study with the various related topics that the students have to study about in their classrooms. These case studies could be on issues related to human resources, industrial relations, product and process, marketing and finance management areas in business management.

Such case studies help the students mainly to examine their understanding of evaluative steps such as evaluation of the financial situation of a company or the quality aspects of its products and services, etc. The task- or action-oriented case studies dwell on business issues that call for appropriate decision-making capabilities of executives. By involving students of management studies in the resolution activity of such case studies, the skills learnt by them through the theoretical studies can be experimented in the resolution exercises. The students can be motivated to apply their decision-making skills along with their risk management ability to make business decisions. Developing a plan of actions oriented towards the resolution of the case issues calls for effective role-play techniques as also presentation skills from the part of students; they are normally required to defend their plan of approach and decisions in front of other students and the faculty, which helps them improve their capabilities to sustain questions and criticisms, normal features in business management.

Research-based case studies, as the name suggests, involve students in research initiatives to establish a hypothesis or to disprove a common belief, which influence the progress and sustenance of business ideologies or even scientific or technical aspects of business dynamics. These case studies normally call for prerequisites such as thorough business knowledge and enough exposure to both the theoretical and practical aspects of the issues presented in the case studies. Issues of corporate governance and social welfare functions, which have both obligatory and voluntary elements attached to them, are pursued in research studies to establish the utility purposes of such aspects, which range from free will to a compelled activity.

The Present Environment

The academic environment across the world is facing a major disruption on account of the global pandemic Covid-19 forcing the offline education to switch over to online/blended versions of teaching and learning process. And use of case methodology and simulation exercises are the main ingredients while maintaining the effective ways of delivering experiential learning through the use of case and case lets in an online mode of teaching ensuring student engagements and online interactive ways of knowledge dissemination. Realizing this requirement even globally reputed institutes such as Harvard and MIT Sloan have made case method of teaching as essential parts of their online courses.

ASM Group with nearly 250 business case studies developed by its faculty over years takes pleasure in offering these cases mostly on Indian businesses through these case volumes to the faculty, students as also for Executive Education programmes. The case studies are selected from ASM's Captive Case Bank as most appropriate for the current day syllabi and on Indian business scenario including select live case studies on on-going businesses.

The case volumes also have few cases on foreign business situations basically to provide a bit of variety and correlation of issues across the globe.

The series editors and the volume authors of this volume along with ASM group of Institutes Pune, India are certain that the case volumes as published will receive excellent response from the faculty and students alike in B-schools in India and abroad.

About the Series Editors

Dr Sandeep Pachpande, Chairman,
ASM Group of Institutes, Pune, India

Prof J.A. Kulkarni, Professor,
ASM Group of Institutes, Pune, India

Both the series editors have decades of experience in business case design and development as also implementation of case methodology of teaching for the faculty and students of business schools in India and abroad.

The series editors have to their credit of authoring three major books on business case studies published by globally known publishers and in conducting workshops for case design and development.

The series editors have a very good network with leaders and stalwarts in Business Management studies across the globe and popular as keynote speakers in many national and international conferences. They have a very rich experience in organizing national and international conferences and case competitions.

Currently the series editors are busy completing a unique case analysis and resolution methodology programme which is under copyright considerations.

Dr Sandeep Pachpande

Prof J.A. Kulkarni

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Academic experience

Wide international teaching and research experience spanning countries from Singapore to Lagos, taught diverse groups of international students across Cambridge University and Pune University curriculums.

Faculty at Cambridge Institute for English in Kuala Lumpur, Malaysia. (2003–07)

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Faculty for Economics, English and Business at ILS, Lagos, Nigeria. (2012–14)

Faculty: Oxbridge College (Oxford Cambridge Academy)—Position held: Professor

Faculty for MBA at Symbiosis Institute of International Business

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Publications

Presented paper for the Economics inter-college seminar on 'Zero Based Budgeting' organized by Pune University. Written articles and features for major Indian newspapers viz. Times of India and Maharashtra Herald.

Dr Kanore Lalit Jaykumar Dean Academics—ASM IPS
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Dr Lalit Kanore brings along with him adequate industry experience and rich experience of nearly 20 years as a scholarly academician with outstanding contribution to teaching subjects like statistical computing and optimization techniques, statistical quantitative methods, basics of marketing, decision sciences to name a few from his specialization and expertise.

Dr Lalit is an approved professor under University of Pune and is currently the Dean of Institute of Professional Studies of ASM Group of Institutes Pune India.

Dr Lalit Kanore has presented more than 15 research papers in National and International Conferences and has to his credit publishing three books in Algebra and Computational Geometry as text and reference books for UG level students in Science. He is conversant with case methodology of teaching and has participated as Jury for case competitions.

SECTION I

CASE STUDIES IN HUMAN RESOURCES

HR, Entrepreneurship, CSR, CG, and Sustainability

1. Creating a Seamless Organization
2. Tata Group's Succession Saga
3. Tactics in Talent Management
4. The Cultural Conundrum
5. The Netflix Way

1

Creating a Seamless Organization

A Case Study on Organization Development

Learning Objectives

To understand the building blocks of an organization to determine the company's chosen strategy. To study how to diagnose needs, working through task and interpersonal issues, creating structural and functional changes to facilitate effectiveness. To understand how organization development creates awareness among the people working in the enterprise. To study the organization development activities may be implemented with a view to establishing and at the same time maintains interpersonal relations among the people of the organization.

Synopsis

The case study is a typical representative of majority of the family managed large groups of industries engaged in manufacturing marketing and trading activity through several of their group companies.

The case represents major issues faced by the generational and successional chiefs as heirs to the traditional businesses of group companies in their major tasks of further steering of the group companies through the turn around and transformational changes compelled by the major disruptions due to technology, trade restrictions in international businesses, and compliance to several regulatory norms towards climate change and pollution control along with sustainability standards.

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It is a real churn that these new generational chiefs have to manage to sustain and grow their businesses.

The Real Story

(Based on experiential sharing between different CEOs from major organizations—the names of individuals and organizations in the text are not real names of any person or any organization in India or abroad.)

It was a very busy day for the senior executives of Nemichand Motors Limited (NML, a group company of Nemichand & Sons, a multi-product multi-divisional corporation), since the Managing Director (MD) Bharat N. Doshi, the eldest son of the group chairman Nemichand B. Doshi, was scheduled to visit the plant. The MD was also to meet all the senior executives at 2 p.m., on the same day, to discuss the major comments made by Jonathan Young, the MD of Andersons India Pvt. Ltd. (AIPL, a well-known consulting group, which had been retained earlier to advise the group in the area of improving the customer satisfaction index (CSI)). With respect to NML, the major drawback was the ever-mounting customer complaints on product performance and post-sales service. NML was losing its market share to its competition, resulting in the loss at operations level and mounting costs of warranty claims from its dealers and direct customers. It was one of the major companies in the group, contributing to nearly 35–40% of the group revenues of Nemichand & Sons. The issues for discussion with the MD were, therefore, very serious. The MD wanted the Chief Operating Officer (COO) and each of the senior executives to come prepared for this meeting; he wanted a definite action plan from NML as to what should be the way out for improving CSI and the sagging bottom line, since the group had already spent enough money and precious time on AIPL for their consultation (the AIPL had demonstrated good results on a pilot activity at NML). The MD was furious that NML had slipped back quickly to inefficient operations on every aspect of performance.

NML Group Structure

The major companies in the Nemichand & Sons Ltd. (NSL) group are as follows:

1. Nemichand Super Steels Ltd. (NSSL): It has an annual turnover of Rs. 25,000 crore and 25,000 employees, including all its subsidiaries.
2. Nemichand Chemicals Ltd. (NCL): It has an annual turnover of Rs. 2,500 crore and 1,500 employees.
3. Nemichand Electronics Ltd. (NEL): It has an annual turnover of Rs. 3,000 crore and 1,500 employees.
4. Nemichand Motors Ltd. (NML): It has an annual turnover of Rs. 30,000 crore and 20,000 employees, including all its subsidiaries.
5. Nemichand Software Systems (NSS): It has an annual turnover of Rs. 5,000 crore and 4,500 employees.

Each of the group companies was headed by an Executive Director (ED) supported by the functional Vice Presidents (VPs). The NML was the oldest company in the group with very senior executives in the management team. Most of the employees at the functional level had put in more than 15–20 years of service together and, therefore, had lots of personal affinity at functional level expressing solidarity on matters concerned to respective functions. There were very closely-knit groups of employees in each function right up to the General Managers (GMs) and VPs. On matters of specific interest, these groups always worked as a 'pack of wolves', and never allowed any criticism of a group member nor did they allow the function to be taken lightly; they always defended their colleagues in such matters. In a way, each functional-level group was a closely guarded territory.

R.K. Jain was the ED of NML, and he had come up the management ladder since joining the company as a graduate trainee in 1973. Most of his years had been spent in the product and process development function and, naturally, he had a greater affinity towards his earlier colleagues from this function. He even had as a functional VP access to the chairman of the group and was frequently consulted on all strategic issues of group-level operational plans. He was almost the second-in-command to the group chairman, till such time as Bharat N. Doshi returned from abroad in1989 after his higher studies and started looking into all of the group companies' operations. The chairman gradually reduced his day-to-day involvement in the group company functions, restricting himself to attending to corporate-level matters at the head office (HO) in Mumbai, Maharashtra. Bharat Doshi was formally appointed as the MD in 1996 after the initial period of getting a reasonable grip of the operational levels of all group companies. Naturally, he preferred to have his formal headquarters in Mumbai; but he kept constantly in touch with the senior executives at each set-up through teleconferencing and periodic visits to the individual sites. His main focus, however, was on NML, on whose operations the growth of the group was mostly dependent.

Changing Scenario

Initially, it was difficult even for Bharat Doshi to get to know the people and the operations at each functional level on account of the steely grip kept by the informal groups on each functional level; he could not talk freely to any senior-level executive in the company, unless he kept the respective head informed about the topic of his intended issues. It was also a customary practice, since the days of Nemichand B. Doshi, for the concerned VP to be present whenever he held discussions with any of their subordinates Bharat Doshi wanted to discontinue this practice, since he was keen on encouraging employees at all levels to meet him individually as and when required. In fact, this move by B. N. Doshi was resisted by the ED and his senior colleagues for the fear that they will lose their control over their obedient subordinates and also that Doshi will get to know the internal defence systems existing at each functional level safeguarding the personal interests of the individuals. This was a serious issue that hampered the flow of communications at the company level, and Bharat N. Doshi planned to break these barriers at the earliest.

As a first step, Bharat Doshi introduced a system of daily meetings at the company level. A fixed-time meeting at 12 noon was to be held at each company level chaired by the respective ED, and all the VPs were to attend these meetings regularly along with their senior colleagues. The agenda for the meetings was the discussion of top concerns of operational-level issues, including customer complaints; each issue would be examined in detail and discussed, an action plan would be worked out on each issue assigning responsibilities to the concerned functions, and an individual executive would take the issue to complete resolution as per a time-bound action plan. The minutes of these meetings would be communicated to the MD's office latest by 2 p.m. the same day for his perusal. Also, the ED was required to call up the MD every day at 3 p.m. to elaborate on the important issues discussed in the 12'o clock meetings.

In order to get a real perspective of these meetings, the MD started deputing his executive assistant to personally attend at least four such meetings in a month and to brief him, on return, about the proceedings and conduct during the meetings. At NML, initially there was very good feedback from these meetings, since everyone felt that attending the meeting itself was a personal privilege for each one who was called for the meetings.

This was also an opportunity for the participants, since the minutes were sent to the MD, for their individual names to get highlighted as participants. But it did not take long for the participants of such meetings to use these meetings for 'monkey passing' and as opportunities for mudslinging between different functions to deflect attention from their part of accountability for the issues discussed on to other functions and to accuse each other even on very important issues.

As expected, although the meetings were conducted regularly, no issue was being sorted out as per the plan of action. One more issue of major concern was the attitude of the ED himself, who was supposed to encourage effective participation of each function in issues brought up in these meetings. Since R.K. Jain, the ED, had his initial stint in the product development and process planning functions, he always defended the executives from these functions, who, in turn, used these meetings to degrade the morale of executives from other functions, who had to bear loud shouts and take overriding orders from R.K. Jain. This biased attitude of the ED during such meetings started creating further animosity, disagreements, and fights between the functions, and the real issues got ignored to the detriment of organizational interests.

What got reported to Bharat Doshi were the complaints, the buck-passing attitudes among his senior executives and the increasing efforts to build separate 'turfs' by each function, resulting in functional 'silos' at the operational levels. Doshi was helpless to some extent, since from long-term perspectives, he could neither afford to rock the boat nor take any coercive steps that could result in demoralizing the organization further the senior executives were sabotaging all his efforts in strengthening the product portfolio of NML. Bharat Doshi's sincere concern was to transform NML, which was the main breadwinner for the group, to a 'seamless organization'.

Organizational Development

Bharat Doshi, feeling distressed about the situation at NML, started looking for an organizational development (OD) consultant of very good repute, who could help him bring in major improvements in the 'teamwork' and 'collaborative work' atmosphere at the operational level in NML. On the basis of recommendations from fellow industrialists and based on his personal discussions with concerned individuals, Bharat N. Doshi decided to appoint AIPL as consultants for an overall review of the existing set-up at NML and develop and help implement an effective restructuring and OD at NML. It was mutually accepted to complete the entire revamping activity within 18 months from the date of the contract. The consultants were asked to discuss the progress every Saturday with Bharat Doshi along with the plans for time-bound actions.

The AIPL consultants took approximately 12 weeks to study the existing set-up in all its detail and conduct personal interviews and view presentations from all functional heads in meetings attended by the ED and all the VPs representing functional operations.

The major objective of these deliberations was to locate common threads on which there was consensus among most of the functions. The AIPL made the following recommendations to Bharat Doshi for his immediate perusal and approval for the action plan:

1. The operational set-up would be broken down into centres of excellence (CEs) with independent in charges for each CE, mostly drawn from senior manager level. The CE, by definition, was an entity with measurable inputs and outputs; for example, there were to be four CEs in the assembly line like the under body assembly, electrical assembly and interiors, engine and transmission assembly, and finishing and vehicle testing CE. There were to be 16 CEs in all at the shop level. Each of the divisions with all its CEs was to report to the

respective VP (preferably, drawn from the existing cross-functional area). The VPs would report to the COO.

2. The position of the COO is a new one, to be recruited from outside, preferably with adequate experience at senior level in managing cross-functional coordination's in a large set-up in the manufacturing industry.
3. The current ED was to be moved to the head office at Mumbai, and he was to focus on the marketing and strategic planning functions. The COO at the plant level was to have a dual reporting structure: He was to report to Bharat Doshi directly on day-to-day operations, and also to the ED on matters of new product development and manufacturing strategy.
4. At the group level, there was to be a Group Executive Office (GEO), consisting of very senior executives (preferably drawn from the ED level), who would undertake group-level responsibilities for functions such as group HR, group finance, corporate strategy development, alignment and assignment of fresh investments to group companies. The GEO would be headed by Bharat Doshi himself. The GEO would discuss on a weekly basis all the major issues of group companies.

   The GEO, based on the decisions made, would have overriding authority at each company to decide on the implementation plans of all the strategic initiatives, including restructuring, job rotations at senior levels across the group companies based on exigencies and group requirements for effective implementation of GEO's decisions and plans.
5. The GEO would decide in the next three months an implementation plan (for NML) on major restructuring and transformation projects such as Business Process Reengineering (BPR), Total Productive Maintenance (TPM), and Total Quality Management (TQM) with the main objective of improving the CSI to world-class levels; if required, external specialists would be engaged for this purpose, since the initial focus of implementing all the aforementioned recommendations would be NML.

The new COO for NML needed to be on the job at the latest in the next four to six weeks. The COO's main task would be to provide effective leadership to implement all the decisions and plans of the AIPL team and the GEO for NML.

6. The AIPL would oversee the recruitment of the new COO for NML and also work with the COO and their teams at NML to integrate functional-level capabilities for the effective implementation of BPR, TPM, TQM, and other major projects for NML. The AIPL would also be involved in the establishment of CEs at one division, that is, the assembly division, as a pilot site to make sure that the CE concept is well understood and becomes operative at the earliest (members from other CEs would be involved in this activity to learn the way forward for similar activities in their respective CE).

The GEO, which came into existence immediately, decided to assign the BPR project for NML to AIPL only, since they had successfully implemented BPR at other major groups in the country. Simultaneously, they appointed a well-known Japanese consultant for the effective implementation of TPM and TQM at NML; this consultant was also approved by AIPL.

Bharat Doshi, along with his GEO members, periodically reviewed the progress of AIPL work, and they were satisfied that at NML they could see a renewed focus on important aspects of effective interactions and cooperation between various functions. They could also see perceptible improvements in plant efficiency, including outgoing quality levels that resulted in the reduction of product failures and customer complaints.

The AIPL completed its assignment on schedule and collected its final payment and an appreciation letter from Doshi for their work. Bharat Doshi initially felt relieved that NML was back on track towards improvement in unit-level performance, and the CSI as reported in the annual reports of reputed quality surveyors appeared improved. He asked his GEO to undertake similar projects for the other companies in the group.

The new COO at NML, although he was initially happy on account of the success of BPR and other projects at NML, started feeling embarrassed at the frequent interventions from the ED who was now operating from the head office he had to also keep the ED informed on the day-to-day activities at the operational level (which was not called for). In case the COO could not communicate with the ED, the latter would contact other VPs who had worked with him earlier at the operational level and who felt obliged to him since much of their progress earlier had been due to him. The ED also started asking a few senior executives to visit the head office on the pretext of official work, but basically to chat about operational-level issues at NML.

R.K. Jain, the ED, was definitely feeling cut off from his people and the power he had once wielded on the entire set-up at NML. He felt terribly sidelined in the new scope of work and, therefore, needed frantically to regain his control on the executives at NML. He started insisting that any executive who visited the head office for any other work should necessarily meet him before returning to the factory. The plant-level VPs also felt comforted to keep in touch with R.K. Jain, since they felt that as a member of the GEO, Jain could still influence their progress in the organization.

There was an informal 'grapevine' developing rapidly, and so on the new COO started experiencing lack of interest and groups started surfacing again at the plant level. The methodology, as recommended by AIPL for the sustained effectiveness of BPR activities, was getting diluted and much of the CE-level operations were becoming farcical and resulting in the reduction of productivity and quality. He found that other VPs had started criticizing the changes that had been brought about, and very so on the devils of 'turf management' and disillusions started affecting normal communications.

The COO, while being aware of the root cause as the distractive and destructive damage deliberately mooted by R.K. Jain and his followers at the plant level, could not do anything to prevent the relapse of chaos at the organizational level of NML. He started receiving frantic calls from Bharat Doshi, questioning him about the fall in productivity and increase in rejections and customer complaints at NML.

The other GEO members also were busy in projects aimed at other group companies, since they felt that the major problems at NML were already resolved. As a result, they were not available to the COO, NML, on call.

Unable to bear the stress at the operational level and the continued follow-up by the MD even after office hours, the COO started feeling that he had been made a scapegoat for the failure of the company to hold on to the gains prescribed by AIPL. He was also eagerly awaiting the visit of the MD to get an opportunity to speak his mind and let him know the real reasons according to him for the present situation.

Conclusions

Organization design must facilitate decision-making and the efficient execution of tasks by coordinating within and across departments and with other organizations. Coordination and execution of tasks set in the role definitions of employees at all levels. Various roles in an organization are linked together by a network of reciprocal relationships between superior/subordinate, one department with other departments, organization/outsourced business partners and finally between the organization and the customer.

A practical way of linking the design of the organization to the particular business strategy is to identify the principal outcomes that the design can deliver and prioritize them in the light of its strategic objectives. The six main things that an organization can deliver are Control, Connections, Creativity, Commitment, Coordination, and Competence.

Case Questions

1. What are your views about the leadership qualities of the MD, Bharat N. Doshi, and the ED, R.K. Jain, along with those of the new COO? Explain the factors on which, you think, each needs to improve to drive NML to sustainable growth momentum.

2. Do you think it was sensible to immediately carry out the recommendations of the consultants (AIPL), including the restructuring of NML? If you do not think so, suggest a plan that NML should have adopted to bring about the long-term revamp of the sagging bottom line and OD of NML through organizational restructuring, etc.

3. What, according to you, are the major causes of the setback that occurred while trying to turn around NML? If you were Bharat Doshi

or the new COO, how would you have approached the various issues at NML? Prepare and present a step-by-step activity plan of the major proposals you would want NML's top management to study and implement for total revival of the organization with an in-built evaluation and control mechanism.

2

Tata Group's Succession Saga

A Case Study on the Botched Up Succession Issues at Tata Group

Learning Objectives

To discuss and understand the concept of succession planning. To understand the process of succession planning in case of Cyrus Mistry after retirement of Ratan Tata. To understand the reasons behind come back of Ratan Tata in 2016

Synopsis

This case study is suitable to introduce the concept of succession planning and its significance. Succession planning is a process for identifying and developing new leaders, who can replace old leaders when they leave, retire, or die.

History shows the need for proper succession planning as many companies opted for the comeback of their renowned leader. Back in 1997, Apple brought back founder Steve Jobs when the company was in trouble. Howard Shultz, who left Starbucks in 1986 to start his own chain of espresso bars, was back not once but twice. Narayana Murthy was back at Infosys when things were not rosy with the IT bellwether. Ratan Tata handed over the baton to Cyrus Mistry and returned four years later in 2016.

This case study discusses the succession planning of Tata Group after the retirement of Ratan Tata in the year 2012 and his comeback in the year 2016.

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What Is Succession Planning?

Succession planning can be defined as purposeful and systematic efforts, made by an organization to ensure leadership continuity, retain and develop knowledge and intellectual capital for the future, and encourage individual employee growth and development.

Challenges That May Be Faced in Succession Planning

1) Lack of funding for leadership development
2) Inability to locate or create a pool of active and passive candidate
3) Lack of assessment tools
4) Lack of succession planning tools and career development tools
5) Inability to identify the future talent needs of the organization
6) Lack of interest from senior executives

The Tata Group

Tata Group is an Indian multinational conglomerate holding company. It was founded in 1868 by Jamsetji Tata, headquartered in Mumbai, Maharashtra, India. It gained international recognition after purchasing several global companies. It is owned by 'Tata Sons'. Tata Sons is the promoter of the major operating Tata companies and holds significant shareholdings in these companies.

There are 29 publicly listed Tata enterprises with a combined market capitalization of about $145 billion as of November 2017. Tata companies with significant scale include Tata Steel, Tata Motors (Jaguar, Land Rover), Tata Consultancy Services, Tata Power, Tata Chemicals, Tata Global Beverages, Tata Teleservices, Titan, Tata Communications, and Indian Hotels (Taj Hotels). Board of directors and shareholders of Tata Group guide and supervise each Tata company or enterprise independently.

Tata companies are commonly referred to as the Tata group and the chairman of Tata Sons as chairman of the Tata group.

The company's principal activities are:

i) To invest in operating companies to support their growth
ii) To promote and invest in new businesses
iii) To maintain its shareholding in major operating companies

Journey of Ratan Tata from Apprentice to Chairman

In case of Ratan Tata, he was a surprise choice to head the group after JRD. He joined as an apprentice on the shop floor of its Jamshedpur plant in 1962. In 1971, he was appointed director-in-charge of the ailing National Radio and Electronics Co. While Tata managed to turn around the firm's fortunes, it was to be a temporary success. In 1977, he was asked to turn around another troubled company, the Mumbai-based Empress Mills. Tata managed to do so. He became chairman in 1991, almost after 30 years. By then, he knew the group inside out.

In 2002, when Ratan Tata was set to retire at 65, the Tata Sons board re-designated him as non-executive chairman so that he could continue for another five years.

In 2005, the board increased the retirement age of non-executive directors to 75, ensuring that Tata would be in office till 2012. And finally, when he packed his bags at Bombay House and handed over the baton to Cyrus Mistry, it was only to return four years later in 2016.

The Previous Pattern of CEO

Some see a pattern and attribute it to Ratan Tata's push to lower the average age of senior management in the group. N. Chandrasekaran was handpicked to take over as CEO of tech giant Tata Consultancy Services at 46 in 2009. R. Mukundan took the reins of Tata Chemicals at 42 in 2008, the same year Brotin Banerjee became CEO of Tata Housing at 35, and Mukund Rajan, then 40, was appointed head of Tata Teleservices (Maharashtra). N. Srinath got the top job at Tata Communications in 2007 when he was 45.

The Race for Succession

Tata Sons, the holding company of the Tata Group, announced the members of the five members. Committee announced to find a successor to the Group Chairman Ratan Tata who is due for retirement by December 2012.

The Needed Actions

1) To build human resource programmes that attract and retain qualified individuals.
2) To implement a framework that identifies the competency requirements of critical positions, assesses potential candidates, and develops required competencies through planned learning and development initiatives.
3) Aligning strategic goals and human resources to enable the 'right people in the right place at the right time' to achieve desired business results.
4) The development of qualified pools of candidates ready to fill critical or key positions S.I.T PGDMS & RC 4.
5) Providing stability in leadership and other critical positions to sustain a high-performing public service and ensure the uninterrupted delivery of services and programmes.
6) Helping individuals realize their career plans and aspirations within the organization.
7) Improving employees' ability to respond to changing environmental demands.

Future Scenario

- Welspun acquisition
- Management restructure
- Negative growth should be controlled
- Identifying workforce renewal needs as a means of targeting necessary employee training and development

- The opportunity for timely corporate knowledge transfer succession planning process
- To identify and plan for critical work positions, by developing a pool of potential successors and encouraging a culture that supports knowledge transfer and employee development

Conclusions

- The search committee has now gone beyond the brief of merely searching for a leader and recommended a restructuring of the Tata Sons board by bringing in independent directors and younger executives from group companies. The search for a successor was done for almost one year after the committee being formed. Executives nominated for becoming successor.
- Looking for someone to run Tata Sons (which is a holding company) or someone to head the whole group, which is what Ratan Tata is doing now?
- A professional CEO with the experience of running multinational companies should join a group's privately owned holding company.

Case Questions

1. What are the possible reasons for failure of succession planning in above case?

2. What are the pitfalls for succession planning?

3. What factors need to be considered while training the successor at CEO level?

4. Whether a short time period is sufficient for complete handover of big company like Tata Group?

3

Tactics in Talent Management

A Case Study in Strategic HRM

Learning Objectives

The issue of Talent Management or the Talent Mapping in particular the Talent Acquisition and Retention has gained very high priority basically in view of the increasing competition in both domestic and international markets and also the mushrooming of tiny and small-scale units manufacturing drug derivatives. The talent is no more attracted by brand image and size of the company but mostly on the salary package along with bonus and incentives including opportunities for foreign travel and locations abroad.

More so with the present situation of pandemic like Covid-19 clubbed with comorbidity issues the pharma industry is on its toes to reach out and meet challenges of providing the best and unique formulations to combat viral and comorbid diseases.

The extent of poaching and attrition rates are skyrocketing hampering the growth plans of many pharmaceutical industries irrespective of their reputation.

Hence the current need is to not only focus efforts on Talent Acquisition but more so on Talent Retention exercises. This case studies take the readers in to glimpse of the different schemes and modules adopted by one of the pharma giants to provide a real-life view of such situations and actions initiated towards Talent Management.

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Synopsis

Indian Pharmaceutical Industry

The pharmaceutical industry in India had experienced phenomenal growth, especially since 2005. The industry had grown at a rate of 14% CAGR in 2005–2010, which was a significant increase over the 9% growth witnessed by the industry between 2000 and 2005. Global management consultants, McKinsey & Co., had predicted that the Indian pharmaceutical market would grow to $55 billion in 2020 (from $21.6 billion in 2009). According to Palash Mitra, Partner at McKinsey & Co., and Leader of the Pharmaceuticals & Medical Products Practice in India, 'The scale and complexity of the market is increasing as India is moving towards the global top tier in the pharmaceutical industry.'

The pharmaceutical market in India was highly competitive and fragmented with the top 10 players accounting for 36.1% of the total sales in 2008. Tier-1 markets, which constituted 60% of the total market, had been growing at 14–15% throughout 2005–2010. This trend was expected to continue. Rural markets, on the other hand, were predicted to account for 25% by 2020, up from 20% in 2010.

An increased patient pool due to increased urbanization and lifestyle changes, increased accessibility to drugs, greater acceptance of new medicines, greater affordability due to rising incomes, increasing insurance coverage, growing investment in healthcare infrastructure, introduction of product patent legislation along with cost advantage were driving the growth of the domestic market. Beyond the domestic market, Indian pharmaceutical companies had a large portion of their revenues coming from exports as well. While some firms were focused on the generic market in the US and Europe, others were focused on custom manufacturing for innovative global firms.

Contract research and manufacturing services (CRAMS) was another area where pharmaceutical firms in India held an edge. India's competitive strengths in research services, along with English-language competency, availability of low-cost, high-skilled doctors and scientists, and large patient population with diverse disease characteristics, provided a fertile ground for medical research. In addition, both global innovators and generic majors had found it profitable to outsource production to India given its adherence to international quality standards.

LUPIN India Ltd

Headquartered in Mumbai, India, Lupin Limited was Dr Desh Bandhu Gupta (DBG)'s dream child. In Dr Gupta's words, 'My dream of contributing to the process of nation-building and vision to fight life-threatening infectious diseases by manufacturing drugs of highest national priority were the compelling reasons and guiding principles that led to the formation of Lupin.' After completing his Master's in Chemistry, Dr Gupta started his career as an Associate Professor at the Birla Institute of Technology and Science (BITS), Pilani, and later on became a catalyst in setting up Lupin in 1968. Started with seed money of just Rs. 5,000 (US $111 approx.), Lupin Limited had emerged as the second fastest-growing pharmaceutical company in India with sales worth the US $477 million in 2010.

Lupin Limited was a transnational pharmaceutical company that had grown faster than most of its peers in a number of growth markets. It had the fastest growing and largest prescription base among all generic players in the US. The company ranked among the top three in market share in 18 of the total 22 products it sold in the US generic market in 2009. The company's presence in the Japanese (ranked seventh and growing at 23%), European, South African (ranked sixth and growing at over 30% annually), Philippines, Australian, and other emerging markets was expected to drive growth in the years ahead. In the domestic market, the company's 3% market share by revenue made it the fifth largest player (in FY10). Its domestic revenues had consistently risen at over 20% annually from 2005 to 2010, as against the industry's growth rate of 10–12%. Lupin employed 10,500 people in India in 2010.

Lupin produced a wide range of quality, affordable, generic, and branded formulations and APIs (active pharmaceutical ingredients) for the developed and developing markets of the world. It first gained recognition when it became one of the world's largest manufacturers of tuberculosis drugs. Over the years, the company had moved up the value chain and had not only mastered the business of intermediates and APIs, but also leveraged its strengths to build a formidable formulations business globally. Lupin's product portfolio covered a wide range of therapeutic segments, including cardiovascular, diabetics, respiratory, paediatrics, CNS, gastrointestinal, anti-infective, and NSAID therapy segments, and held leadership positions in the anti-TB and cephalosporins segments globally. Five of Lupin's brands ranked first in FY09 in their respective categories in the domestic market. The company's R&D endeavours had resulted in progress in its NCE (new chemical entity) programme and its advanced drug delivery systems led to the development of platform technologies that were being used to develop value-added generic pharmaceuticals.

Lupin's world class manufacturing facilities, spread across India and Japan, played a critical role in enabling the company to realize its global aspirations. It had nine manufacturing facilities and one R&D centre. Five of its manufacturing facilities were approved by the US Food and Drug Administration (FDA), and three of them by the UK Medicines and Healthcare products Regulatory Agency (MHRA). The company had expanded production facilities in the last few years, which had provided it with enough bandwidth to achieve higher production volumes in future.

Talent Management at Lupin

Dr DBG believed that Lupin's people were its core strength and in order to realize its ambitious growth plans, Lupin would have to create a consistent pipeline of talented future leaders. The HR team had launched the Talent Management project in 2006 and in the following three years they had worked tirelessly to ensure that the Talent Management programme gained acceptance across the organization.

In 2010, Lupin comprised five customer facing divisions—*IRF* with responsibility for formulation sales in India, *LPI* with responsibility for North America and Europe, *CIS* for the undivided USSR, *AAMLA* for the rest of the world, and *API* for the intermediaries' sale. Each division was run by a President and his own management team. Some central functions such as corporate Manufacturing, R&D, HR, Finance, Legal, Communications, Business Development and Strategy were located in Mumbai and had cross-divisional presence.

Two things characterized Lupin: a centralized approach to management and an emphasis on a relationship-oriented culture. HR faced the challenge of retaining these essential Lupin characteristics, while identifying the firm's top performers, holding their talent to stringent performance measures, and ensuring that Lupin continued to remain the employer-of-choice for the best and the brightest in the industry. The HR team was very clear on the fact that attracting, retaining, and developing talent was an imperative for Lupin to achieve its growth plans.

Talent Management Initiatives

Lupin's Talent Management programme rested on a participatory approach, with the company and the employee sharing responsibility for the employee's development. Development plans aimed at encouraging employees to take charge of their careers, with the company supporting the employee fully in this process.

According to Lupin's Annual Talent Review Document, Lupin is putting time and thought behind the development of talent. Employees have the primary responsibility for making their career happen, and it will happen initially by proving themselves in the job they are currently in. Lupin will make sure that employees' progress is examined systematically at least once a year. 'If employees succeed early in their career, they will come to the attention of senior leadership, and as their success continues, they will come to the attention of the top leadership team.'

Once committed, employees could benefit not only from several formal development programme, but also from a host of informal networking and development opportunities. Lupin offered a bouquet of Top Talent initiatives such as Lupin's Manufacturing Business Leaders Program, AMEX for Frontline Sales Leaders, Leader Plus for Frontline Leaders in Manufacturing, leadership effectiveness programmes for potential leaders in Research. The Lupin Learning Centre and the Buddy Program were aimed at inducting employees into the Lupin way. Identifying the top 100 managers and supporting their career growth and development through education, training, and job exposure were the key components of this strategy.

All new recruits were covered by an orientation programme called *Udbhav*. This fortnight-long programme not only introduced new recruits to the company and their role, but also provided self-awareness and life skills and ensured a smooth transition from academics to industry. This had a significant favourable impact on their early life stability and productivity in the organization. The strong benefits realized by all teams across all locations guaranteed that none of the new recruits missed this powerful induction programme. This programme also proved to be a step forward in building Lupin's brand as a preferred employer in the pharmaceutical sector, and also helped Talent Acquisition in the process.

Buddy Program

In addition to a formal induction programme for new employees, Lupin had put in place a Buddy Program to accelerate a new employee's ability to deal with early disconcerting issues such as understanding the organization's culture and climate, insecurity while dealing with colleagues, handling of queries regarding basic operational issues, and the like. Connecting the new recruits with a 'Buddy' (an existing employee who had been in the organization for over a year) was expected to assist in cultural integration and orientation. The new employee would thereby begin to add value more quickly, leading to increased confidence and self-esteem.

Any employee who had been in the organization for at least a year could qualify to be a Buddy. The employee was required to be a consistent performer in her/his role, have aspirations to be a leader, feel a sense of pride and belonging towards the organization, and reflect a positive outlook to be eligible to become a 'Buddy'. She/he also had to be perceived as a leader or a role model within her/his team. The aspirant had to undergo a special two-day training programme and get certified as a Buddy in order to take up this responsibility.

The primary ownership of the Buddy Program rested with the line function in collaboration with the Location HR and Corporate Learning & Development team. Nominations were invited from production/quality/engineering functions at the location. Buddies were allocated in the ratio of one Buddy for four new recruits for the first six months. They were assessed on a range of competencies including communication, interpersonal skills, initiative, problem-solving, and organizational awareness skills. Employees were granted incentives to play buddies to new recruits such as primary consideration for the next level promotions and a gift voucher of Rs. 4,000 for every four new recruits assigned.

A Buddy Coach was also assigned to review the Buddy's performance in order to enhance the effectiveness of the Buddy Program. To achieve this, the Buddy Coach met with the Buddy once a quarter and conducted a one-to-one review.

Annual Talent Review

The Annual Talent Review (ATR) was the primary tool being used by Lupin to integrate the company's plans with employee goals and organizational decisions. It was a process that enabled Lupin to systematically assess the capability of the organization and its people, examine gaps and plans for the future, and prepare the organization to achieve its ambitious plans. ATR had multipronged goals. One aim was to connect every activity to the larger business agenda across the organization. Another aim was to help employees grasp the changing realities of a competitive market scenario and help them move away from a nostalgic longing for Lupin's old culture. An important function served by ATR was to send out a message to employees that career advancement at Lupin depended on current delivery and demonstrated potential for growth and not past achievements, and that Lupin rewarded results and the people who made their best efforts to achieve stretch targets.

The responsibility for ATR rested with every manager across SBUs/ functions. At the same time, ATR recognized the uniqueness of each SBU and allowed flexibility based on relevant business issues.

Lupin Manufacturing Business Leadership Program

The company felt that most of their site leaders and their direct reports had either a pharmacy or engineering qualification with no formal exposure to management concepts or leadership training. Hence there was a need to enable senior management leaders to develop into well-rounded manufacturing leaders. Some key competencies needed in these leaders were, an understanding of the manufacturing industry as a business, leadership competence, and practical in company application of knowledge and insights. Lupin's senior management in collaboration with the Indian Institute of Management, Ahmedabad (IIMA) designed the Manufacturing Business Leadership Program as a vehicle for delivering on these objectives.

The LMBLP had three key elements:

1. **Understanding of business concepts**: A rounded understanding of business which provided leaders with the knowledge, tools, and confidence to determine what needed to be done in any given business situation.
2. **Leadership development**: The idea was to equip leaders with skills to lead and engage with managers, and to move from day-to-day firefighting to strategic leadership.
3. **Practical In-Lupin experience**: Each of the participants carried out a live project inside the company (under the guidance of IIMA faculty) to internalize their learning.

The organization believed that LMBLP would not only help in creating leaders for the organization, but would hold value for employees as well, since it would be the first opportunity for most of them to receive formal education post-college. This will also provide Lupin employees with access to the prestigious membership of IIMA alumni network.

The target segment for LMBLP was site leaders and their relevant direct reports (e.g., site head + quality + engineering + production/plant heads). Another benefit from this programme was that it was believed that through this approach the organization would also be able to break its strong hierarchical orientation by putting the entire team together in a learning environment. Approximately 45 participants were covered in a year. Input areas covered a wide range of subjects including finance and accounting, marketing, organizational design, leadership and change management, manufacturing practice, quality and information technology, strategy, and governance issues.

Lupin Learning Centre, Lonavala

The organization set up a Lupin Learning Centre at Lonavala in order to offer a learning environment, opportunities, and inputs of global standards to the employees at Lupin. Lupin planned to put in place world-class infrastructure facilities for its learning centre which would include state-of-the-art training auditoriums, accommodation for participants, video conferencing facilities, venue for outdoor sessions, library, recreation centre, yoga room, canteen, and garden.

Informal Networking and Developmental Opportunities

In addition to formal development programme, the company offered a host of opportunities to employees to develop through informal channels, such as sharing of practices by senior leaders in cross-functional or cross-level team meetings or through video conferencing. The cross-functional and cross-level teams helped employees bypass a deeply entrenched hierarchical culture, sit together, brainstorm, and be heard. Employees were also provided with a platform to display their competence in areas beyond their assigned functions and job roles. The Head of Marketing for domestic pharmaceutical business said, 'In meetings of marketing department, operations people are given 2–3 products to demonstrate. Thus they can move from field to training to marketing.' Lupin also provided exposure to global practices to its best performers through participation in international conferences. Employees from the Regional Manager grade onwards were eligible for these conferences. Such conferences enabled Lupinytes from various functions to travel together and build healthy professional relationships.

Talent Management Challenges at Lupin

While the Talent Management programme was gaining steady acceptance across the organization, a few challenges related to industry characteristics, recruitment, competency requirements, and performance and potential appraisal emerged along the way.

Industry Characteristics

The first major hurdle was the nature of the pharmaceutical industry, which held serious challenges for attraction, identification, and selection of talent in non-technical functions. As explained by the HR President, 'Unfortunately pharma is not seen as a "desirable" industry. In the US and in Europe it is considered a highly asp rational industry because it is led by research there. But here in India, it does not have that "oomph" because of focus on reverse engineering primarily. So it does not attract the brightest of people. This has a significant impact on the quality of talent available in the industry. Talent also feels very secure because there are not enough bright people to provide competition.'

But the challenges were more complex than merely a lack of candidates with the right talent. The pharmaceutical industry was also known to be a more inward and domain focused industry. Managers were not willing to pick up professionals from other domains. The typical managerial mindset was to exclude any candidate with non-pharmaceutical experience, irrespective of the skills brought to the table. While pharmaceutical firms stuck to domain-specific skills, other sectors were not averse to recruiting from them. Sectors such as retail, hospitality, financial services, telecom, and other emerging industries were able to poach talent from pharmaceutical firms with great ease.

These sectors offered higher remuneration and the social prestige associated with these jobs was higher amongst youth in the country. All these factors led to a high attrition rate in the industry. Migration from one company to another within a short duration had become the norm. Lupin had been hiring aggressively, both fresh candidates (who could be trained) and professionals with experience from other pharmaceutical companies as well. But it mostly hired from 'A-list' companies like Cipla, Dr Reddy's, and others, and did not take in professionals from 'B-list' companies.

The HR President pointed out another effect of the industry's obsession with domain skills, 'A lot of anxiety and insecurity exists with respect to talent scarcity in the industry. In order to avoid attrition, people are pumped up into higher level jobs in their own companies. Worse, they become senior managers in other companies although not appropriately qualified for the job. And companies are possibly forced to manage sub-par talent today. The impact is not encouraging for the industry as a whole.'

Recruitment

Lupin had put in place some systems to tide over Talent Acquisition issues such as competitive entry-level salaries, summer internships, and direct recruitment through campus interviews. Lupin mainly recruited people with a graduate or postgraduate degree in science or pharmacy through university recruitment programmes, but did not recruit as many business school graduates. There were some concerns about the quality of recruited talent. The Co-Head of Marketing and Sales, opined, 'Our competitors are very strict when it comes to recruitment. They take in M.B.A.s rather than B. Pharmas. Their talent is coming in through design because their recruits are careerists in the first place. In our organization many people come by default also. They might not be talented. In the beginning they may appear fine, but after 2–3 years they might not turn out to be so.'

There were some concerns about the recruitment criteria as well. According to the Head of Operations—API, 'At the entry level, talent hunting and recruitment decisions get sidelined. We end up compromising on criteria because of inadequate clarity. For example, we end up hiring candidates with less than 50% in B.Sc. even when a candidate with a first class in other disciplines is available. Now guidelines have been put in place such as which institutes are we going to target and what entry criteria must we adhere to. So things will improve.'

Sometimes there were concerns even about the recruitment process. According to the Head of Operations—API, 'We put people in respective roles after induction. But no psychometric testing is carried out to identify an employee's appropriateness for a role, to identify his strength areas. No formal process exists. We have not matched inherent strengths to role. For example, sometimes good people with poor quantitative skills are put in MIS.'

Mapping Competencies

While the company did not have a job evaluation and competency mapping process in place, there was some awareness related to identifying and developing competencies required in different roles. The Head of Marketing and Sales said, 'We need people with communication skills, especially scientific communication because of our hi-tech products. They need to communicate with doctors in medical language. But beyond product knowledge and regular work, they should also be able to participate in implementation of strategies and need to improve presentation skills also'.

Senior management also recognized the need for new competencies as their people progressed through the organization. According to the Head of Operations, 'In the pharmaceutical industry, the sales function is typically led by Medical Representatives. So we look for sales skills when recruiting for the role, but when the employee becomes a manager, the competencies required are different. The challenge is–how do we develop these competencies?' Other senior executives also expressed a concern that in a functional competency focused company, it would be difficult to manage the transition of an employee from a functional specialist to a 'multipurpose jack'.

Performance and Potential Appraisal

The differentiation of talent, best-from-rest, had started 4–5 years ago in Lupin. The HR President had attempted to put in place a performance management system in his first stint at Lupin, but it had created a lot of heartburn. According to the Head of L&D, 'We were obsessed with not being seen as harsh. Now it has been resurrected because there is no other way out. Now the Chairman is focused on picking the top 100 people.'

In the last four years, the company has moved from no system to a paper-pencil system to an online performance management system. The move has been towards higher transparency. The targets are set and can be quantified and the managers have the flexibility to change weightages on parameters as well. Post-appraisal discussions are there to review with the employees. The process is very fair. 'Of course there are some issues such as using a bell curve in a high-performance company. But people are learning to deal with it.'

Top performers were identified in the revenue-generating businesses, from middle and senior management levels. But in support functions, including manufacturing and R&D, a lot of grey areas existed and performance measurement was very subjective, less detailed, and a time-consuming process. The HR President said, 'At the GM-VP level, the need for achieving targets is very high. But it takes a toll on the team members' motivation. Leaders do not invest time in developing team-members. Not even 70:30. Only when HR asks for "Ubharta Sitara (rising star)" they put forth a name. But no feedback is provided otherwise. Because they think "Let everyone work, do not disturb them"'. He added, 'Managers claim Everyone is good in our team. Nobody achieves less than 95%. They achieve up to 120%. Then our concern is when we have to promote people, we wonder if our people are really that good? It's a sales-driven peculiarity. If targets are achieved, they need to be promoted.'

The percentile basis of grading employee performance was also creating problems. The Head of Marketing and Sales pointed out, 'It really disturbs the boys because they work in the same pool. It creates tremendous pressure when it comes to motivating employees. I want my team to have high morale. I would like it if they were pampered as well, of course, within some boundaries. However, the performance management system is de-motivating the employees.'

At the middle and senior levels, ambitions were not backed by a formal talent development programme. Rather, the Chairman, Dr DBG played a very active role in identifying and retaining talent. As the Head of Marketing and Sales said, 'Our Chairman always gives great weightage to people who are talented'. According to the HR President, 'Some of our people are seen as domain experts and as superior quality talent. Some of our SBU heads are touted as future MDs in other companies, but they prefer being here. That is our Chairman's talent—to hold people.' Dr Gupta also ensured that his people felt comfortable in the firm and were given space to perform. He would say, 'I love my people and would like to hold their hand.'

Maintaining good relations and a congenial work culture was paramount for the organization. According to the Head of Marketing and Sales, 'We are wary of rocking the boat. If one of my team members gets selected for, say, an NMIMS course, I worry about what I am going to tell the other four so that they are not de-motivated.' The Head of L&D added, 'Managers think that if I have given a poor rating, how do I face my team members? They fail to understand that the best guys need to be showcased, but the rest are important too. They are the backbone of the organization. So how do we provide them with quality improvements as well?'

The ATR was the primary tool used in Lupin for performance and potential appraisal. Appraisals were conducted annually, and performance and potential were measured against the achievement of performance targets. Internal promotions constituted 95% of all new appointments, and people were developed as per requirements. Still, there was no bar on bringing in talent from outside. As explained by the Head of L&D, 'In Lupin, there is an openness to recruit fresh candidates in spite of an insular industry. It does not cause heartburn because we go out only when we do not have the right candidate inside. Homegrown is of course our first choice and we do invest big time in our employees. We would want to get our managers to practice accountability on developing homegrown leaders through ATRs and Top 100. All these initiatives have been well-received in the organization. It is not something that is pushed by HR.'

Lupin was committed to promoting its employees from within and had devised a unique system for creating employee opportunities and employee growth through creation of new divisions. The Head of Marketing and Sales said, '90–95% vacancies are filled up from within. Employees move from front-line to assistant manager level in 18 months or two years. We realized that one business would not absorb them and so we created new divisions. In six and a half years, we created five divisions. Thereby we are creating opportunities and grooming talent to grab these opportunities. Even when we developed new therapies (e.g. ophthalmology and diabetes), there was a temptation to recruit from outside. We decided against it. We spent more time on developing our employees. Similarly in neuropsychiatry, we allowed only one recruit with the relevant background from outside and the rest were in-house. Eventually, the in-house employees performed better.'

Some senior executives felt that there was a need for a formal system for identification of talent. According to the Co-Head of Marketing and Sales, 'We could have better structured and effective interviews and a formal selection process. When we start a new division we are in a reactive mode. If one or two vacancies exist, it's fine to hire candidates through referrals. But the candidate might not be appropriate as a future area manager since we have overlooked the potential assessment. Ideally, we should have a pool of employees within Lupin, whom we can look at for these roles. But that's not possible because of a dearth of talent in our people. So we have to go outside.'

Some executives felt that employees were aggravated when it came to career development. According to the Co-Head of Marketing & Sales, 'We wanted to start a new division. Other divisions did and their teams were transferred in one or two years (for example, transferred from FM4 in sales to M1 in training.) So my team was a little upset.' But the L&D Head clarified that, 'Movement from sales to training is more of redeployment and a rehabilitation led decision and not growth-oriented.' The Marketing and Sales Head further added, 'At the same time, rewarding employees through creating hierarchy is a problem. It distorts the structure and everyone wants to become a leader. I have created such hierarchy in the past but I can't deny that it is a problem.'

He felt that the higher education programme offered by the organization also had a limited impact when it came to career development. He said, 'I feel learning has to come from within. There are employees who are eager to learn and they get an opportunity to rise. I was asked to nominate my team members for MBA. I gave the opportunity to all my RSMs. Out of 30, 20 were eligible but only six applied and finally two were selected. Even if you provide the opportunity, not all will develop. The desire to learn should come from within.'

While job mobility across functions or locations was not institutionalized, it was not a forbidden practice either. The Head of L&D said, 'We need to think of who are our best guys. How do we offer them a variety of experiences and move them? Mobility has not happened by design, but it has happened on occasions. In the past we have had employees moving from manufacturing to marketing or to business development. It's possible.' Yet there was an underlying resistance to mobility which emanated from employees and managers alike.

There had been occasions when people had refused promotions and their bosses had been unable to convince them. On the organization's part, the L&D Head said, 'We have not created enough opportunities for employees to volunteer/offer themselves because we are apprehensive that it will create turbulence within units. There are other constraints as well. If we force an employee in Ankleshwar (Gujarat) to shift to Goa, he might leave the firm altogether.' The Head of Operations observed, 'Sometimes the leader refuses to relieve his team member and allow him to shift. Then it is his responsibility.'

The Head of Marketing and Sales, admitted, 'Sometimes, as managers we are selfish. But in our heart of hearts, we know "It should happen".' Internal job postings (IJPs) had to be aborted because of lack of managerial support. Another impact of resistance was the lack of commitment to the organization. The Head of Operations felt that 'the prevailing psychology is that my location is the best and I do not care about other locations. A holistic mind-set is missing. People think in terms of "my location" and not "my Lupin".'

He felt that the Talent Management exercises had to make leaders aware of changes in the outside environment such as regulatory compliances, competition, and changing competencies. An alignment between these environmental pressures and Talent Management practices would help change leaders' mindsets. Towards this purpose, a new initiative called 'Expanding Horizons' was being launched more comprehensively for high potential employees. This was meant to take care of the earlier challenges while offering the employees diverse job exposure for better grooming in order to be a well-rounded professionals. The HR President asserted, 'Our pressure comes from our business requirements and not our vision. This is a good vision to have though.'

Case Questions

1. In the present-day rat race for Talent Acquisition and Retention (Infosys, Tata Motors Ltd, and many more), there is mad rush to prevent talent attrition and poaching by senior executives and competitors. Will the traditional and conventional methods ensure sustainability of critical to organization talent?

2. If present employees were not able to match Lupin's growth with the growth rate of talent, the organization would have to get outside

hires at higher costs and would end up creating dissatisfaction in the existing employees. How would this shift impact Lupin's relationship-oriented culture and hierarchical organizational structure?

3. Is the pressure of Talent Retention jeopardizing growth strategies of Lupin and similar organizations (Refusal to shift locations, job rotations, etc.)?

4

The Cultural Conundrum

A Case Study on Possible Conflicts between Religious and Professional Compulsions

Learning Objectives

Tolerance of religious diversity as standard requirement in organizational human resources management has been an important topic of studies deliberations and discussions for many decades without any standardized solution applicable to business management.

This case study throws some light on few typical experiences and the resolutions adopted by the businesses concerned for the reader to correlate and be aware of the impact of cultural and religious aspects in organizational management.

Synopsis

The issues related to religious heterogeneity management amongst multi-religion mix of employees has been a perennial aspect either bothering smooth operations or in management of religious diversity issues right from employee dress code to food habits including social and professional interactions in and outside the work premises. India especially with its unrestricted religious diversity with respective religious and social behavioural norms poses issues which need to be handled very carefully without rattling the social and professional harmony.

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Case Details

This happened more than a decade ago. Mumbai-based human resources consultant Varda Pendse was shocked to see an unshaven man, dressed in black, and a lungi appear for his job interview. Pendse was in Bengaluru helping a client. The interviewee was wearing the traditional dress for Lord Ayappa's devotees who make their pilgrimage to Sabarimala in Kerala. 'But he also carried a smart-looking photo of himself in a suit, which he showed me,' recalls Pendse.

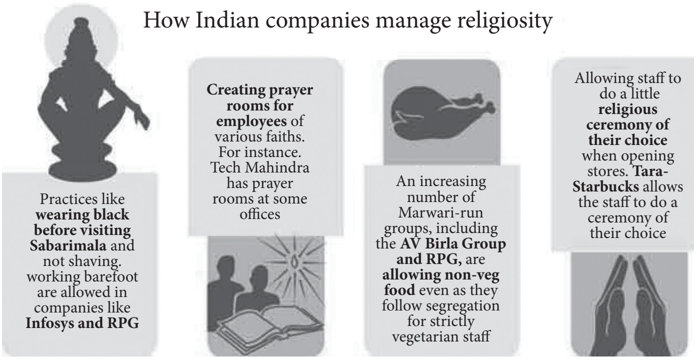
What surprised Pendse so many years ago would not astonish many today—including Pendse as Lord Ayappa's devotees are a common sight in the IT industry campuses in the southern parts of India in companies like Infosys. It's catching on even in Mumbai. RPG Enterprises head of HR Arvind Agrawal recalls one of his former team members Prasanth Nair attending office, dressed in black, unshaven, and barefoot for the 41-day period leading up to the trip.

Agrawal had few problems with that. In fact, he recalls that later when he requested another Bengaluru-based colleague to come over to Mumbai for a meeting, the gent pleaded helplessness as at that time as he was observing the same rituals of being barefoot and dressing in black. 'Instead of forcing the issue, I travelled to Bengaluru to meet him,' says Agrawal.

He picks out other examples of how the group negotiates the tricky waters—food being one as the promoters, the Goenkas, are vegetarians. 'For many years now we have allowed non-vegetarian food at our offices. But when we organise parties we have to keep vegetarian concerns in mind and get the vegetarian and non-vegetarian food from separate restaurants.'

SECULARISM AT WORK

How Indian companies manage religiosity



Practices like **wearing black before visiting Sabarimala** and not shaving. working barefoot are allowed in companies like **Infosys and RPG**

Creating prayer rooms for employees of various faiths. For instance. Tech Mahindra has prayer rooms at some offices

An increasing number of Marwari-run groups, including the **AV Birla Group and RPG,** are **allowing non-veg food** even as they follow segregation for strictly vegetarian staff

Allowing staff to do a little **religious ceremony of their choice** when opening stores. **Tara-Starbucks** allows the staff to do a ceremony of their choice

Across the lane from RPG Centre in Mumbai's Worli district, where Agrawal sits, is the Aditya Birla Centre, the headquarters of the Aditya Vikram Birla Group. Non-vegetarian food is still not served on the premises as director for group HR Santrupt Misra claims the neighbourhood faces a 'rat problem'. But employees are allowed to bring in non-vegetarian food and separate microwave ovens are provided for warming it.

At other locations of the group, though, there are no restrictions. Around 10 years ago, after an Australian mining acquisition, AV Birla chairman Kumar Mangalam Birla was stumped when an Aussie employee asked if they were expected to turn vegetarian. While nothing changed in Australia, there was pressure to change things back home and rules were relaxed to allow non-vegetarian food.

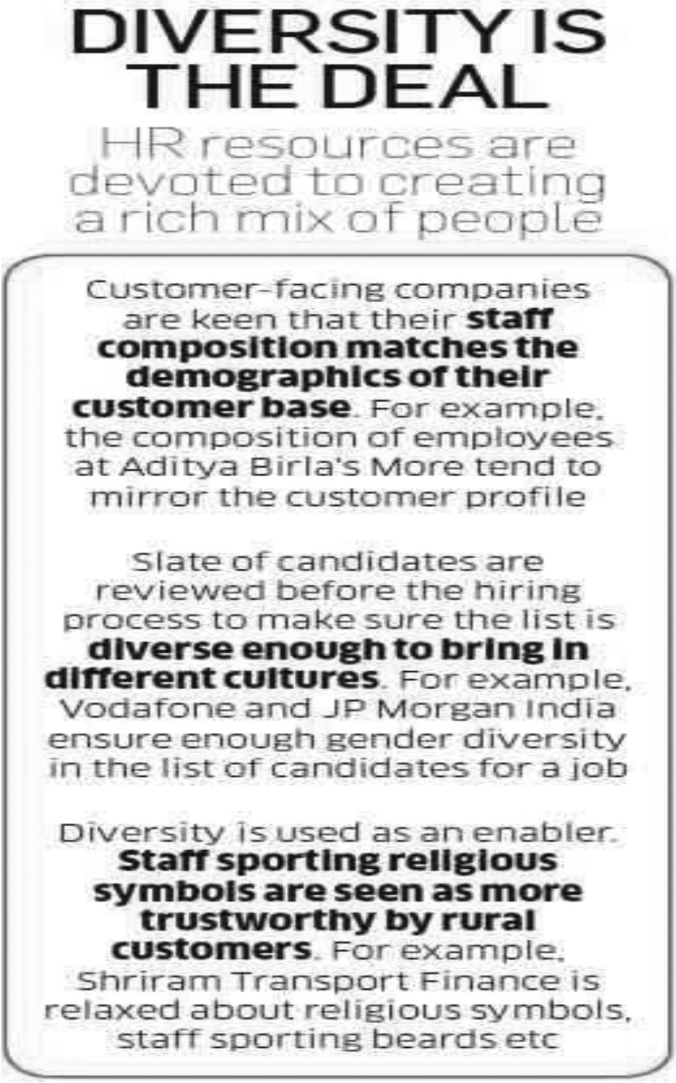
Misra says: 'In the beginning most employees in the group were from Rajasthan and then from south India. As we grew, we got employees from different religions. Now we have Hindus, Parsis, Muslims, Buddhists—diversity is a natural phenomenon and, as the workforce achieves critical mass, their specialised needs are taken care of.'

United Colours of Religion

Prasanth Nair, who after his stint with RPG went on to Thomas Cook and then to head the global HR function at Cipla before turning an independent consultant, says: 'Companies today are often willing to accommodate employees' religious and cultural needs; a little puja on the desk or dressing traditionally on special days are not frowned upon. Even joining dates for new employees are moved around to avoid so-called inauspicious dates.'

Of course, it helps if the CEO is religious. Kalpana Morparia, India head for JP Morgan, says her own desk has multiple figurines of Hindu gods and goddesses and she has never had any issue with Muslim employees taking time off to offer namaz multiple times a day. JP Morgan does not have a prayer room, so the employees use one of the meeting rooms. But some companies have created prayer rooms on their premises.

Tech Mahindra, the IT services firm from the Mahindra stable, is one company which has prayer rooms on different premises. Rajeev Dubey, president for HR at Mahindra Group, says the group is quite relaxed about dress and cultural symbolisms. He stresses that having a large number of young employees makes it imperative to have a relaxed dress code, where almost anything is allowed.



DIVERSITY IS THE DEAL

HR resources are devoted to creating a rich mix of people

Customer-facing companies are keen that their **staff composition matches the demographics of their customer base**. For example, the composition of employees at Aditya Birla's More tend to mirror the customer profile

Slate of candidates are reviewed before the hiring process to make sure the list is **diverse enough to bring in different cultures**. For example, Vodafone and JP Morgan India ensure enough gender diversity in the list of candidates for a job

Diversity is used as an enabler. **Staff sporting religious symbols are seen as more trustworthy by rural customers**. For example, Shriram Transport Finance is relaxed about religious symbols, staff sporting beards etc

Dubey recalls at least one Muslim employee in Mahindra's Nashik office, a senior member of the research team, who regularly comes to work in kurta pyjamas and a skull cap.

In fact, in places like Mumbai, a Ganpati figurine may even be a secular symbol of luck and prosperity. Hari Sankaran, vice-chairman and MD of infrastructure financing firm IL&FS, operates out of the iconic IL&FS building in Mumbai's Bandra-Kurla Complex. The internal layout is an open office where no one has closed rooms.

Pointing across the partition between his office area and that of chairman Ravi Parthasarathy, Sankaran says: 'You can spot a Hanumanji statuette there. If you look away and across down the corridor, on one of the desks there are multiple Ganpatis, probably 100 or more. Downstairs, there is a Shiva in the Nataraja pose. No one is worried about it.'

Dubey of Mahindras adds: 'At Mahindras we are not rigid. We try to be open and flexible and are accepting of different possibilities and truths.' Almost echoing the credo, Avani Saglani Davda, CEO of Tata-Starbucks, says the company allows the staff to do a religious ceremony of their choice when they open their stores every morning.

And a multinational like Vodafone, in India, actually celebrates almost all local festivals on its premises. In fact, last year, Vodafone sent one of its south Indian employees to head the Bihar-Jharkhand circle and his wife ended up leading the office Chhath puja even though it was something very alien to her.

Making Diversity Work

So are Indian companies a melting pot of multiple cultures? The truth is written in multiple shades of grey. In a recent case, a senior official of a company objected to members of the staff doing a little puja on the desk while he himself would leave office for prayers.

The company HR team solved it by providing him a prayer room in the office and in return asking him to be more tolerant of others. In another case, an employee, victimized by a boss because of his religion and who was re-employed by the company after the boss himself resigned.

While these examples smack of intolerance, there are also tales from company executives who are conscious of taking care of the small things. Agrawal of RPG recalls how many years back, working for Modi Xerox, he had managed this group of south Indians working in Rampur in Uttar Pradesh.

'The group found it very difficult at breakfast times as they only found samosa jalebi, and wondered how they could find some "real" breakfast [No dosa/idli]. We went the extra mile to help them with their diet,' Agrawal recalls.

Misra of AV Birla Group talks about how he has to run sensitization programmes for teams going out of India as well as those coming in. He recalls how a team from the interiors of Gujarat, going for training to Germany, had to be virtually toilet-trained. Conversely, foreigners coming into India are educated about local religions, cultures, deference to authority, and, for good measure, the relaxed attitude about time, Misra said. While sensitization is one tool that companies use widely, the other is to drive diversity as a culture within the organization.

Demographic diversity and gender diversity are two buzzwords where companies seem to be doing a lot of work. Morparia of JP Morgan India points out that even when hiring the company looks at the slate of candidates to ensure it has enough women so that it reflects in the final hires. She also points out that while she is 66 the average age in the organization is less than half of hers and therefore the constant need to stay in touch through various programmes.

One question that always arises is whether anyone is measuring the entire pool of diversity (religious, gender, LGBT, demographic, caste). Santrupt Misra of AV Birla Group recalls that a few years back when the discussion on reserving jobs for people from the SC/ST/OBC segments in the private sector was underway, he commissioned a survey within the group and found around 8–9% of the executives belonged to these groups. 'I have not repeated the tests, but am sure that meritocracy on its own is ensuring that I have a mix of diverse people coming in,' he says.

He is happy to let it drift. And Misra may be right for sometimes there are interesting contrasts, too. For example, while Morparia or even Dubey of the Mahindras worry about the increasingly younger staff members with whom they need to connect, Chitra Ramakrishna, managing director of the National Stock Exchange, points out that the average age of employees is increasing at the bourse.

'Because we are growing we are hiring people at senior levels unlike say 15 years back,' she says. And here is an example of affirmative action. Ashok Ramachandran, HR director at Vodafone India, points out that the percentage of women employees has been consistently pushed up over the past two years and has climbed to 21% today from 14% and the company now has women heading 18 out of its 108 zones, where there were none two years back.

Power in Diversity

Vodafone's success in India in managing around 13,000 employees, moving them around the country and simultaneously sensitizing them to the need for diversity has caught global attention. Ramachandran says some of the Indian HR practices on inclusion are now being replicated globally. For example, Vodafone has run an inclusivity programme to train all its line managers to be sensitive about the feelings of their subordinates.

They are trained never to be abusive and also never make comments that cast aspersions on a person's religion, culture, gender, or appearance. Information is gathered through a 360-degree appraisal process and feedback is provided to the managers in case there is an issue. Ramachandran says: 'Even if a manager is delivering great results but is not able to fall in line and be sensitive, we can decide he is not the right person for us. And we have had to part ways with some people of this kind.'

The implementation of this programme in India is being adopted globally. 'They are saying if we can do this so fast in India, then some of the smaller countries can adopt our practices, too,' he adds. For consumer-facing businesses like that of Vodafone or Starbucks, it is also important to have a staff mix that mirrors the customer group. Not as much for a company like Shriram Transport Finance.

Managing director Umesh Revankar points out that most of his hires are locals. 'So it really does not matter how they dress or sport a religious symbol. We do not have any restrictions on dress apart from skin-tight T-shirts. In fact traditional dressing or a religious symbol as a part of the dress or can work well with my rural clientele.' Just as catering to diversity works in the interiors of India, it can work in far corners of the world. Indian groups like AV Birla or Mahindra or RPG that have a significant presence abroad send out a message of Indian-style inclusivity across the globe.

RPG group company KEC, which has an acquisition in Brazil, went out of its way to find a native Brazilian Portuguese speaker, working for an NGO in Mumbai, to dub all its corporate videos in Portuguese and help communication between the two companies. AV Birla offices in Egypt typically have facilities for namaz and those in Thailand have a Buddhist temple.

These can be strong signals for the rest of the world, especially when concerns about tolerance, especially religious, have been raised by none other than US President Barack Obama. But, there could be miles to travel yet. Santrupt Misra says: ‘Today we do not have a forum for LGBTs as we do not ask people about their sexual orientation. However, someday in future it may be there. On the other hand, there is a critical mass of smokers in our head office, so I provide a smoking room downstairs.’

Case Questions

1. According to general understanding culture is the mother of value systems in a society and religion is symbolic identification of beliefs, faiths in practice. It is true for the business to accept and respect the cultural fit along with its business strategy for effective involvement and implementation of business plans. However in a multi-cultural/religious society like in case of global business corporations in case one has to completely be in alignment with all the cultures and religious practices don’t you think the business strategies would get adversely affected while internalizing all diverse local and global religious dimensions?

2. It is said that there are many in the society who feel that while culture is the communization of the way a society feels comfortable to live together the religion and religious practices accept for spiritual practices (if one believes) appear to be more superstitious and tend to hinder professional management answerable to—Cost quality and delivery to its customers?

5

The Netflix Way

A Case Study in Talent Retention

Learning Objectives

Learning incentivizes autonomous decision-making by employees to create business enhancement and encourage merit. To understand and learn about how Netflix platforms exchange knowledge freely, widely, and deliberately. Training and learning of the business deals with the delivery of internet access to its clients, the downloading of videos and TV shows over the phone, and the faxing of DVDs. Understanding on job and capacity requirements, fair pay arrangements, a clear choice for non-performers, flexible severance payments, the promise of wages and equity balances, etc.

Synopsis

Transactions of the business are nothing but the culture of an organization—including its common ideals, principles, practices, and people—it is something rather intangible that acts as a basis for enhancing company development and success, and many organizations are failing to behave. However, businesses such as NETFLIX have created an incentive to build a high-performance organizational community. The very last area addressed in this case is how NETFLIX successfully embraced the transition taking place in the globe. This involves the positive adoption and introduction of technical improvements, while at the same time meeting consumer needs and demands.

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Introduction

Organizational culture is nothing but the philosophy behind an organization—which includes its shared values, beliefs, norms, and its people. It is something which is rather intangible but acts like a supporting pillar for organizational success and achievements. But many companies fail to act sensibly to build its own unique identity—its culture. However, companies like NETFLIX have made an ace in setting a high-performance organizational culture through its unique practices (let's not call them policies). It believes in offering its employees with utmost freedom and flexibility to work with minimal formalization. It thrives to establish a complete adult culture and summarize its working in one simple line 'Act in NETFLIX's best interest'. Simple yet so deep and thoughtful.

Netflix was incepted when its founder Reed Hastings saw an opportunity in DVD business while solving a simple math problem. And from there, the idea has grown and became a company with a net worth of $61.6 billion. The company deals in providing to its customers with subscription service streaming movies and TV episodes over the Internet and sending DVDs by mail. The case focuses on how NETFLIX has carved a niche against all odds and came out as a warrior during the times when companies were facing the dotcom crises. The employment and hiring criteria, competitive compensation plans, straight-forward approach for non-performers, attractive severance packages, option to choose a mix between salary and equity, etc. are some of the broad areas discussed in the case. It was not easy for the company to stand erect in front of competitors like Amazon, Blockbuster, etc. But the strategies adopted by NETFLIX to keep its customer happy and satisfied, to retain its talent, and to accept the competitors' challenges, has made it even more stronger and tougher.

The final area that has been covered under the case is how effectively NETFLIX has accepted the change taking place in the external environment. It includes accepting the technological changes and implementing it smoothly while keeping a balance between customers' needs and demands.

Netflix Business Model

Netflix was founded in 1997 by Reed Hastings, who first conceived of a subscription-based online movie rental business when he was charged with the late fee of $40 for renting the movie Apollo 13 from Blockbuster. The idea then converted into a bigger dream and resulted in the introduction of the company called NETFLIX. Netflix is one of its kind, dealing in renting unlimited movies (then, in DVD format) to its subscribers at monthly fee of $19.95 (then), with requests for the titles available over the internet. (It is important to note that erstwhile, DVD format was adopted as the standard format for watching the movies.) The business model adopted by the company was very simple, here customers were allowed to rent three movies through the mail at a time and can keep the movies with them as long as they want without incurring any late fee charges. Whenever customers want to order any other movie, they created a queue on the company website (Netflix.com) in their own preferential manner. Once a customer returns one movie, the next movie in the queue is automatically mailed to the customers. Postage charges for both the sides were paid by Netflix itself.

How Netflix Business Model Succeeded?

- Firstly, Netflix aimed to cover its fixed cost by attracting the mass customers. In order to fulfil the demand of every customer and at the same time engage those who tend to cancel their subscription, Netflix offered a comprehensive collection of movie titles that were readily available on demand. This helped the company in preserving its customer base, thus covering its fixed cost.
- Secondly, Netflix ensured the minimum waiting time for the customer through its excellent and wide coverage of delivery services. And to serve the purpose, it leased the shipping centres in proximity with the customer population. This move helped it to deliver DVDs in one business day to 95% of its customers which ultimately resulted into grabbing customer loyalty and trust.
- Thirdly, in order to make itself more customer-friendly, Netflix facilitated its customer with an ease to access available titles and

navigation through its website. The website so designed aimed at making the customer experience more realistic and interactive. Easy navigation, customer recommendation system with an autonomy to suggest their preferences, raising a platform for customers to share their reviews about the movies, and the use of computer algorithms to identify the movies which a customer might like to watch were some of the features available on the website. This step helped Netflix to share a strong relationship with its customers and increased customer satisfaction.

Strategies for Facing Challenges and Competitors

Once initiated, Netflix never looked back and continued to expand its customer base. In the year 2003, Netflix succeeded in crossing 1 million subscribers and recorded its first annual profit. But during these days, Netflix has faced an immense competition from some of the industry giants. One of them was the well-known retail brand Wal Mart who in the year 2002 announced its entry into the online movie subscription services. Wal Mart offered its service at $1 less than the Netflix, but it lacks in distribution service as it has one only one centralized distribution centre against ten leased by Netflix. Thus, unlike Netflix, Wal Mart failed to provide its customers with quicker delivery and was forced to leave the market transferring its subscribers to Netflix.

Another competitor which came up with even a bigger challenge for Netflix was Blockbuster. It was fiercer since Blockbuster had a stronger brand image, a retail network of about 5500 stores across the country, and an extensive catalogue of movie titles. Once launched, it integrated with it in-store rentals, giving an ease to customer to return the movie through mail or store. However, even after having an edge over Netflix in all these aspects, it failed to attract more customer than Netflix.

Amazon's announcement to enter into the UK market in online movie subscription was yet another threat in the row faced by Netflix. Amazon had already made its mark in the online retailing and logistics and delivery system, and this acted as a threat to Netflix. Thus, Netflix postponed its decision to enter UK and concentrated all its efforts to expand into US. This competition even resulted in the reduction in the monthly subscription fee charged by Netflix. However, this move was the perfect decision made by the company during that situation.

The challenges did not end here, the biggest of all include the change in technological standards of the customers. The DVD format was getting obsoleted in faster rate and was being replaced by instant viewing over the internet. While Hastings has recognized the threat, he tackled the situation smartly by justifying the name of the company which include NET symbolizing the use of internet for streaming movies. Meanwhile, Hastings strategized his next move where he entered into the licensing agreements with the studios that allow subscribers to download the limited selection of movie titles over the internet with no additional cost (other than the subscription fees). In addition, Netflix partnered with few of the hardware companies like LG, Samsung, Microsoft (Xbox), Sony (play station), etc. allowing users to watch downloaded movies directly on their television. Some of the factors which helped the company in dealing with the challenge are lack of broadband connections and subscriber base who still prefer DVD formats.

An Adult Culture—A New HRM Perspective

It is not just prevailing over its competitors that made the Netflix standalone in the crowd, but the culture of freedom and responsibility Reed Hastings inculcated in the organization. He called it as an 'Adult Culture' which is characterized by hard work, initiatives, creativity, and accountability. It means the company expect its employee to work hard, take a step ahead and show their creativity, take initiatives whenever required, take ownership of their own work, and put the company's interest first. Adultlike behaviours talking openly about issues with your boss, your colleagues, and your subordinates. And for this purpose, company too has taken an initiative by minimizing the rules and bureaucracy. In line with this culture, company prefers hiring those people who can handle the work of two or more people. In other words, Netflix only hires those people who are outstanding as these people save cost and work more. And thus, the company not only make efforts to attract these candidates but to retain them at any cost. Some of the highlights of adult culture at Netflix has been discussed in succeeding topics.

Excelling at Employment Practices

While supporting its adult culture, Netflix has incorporated various HR practices. And these practices help the company in reserving its place in the competitive business environment.

i. **Vacation Policy**: Initially the company has standard paid-time-off policy, where employees were given 10 vacation days, 10 holidays, and a few sick leaves. But eventually the company has realized the need for an informal system rather than a formal one. Salaried employees were told to take leaves as per their requirements on the basis of mutual understanding. But while doing so, employees were expected to behave rationally, such that they should not take leaves when their presence is utmost important or could affect the work.

ii. **Travel policy**: Again, when it comes to travel for official work Netflix opted for an informal system wherein employees were asked to behave frugally. Unlike other companies who appoint travel agents to do the bookings, employees at Netflix do it by themselves considering it as their own company. They saved money by letting employees book their own trips online.

iii. **Compensation**: The compensation plan at Netflix is unique and offers a compensation mix to its employees. Compensation offered to the employee is a mixture of cash and stock option. They have an option to invest some part of their salary in company stock under its Employee Stock Purchase Plan (ESPP), that too as per their discretion. As a part of perquisites, company is offering its employees with health, dental, vision, and life insurance. With regards to the vacation, company never restricts its employees unless it affects the company's performance. In a way, employees can avail unlimited vacation at the right time without hampering company's performance. Considering all these factors the company has devised a unique compensation system, which began to take shape in 2003 and was fully formed by 2006. The key components of this system were as follows:

   - **Compensation mix**: Employees were given an option to choose and allocate their total compensation between base salary and option to invest in stock option, at the end of each calendar year.

However, the company retain the power to lower the proportion of compensation delivered in stock option. At the end of the year, employees could change their allocation for the subsequent year. However, changes to the allocation during the course of the year were not allowed.

- **Pricing**: Option grants were made monthly, with one-twelfth of the annual allocation granted and priced on the first trading day of each month. For example, an employee electing to receive $24,000 of the total salary in stock options would receive a monthly stock allocation of $2,000.

  The number of shares underlying each monthly allocation was calculated using the formula:

  *Number of shares = monthly allocation/(stock price on grant date*25 per cent)*

- **Vesting**: Employees were allowed to exercise the grants as and when they are allotted, thus no vesting restriction were attached with the stock options. Restricted vesting limits an employee to receive the full value of the stocks until the vesting period completes. At Netflix, since the company believes in high performance they prefer not to put any kind of vesting restriction (which they called as golden handcuffs), as forcing an employee to stay might affect their performance. And Netflix, incent employees to perform and not to stay back forcefully.
- **Termination**: Upon the termination of employees, whether voluntary or involuntary, Netflix provides its employees to hold the unexercised options for the remainder of 10-year term. It is based on the grounds that these stocks are in exchange of the salary forgo by an employee during his term in the company, thus have all the right to exercise it.
- **Cash bonuses**: Though the company provides no cash bonuses, it compensates the employee in that way which reflects the combination of base salary and bonuses. The company believed that a practice of no cash bonuses was consistent with its high-performance culture and willingness to terminate underperforming employees.

iv. **Dream team dynamics**: At Netflix the dynamics of team formation is different from its counterparts. It focuses not on an ideal team but what a team needs to accomplish over a period of time and how they can bring a difference in their present work. And once they are done with their work, then they analyse how well their team matched with required skills sets. Company deals with their employees with utmost honesty by communicating if any kind of mismatches between the present skill sets and the required skills sets, and expect them to take it like an adult. Thus, the team dynamics didn't measure them on whether they were excellent coaches or mentors or got their paperwork done on time. Great teams accomplish great work, and recruiting the right team was the top priority.

Netflix's core philosophy is people over process. Their version of the great workplace does not comprises sushi lunches, great gyms, fancy offices, or frequent parties. But, the great workplace is a dream team in pursuit of ambitious common goals, for which they spend heavily. A dream team is something where employees learn the most, perform their best work, improve the fastest, and have the most fun. The company have developed a 'keeper test' for each of their employee. The test judges the managers on the basis of how much efforts they are putting in to keep or retain an employee (in a dream team), failing which they are prompted for severance package.

Performance appraisal and management: Unlike most companies, where an average performer gets an average rise in the compensation, at Netflix they get severance package. And that is the reason involuntary turnover in the company is almost double the voluntary turnover. The company has instituted an informal 360-degree face to face reviews wherein People were asked to identify things that colleagues should stop, start, or continue. While appraising and managing the performance of the employees, Netflix considers the recent market trends and changes in the jobs and responsibilities (not on the basis of merit or cost of living).

Retention: As discussed, Netflix believes in hiring only the outstanding candidates and once hired it make all possible measures to retain that talent. The company's philosophy was clear in this respect, it offers top-of-the-market compensation to its employees and pays them more than anyone could do. While retaining its employees, Netflix pays them as much as a replacement would cost. Thus, company pays them with the highest packages which a competitor would have paid elsewhere.

Culture of freedom and responsibility: At Netflix, employees are provided with utmost freedom to act and take the important decision in the company's interest. Some of these initiatives by the company in this respect are as follows:

Systematic sharing of company-related document at internal level, where employees have access to various company-related information.

No control over signing of any contract, until it is well thought and based on good judgement.

Encouragement to the new parents to take leaves as and when they feel appropriate to take care of their baby and themselves.

No formal policy related to dressing at workplace.

Some of the exceptions to this culture are:

No compromise with ethical and safety issues.

Zero tolerance to workplace harassment and trading on insider information.

Thus, we can summarize the culture at Netflix into five major points:

- Encourage independent decision-making by employees
- Share information openly, broadly, and deliberately
- Are extraordinarily candid with each other
- Keep only highly effective people
- Avoid rules

Conclusions

Corporate culture is nothing but ideology behind an organization—which includes its common principles, ideals, standards, and people it is something that is very intangible which serves as a pillar of reinforcement for corporate progress and achievement. Yet many organizations fail to act sensibly to create their own unique identity—their own culture.

Nonetheless, organizations such as NETFLIX have created an ass in building up a high-performance corporate culture by their innovative activities (let's not name them policies) they believe in giving their workers absolute independence and autonomy to operate with limited formalization. It thrives in creating a full adult culture and summarizes its work in one clear line 'Act in the best interest of NETFLIX'. Netflix was founded when its CEO Reed Hastings saw a chance to solve a basic math question in DVD business. And from there the concept evolved and became a $61.6 billion net worth business.

The organization is involved in providing broadband content to its clients, downloading videos and TV shows via the broadband, and sending DVDs via fax. The jobs and selection requirements, fair pay systems, a straightforward solution to non-performers, lucrative severance payments, the possibility of selecting a balance of wage and equity, etc. are some of the specific fields addressed in the event. The business was not possible to remain tall in view of rivals such as Amazon, Blockbuster, etc.

The final area addressed by the event is how successfully NETFLIX has embraced the transition taking place in the external climate. This involves embracing and introducing technical improvements seamlessly while keeping a compromise between consumer desires and demands.

Case Questions

1. Which is the focus strengths of Netflix focused on the current operating model?

2. Why are Netflix's vital practices and services impacted by the change from DVD rentals to video distribution and original content?

3. Which are the current expected results of Netflix focused on the latest distribution goal model?

SECTION II

CASE STUDIES IN FINANCE MANAGEMENT

Financial Accounting, Direct/Indirect Taxation, Banking, and Insurance

6. India's Changing Banking Scenario
7. The Balancing Act
8. Rich Owners and Their Poor Companies
9. A Case Study on Taxation in International Finance

6

India's Changing Banking Scenario

Public Sector Banks vs Private Sector Banks

Synopsis

For more than two decades public sector banks managed to stave off competition due mainly to the trust people had in them due to government backing. As the next generation comes in with different attitude, are they equipped to serve them? They need to reinvent to survive. For half a century since bank nationalization, public sector banks dominated the credit flow to the economy with more than four-fifths of the share. In 2019, the golden jubilee year, private lenders accounted for Rs 69 of every Rs 100 loan. The tables are turning.

As the economy adjusts to the new reality like technology-driven financial services, a robust bankruptcy law, vanishing 'phone banking' and a plethora of competition from unknown quarters, the Goliaths of Indian finance face the formidable task of remaining relevant—and surviving momentous change.

It's not just the availability of capital that provides strength to give out loans, but the skills and attitude to face the digital world, where customer convenience trumps everything else, that would determine their survival. It would not be just deposits that flow because of the comfort of government backing, but also efficient lending that holds the key to their relevance.

The collapse of lending, lack of vision, and risk aversion combine to present a muddy picture of state-run banks akin to other state-backed businesses, which failed to keep pace with advancements only to turn a pale shadow of their pasts. 'Unless government-owned banks put their house in order, they would see a much faster decline in the coming years

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and it is difficult to predict whether they will be able to face the onslaught of competition from new-age banks.'

Case Details

Data shows that government-owned banks' share of total credit outstanding fell to 60% at the end of March 2019 from 75% in 2012. State-run banks disbursed Rs 59.2 lakh crore at the end of March 2019, up to 4% or Rs 57 lakh crore, from a year earlier, shows RBI data. By contrast, private sector peers loaned Rs 33.2 lakh crore in 2019, up nearly a fifth from Rs 26.6 lakh crore a year ago.

The Changing Scenario

Public sector banks remained the first port of call for anyone who sought banking services as they evoked trust and faith among people. The state-owned majority stakes in these banks led to the belief that every penny in those banks is safe.

Furthermore, private sector banking services gained notoriety where hidden charges were slicing away customers' funds without them even realizing. There was a belief that state-run banks did not indulge in such. But as the younger generation gets prominence and technology helps improve services, the millennial customer doesn't bother about whether a bank is state owned or private.

'Public sector banks have to realize there is a new generation of consumers that expect a certain standard of service that perhaps these competitors are providing—be it in terms of the digital experience or technology or branch banking services,' said K Cherian Varghese, former MD, Union Bank of India. That even the seniors are moving into the digital age reflects the surge in electronic payments. Of the total small-ticket retail transactions worth Rs 10.32 lakh crore in March 2019, the share of online deals has risen to 61%, up almost three times from 24% in March 2016. In the payment space, digital wallets and non-bank Unified Payments Interface (UPI) players had a share of 14.7% in March 2019, up from 1.6% in the same period in 2016. Also, the key function of payments is being facilitated by the likes of Paytm and PhonePe reducing the reliance on bank platforms.

Talent to Compete

The biggest differentiator has been the lack of specialized manpower at state-owned banks. The government recently announced its intent to fill middle-management positions at state-run banks and offer them a longer tenure. Nearly 70% of mid-management staff at PSU banks is over 50 years of age, suggesting their retirement isn't too far away.

'While the PSBs have the entire necessary infrastructure in place such as the core banking systems and Internet banking solutions, it is the workforce that needs to be reoriented and retrained,' said Varghese. 'The attitude needs to change; there is a need for a ground level training exercise conducted by the government to bring the PSB staff and bankers in tune with the market best practices.' State-owned banks are also constrained due to compensation they offer and senior PSU executives time and again have demanded they be allowed to hire a portion of their recruits the way private sector banks do, so that the best talent pools are also available to them.

'PSU banks need to change their people strategy, put more feet on the street, redeploy its current manpower, train them for specialized functions, initiate lateral hires for specific functions and every bank depending upon their strength needs to bring in a board-approved, market linked compensation,' said Sur.

The Legacy Drag

State-run banks, because of their ownership structure, were functioning more like a ward of the government rather than like businesses that are supposed to make profits. These lenders became tools for the governments to carry out their welfare agenda.

Also, cronyism led to many decisions being influenced and led to unviable projects getting funded. The last two decades saw an enormous surge in funding private infrastructure projects that led to a huge pile-up of bad loans.

Data showed that PSU banks had a gross NPA ratio of 11.6% at the end of March 2019 and contributed nearly Rs 7.39 lakh crore to the total bad loan pile of Rs 9.36 lakh crore. Private banks on the other hand had a GNPA ratio of 5.3% with Rs 1.83 lakh crore as bad loans in value terms.

As state-run lenders got hobbled by bad loans, private banks stepped on the gas to secure more deposits. State-owned banks' total deposit base was at Rs 84.86 lakh crore at the end of March 2019, up from Rs 82.62 lakh crore a year ago. Private banks' deposits rose 25% to Rs 37.7 lakh crore. But public sector banks believe that weakening metrics are just temporary and that they could roar back.

Meanwhile, private lenders are turning more efficient than their state-owned peers. The spreads for PSU banks were at 2.8% for 2019 and 2.5% for 2018, while private banks had a spread of 3.6% in both 2019 and 2018, RBI data showed. Their cost of funds and cost of deposits were almost identical.

Baby Steps

PSU banks are also facing fierce competition from not only private peers but also from small finance banks, fin techs, non-bank lenders, and micro-finance institutions. And the competition is only getting fierce. Small finance banks showed impressive growth with their total loans growing to Rs 59,491 crore versus Rs 34,879 crore, a growth of more than 70% in a year.

Banks which own the customers and have their deposits saw their control in the overall transactional pie gradually reducing to 81% from 92.7% three years ago. As PSU banks realize that they could not do it on their own, they are looking to partner with these nimble firms in their catch-up act.

'Well, obviously we see competition from a host of entities that are trying to get a piece of PSUs' original home turf, especially in rural and semi-urban areas,' says Mahapatra of Syndicate Bank. 'Going forward, we see use of technology and collaboration as small finance banks, MFIs, non-banks are good at this, and we see huge opportunities in co-origination.' But these banks also face sudden distractions. Last year was significant in the sense that the government moved to consolidate many banks that would make them bigger, but not necessarily more efficient and competitive. The government decided to merge 10 state-run banks into four, including Oriental Bank of Commerce and United Bank of India with Punjab National Bank; Andhra Bank and Corporation Bank with Union Bank of India, opening up a new opportunity.

'Merger has given them a chance to redefine them,' says PwC's Sur. 'Today, all of them are copycats of each other; better and bigger banks will bring in more capital, talented workforce and the power of the combined entity.' While the process could slow them down as not all of them are on the same technology platform, there's hope of revival. 'With mergers playing out in 2020, the professionalization of state-run banks will accelerate For the rank and file, it will be business as usual; it will be time consuming for the top management. But you will see state run banks bearing the benefits of this merger in the times to come,' says one of the CEOs of a public sector bank.

This year would also see two private sector banks, ICICI Bank and Axis Bank, which were dragged down by bad loans, make up for the lost time. Mergers and government's investment of nearly Rs 3 lakh crore as capital in the past few years have ensured that they don't sink. But the field has gotten a lot more competitive that would force state-run banks to come up with new ways to survive.

'India is in the classic Darwinian mode of what I call survival of the fittest,' said Uday Kotak, founder of Kotak Mahindra. Reserve Bank of India (RBI) has decided to set up Public Credit Registry (PCR) an extensive database of credit information which is accessible to all stakeholders.

The Insolvency and Bankruptcy Code (Amendment) Ordinance, 2017 Bill has been passed and is expected to strengthen the banking sector. In June 2019, RBI sets average base rate of 9.18% for non-banking financial companies and microfinance institutions borrowers for quarter beginning of July.

Deposits under Pradhan Mantri Jan Dhan Yojana (PMJDY) increased to Rs 98,320 crore (US$ 14.07 billion) and 355.4 million accounts were opened in India (as of 29 May 2019). In May 2018, the Government of India provided Rs 6 lakh crore (US$ 93.1 billion) loans to 120 million beneficiaries under Mudra scheme. Under PMJDY, more than Rs 1 lakh crore (US$ 14.30 billion) have been deposited till July 2019. In May 2018, the total number of subscribers was 11 million, under Atal Pension Yojna.

Rising incomes are expected to enhance the need for banking services in rural areas and therefore drive the growth of the sector. As of September 2018, Department of Financial Services (DFS), Ministry of Finance and National Informatics Centre (NIC) launched Jan Dhan Darshak as a part of financial inclusion initiative. It is a mobile app to help people locate financial services in India.

The digital payments revolution will trigger massive changes in the way credit is disbursed in India. Debit cards have radically replaced credit cards as the preferred payment mode in India, after demonetization. Transactions through UPI stood at 955 million in September 2019 worth Rs 161,457 crore (US$ 23.10 billion).

As per Union Budget 2019–2020, the government has proposed fully automated GST refund module and an electronic invoice system that will eliminate the need for a separate e-way bill.

Case Questions

1. Discuss on the recent developments of Indian banking sector.

2. Is there need of financial inclusion to the Banking industry?

3. What are the steps that should be taken by Reserve Bank of India to maintain the liquidity in the banking institution?

7

The Balancing Act

A Case Study on 'Project Financing'

Learning Objectives

The aspect of managing project financing as a major investment decision in many larger MNCs has been a matter of highest priority item for critical analysis of funding for the new projects especially in the current scenario of severe disruptions at the marketplace. If delay in speed to market you are at risk and if you are not careful and cautious the decision of major funding could lead to unbearable financial stress.

If the market forces are influenced by disruptive product and process technology upsetting all financial calculations made for the project in terms NPVs and NVAs. It is interesting to see how companies are reacting to such situations through such case studies.

The case of NMC motors (The names of the organization and people connected are not from real world but the case issues are aimed at focusing on real issues faced by such and similar organizations.)

Niranjan Motors Corporation (NMC), a company in the NCR area, was established in the year 1997 to manufacture, midsize and small passenger cars with a well-known Japanese collaboration. The Japanese company, MITASHI Motors Limited (MML) besides technical support in the form of overall design development and the manufacturing process, were also financial partners with 26% equity in NML.

The technical director for NMC was from MML, Mr Novano, who had nearly 25 years of work experience with MML mostly in the area of design, development of major aggregates of the small and midsize passenger cars, and was considered to be an authority in vehicle design and project management.

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Mr Pravesh Srivastava (PS) was the MD of NMC who belonged to the promoters group of NMC. PS also had enough exposure to auto industry in the West and had work experience of nearly 15 years with GM USA at a fairly senior level in the operations management area. He was also involved as project manager for few of the GM units in China and Indonesia responsible besides technical aspects to negotiate financial aspects of these projects, with local governments and financial institutes. Mr C Chakraborty (CC) was the finance director of NMC since inception and was wizard in financial planning for large corporate and had contacts at senior level in the industries department of the state and central government in New Delhi.

The initial years of NMC were very trying since the passenger car market was monopolized by the age old Padmini, and Ambassador cars. The customers were very much used to performance and services offered by these organizations. All the requirements of passenger cars for government and semi-government setups had rate contracts with these companies and were not ready to consider a third untested model in the passenger car segment.

It took nearly three to four years for NMC to acquire 5% of the market share in spite of their products being technically and operationally very superior compared to the current players in the passenger car market. NMC had to introduce new models at frequent intervals to provide additional performance features at reasonable prices to attract customers. NMC's models such as the 'Jinto' and 'Jumbo' models, one each for the small and mid-size segment had made their impact and started acquiring additional market share.

By the year 2004 NMC succeeded in acquiring 25% market share in both the small and the mid car segment. Customers in general started liking the new styles of design and features such as power windows and power steering as also the lower operating costs of NMC cars.

NMC was aware of the new competition from the Korean car manufacturers who had entered Indian passenger car market with their proven models across the globe. Besides GM, FORD, VW, BMW were also proposing to establish car manufacturing units in India. Indian economic growth which had reached top level amongst Asian economies by 2006 was offering excellent opportunities for consumer durable goods and also the passenger car market had reached a growth rate of nearly 30% between 2004 and 2007.

The passenger car market size had increased from a meagre 2.5 lac units in 1998 to nearly 10 lac units by 2006. No doubt NMC needed to pull up its socks and introduce newer models in the growing passenger car market. Besides NML needed to undertake drastic indigenization of inputs including raw materials and subassemblies and to reduce its cost of manufacture drastically to maintain its market share in the growing market. NMC had to look out for car models with technology and price competence to face the new entrants who had started making inroads in to the Indian car market.

NMC's Balance sheet, for the FY 2004–2005, showed a PBT of Rs 7.7 bn on a/c of improved sales in new models such as the Jinto 'junior' and the Jintu 'stylo', the PBT of NMC had improved to Rs 12 bn in the FY 2006–2007. This was also due to the concerted efforts in operating cost reduction and quality improvement projects implemented at NMC. NMC needed to look out for the latest hybrid models which enjoyed major concessions offered in the central government's budget for the hybrid cars complying with the latest technologies in emission control. This of course needed heavy investments to the tune of Rs 60–75 bn in the years 2007–2008, 2008–2009.

In order to ensure optimal capital costs in the new project for hybrid car manufacture, NMC had to critically evaluate various options in raising necessary funds for the new project. M/S Choksi & sons, were appointed as prime consultants to evolve an optimal capital cost model for NML. This assignment was to be driven by Mr CC the finance director on top priority.

A final report for presentation and discussions with the senior management team consisting of the MD (PS), Tech Dir (Mr Novano), Fin dir (CC) and the project leader from Choksi & Sons along with other chiefs of operations at NMC including VPs of marketing and customer service functions at NMC were to attend this meeting scheduled on 22 April 2010 in the MD's conference room at 11 am.

Mr Velayudhan the VP of finance who had worked closely with the consultants for the project was to lead the discussions along with the consultants making a detailed presentation on 'Investments resource planning for the hybrid car project of NMC'.

Mr Velayudhan the VP Fin, was involved in similar projects of NMC and over the previous 12 years with NMC, knew the top management's critical views on new project financing.

Mr Velu as he was popularly known amongst his colleagues at top management level had come to be known as a highly effective executive in the financial disciplines of the setup. He had played key role in the indigenization and cost reduction projects and was seen as future successor to CC the Fin Dir. Mr CC also believed in the capabilities of Velu, provided enough autonomy to represent the finance function of the company on matters which needed utmost diligence and foresightedness.

Mr Velu along with the consultants team had analysed enough alternatives of the new investment proposals for the hybrid car project was ready to shoot his observations during the meeting.

The meeting started on schedule with the MD explaining the implications of the subject matter to his team asked everyone to offer critical views, if any, on important aspects during the meeting which will enable the management to take appropriate decisions on the important issues in financing the hybrid car project which was a very crucial project for NMC's future growth prospects.

Mr Velu on being signalled by CC, got up to start the presentation, the consultants chief project leader was ready to provide him with all the statistics of comparative evaluations done for the investment alternatives. Mr Velu, while drawing the attention of all the participants in the meeting, made his starting comments as, 'NMC for the first time after its inception nearly a decade, had reached a stage wherein alternatives between debt financing & financing thro' equity capital need to be evaluated. We in the finance function, involved in the evaluation, have observed that Financing thro' outside debt instruments will be beneficial for NMC for the hybrid car project in place of the usual Equity capital option'.

Mr Mathur VP of operations, on listening to Velu for some time asked him, 'Velu, while I appreciate your efforts in putting things together, unfortunately, cannot understand, as company already is in a debt trap due to steep increase in working capital requirements and borrowings for modernization projects undertaken by the organization recently and I am personally surprised that you still are recommending the option of outside borrowings & consequent debt servicing, which will definitely kill the cost competitiveness of NMC and throw us out of the market due to heavy debt servicing costs which naturally need to be met through price increase which our customers will cry foul under present cut-throat competition, whereas all our major competitors are offering heavy discounts'.

Debt financing option therefore is not a correct option for the new hybrid car project, which calls for huge investments in technology and test facilities to be created and over a long gestation period.

Mr Velu was a bit surprised to receive such a reaction from Mathur, since he thought that VP operations, would be more interested on timelines of finance availability of the project finance rather than the mode of its availability.

Sensing further complications and arguments, CC himself got up to clarify the issue. He said, 'well I am happy to note the concerns expressed by my friend Mathur, I wish to clarify that certain basic factors need to be noted in case of Debt Financing Vis a Vis Equity Capital.'

The debt financing option has three indisputable advantages such as

1) The tax benefits on project financing for the hybrid car project as per additional tax benefits announced by the government for hybrid cars.
2) flexibility in repayment of the loans, to reduce the interest burden as is possible as the project offers better returns on investments.
3) The outside debt does not dilute shareholder returns in the short and long terms, since the project itself is a highly profitable business opportunity for LML.

'I hope my esteemed colleague appreciates these points in favour of our recommendations,' he quipped and decided to allow Mr Velu to proceed.

However Mr Mathur was not convinced and reacted saying, 'My dear Velu, all the advantages you claim in favour of outside funding come at a huge cost to the company, it is not a dowry in marriage. Debt financing definitely increases the financial risks of the company, the lenders are not going to keep quite in case of cost escalations and other unknown project delays leading to huge financial risks'.

At this moment Mr Novano, the Japanese Dir, asked CC to explain as to how he felt that debt financing would help improve the shareholder interests. CC got up once again to explain that the basic financials of this project being highly encouraging in terms of ROI as projected, the returns will be more than the interest payments on the borrowed capital. The surpluses would result in improved returns to the stakeholders.

He also emphasized that the financial out lay for an important project like the hybrid car should necessarily be seen in the long-term strategic objectives of the organization, which basically are focused on ensuring market leadership position for NMC raising funds through equity capital (like the IPO) is costlier because the investors need an attractive risk premium.

Assuming that the interest cost is 18% and the gross of overall interest cost is 10%, along with the corporate tax of nearly 30%, the net cost of interest would work out to 7% i.e., [10x(1.0 –0.30)]. And in case we consider a combination of debt + equity capital the overall cost of capital would be further reduced.

Further Mr Velu went on to explain that D/E ratio of NMC at present is very low around 0.75, even a substantial increase in debt also will not offset the financials of the company. The concerns on the financial risks are high only when the companies debt servicing capacity as reflected by the 'Interest coverage ratio' is precariously low. He also said that the company could safely target for a D/E ratio of 1:1 and finance its project requirements of finance for the hybrid car project through debt financing option.

The MD, Mr PS asked CC as to how the stock markets would react to this debt financing option NMC is adopting for a major project like the hybrid project. Besides NMC was already saddled with the heavy operating fixed costs related to production, sales, and overall administration which needs to be kept in focus while opting for a project financing alternative.

NMC had already in the past invested heavily in plant and machinery and other infrastructural needs at periodical intervals for capacity increase projects and for modernization of process technology, etc. including introduction of newer car models in the market. While few of the past investments have already been depreciated, the recent investments still needed to be serviced causing heavy stress on the company's cash flow.

CC had anticipated this question from the MD, since in few of his personal meetings earlier, MD had expressed his concerns on the increasing burden of escalating fixed costs at NMC. CC attempted to draw the attention of the meeting to the hardening interest rates in the country, and that interest rates were further expected to rise in due course of financial consolidation steps by the central govt. CC further stated, 'cost control &

reduction in cost of operations will be very crucial for NMC to maintain its margins and remaining competitive at the market place.'

He however clarified that there will not be any adverse reaction to NMC in the stock markets due to healthy balance sheets and quarterly results of NMC.

Mr Velu while continuing on the presentation also explained an opportunity for interest rates swapping possibility at a future date from fixed rates to flexible rates in case the interest rates should come down reasonably thereby reducing the cost of capital borrowings. In the past also on several other projects also the swapping of interest rates had resulted in reasonable reductions in the cost of capital.

The consultants team also proposed a scheme of offering debentures to the bankers against the debt capital with a put-call option that will further enable the company to have flexibility in the loan repayments and reducing the interest burden consequent to the lenders exercising the call option at pre-fixed cost of debenture redemption options. This also will reduce the future financial risks of NMC. NMC had employed this option in few of the projects in the past and were reasonably benefitted in reducing the cost of borrowed capital from the banks.

Around this time, Mr Mathur came out with a significant observation that NMC being a cash rich company had invested heavily in government bonds, mutual funds, and other financial security options. Was it not wise for NML to consider withdrawals from these investments and using the funds to financing the project under discussion? Instead of fresh borrowings which only result in additional drain on the company's cash flow situation.

Mr CC realizing that this is a tricky question butted in to clarify, that the companies investments in such financial instruments were basically to guard against any future financial eventualities, besides these are from the shareholder funds, which when encashed would naturally fetch much higher returns compared to the cost of debt capital for the project. And insisted that the company needs to allow these investments to mature and get maximum returns on redemptions and such investments should always be treated as the financial cushion available to the organization on long-term basis.

However the meeting felt that the shareholder interests cannot be ignored for a long time and NMC needs to be a debt-free company as early as possible to maintain stakeholders confidence in the company. Even if, the company opts for the debt financing option it should be for the barest funds requirement and the debt should be redeemed as early as possible.

Mr PS as his concluding remarks thanked the consultants M/S Choksi & Sons for giving an in-depth analysis of various financing options available to NML for the prestigious hybrid car project, and also thanked his senior management members for making the meeting lively and purposeful.

The project financing proposal was to be put up in the subsequent board meeting for deliberations and decisions.

Conclusions

Many global high-performance organizations have highly professionalized approaches to assess and commit to project financing decisions. Major business groups in India have evolved systems and processes to account for all tangible and intangible variables influencing project management successes mainly in the financial aspects of the project. However we often times hear of delays in project launches and project failures due to onslaught of highly disruptive market forces and cut throat competitions. This case study throws some light on to the causes for such failures.

Case Questions

1. NMC is a cash-rich company and is making reasonable profits on its operations and also has made investments in other financial instruments such as government bonds and mutual funds, etc. Under such a situation do you consider debt financing as an appropriate strategic finance option for its project on hybrid car manufacture? Explain your comments based on present economic and market scenario for the passenger car industry in India.

2. In view of the entry of the global giants in the Indian passenger car segment who otherwise are equipped to introduce hybrid cars based on their models already developed for other markets need

only to homologate the same to Indian requirements—Do you think that NMC should opt for major capital investments in a new project or should adopt to go in for a new JV for the hybrid cars for launch in the Indian markets, however the costs of JV are likely to be very high compared to the new project investments. And NMC will have to depend on imported design perennially for all the future technological changes in the car industry.

3. Comment on the financial aspects of NMC as included in the above, and would you feel that NMC is taking a highly efficient mode of options for project financing in general? You are welcome to suggest any alterations or modifications to the financing model as proposed by the consultants.

8

Rich Owners and Their Poor Companies

A Case Study on Growing Proportions of NPA in the Banking Sector

Learning Objectives

Money or assets provided by banks to companies as loans sometimes remain unpaid by borrowers. This late or non-payment of loans is defined as Non-Performing Assets (NPA). They are also termed as bad assets. The increase in NPA in Indian banks follows the recognition standards being pursued by the banks after the RBI highlighted it in the Asset Quality Review (AQR). Of course, the main reason is inadequate progress in the financial health of the companies. Different types of debt recovery systems functioned in India. Part of India's problem of bad debts is the ever-present hand of the politician-bureaucrat combine to grant loans to the undeserving, by breathing heavily down the necks of bankers. Then they ensure that the debt recovery mechanisms are burdened with too many cases. This is further compounded by allowing very few people to adjudicate matters, so that the pile-up of cases ensured little resolution. This has been done with the courts till now. Debt recovery mechanisms are neutralized using the same strategy. Redirecting funds from the good projects to the bad ones.

Synopsis

The government says rich promoters of sick companies won't be tolerated. But state-owned banks are also to be blamed for the rot of defaults

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'Banking is a business and lenders take decisions which turn out to be wrong'.

This backing comes as loans worth lakhs of crores of rupees are turning bad or being restructured, leading to accusations of favouritism or of bankers conniving with promoters to siphon off funds.

Case Details

On 18 March, the chiefs of all state-owned banks trooped into a hall and took their seats on a roundtable for a quarterly review meeting with finance minister. The second item on the agenda was 'NPAs (non-performing assets or bad loans) and recovery of NPAs'. The bankers told that the gems and jewellery sector was seeing rising defaults on account of weakness in the overseas markets. The explanation didn't go down well with the minister who said that these businessmen were the biggest movers of cash and often indulged in ostentatious display of wealth. Bankers say the issue of Kingfisher Airlines (it owes over Rs 7,500 crore to a consortium of 18 banks) too was discussed at length during the two-hour meeting. The government was firm that: 'We cannot have an affluent promoter and a sick company.'

In the months to come, many rich businessmen could lose their mansions, private jets, yachts, luxury cars, artworks, and the diamonds adorning their wives' fingers and earlobes. That's because public opinion against 'affluent promoters of sick companies' has reached tipping point.

With charges of crony capitalism on the rise, the government can't be seen being soft on errant businessmen. So, finally, state-owned banks are preparing the list of their top 50 'willful' defaulters—those who have not repaid loans despite adequate cash flows and a healthy net worth. The government wants wilful defaulters not to be given additional loans, and banks should take conniving or negligent auditors to task by lodging complaints against them with the Institute of Chartered Accountants of India.

The rot of defaults runs deep. For the financial year that ended on 31 March 2012, there were 7,370 cases of default on loans given by banks, state-owned as well as private, involving a sum of Rs 58,556 crore. If you invest in bank stocks, this should worry you because that was the amount that got knocked off the banks' profit and loss statements. And if you like to keep track of your tax rupees, then you should worry that good money has been thrown down the drain.

On the other hand, banks, especially the state-owned ones, are perceived to be lenient with defaulters. In the nine months to December 2012, state-owned banks reduced their NPAs by Rs 41,672 crore—one-third of that came through 'compromises' with defaulters. In most of these cases, defaulters were let off with a rap on the knuckles. These banks can move the Debt Recovery Tribunals and Lok Adalat's and proceed under the Securitizations and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 for recovery. They are filing for higher and higher amounts and also recovering more, but the recovery rate has fallen from 36.59% in 2009–2010 to 30.96% in 2010–2011 and 24.90% in 2011–2012.

Year	**Claimed by banks** ₹ crore	**Amount recovered** ₹ crore	**Percentage recovered**
2009–10	21,931.26	**8,023.84**	36.59
2010–11	33,561.61	**10,391.72**	30.96
2011–12	58,616.22	**14,593.98**	24.90

The banks are paying the price of being lax. For instance, there were enough signals for them to realize that all wasn't well with Kingfisher Airlines. The first round of restructuring of Kingfisher Airlines' debt was done way back in November 2010. In April 2011, the banks converted a part of the debt into equity. (This was done at almost Rs 65 a share, which was a 60% premium on the market price; the current share price of Kingfisher Airlines is around Rs 8.) But that didn't help either and the airline continued to bleed.

By the end of the year, the airline had become irregular in repaying loans. As a result, some of the banks classified the loans as an NPA. For over a year nothing happened. It is only now that the banks have started recovery process of their loans to the bankrupt airline. As Kingfisher has no means to repay the loans, the banks can sell the assets pledged to them. The list includes Mallya's fancy villa in Goa, Kingfisher House in suburban Mumbai, helicopters and shares of United Spirits. Some of Mallya's trophy assets, it has now come out, are no longer his. This includes Indian Empress, the 95-metre luxury yacht he had purchased from a Qatari sheikh in 2006 (Mallya can hire it for 30 days a year till 2015), and Boeing 727 and Gulfstream aircraft. Still, the banks have said the collaterals are enough to cover the dues, though some analysts have voiced their doubts. Bankers who are involved in the whole affair say the message from the top was not to 'make things worse for Mallya when he was trying to improve matters'. The chief executive of a large bank that has an exposure to Kingfisher Airlines says: 'We were waiting till the first week of January 2012 for Mallya to bring in the money so that the account didn't turn into an NPA and the banks to support the ailing company.'

A senior State Bank of India officer says there are adequate regulatory provisions for treating instances of wilful default. However, banks are reluctant to make use of these provisions. Now, with the mounting burden of bad loans, it is difficult to ignore the festering problem for long.

So things could change. Seven decades ago, when Karumuthu Thiagaraja Chettiar started Bank of Madura, he wouldn't have imagined that his grandson's company would one day be listed as a defaulter in the books of half a dozen banks.

M Thiagarajan was just 27 years old when he launched Paramount Airways, a premier airline based out of Madurai, in October 2005. By 2010, the airline had run into rough weather and all its aircraft were grounded. Thiagarajan has been trying to get back to flying since. Last month, half a dozen lenders asked the aviation regulator not to let Paramount fly again till it cleared Rs 550 crore in dues. According to the list of defaulter's banks are supposed to report every quarter and published by Credit Information Bureau (India) Ltd, Paramount was listed as defaulter for Rs 88 crore to State Bank of India's stressed assets management branch in Chennai—it is just one of the 112 'suit filed' cases in that branch alone.

In a statement, Thiagarajan's company says the default was notional as this was based on the assumption that the lessor would invoke bank guarantees since Paramount stopped payments on a dispute over manufacturing defect. Following an international arbitration award, the airline is now cash-rich and is planning to resume operations soon, the company claims. 'Paramount,' says the company, 'has already won the UK compensation case for Rs 1,650 crore and is in the process of settling all outstanding loans with banks.'

Bankers point out various lacunae in the law. Limited liability gives businessmen legal protection from forfeiting their personal wealth in case of a default. There is no legal disqualification for defaulters to raise fresh loans; so a default doesn't hurt. It's an open secret that political pressure can be put on state-owned banks to 'go easy' on 'well-connected' businessmen. In the past, many promoters would drive their company to the operating table of the Board for Industrial and Financial Reconstruction to escape the long arm of the lenders. This practice has become less frequent now; there is even a proposal to wind up the board. The current fad is corporate debt restructuring.

After Lehman Brothers imploded in September 2008, Reserve Bank of India, or RBI, allowed banks to recast the debt of viable businesses that were facing a temporary liquidity crunch. It is alleged that this window has been misused. While the thumb rule is that 15% of such recast loans turn bad, for many banks it is in excess of 20%. The terms of the recast, some bankers admit, are too easy. But the party will end soon.

RBI has asked banks to make provisions for all restructured loans, and promoters are being asked to increase their contribution to the restructuring from 15% of the additional funding required to 25%. Businessmen often raise debt by pledging their shares. In case of a default, the lenders are free to sell those shares in the market and recover their dues. Recent analysis showed that the market value of 1,200 companies, which account for two-thirds of all loans given to the corporate sector, is below their liabilities. So, even if all shares were sold, the lenders would still not be able to recover their money.

While most defaulters have thick skins and a few have even made comebacks, Lalith Sheth found it difficult to live with the shame. His Raj Tours and Travels was listed as a defaulter by State Bank of India for Rs 10.89 crore. On 31 July last year, Sheth ended his life by jumping off the Bandra-Worli Sea Link in Mumbai. Sheth was a shrewd businessman: he understood the wealthy Gujarati community's obsession with vegetarian food, so he came out with the travel-with-the-chef package. It is still not clear what triggered Sheth's extreme decision as reports said he owned a sprawling property in Mumbai's Chowpaty area which could have covered the dues twice over. Some others have attributed his suicide to the attack mounted by travel websites on the business of offline. agencies.

The trend to attach the personal properties seems to be picking up. And it's not just the banks—the Securities and Exchange Board of India has asked four Sahara group directors, including its chief, Subrata Roy, to file an affidavit by 8 April with a list of all their assets, properties, and bank accounts in India and abroad in regard to the long-running feud over money raised by Sahara India Real Estate Corporation and Sahara Housing Investment Corporation.

Conclusions

Incommensurate with the needs and aspirations of the society, all banks whether in public sector and private sector should come forward with a strategic role to serve the society so as to alleviate poverty and inequality of income distribution as far as possible by providing loans and advances to different sectors with special emphasis on priority and weaker sectors to help develop India as the leading nation of the world. For the coming days to be more prosperous and self-reliant, the role of the banking sector is of great significance.

Doubtful assets demand more attention on them since they have the largest share in total NPAs in all the selected banks.

Doubtful and loss assets to be reviewed monthly considering the financial status of the borrowers. In case of assets where full provisions/higher provisions have been made possibilities be explored to quickly get the account adjusted by compromise or write-off.

The controller with the borrower should discuss all sub-standard assets accounts and a package should be obtained and finalized to regularize the irregularity and upgrade the account during the current financial year.

To prevent deterioration of assets, structured interventions in potential problem loans, account wise and time bound action plan with a regular monitoring are called for.

Borderline accounts that are likely to become NPA kept under constant vigil and position be reviewed once in a month by calling a suitable return on monthly basis. These accounts should be monitored regularly.

Case Questions

1. The issue of NPA is perennial problems in the absence of rigorous audit and pledge and repayment guarantees almost a parallel economy is being run with help of crony capitalists—In a country like India battling endlessly on poverty, health and education how would you look to resolve the draconian crony capitalism leading to corrupt practices and exploitation of the society by the rich becoming richer phenomenon.

2. It appears like a catch 22 situation for the banking industry unless they lend, they have no income or revenues and if they have to be coerced to achieve targets on lending under prevailing situations the NPAs are bound to skyrocket. What could one suggest as a long-term solution to return to financial disciplines in Indian financial sector?

9
A Case Study on Taxation in International Finance

Learning Objectives

International financing topics are never free of smooth trade relations without addressing the issues of tariffs and taxes which have bearing effects on International Trade Norms. Taxation on goods and services has been a nodal issue in the recent past which continues even today and has taken the dimension of trade wars between nations to establish even the geopolitical supremacy by choking trade relations through leveraging import duties to express disappointments through economic threats of disproportionate trade tariffs. This case study high lights one such small case as an example.

Synopsis

LG India is a subsidiary company of LG Electronics Korea, which had incurred advertisement, marketing, and sales promotion expenditure on behalf of LG Electronics Korea. In view of this it had claimed deduction to reduce its profits in order to pay less income tax.

However the transfer pricing officer (TPO) of the income tax department came up with a view that the said company had carried out foreign brand promotion in India for which it must have charged for such services to its foreign entity. And thus came up with a formula of cost plus 13% markup profit to determine the service price that LG should have charged to its foreign entity and pay income tax on such profits gained.

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Abbreviations used

1.	TP	Transfer Pricing
2.	TPO	Transfer Pricing Officer
3.	AMP	Advertisement, marketing and sales promotion expenses
4.	ALP	Arm's Length Price
5.	AE	Associated Enterprise
6.	AO	Assessing Officer
7.	DRP	Dispute Resolution Panel

The Case Details

The transfer pricing (TP) has a significant role to play in terms of taxation of income from intangibles in case of inter-company TP in today's world.

Multinational corporations have been tapping the Indian market through their local affiliates and naturally due to stiff completion they have increased their advertisement expenses manifold which has led to the growing importance of the key fore issue of the TP issue, thereby creating income from intangibles and in turn taxation of the associated income.

The tax officials are overzealous to bring the AMP (Advertisement, marketing, and sales promotion expense) in the tax bracket due to the number of multinational companies taking the shelter under the TP adjustments.

With special reference to the LG Electronics case which is a wholly owned subsidiary of LG Electronics INC. Korea. As per the 'Technical Assistance and Royalty Agreement' executed on 1 July 2001, L.G. India was given a right to use the technical information, designs, drawings, and industrial property rights for the manufacture, marketing, sales, and services of the agreed products from L.G. Korea on payment of royalty at the rate of 1%. LG was also allowed to use the brand name and trade-marks owned by LG Korea without payment of any royalty during the relevant period.

For the assessment year (2007–2008), the TPO found that the AMP Expenditure/Sales ratio of the tax payer was 3.85% as against 1.39% of the two comparable companies. The TPO also held that the tax payer promoted brand owned by its foreign AE (Associated Enterprise) and therefore the tax payer should have been compensated by the foreign AE for its excess AMP spend of 2.46%, i.e., INR 1612.2 million. The TPO accordingly made a TP adjustment amounting to INR 1612.2 million.

The Dispute Resolution Panel (DRP), upholding the position taken by the TPO, further observed that the tax payer should have charged markup on the cost of INR 1612.2 million incurred on rendering brand promotion services for L.G. Korea. Considering a rate of 10.5% on account of opportunity cost of the excessive funds deployed by the tax payer and 2.5% as a compensation for the taxpayer's entrepreneurial efforts, the DRP held that the mark-up of 13% should have been applied on the amount proposed for adjustment. Based on the DRP'S directions the AO passed the order making an adjustment of INR 1827.1 million towards AMP expenditure incurred by the taxpayer on building for and on behalf of LG Korea.

In relation to the decision of the Delhi High Court in the case of Maruti Suzuki Ltd the Special Bench held that the decision on the merits of the case was not expressly or impliedly overruled by the Supreme Court.

In the said case the High court had laid down certain principles for the determination of the Arm's Length Price (ALP) in respect of the international transaction of brand building for the foreign AE.

Thus the Special Bench held that the direction of the Supreme Court to the TPO inherently recognizes that there is a transaction of brand building between the tax payer and the foreign AE, which is an international transaction as per section 92B and the TPO has the jurisdiction to determine the ALM of such transaction.

The Special Bench of the Income Tax Appellate Tribunal had taken a stand that the above AMP expenditure incurred by the Indian entity does amount to transaction on the following grounds:

1. Display of brand in the advertisements coupled with proportionately higher AMP spend by the tax payer indicated an oral or tacit understanding between the tax payer and the foreign AE regarding promotion by the tax payer.
2. It made a special reference to Section 92F(iv) of the Act in which it is mentioned that the transaction could be 'express' or 'Oral'.
3. The present case clearly states that the Indian AE had prominently displayed brand of its foreign AE in its advertisement that gave

rise to its expenditure more than proportionate as in the ordinary course of the transactions made in India.

4. The tax payer has clearly provided services that resulted into higher AMP, which cannot be a free luncheon and must have been charged for such services to its foreign Enterprise which gives an indication of giving birth to an International Transaction.

LG India view:

1. (The tax payer) contended that Section 92CA(2A) Of the Act providing for such suo-moto assumption of jurisdiction by the TPO was inserted from 1 June 2011 and Section 92CA(2B) of the Act having retrospective effect from 1 June 2002 was inserted in 2012, these two sub-sections cannot come to the rescue of the TPO because none of them were in existence at the time of its passing of the Act which was only on 29 October 2010.
2. The tax payer also upheld its view regarding the Bright Line Test or the ARM'S length AMP expenditure test (which formed the basis of deciding the AMP expenditure) cannot be a method that can be adopted which was not mentioned in Section 92C of the Income Tax Act.
3. The tax payer also hold the view that the AMP expenditure incurred are fully deductible under Section 37(1) of the Income Tax Act, 1961 and there is no question of determining the ALM in this regards and such conditions are duly satisfied even if the foreign AE gets some incidental benefit out of such expenditure and such TP adjustment will reduce the amount of deduction in turn resulting to end up paying more tax which is otherwise allowable under Section 37(1) of the Act.
4. It is also of the view that the decisions based on erstwhile Section 37(3B) of the Act, that the expenditure incurred directly 'in connection with' and not 'for promotion of sales should not be put in the same basket as AMP expenditure'. Therefore bonus/commission paid to dealers/sales agent does not constitute AMP expenditure.

Special Bench of the Income Tax tribunal view:

1. The TPO had made assumption based on the understanding that the Indian Entity (LG India) which is a subsidiary of the LG Electronics Korea must have been adequately compensated by the foreign company because of the brand promotions done by its Indian counterpart and this certainly amounted to international transaction which is liable for TP taxation in India.
2. The Special Bench had the view that international pricing transaction is an altogether a different ball game and it has to be independently viewed to be a separate transaction and no regular provision to be applied and the present section 92 of the Income Tax Act do not apply because of various amendments to Section 92.
3. Bonus and commission paid to dealers/sales agent does not constitute AMP expenditure the Special Bench had accepted this view.

Such assumption can sometimes be erroneous as how much income an entity earns cannot be done by way of backward calculation as the tax payer has not made any mention of the cost that it had incurred.

Case Questions

1. Whether promotional expenses incurred by the Indian companies (licensees of the trademark, enhance the value of a trademark which is legally owned by the Associated Enterprise (Foreign Company)?

2. Do you think that the TPO was right in making a conclusion that the Indian company must have been adequately compensated by the Associated Enterprise (LG Electronics Korea)?

3. Do you think that the 13% markup determined by the dispute resolution panel was based on scientific basis? Or do you have any other method that should have been adopted in the above case? Or was there ever a markup profit earned in the first place?

4. Whether the facts and the circumstances of the case, determine the AO's proper justification in making the TP adjustment in relation to advertisement, marketing, and sales promotion expenditure incurred by the tax payer?

SECTION III

MULTIDISCIPLINARY CASE STUDIES: MARKETING, STRATEGY, AND OPERATIONS

Marketing Management, Strategic Management, Mergers and Acquisitions, and Operations Strategy

10. Power to Transform
11. Old Wine in a New Bottle?
12. Café Coffee Day—On Way to Its Dooms Day?
13. More Pain Than Gain
14. The Hunger Pangs
15. SIF—Safe and Successful
16. Re-engineering 'Escorts'
17. The Game Changer
18. Never Flip Our Cart—We Are 'Flipkart'
19. Lenovo India
20. Voltas AC Puts LG ACs on 'Heat'

10

Power to Transform

Live Case Study on Rishab Industries Pvt Ltd Pune India

Synopsis

Rishab Industries was established in 2002 by Mr Jagmohan Singh, a technocrat and entrepreneur as a design and manufacturing house for Magnetic Wound Components in Pune. In its journey of 17 years, Rishab Industries has emerged as a leading channel partner for designing and manufacturing of specifically made to order wound components for top manufacturers of UPS in India.

Rishab Industry products are a part of its customers products exported to more than 20 countries. Rishab makes transformers and chokes from an inherent and important part of the end products viz. UPS, solar inverters, isolation cubicles, and SCVS.

Core strength: Design manufacture and supply of transformers with or without covers chokes. Servo controlled voltage stabilizers, battery chargers, switch board cabinets, and panels for power controls protection under slung for industrial and infrastructural applications.

Salient Features

- Rishab industries have two manufacturing units in MIDC Bhosari established with foil winding capability up to 1000KVA.
- Vacuum pressure impregnation up to 1000KVA.
- CNC cutting and punching in-house facility to provide excellent quality lamination for our products in time.

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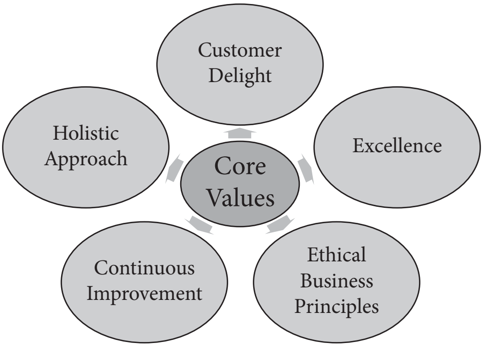
- A lean compliant organization with a trained and highly dedicated team of engineers and craftsman.
- High frequency chokes of inverter and UPS applications.
- K-Rated Isolation TFRs and PDUs
- Microprocessor-based controlled servo controlled voltage stabilizers
- We have a very young and agile team (a*verage age 30+*) which responds promptly to all our customers' needs.

Vision: To achieve pole position in the field of magnetic wound components, servo controlled voltage stabilizers, power, control, protection, underslung panels, switch board cabinets, battery chargers for leading UPS, solar inverter manufacturers and infrastructure space viz. railways and electric vehicles. Our products are manufactured with cutting edge technology and standardized processes to deliver products of highest quality and reliability.

Mission: Our mission is to provide the 'Power to Transform' seamlessly our relations with customers, channel partners, and our team members into mutually profitable, satisfying, and long-lasting relationships.

Our Core Values

- Customer delight
- Excellence
- Ethical business principles
- Continuous improvement
- Holistic approach



Quality Policy

'Rishab industries is in the business of Design, Manufacture and Supply of Transformers with or without cubicles, Chokes, Servo Controlled Voltage Stabilizers, Battery Chargers, Switch Board Cabinets & Panels viz. Power, Control, Protection, Under Slung for Industrial Applications like UPS, Solar Inverter manufacturers & Infrastructure space i.e. Railways & Electric Vehicles.'

'We are firmly committed to continually strive for excellence in areas of quality, technology, productivity & applicable requirements to ensure customer delight. We are committed to a Lean Compliant Organization.

We are committed to continuously provide training to team members & a stable work environment with good opportunities for personal growth through training, empowerment, creativity and encouragement. We will accomplish the above requirements through Continual Improvements in our Quality Management Systems.'

Certifications: Both units one and two are **ISO certified** and are gearing up for the next level of certification. MCCIA, Pune has awarded Rishab Industries appreciation as Marathon Performer in Machining and Press Parts Lean Manufacturing.

Product Range

- UPS Transformer
- Industrial Isolation Transformer
- 3 Phase Transformer
- Multi-Tap Transformer
- Isolation Transformer
- Delta Transformer
- Single Phase Transformer

Organization Structure

It is due to the untiring efforts of team of competent professionals such as mechanical engineers, quality experts, research and development personnel, sales and marketing staff that Rishab is able to manufacture transformers, reactors, and chokes. The team understands the prevailing trends and work in accordance with the changes to deliver the best outputs. There are quality auditors and processing experts who ensure that the product is at par with quality standards. With the support of our managers, administrators, and packaging experts, our activities are executed without any interruption. On the other hand our sales and development personnel remain in a regular touch with our clients so that we are in a position to incorporate even the slightest change as suggested by them in our range.

Headed by a technocrat and have a dynamic team of qualified and experienced professionals along with state-of-art infrastructural facilities. The workforce consists of 63 employees at workmen level including regular and contract type and 15 support and supervisory staff.

Major Customers

Larsen & Turbo automation, BP Power Electronic Pvt Ltd, Machinen Fabric Polygraph-Kolhapur, and several others.

Case Questions

1. Rishab Industries over the previous two decades of its performance as a reliable supplier of transformers for UPS have gained enough appraisals as 'A Good Boy' image. The returns on investments adequately meeting normal standards, avoiding major payment and receivables liability with healthy cash flow for running the enterprise.

   However over dependence for a longer period of time on few of the major customers in meeting their customized requirements of power transformers and related equipment renders the industry prone to disruptive changes in the product and services of its customers which might abruptly catch Rishab Industries on wrong foot with no major fall back product line to support its business growth strategies.

What are your business models and plans for Rishab Industries to counter its over dependence on age-old technology and product lines which follows a batch type process lines limiting its freedom to diversify on its own product and market opportunities?

2. However much the expert team at Rishab is capable to meet the current business challenges it tends to have an 'experts limitations' tag restricting independent product and process choice.

   What manufacturing strategy you would suggest to have capabilities to avoid such a vicious circle of being bound by learned talent than flexible talent/process technology which could have innovative business management capabilities?

3. There is likely to have a complacent attitude in a consistently smooth business environment. What do you suggest as new product and business level growth strategies for Rishab Industries?

4. Should the organization diversify in to proprietary product line and or diversify in to totally unrelated business/services line in the AI and digital services segment to keep pace with rapidly changing and disruptive technology?

11

Old Wine in a New Bottle?

A Case Study on Nissan's New Gamble with 'Datsun'

Learning Objectives

To understand the price sensitivity. Creating strategy to capture the global market. Focusing on distribution channels.

Synopsis

Nissan emphasizes that it has worked on the Datsun brand with the main focus of its power of 88 strategy making sure that customers in high growth markets will be attracted by this new Datsun model. Nissan planned to convert downtrend in an opportunity by reinforcing its entry activities in emerging markets like India, Russia, and Indonesia that is how the Micra model took its first jump in the India market early.

Case Content

The Japanese have a word that every salaried person in the country understands 'Nomikai'. Nomi means drinking and Kai means partying. On 15 May this year, 17 members of a team from Nissan Motors Company that they deserved a Nomikai. Almost four years after the 2,67,000 employees strong company decided that it would bring the Datsun brand back to life, Nissan okayed a manufacturing contract for the vehicle to be rolled out in India, Russia, Indonesia, and South Africa. Nissan knows that it is gambling big. Datsun brand was killed deliberately in mid-1980s. After

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the success of its brand ‘Infinity’ in 1980 Nissan has not gone in any major brand or done anything as big.

In July 2013 Mr Carl Ghosn in a glittering function completed the global unveiling of the Datsun brand. This move is basically to revive Nissan’s credibility since over the previous more than a decade Nissan has not done any major brand introduction and its brand image is at risk of losing its impact the world over, compared with the global brands of Toyota and Honda.

The justification Nissan offers to its near maverick move is that a new concept car needs nothing less than $10 million for the development of the concept and further $100 million to build up to the test and trials of all aspects of launch and the total bill never less than 400 to 500 million dollars. Not a small bet even for a 100 billion auto majors. This is the main reason to invigorate an old horse and put it to run race in price sensitive and performance prioritized markets such as India and Russia. Nissan has been working on this project for the previous four years and it is a critical part of its ‘Power 88 strategy’—88 stands for a target of 8% global market share along with a minimum of 8% operating margins. In the words of the chief Ghosn:

‘Datsun has been a strength of Nissan and Nissan aims to revive its strength to 40 % market share in emerging markets. It is a global brand and the priority is to concentrate in India, Indonesia & Russia. The car will be rolled out in 2014.’

Power of 88 Strategy

Nissan has huge expectations from the Datsun brand in India. It is targeting achieving 10% market share by 2016 and an eightfold jump in market share dwindling at a meagre 1.3% in spite of Nissan’s presence for nearly eight frustrating years in India. Nissan hopes that 40% of this 10% will be from the Datsun brand. Nissan further emphasizes that it has worked on the Datsun brand with main focus of its ‘Power of 88 Strategy’ making sure that customers in high growth markets will be attracted by this new Datsun model. They further insist that Datsun will offer products with high quality and driving comforts, features being reliable, generous, or desirable.

Mr Vincent Cobee, the global head for Datsun project explains, that 'It is not easy to manage a project which has no revenue and which lacks awareness amongst the employees of Nissan world over. Only since it is different from what we have done so far it is really exciting to the people involved in this innovative project. When one is part of a project of the size and significance of Datsun your office becomes your life and your colleagues on the project team are more important than your family members. A small empowered team of 17 members is naturally highly excited feels proud to belong to this game changer of a project like Datsun.'

The Reality

As of today it will not be totally far from the truth if one says that in Indian auto markets Nissan is running on steroids. The 500 strong team of engineers at the Renault Nissan Technology Business Centre at Chennai, are running against time to put together the final touches to the Datsun India project.

The distribution channel partners of Nissan in India are also working unusually late hours to finalize standard operating practices (SOP) for customer handling at dealerships. The proposals for new dealerships are also being discussed. A new vice president Mr Ajay Raghuvanshi poached from Hyundai is now in charge of the marketing for Datsun in India. And the people at Hover are busy finalizing the shop in shop dealership layout model for Datsun sales in India. Besides main dealership conditions along with totally new uniforms for the sales staff are being finalized to invite applications. With an expected potential size of the 400,000 car market, Nissan plans to expand its dealership network three-fold from 97 to 350 by 2016.

Early June 2013 Nissan introduced its new Micra Model, an improved version of its entry model only introduced in June 2011. The new Micra is expected to create space for the launch of Datsun. The improved features along with improved price of new Micra will make way for Datsun as a new entry level of price range around Rs 4,00,000/- with further improvements in the vehicle features. The new Micra however is expected to stay clear of confusion and cannibalization.

Nissan has never tried anything as big and challenging as the Datsun project. With Datsun Nissan wants to crack the heart of the market in four high growth economies where it does not have any established product. The low end of the market in India is 50% of the total in India, 40% in Indonesia, and 30% in Russia. Hence the Datsun is by far the biggest endeavour Nissan Motor Company has had since its Infinity in the 80s. In fact the Datsun is much bigger in many aspects compared to infinity. Nearly equalling its first-ever efforts to go global in the 60s.

A Brief History on Datsun

Datsun was the first brand under which Nissan started selling cars way back in1933 (nearly 80 years ago). It was with the Datsun name that Nissan sold cars in more than 180 countries and for over 50 years in each of these markets. The brand was phased out in March 1986 that is 27 years ago. And now it is being brought from the dead.

The thought process in reviving a dead brand: It was in 2009, the trying years of global economic downtrend, Nissan was having a very tough time in high growth traditional markets—a cruel reality—Nissan planned to convert this downtrend in an opportunity by reinforcing its entry activities in emerging markets like India, Russia, and Indonesia that is how the Micra model took its first jump in the India market in early 2011–2012, simultaneously Carlos put his brave hearts in project management to get crashing on reviving the Datsun Model from its grave. Ghosn's idea was simple: he wanted to bring out an attractive modern offer to the high growth markets like India and Russia by 2014. The only rider was that the project should be NPV positive.

Mr Cobee, the project director says that it took nearly three months for him and his team to clearly just understand the opportunity and challenge before them—each one had a hard time sleeping. A difficult and critical time is when you start building the project team. There were in all only 17 members in the main project team supported by 500 R&D engineers in Indian Technology Centre, 150 in Russia this by any count is a very lean team for a project of Datsun size. Mr Cobee says that the entire team works in **venture capital** mode. Cobee did not allow any average performer to his team for a transformative project of the size of Datsun.

He deliberately picked people from emerging markets in his team, managing such a cross-cultural team members from India, Russia, Indonesia, China, South Africa was nothing but easy. (Mr Ashwani Gupta a long time stalwart at Reynolds who was the supply chain director at Reynolds Chennai is roped in as the programme director for Datsun in India.)

As things stand today in India Maruti has nearly 80% market of the comparable products to Datsun. Even companies like Hyundai with nearly two decades are finding it difficult to snatch market share from Maruti who has become a synonym to car buying in India. Maruti spreads its reach to 1350 selling outlets in Indian cities more than 12 times of Nissan at present. And Hyundai in itself is another strong player to reckon with. Besides many majors such as the Fords and Volkswagen would all pose as dominant parties in the Indian compact car segment.

So what are Nissan's chances of realizing its project 88 strategy in India?

As per experts there are major four points on which Nissan will have to focus relentlessly for effective implementation of its Datsun revival process in Indian markets at least.

1. Get **product right** to the relevant market.
2. Get the product **pricing right** in the first place.
3. Ensure **distribution density** as nearest to your major competitor.
4. Do all things **right first time.**

Mr Gupta the programme director says that Datsun will focus on aspirational first-time buyers. Such a customer will be attracted to buy a product known for its durability, attractiveness, and trust. And above all a modern styling with latest technology.

Conclusions

The strategies are important for the distribution channel, understanding the market segment. Strategies help to guarantee success. It identifies the rationale for segmentation and develops profiles. It also assesses and selects the most of the segments, which determines the most appropriate ones for the products and services.

Case Questions

1. How can Nissan manage to succeed with their age-old window dressed products in an emerging market like India with many global auto giants are struggling even their brand new products to achieve a very meagre market share of 5%?

2. Will Datsun be able to implement their marketing skills to attract Indian customers who are now chasing the new brands of vehicles with the latest technology and product feature—Any chances of success?

3. What would be your suggestions and recommendations to Datsun in terms of its launch strategy and in terms of product features and marketing techniques in a reasonably tough Indian market for automobiles?

12

Café Coffee Day—On Way to Its Dooms Day?

A Case Study on Organizational Debt

Learning Objectives

To understand CCD dilemma. To understand how to manage finances, funding, and debt for an organization. To understand suicide is not the solution for business problems. To understand business stress and harassment out of government and political intervention.

Synopsis

The first Café Coffee Day outlet was opened in Bengaluru in 1996, with new vision—where coffee was more than just a beverage. Today, the subsidiary Coffee Day Global Limited has established the largest footprint of café outlets in India-spread across more than 200 cities. It all started in 2017, when the Coffee Day Enterprise's offices in Bengaluru were raided in the search for undisclosed income by the IT department. The searches in a group involved in coffee, tourism, information technology, and other areas concluded with an admission of previously concealed income exceeding Rs 650 crore. The detection of undisclosed income is expected to be a much higher figure. The business model of CCD is very attractive and we all personally like the business model, but one drawback was debt-centric, which means a huge amount of debt investment is required to run the business. As earlier mentioned CCD business is always a profit business but that profit is not in a position to meet such debt. As they

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were in a heavy debt, they started taking short-term loans in the form of debentures with high interest rates to pay off their long-term debt. This resulted in more heavy debt burden

The Case

History and Growth

The first Café Coffee Day (CCD) outlet was opened in Bengaluru in 1996, with new vision—where coffee was more than just a beverage. Today, the subsidiary Coffee Day Global Limited has established the largest footprint of café outlets in India-spread across more than 200 cities.

Coffee Day Enterprises is the holding company and the key companies of the group include Coffee Day Global Ltd (coffee business), Sical Logistics Ltd (integrated logistics), Tanglin Developments Ltd (real estate), Way2Wealth (financial services), and Coffee Day Hotels and Resorts Ltd (hospitality). In FY18, on a consolidated basis, the company reported a net profit of ₹148.25 crore on an operating income of ₹3,788 crore. After the death of V G Siddhartha, Coffee Day Enterprises has recently named the independent director S V Ranganath as the interim chairman of the company as a replacement. The board appointed S V Ranganath as the interim chairman of the board and Nitin Bagmane as an interim chief operating officer (COO) of the company.

Performance Overview

The CDGL (coffee business) reported profitability as measured by the ebitda margin of 16.1% in 2017–2018 which was lower than the 17.4% reported for 2016–2017. In 2015–2016, the ebitda margin was 13.2%.

During the fiscal year ended 31 March 2018, consolidated **gross revenue** of the CDEL grew by 22% driven by strong impetus from Coffee, financial services, and multimodal logistics. The retail gross revenue in coffee business contributed a growth of 12%.

The tangible assets of Rs 7,000–8,000 crore were for the CCD brand alone. Also, Siddhartha and his family own large parcels of coffee plantations—more than 12,000 acres worth around Rs 2,000 crores. The company was in profit, although the growth had declined in line with other firms in the consumer industry.

Net profit for the March quarter declined 16.99% to Rs 28.83 crore in the quarter ended March 2019 as against Rs 34.73 crore during the previous quarter ended March 2018.

Sales, however, rose 16.98% to Rs 1322.20 crore in the quarter as against Rs 1130.26 crore in the year-ago quarter. These numbers shouldn't be ringing the death-knell to a company that runs 1,700 stores and 54,000 vending machines and had set a revenue target of Rs 2,200 crores.

SWOT Analysis

Strengths

1. Cafe Coffee Day has an excellent brand name and brand visibility
2. Excellent ambience and service
3. Products of extremely good quality and taste
4. It's a youth-oriented brand, with appeal for the masses
5. It produces/grows the coffee it serves hence reducing the cost
6. Its USP is affordability with comfort

Weaknesses

1. High competition in this segment means limited market share for Cafe Coffee Day
2. Losing its charm
3. Lacks strength to maintain brand loyalty
4. Many of the CCD stores are incurring losses due to wrong site selection

Opportunities

1. Introduce cheaper versions of coffee
2. CCD can tap the smaller towns/cities
3. Merchandising can benefit Cafe Coffee Day even more
4. Tie-ups with other companies for promotion
5. Introducing more products and better items in the menu
6. Coffee cafe industry is one of the fastest-growing industries in Asia
7. More people like to visit CCD for informal meetings

Threats

1. Competition from foreign players like Starbucks can adversely affect Cafe Coffee Day's market share
2. Dependent on government commodity rates
3. Large unorganized market can cause business losses

Insights into the CCD Dilemma

It all started in 2017, when the Coffee Day Enterprise's offices in Bengaluru were raided in the search for undisclosed income by the IT department. The searches in a group involved in coffee, tourism, information technology, and other areas concluded with an admission of previously concealed income exceeding Rs 650 crore. The detection of undisclosed income is expected to be a much higher figure.

The Private Equity Strain

In his alleged letter to the board, Siddhartha has said he was under other kinds of pressure. The first, from his private equity (PE) partners to buy back shares.

Siddhartha was a majority shareholder of his Coffee Day enterprise at 32.75%. Of this, 71.4% stake had already been pledged. His wife, Malavika Hegde, who is the daughter of former Karnataka Chief Minister S.M.

Krishna, is the other significant owner in the company with a 4.05% stake as of June 2019. The largest PE shareholders include NLS Mauritius LLC, KKR Mauritius PE investments II Ltd, and Marina West (Singapore) Pt. Ltd holding 10.61%, 6.07%, and 4.63%. Marina Iii (Singapore) Pt. Ltd has a shareholding of 1.04%.

The Tax Horror

His letter referred to the January 2019 incident when India's income-tax department had attached the shares that he and Coffee Day Enterprises owned in Mindtree Ltd, a move that sparked worries that would prevent them from selling their stake in the IT firm. In its regulatory filing, Mindtree said that the attachment was for a 'tax demand' that was likely to be raised on Coffee Day and Siddhartha.

The attachment, according to Mindtree's filing, is also prohibited for transfer or charge of 22.2 lakh equity shares of Coffee Day Enterprises Ltd., and 52.7 lakh shares held by Siddhartha. In February 2019, the IT department appeared to relent and released the attachment on Siddhartha and Coffee Day's Mindtree's shares. At the time, Coffee Day enterprises insisted that there was no tax liability on the part of Siddhartha as the company and its promoters had 'filed the revised returns'—a claim that the CCD founder makes in his alleged letter to the board as well.

'V.G. Siddhartha has received an order under section 281B of the Income Tax Act, 1961, on February 13, 2019, provisionally attaching 46,01,869 shares of Coffee Day Enterprises held … with Way 2 wealth Brokers of V G Siddhartha to safeguard the interest of the revenue in respect of likely future tax and penalty obligations in respect of open assessments,' the company said in a regulatory filing at the time.

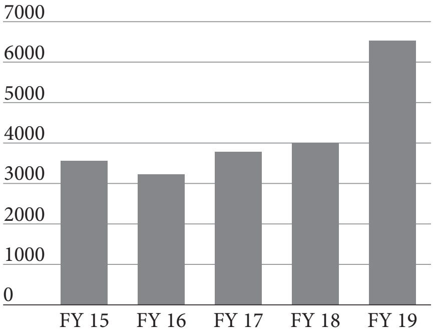
The founder referred to it as 'harassment' and that hence leading to liquidity concerns and his eventual 'succumbing' to the situation.

The Debt Burden

The business model Of CCD is very attractive and we all personally like the business model, but one drawback, it was a debt-centric, which means a huge amount of debt investment is required to run the business. As earlier mentioned CCD business is always a profit business but that profit is not in a position to meet such debt. As they were in a heavy debt, they started taking short-term loans in the form of debentures with high interest rates to pay off their long-term debt. This resulted in more heavy debt burden.

The debt in question is around ₹2,000 crore and is over and above the consolidated borrowings of CCD group, which stood at ₹6,547.38 crore as of March.

Post- Mindtree share sale to Larsen and Toubro (L&T), Coffee Day's financials had improved. The company received after expenses and taxes Rs 2,100 crore that was used to cut its debts. That money was also used to settle Rs 600 crore of promoter debt. Hence, the total company debt wasn't reduced to the expected level.



Over the last one year, the overall debt jumped by 64% to around Rs 6547 crore and the interest outgo increased. There were several financial institutions that lent money to CCD including IFCI being one of the major lenders. The presence of a clutch of private equity companies at the investor table too would have put pressure on Siddhartha to bring in more money to the table. In a tight liquidity environment and adverse business scenario, most of the doors were closed. Post the IL&FS tragedy, most lenders had shut their lending channels to consumer companies on account of liquidity problems and fear of defaults.

Liquidity Issue

As earlier mentioned that the business model of CCD is debt-centric, and for the same lot of liquidity is required to run the business and also for the repayment of borrowed funds (if any).

The urgency to sell his stake in Mindtree was magnified in the aftermath of the **IL&FS crisis**, when troubled lenders refused to roll over debt as they would have normally done.

Further Approach

The owner could have used assets of its subsidiaries to reduce the debt. It could have closed down the least performing ancillary or sold the assets of the same and used the cash to repay. Alternatively they could have issued equity of the most branded subsidiary and could have used the proceeds to pay off the debt. The chairman can either discuss the problem first with their internal financial and business advisors with a cup of coffee at any one of their outlet regarding the problem they are facing, and the solution that can come from such discussions as the main concept of CCD is 'A LOT CAN HAPPEN OVER COFFEE'.

Conclusions

The owner can go on with current changes in business plan which they made last year and can reduce the outlets as per the market share of that outlets and that can lead to stabilizing current financial position and they can use their profit by issuing bonus shares which show and helps company. It can change the whole doomed scenario of CCD to bursting profits.

Case Questions

1. Is there is a need to change the business model?

2. What would be the other alternative action that V.G. Siddhartha can adopt other than suicide?

3. Do you think there was any fraud being committed by any of the person in the internal environment of the company?

4. What will be the effect of current downfall of Indian economy on CCD?

5. What changes do you think should have been done in the funding strategy?

13

More Pain Than Gain

A Case Study on the Impending US-China Trade War Affecting Emerging Markets

Learning Objectives

The case study is expected to clarify conceptual understanding on international business environment especially in respect of important elements in business environment of political, economic, social (Human rights), and technological (IPR) aspects impacting decision making during international business and trade. The case offers adequate scope for exploitation and data collection for the students and readers of the case since major issues are from current situations as existing in international business environment between US and China (may ref to Indo-Chinese trade relations as well)—Topic External Environmental Analysis.

Synopsis

The ultimate results of the phase one trade deal between China and the United States—and the trade war that preceded it—have significantly hurt the American economy without solving the underlying economic concerns that the trade war was meant to resolve, writes Ryan Hass and Abraham Denmark. The consequences that have followed in the wake of the economic clash have served to exacerbate bilateral relations.

As a candidate in 2016, Donald Trump built his argument for the presidency around his claimed acumen as a dealmaker. As the 2020 election draws nearer, President Trump and his surrogates are doubling down on that assertion, including by calling attention to what he has

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deemed 'the biggest deal ever seen': the 'phase one' trade deal with China. The agreement reportedly includes a Chinese commitment to purchase an additional $200 billion in American goods above 2017 levels by the end of 2021.

Six months after the deal was inked, the costs and benefits of this agreement are coming into clearer focus. Despite Trump's claim that 'trade wars are good, and easy to win', the ultimate results of the phase one trade deal between China and the United States—and the trade war that preceded it—have significantly hurt the American economy without solving the underlying economic concerns that the trade war was meant to resolve. The effects of the trade war go beyond economics, though. Trump's prioritization on the trade deal and de-prioritization of all other dimensions of the relationship produced a more permissive environment for China to advance its interests abroad and oppress its own people at home, secure in the knowledge that American responses would be muted by a president who was reluctant to risk losing the deal.

Origins of the Trade War

During the 2016 presidential campaign, a consistent refrain from then-candidate Trump was to point to U.S. trade with China, and the agreements that enabled it, as a primary cause of the loss of U.S. manufacturing jobs and intellectual property. He said China was responsible for 'the greatest theft in the history of the world' and lambasted the U.S. trade deficit with China, which in 2016 stood at around $346 billion. He declared, 'We can't continue to allow China to rape our country.' Building on the image of Donald Trump as the ultimate dealmaker, his campaign released a strategy to reform the U.S.-China trade relationship, in which it pledged to 'cut a better deal with China that helps American businesses and workers compete'. Trump laid out a four-part plan to secure a better deal with China: declare China a currency manipulator; confront China on intellectual property and forced technology transfer concerns; end China's use of export subsidies and lax labour and environmental standards; and lower America's corporate tax rate to make U.S. manufacturing more competitive.

Upon entering office, Trump sought to engage Beijing directly to address structural concerns about China's economic policies. Just three months into his administration, he met with Chinese leader Xí Jìnpíng at Mar-a-Largo, where they agreed to establish a 100-day action plan to resolve trade differences. The next month, China agreed to open its economy (slightly) to U.S. firms and services in exchange for greater Chinese access on bilateral trade and U.S. recognition of China's Belt and Road Initiative.

Yet follow-on negotiations fizzled as Washington pushed Beijing for more concessions and Beijing rebuffed American pressure. The 100 days concluded in July 2017 with no agreement, no press conference, and no joint statement out of the first meeting of the U.S.-China comprehensive economic dialogue (which was declared dead by the Trump administration four months later).

President Trump launched the trade war to pressure Beijing to implement significant changes to aspects of its economic system that facilitate unfair Chinese trade practices, including forced technology transfer, limited market access, intellectual property theft, and subsidies to state-owned enterprises. Trump argued that unilateral tariffs would shrink the U.S. trade deficit with China and cause companies to bring manufacturing jobs back to the United States. Between July 2018 and August 2019, the United States announced plans to impose tariffs on more than $550 billion of Chinese products, and China retaliated with tariffs on more than $185 billion of U.S. goods.

Economic Costs of the Trade War

The trade war caused economic pain on both sides and led to diversion of trade flows away from both China and the United States. As described by Heather Long at the Washington Post, 'U.S. economic growth slowed, business investment froze, and companies didn't hire as many people. Across the nation, a lot of farmers went bankrupt, and the manufacturing and freight transportation sectors have hit lows not seen since the last recession. Trump's actions amounted to one of the largest tax increases in years.'

A September 2019 study by Moody's analytics found that the trade war had already cost the U.S. economy nearly 300,000 jobs and an estimated

0.3% of real GDP. Other studies put the cost to U.S. GDP at about 0.7%. A 2019 report from Bloomberg Economics estimated that the trade war would cost the U.S. economy $316 billion by the end of 2020, while more recent research from the Federal Reserve Bank of New York and Columbia University found that U.S. companies lost at least $1.7 trillion in the price of their stocks as a result of U.S. tariffs imposed on imports from China.

Numerous studies have found that U.S. companies primarily paid for U.S. tariffs, with the cost estimated at nearly $46 billion. The tariffs forced American companies to accept lower profit margins, cut wages, and jobs for U.S. workers, defer potential wage hikes or expansions, and raise prices for American consumers or companies. A spokesperson for the American Farm Bureau stated that 'farmers have lost the vast majority of what was once a $24 billion market in China' as a result of Chinese retaliatory actions.

Meanwhile, the U.S. goods trade deficit with China continued to grow, reaching a record $419.2 billion in 2018. By 2019, the trade deficit had shrunk to $345 billion, roughly the same level as 2016, largely as a result of reduced trade flows. It should be noted that, while the U.S. deficit with China decreased, its overall trade deficit did not. Trump's unilateral tariffs on China diverted trade flows from China, causing the U.S. trade deficit with Europe, Mexico, Japan, South Korea, and Taiwan to increase as a result.

China also felt economic pain as a result of the trade war, though apparently not enough to capitulate to the Trump administration's core demands for major structural reform. Indeed, as the trade war dragged on, Beijing lowered its tariffs for its other trading partners as it reduced its reliance on U.S. markets. The final deal that both sides announced on 15 January 2020, largely resembled the offer Beijing had put on the table from the start—increased goods purchases plus commitments on improved intellectual property protection, currency, and forced technology transfer.

Missing from the deal was any forward movement on subsidies, state-owned enterprises, and China's uses of industrial policy to advantage its own firms over foreign competitors. Progress on market access also proved underwhelming outside of the financial sector. These and other challenges were put off for a phase two negotiation, which Trump recently said is not under consideration.

A More Permissive Environment for Chinese Aggression and Suppression

Throughout this period, President Trump made efforts to develop a smooth and positive relationship with China—and especially with Xi Jinping—and explained his efforts as serving the purpose of advancing trade negotiations. Trump lauded Xi's strength and leadership publicly while shying away from points of sharp bilateral friction in private engagements. Instead, Trump reportedly used his private exchanges with Xi to urge him to act on his personal priorities, most of which related to the trade negotiations, and, for a time, North Korea.

In June 2019, Trump reportedly promised Xi Jinping in a private phone call that the United States would refrain from criticizing China over Hong Kong while trade negotiations were ongoing. The following month, Trump said he believed that Xi Jinping had acted 'very responsibly' with the protests in Hong Kong, adding, 'We're working on trade deals right now. We'll see what happens'. He expressed similar sentiments publicly in November when he shied away from criticizing Xi about Hong Kong and linked the issue to trade negotiations, saying, 'We have to stand with Hong Kong, but I'm also standing with President Xi'. He further said that Xi is 'a friend of mine, he's an incredible guy', and described the Hong Kong protests as a 'complicating factor' in trade talks. On 10 January 2020, when Laura Ingraham on Fox News asked Trump about 'the human rights issue in China' and referenced 'a million people in reeducation camps, internment camps', he replied, 'Well, I'm riding a fine line, because we're making . . . great trade deals.'

John Bolton, then national security adviser, claims that the reasons behind President Trump's prioritization of a trade deal above other considerations with China were made clear in a private meeting with Xi Jinping at the June 2019 G-20 summit in Japan. According to Bolton, Trump told Xi to go ahead with building camps to detain 1 million or more Uyghur Muslims in Xinjiang, saying it was exactly the right thing to do, and asked Xi Jinping to help him win the upcoming presidential election by increasing purchases of soybeans and wheat. Trump later challenged Bolton's characterization of events, tweeting that Bolton's book 'is a compilation of lies and made up stories'; Trump specifically denied Bolton's claims about Xinjiang. Yet at a campaign rally in Manchester, New Hampshire, on 10 February 2020, Trump declared, 'Last month, we signed a groundbreaking trade agreement with China that will defeat so many of our opponents.'

Although other members of the Trump administration, including Vice President Mike Pence and Secretary of State Mike Pompeo, have been outspoken in their criticism of China's repression at home and aggression abroad, their statements have not been seen in Beijing as a substitute for presidential opprobrium. During this period, the Trump administration did take a wide range of actions against China, including tightening export controls, enhancing investment screening, challenging Chinese technology companies, and blunting the Belt and Road Initiative. In Beijing's top-down Leninist system, though, the signals that other leaders send to Xi Jinping, and Xi's responses to those messages, carry significant weight. Neither the United States nor any other country gets to have two foreign policies with China. There only is one. Beijing's antennae are tuned to the signals that other leaders send.

To be clear, the Chinese leadership owns full responsibility for its recklessly nationalistic actions along its periphery and its brutal suppression at home. Beijing's decisions to move in its current direction were made simpler, though, by its confidence in Trump's tight focus on trade and his interest in not allowing other issues to obstruct completion of a deal or derail the deal's implementation.

Even in the weeks following the signing of the phase one trade deal, President Trump remained focused on reassuring Xi of his support. For weeks, Trump repeatedly praised Xi's response to the rapid spread of Covid-19 in China. Trump's tone would not change until the virus took its toll on the United States.

Was the Trade War Worth It?

The two sides declared a truce in the trade war at an ornate signing ceremony at the White House involving President Trump and Chinese Vice Premier Liú Hè the 11th ranked member in the Chinese leadership. Although the full text of the agreement has not been made public, reports say the agreement commits China to purchasing an extra $200 billion in American products over two years above 2017 levels. The text of the agreement that has been made public shows China committing to protect

American intellectual property, halt coercive technology transfers, and refrain from using currency devaluation as a trade weapon. It also included an enforcement mechanism that would allow for the imposition of import tariffs if disputes are not resolved.

In the six months since the deal was signed, the prospects of China meeting its purchasing targets have dimmed considerably. According to Bloomberg calculations based on Chinese Customs Administration data, China in the first half of 2020 had purchased only 23% of the total purchase target for the year. While part of this is attributable to trade flow disruptions caused by Covid-19, much of the gap owes to the impracticality of the agreement from the start. In the phase one deal, as described by Brad W. Setser and Dylan Yalbir at the Council on Foreign Relations, China committed to purchasing roughly $60 billion more in U.S. goods than it had in 2017—roughly $180 billion in U.S. goods this year. Yet U.S. goods exports to China currently are significantly below what they were in 2017.

In other words, Beijing essentially paid for the deal with a promise of a windfall in purchases of American goods. It appears that President Trump accepted an IOU as a declaration of victory.

Time will tell if the innovations in the agreement on enforcement will succeed where others have failed, and much will depend on China's willingness to translate agreements into law and, crucially, enforce them. Yet the key question for the United States—especially today, as the U.S. economy is in its worst state since the Great Depression as a result of the CovidD-19 pandemic—is if the economic costs it paid for those enforcement agreements were worth the billions of dollars lost in value, the hundreds of thousands of jobs lost, the stagnation of U.S. manufacturing, and the devastating effects of the trade war on American farmers. Ultimately, the phase one agreement disappointed because it, along with the trade war, severely damaged the U.S. economy while failing to make significant progress in fundamentally resolving the structural imbalances of the U.S.-China trade relationship.

Conclusions

It is imperative more so in international business to respect all the major terms and conditions between trading nations since the environment has global ramifications. Irrespective of bilateral and multinational business negotiations each nation involved has to be aware of the ripple effects and spill over of consequential effects on all across the globe. Individualistic approach motivated by political supremacy and hegemony as connected will at times have catastrophic results and the situation once disturbed may get in to irreparable/irreversible damage to business relations and business environment in general. It is better to permit good counsels to prevail in avoiding such trade wars which only cause 'more pain than gain'.

Case Questions

1. In the extremely competitive global markets today spearheaded by technological advances all across maintaining market share and margins has been a nightmare for national and international economies with every possible attempt made to preserve and protect the IPR (Intellectual Property Rights). Major economies are often at loggerheads blaming each other of violating IPR regulations leading at times to imposition of trade sanctions and restrictions US and China are often involved in trade wars affecting global economies. How do you think could be a way out to avoid such trade wars detrimental to International Business?

2. The impact of pandemics and the geo political expansionist approach of Countries (such as the current war between Russia and Ukraine) leading to catastrophic fall outs in terms of loss of human life and undesirable geo political alignments, disrupted global economic growth has exposed the weakness and inability of associations such as UN and WHO—Who according to you is responsible for this chaos and helpless situation in global communities? Is this again a part of trade hegemony confronted with the task of proving the phrase 'Survival of the fittest'?—When all global institutions talk of coexistence and global village concepts. Are all of us under an Illusion of progress all around?

3. In today's circumstances it appears that the world economies are in a mess not knowing the way forward for real human society and value systems for real progress—What are the four important steps you suggest for reversing the situation to one of hope and prosperity?

14

The Hunger Pangs

A Case Study on a Progressive Food Start-up (Zomato)

Learning Objectives

How merger and acquisition helps for business sustainability. Does laying off employees is a solution to curb losses. Does rebranding help to regain losses and brings normalcy in business. To know more about vision of the organization and its alignment to strategic decisions in marketing. To know more about vision of the organization and its alignment to acquisition and human resources. To know more about vision of the organization and its alignment towards smoke screen decisions like reshuffling of top management. To know more about vision of the organization and its alignment to setting of a set-up in UAE over emphasis on brand value and bad publicity.

Synopsis

The case takes you through the journey of Zomato over a period of 11 years, and touches upon all aspects, including marketing, product development, branding, human resource, and CSR.

Zomato completed one decade hurdle started in 2008. The company is known to take challenges head-on and being extremely proactive in their approach to counter controversies and bad publicity. Entry of a company into a new venture increased the bandwidth and contributed to growth of the organization.

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The company has launched in 2008 under the name 'FoodieBay' by Mr Deepinder Goyal and Pankaj Chaddah who were working as analyst for the consulting firm bain and company with foundational idea—an internet directory for restaurant means. Before start of this Mr Deepindra along with Mr Prasoon Jain started the business as a venture called food let but the business was struggling because of severe lack of human resources. With the help of bringing new ideas into business and support, Foodie Bay stood at no. 6 position just within a span of 9 months and after 2 years of operations the company was renamed as Zomato in 2010. Till 2013 Zomato received its biggest funding. To expand operations and build a new customer database company has acquired Maple OS in 2015. However, the company have to lay off 300 employees to curb losses, likewise 2016 was a slow year for the company in terms of funding due to number of reasons, but 2017 picked the space up again with WhatsApp Neeraj Arora along with this company as an investor total funding of the company racked up to 223.8 million. Again in march 2018 things started looking peachy for the company to maximize the business company has started acquiring foreign-based companies. As the company was eyeing to grow in the food delivery vertical it has started acquiring Uber eats which later supports to grow the market share.

By bringing the ideas in to operation company turned profitable in all the 24 countries, Also online ordering service crossed the milestone of 3 million orders in a month. This case is intended to know about strategic decisions and performances of start-ups.

Introduction

This case takes a peek into the journey of Zomato from 2008 as it completes the one-decade hurdle. The food start-up has become a force *to* reckon *with.* Zomato is known to accept challenges head-on and extremely proactive in approach to counter controversies and bad publicity. Its foray into new ventures has increased the bandwidth and contributed to commendable growth of an organization. As the organization is environmental conscious it seems to have thought of every possibility.

Inception of Zomato

Zomato—India's most-used food directory was originally launched under the name 'FoodieBay' in 2008 at the peak of the Indian start-up boom. The founders were Deepinder Goyal and Pankaj Chaddah. Both are IIT Delhi graduates from 2005 and 2007 respectively and were working as analysts for the consulting firm Bain & Company.

The idea for FoodieBay sprang from them when after having to scrounge around for restaurant menus they finally decided to take matters into their own control. It started with a simple foundational idea—an internet directory for restaurant menus.

The idea, even before FoodieBay, was being pursued by Deepinder with another friend Prasoon Jain in Delhi NCR as a venture called *Foodlet*. However, Prasoon soon moved to Mumbai and left behind Foodlet as a venture too.

Soon there was a severe lack of HR and business, which kept Foodlet struggling. This is when Pankaj Chaddah stepped in to help Deepinder's idea, and they began afresh by starting FoodieBay. The graph, since then, started bolting only upwards for the company.

Deepinder describes Pankaj as a 'turning point for the company'. The team of FoodieBay was just six in number but in a short span of nine months, they became the biggest restaurant directory in the Delhi NCR region by late 2008. The service, after two years of operations, was renamed as Zomato in 2010.

Funding

Between 2010 and 2013, Zomato received its biggest funding of approximately USD 16.7 million (INR 167, 000, 00) from 'Info Edge India'. This gave them a 57.9% stake in the company. In November 2013, another lucky round of funding got a new investor to pitch in—Sequoia Capital. They with Info Edge took the total sum of that round to USD 37 million.

In a fresh round a year later, Info Edge, Sequoia, and a new investor—Vy Capital raised USD 60 million for the company. The total funding of Zomato by the beginning of 2015 was a promising USD 113 million. In 2015, along with the three initial investors, Temasek—a Singapore based investment company, also pitched in, *bringing in USD 110 million* for that year.

The year 2016 was a slow year for the company in terms of funding, due to bad press, cyber-attack, high operational expenses; in fact, HSBC devalued the company to $500 million—almost half of its September 2015 value, but 2017 picked the pace up again with WhatsApp's Neeraj Arora adding to the list of investors and raising a conservative USD 20 million. This racked up the total funding of Zomato to USD 223.8 million since its founding in 2008.

With the most recent rounds of funding, things started looking peachy for the company in March 2018, especially with Alibaba's Ant Financial coming into the picture with a whopping *USD 150 million*.

Acquisitions and Selling

While its expansion was happening in full force, Zomato also started acquiring foreign-based companies to maximize its business. In 2013 it acquired Portuguese company Gastronauci and the Italian service Cibando. A big acquisition came in when they got a hold of the American service called NexTable which catapulted Zomato into the US market's competition.

Zomato, one of the largest food apps in India, announced that it has acquired Uber's food delivery business in India in an all-stock transaction, which gives Uber 9.99% ownership in Zomato. Swiggy has been the major competitor and market leader in online ordering vertical, with about 50% of the market share, with Zomato being at a distant 26%. Zomato has been eyeing to grow in the food delivery vertical; acquiring Uber eats seems to be a step closer to grow their market share.

Online restaurant guide and food ordering firm Zomato sold its UAE food delivery business to Germany-headquartered Delivery Hero Group for about USD 172 million (nearly Rs 1,220 crore). The deal with Delivery Hero means that while Delivery Hero will own the business, Zomato will continue to operate it. In addition, Delivery Hero has made an equity investment of $50 million in Zomato. Surprisingly the South African investor, Delivery Hero is also the largest stakeholder in Swiggy the arch-nemesis of Zomato in the food delivery segment.

The Ups

Zomato acquired Maple OS in 2015 to expand operations and build a new customer database. This increased the functionality of Zomato by allowing it to offer online table reservations and mobile bill payment.

In 2017, the company *claimed* to have turned profitable in all the 24 countries that they operated in, along with rolling out a zero-commission model. This was done to give impetus to small businesses and restaurant owners across its user base. They said that their revenue grew by 81% that particular year.

In 2017, the online ordering service of Zomato also crossed the milestone of 3 million orders in one month. In February 2018, after the funding from Ant Financial Services, Zomato's evaluation reached an unprecedented USD 1.1 billion dollars. This made Zomato Media Pvt. Ltd. the newest Indian unicorn company on the block.

The Downs

The year 2015 came in with the need of Zomato laying off 300 employees in order to curb losses, and 10% of these layoffs came to be in the US. The company expanded through its acquisition of spoon in US. The model followed by Zomato was to use on-ground staff to collect menus and other information, however this was not a good fit for the USA, according to Zomato, US has been a mature market. The model of collecting menus to be put online does not work, as the menus are already available online, also the number of restaurants available in the US is 7 lakhs much higher than the 70,000 in India, hence the need to lay off the ground staff.

Another setback in the States happened when Zomato acquired Urban spoon and rebranded the company as their own. This rebranding did not work out and the venture failed in a mammoth manner.

The year 2016 was probably the slowest financial year for the company, and as a result, it had to roll back its operations in nine countries which included the US, UK, Chile, Canada, Brazil, Sri Lanka, Ireland, Italy, and Slovakia. To resume presence they had to go ahead with a remote management service. The downfall in 2016 may be attributed to bad press Zomato received.

In May 2017, Zomato faced its biggest cyber-attack with a hacker breaching into 17 million user records. While the concern was overpayment and card details being accessed, the company claimed that only the names, user IDs, email addresses, usernames, and password hashes had been disclosed. The breach was resolved after communicating with the hacker who apparently just wanted to prove the *security loopholes* in the system.

Zomato again had bad PR built up for it when it was just about to reach an evaluation of a billion and HSBC Capital slashed this evaluation down by 50% due to concerns surrounding Zomato's advertisement-heavy business model, growing competition in the food ordering space, and money-losing international operations (making it USD 550 million) thereby raising the company's alleged losses.

Zomato witnessed a restaurant led push against Zomato Gold, where some restaurants abruptly 'logged out' of Gold expressing some dissatisfaction with some user policies of Gold. Proactive steps taken by Zomato to collect feedback from users and make changes based on it has turned the tables around. October 2019 turned out to be one of the best months Gold—Zomato welcomed ~110K new Gold members in India alone—which is the highest number of Gold memberships sold so far in a month.

The Controversies

Zomato has maintained a very transparent brand image since its founding days which has left little room for a controversy. However, some of the biggest rumours came in when the company's top brass decided to leave in a quick succession.

In the February of 2018, co-founder, Pankaj Chaddah quit citing no specific reasons other than personal agendas. Soon after, 2 months later, their CBO Mukund Kulashekaran also went ahead with his departure from the company without any formal announcements or comments. Pankaj Chadda, however, still retains his stake in the organization which is roughly around 3.11%.

Along with these exits, Samir Kukreja, after a very short 8-month stint also quit his position as the president of Zomato Base, the company's cloud platform. All these exits had taken place when Zomato was on its toes to fight its main competitor Swiggy and a major position reshuffle was happening in its upper management.

The company laid off around 540 employees from its head office in Gurugram. The company said these lay-offs were due to improvement in its technology interface across functions leading to reduction in support-related queries, thereby making several roles redundant. The company said these lay-offs were due to improvement in its technology interface across functions leading to reduction in support-related queries, thereby making several roles redundant, however, it is said that the company was still hiring people for its technology, product, and data sciences teams. Zomato has hired over 1,200 people in non-delivery teams and another 400 off-rolls positions besides creating jobs for hundreds of thousands of delivery partners.

Growth of Zomato

Zomato is a restaurant review, restaurant discovery, food delivery, and dining out transactions platform providing in-depth information for over 1.5 million restaurants across 24 countries and serves more than 70 million users every month.

The smaller diameters in the non-metro cities allow for greater orders per restaurant. Meituan, a delivery app in China services 22 million orders a day from 5 million restaurants. A rough average calculation amounts to 4.4 orders per restaurant per day.

In India, on the other hand, the capacity utilization is much more aggressive—Zomato delivers 1.3 m orders a day from 150k restaurants across India at more than 10 orders per restaurant per day.

Over the next few years, Zomato estimates food delivery business to grow to numbers that are unthinkable. Zomato is looking towards having about 200m people in India who will order food from Zomato about five times a month, with the top 20m cohort amongst these ordering more than once a day, every day.

From 50 cities in November 2018 to 500 cities in July 2019, Zomato has scaled its reach into unchartered territories like Leh, and 10 cities in Northeast, making it the first to introduce large scale food delivery to Guwahati, Nagaon, Jorhat, Agartala, Silchar, Dibrugarh, Tezpur, Shillong, Tinsukia, and Aizawl.

The company saw its revenue shoot up to $206 million in 2018–19 from $68 million in the previous year, primarily driven by its food delivery vertical, according to the company's annual report.

It spent $500 million during FY19, a six-fold jump from the $80 million spending in the previous year. Its losses stood at about $294 million in the fiscal.

Competition

The competition in this space is going to continue to be intense, and the food delivery category is still very small compared to the overall food service market in India. This category will continue to grow and get built over the next couple of decades, as Food Tech organizations work hand-in-hand with restaurants and food service providers to provide better food for more people.

Conclusions

Heartened by the success of its subscription service Gold, Zomato has rolled out yet another loyalty rewards programme called Zomato Piggybank. This is a kin to a cashback system with 10% of the order value being credited back into a user's account as Z Coins each time they use the app to order food online.

Zomato's venture into curated events like Zomaland, Literary Festivals, is just a strong indication as proactive initiatives taken to be at the top of their game.

Hyperpureis growing by leaps and bounds and Zomato couldn't be prouder of the impact that is been made on the users, delivery partners, restaurants, farmers, and the employees.

Zomato is expanding the reach of its online business-to-business (B2B) food ingredient ordering platform, Hyperpure, to 16 more cities.

Zomato venturing into the cloud kitchen market. This underlines the huge delivery opportunity of cloud kitchens and its ability to service users heavily across tight geographies in a planned manner. Zomato is committed to developing cloud kitchens across these geographies to bridge the supply gap. These cloud kitchens will be operated by restaurant brands.

The Government took the leap with an initiative wherein the Ministry of Petroleum and Natural Gas joined forces with the Ministry of Health and Family Welfare to introduce what they called RUCO (Repurpose Used Cooking Oil). Spearheaded by FSSAI, RUCO targets two outcomes at the same time—ensure responsible usage and disposal of edible oil in commercial kitchens, and reduce country's dependence on crude oil imports by repurposing waste edible oil.

Zomato has taken the initiative to be positioned to act as an enabler for Used Cooking Oil (UCO) aggregation across the country. HoReCa (Hotel/Restaurant/Café) segment consumes almost 30% of total cooking oil of the country, and Zomato is keen on leveraging their reach, supply chain, and technology expertise to bring scale to this initiative.

Zomato is putting their reach on both FBO side and the customer side to good use by raising awareness and incentivizing responsible food habits in the industry and UCO initiative aligns well with their core mission: better food for more people. Zomato hopes to witness zero oil adulteration and responsible use of oil.

Zomato is on the verge of cracking its maiden profits and are all set to grow 10x in the next five years according to the Founder Deepinder Goyal. Zomato's profits have come on the back of its rapid expansion into new cities that has not only brought in more business to established outlets and 'dark kitchens' but has also created thousands of jobs.

Zomato touches 25 million customers every week, generate 0.5 million jobs directly. Zomato is still investing heavily in the food delivery business which has grown 6x in the last year 2019, and is now present in more than 500 cities.

Case Questions

1. In trying to establish the brand Zomato, have they gone overboard in spending, so much so they were devalued, leading to losses? Would this have made a difference to the timeline of breaking even?

2. Zomato, can it become a long-term career option, without the fear of being out of job overnight?

3. Has the organization carried out due diligence before acquiring the US operations? If so were the stakeholders (read customers) being misled about lay-offs? Is Zomato a brand that is as transparent as they claim? Was selling off their UAE operations a wise decision, as it went against the very essence of Zomato wanting to be present in more countries, more cities, and more customers?

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SIF—Safe and Successful

A Case on Food Retail Industry (South Indian Food Industry)

Learning Objectives

To study the SIF competitor strategies in the local Indian market. To study the market for south Indian food in Europe and America, particularly US and UK who are accustomed to tinned food which happens to be the limitation of the company. To study the market for south Indian food in other Asian countries, particularly China and Japan who consume rice but are culturally very different. To study the strategy of the company for making entry into different foreign markets, like whether to go for a full-fledged production facility or collaboration with the local players or obtaining licence for export. To study the further growth prospects for the company in the Indian market itself which is a big and growing market and looking at the trend of having South Indian food being convenient and nutritious.

Synopsis

South Indian Foods (SIF) is a Coimbatore-based company which emerged as a private limited company in the Indian market with a strong product line in 1989 under the able leadership of R. Krishnan, president of the company and a postgraduate from the Indian Institute of Management, Ahmedabad. His first job was in a direct marketing company where he spent over five years. Later he floated his own

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company, South Indian Beverages (SIB), with the help of his father, B K Nair.

Meanwhile his wife Maya, postgraduate in food and nutrition, as a hobby used to help her neighbours learn to cook different variety of dishes.

Krishnan encouraged Maya. In December 1981 he even appointed two women as helpers so that she could make these products in larger quantities such as mixes of 5 kg to 10 kg as well as packages of 50gms and 100gms. Gradually nearby groceries began to stock her food products in small packets and bottles, as unbranded commodities.

Her husband however was not doing as well. By 1988, the beverage industry had totally flattened. Only a few big players hung on, the rest had to give up. SIB was dissolved. Krishnan began to help his wife in preparing and selling the food products, and SIF began to take off in a big way.

Initially its three innovative products, Easy Idly Mix, Easy Dosa Mix, and Easy Appam Mix, were in fact winning the hearts of South Indians.

Quality control techniques became necessary, which in turn resulted in economies of scale. It encouraged the husband and wife team to register SIF as a private limited company. In May 1995, SIF decided to go public. As expected, investors responded positively.

The Case

SIF's market was essentially centred in and around Coimbatore, and covered the neighbouring towns of Pollachi, Tiruppur, and Palakkad. Local vans dropped off finished products to wholesalers and retailers. Within four years of production, by 1993, the company had two more production units located at Bangalore and Chennai to cater to the whole of South India.

In order to achieve better penetration, SIF had to extend its product line, and thus it started manufacturing papads and fryums. To address the issue of competition, SIF ventured onto its competitors' turf by making dry-flour and sooji.

SIF used imported machinery for pressing, grinding, cleaning, and packing. Qualified and professional staff were employed to supervise and check for quality during the production process. The plant utilization capacity, which had hovered around 40% in the early 1990s, grew rapidly to 90% by 1998. Gradually production capacity was enhanced so that by 2006 its three plants were producing 360 tons of batter, 60 tons of paste, 15 tons of dry flour, 10 tons of papads, and 5 tons of fryums.

Packaging was completely automated. The aroma and freshness of the products also had to be addressed carefully, as also the issue of shelf-life. Batter, prone to fermentation, was found to be best packed in the combination polyester and LLDPE. The pastes were normally bottled in glass jars. SIF had unique way of packing papads and fryums in 'foil liner pack' which help locks in the crispness and freshness for at least two months.

Competition

Product	SIF market share	Competitor Market share
Papad	23%	Durga Papads—14% Planning to expand north India. And Swathy Foods—7%
Batter	27%	Akshaya Foods and Swathy Foods who had grown to 12% and 17%
Dry floor	22%	Bhavana Flour Mills and Shanghi Flours—12% and 18% respectively.

SIF had a separate wing for quality control and analysis, equipped with a modern laboratory. The company's marketing and distribution strategies are effective.

Through the company started with only three products, it offered twelve products by 1997 and now it is now planning to expand further by going international.

The global strategy of the company is:

1. Enter into licensing agreements with mid-sized food companies in the US and UK for carrying out production and marketing operations in those countries.
2. Produce more in India and directly export to other South Asian countries, USA and UK.

3. Produce more in India and directly export to other South Asian countries, US, and UK using the services of distribution agencies based on these countries.
4. Set up a production centre in North America to cater to the needs of the customers in Europe and USA.

The Case Details

SIF had emerged as a private limited company in the Indian market with a strong product line in 1989. Through the company started with only three products, it offered twelve products by 1997. The company has successfully achieved to penetrate in Indian market. It is now planning to expand further by going international. What should be its strategy?

It is 9:30 a.m. on 21 May 2006. R Krishnan, president of SIF is deep in thought in his office at the first floor of SIF House, the corporate office of the company in Coimbatore. He has just returned from a week long business trip to the US, and is now probing the future prospects of his company. His eyes gleam at the thought. Obviously he is thinking about the company going international. At 10:00 a.m., he invites Shankar, the senior vice president (Marketing of SIF), to his office.

'Having put forth an excellent performance in Indian over the past sixteen years, why can't we think of going international?' asks Krishnan over a cup of steaming coffee. 'Our channel strategy did click very well in the Indian market. With state-of-the art production facilities and our marketing expertise, I believe we could easily create a niche overseas,' he continues.

'Yes, it's high time we took a step in this direction. I too favor this idea,' chips in Maya Krishnan, Krishnan's wife and vice president (Operations) at SIF. 'But how should we go international? I mean, in terms of production and distribution.'

Shankar intervenes, 'We have a very good presence here in the Indian market. Also our experience in handling products would be great asset if we decide to go abroad. I believe, it is the right time to trap the foreign markets to maximize our sales. But before that we need to conduct a viability study and country analysis.'

'I think, even before that, we need to have a list of the probable markets abroad,' said Mrs Maya.

Krishnan closed the discussion with a call for an emergency senior management meeting on 22 May at 10:00 a.m. to discuss the matter in detail.

Company Background

SIF emerged as a private limited company in the Indian market with a strong product line during December 1989. Unit then, no company had thought that such a product line would be accepted by so many customers. Its three innovative products, Easy Idly Mix, Easy Dosa Mix, and Easy Appam Mix, were in fact winning the hearts of South Indians.

As a director of South India Beverages Pvt Ltd (SIB), Krishan had seen tough times in the late 1970s. It was a period of deep recession and unstable governmental regulations. Many industries suffered setbacks during this period, and SIB was no exception. Unable to withstand market forces, as inventory began to pile up, Krishnan began to look around for something new and different to do.

Now in his late 40s, Krishnan was a postgraduate from the Indian Institute of Management, Ahmedabad. He displayed an entrepreneurial bent from childhood. His first job was in a direct marketing company where he spent over five years. Later he floated his own company, SIB, with the help of his father, B K Nair.

In 1981 he married Maya, a postgraduate in food and nutrition with a keen interest in cooking. As a hobby, Maya used to help her neighbours learn to cook different variety of dishes. Sometimes she and her neighbours would prepare mixes which could be eaten as a side dish or with rice, the staple of the south Indian diet. Homely and good at taste, many of her friends started buying these items from her.

Krishnan encouraged Maya. In December 1981 he even appointed two women as helpers so that she could make these products in larger quantities such as mixes of 5 kg to 10 kg as well as packages of 50gms and 100gms. Gradually nearby groceries began to stock her food products in small packets and bottles, as unbranded commodities.

Her husband however was not doing as well. By 1988, the beverage industry had totally flattened. Only a few big players hung on, the rest had to give up. SIB was dissolved. Krishnan began to help his wife in preparing and selling the food products, and SIF began to take off in a big way.

The year 1989 saw the introduction of an innovative better from which idlies, dosas, and appams could be made easily, and innovation which multiplied SIF's sales and potential. More manpower, newer and improved machineries, large production capacities, and consistent quality standards have to great extent ensured business sustainability for SIF. Quality control techniques became necessary, which in turn resulted in economies of scale. It encouraged the husband and wife team to register SIF as a private limited company. In May 1995, SIF decided to go public. As expected, investors responded positively.

Production

Though the company started with only three products, it offered twelve products by 1997. Aside from the initial batter innovation for idly dosa and appam, SIF now made pastes (tomato, tamarind, masala), flour (rice, wheat, groundnut) papads (rice, masala, gram), and fryums (vadams). SIF rapidly emerged as one of the major players in the market.

In October 1989, SIF moved out of the Krishnan kitchen into its own production unit. Until then the raw material for Maya's batters and pastes were purchased in small quantities from local markets and the processing was done manually. Since the production was on a small scale, Krishnan and Maya used to supervise the entire production process themselves. The batter was stuffed into polythene bags of 250gms and 500gms with the help of a few hired labourers.

Post-1989 production was carried out in a large shed; and uniforms were provided to workers to maintain cleanliness. Maya personally supervised the production process. Deposit the larger volume of production and the attraction of longer shelf life, SIF maintained its policy of no added preservatives. Demand grew for all its products.

SIF had a separate wing for quality control and analysis, equipped with a modern laboratory, which ensured quality at three stages of production.

Stage one analysed raw materials, stage two tested finished products before packing, and stage three examined the packing to ensure that it was bio-compatible and leak-proof. The laboratory was sophisticated and well equipped. Its quality control staff was sourced from Kolkata's Indian Statistical Institute.

Early Days

SIF's market was essentially centred in and around Coimbatore, and covered the neighbouring towns of Pollachi, Tiruppur, and Palakkad. Local vans dropped off finished products to wholesalers and retailers. Within four years of production, by 1993, the company had two more production units located at Bangalore and Chennai to cater to the whole of South India.

The products were packed in 'environment friendly' plastic bags, sachets and plastic disposable containers. By then SIF had started adding 'class preservatives' to the batter for limiting fermentation and to keep it fresh for at least ten days. Vinegar was used as a preservative in the case of pastes.

By 1994 each of SIF's three units had monthly production of about 15,000kgs of batter and 2,500kgs of paste. The high market demand encouraged Krishnan to take their products to the whole of India. This led to the launching of three more manufacturing units, one each in the states of Maharashtra, Aundh Pradesh, and West Bengal.

Fast Forward

In order to achieve better penetration, SIF had to extend its product line, and thus it started manufacturing papads and fryums. However, just when the Krishnans increased their production capacity, competitors crowded into the market. To address the issue of competition, SIF ventured onto its competitors' turf by making dry-flour and sooji.

SIF started making dry flour in its existing in Maharashtra and Andhra Pradesh, its two biggest units. The location of these units was based on the availability of rice from Andhra Pradesh and Tamil Nadu, and wheat from Northern India. Moreover its competitors also had their operational bases at these two locations.

In keeping with its traditions, SIF used the best quality raw materials (particularly grains which were the major ingredient of its products) from the best available sources. While rice was sourced from South India (mostly from Tamil Nadu and Andhra Pradesh); wheat was sourced from Punjab, Haryana, and Maharashtra; grams from Andhra Pradesh, Maharashtra, and West Bengal; pulses from Tamil Nadu and Andhra Pradesh; and preservatives, vegetables, spices, and oil in bulk form the local markets.

SIF used imported machinery for pressing, grinding, cleaning, and packing. Qualified and professional staff were employed to supervise and check for quality during the production process. The plant utilization capacity, which had hovered around 40% in the early 1990s, grew rapidly to 90% by 1998. Gradually production capacity was enhanced so that by 2006 its three plants were producing 360 tons of batter, 60 tons of paste, 15 tons of dry flour, 10 tons of papads, and 5 tons of fryums.

Quality was important at SIF: The word 'quality' at SIF meant traditional purity combined with the latest technology to give a perfect blend of South Indian taste to the consumers. SIF employees were proud of their association with the company. Indeed they had many reasons to be so. Not only were the compensation packages the best in the industry, but also there was a sense of oneness in the SIF Empire. Though the atmosphere within the company was formal, the 650 employee cherished the friendly atmosphere.

Packaging

SIF took great care in designing the packaging as most of the products the company handled were perishable. The aroma and freshness of the products also had to be addressed carefully, as also the issue of shelf-life. Batter, prone to fermentation, was found to be best packed in the combination polyester and LLDPE. The pastes were normally bottled in glass jars. SIF had unique way packing papads and fryums in 'foil liner pack' which help locks in the crispness and freshness for at least two months.

Packaging was completely automated. While batter products were packed in quantities of 250gms, 500gms, and 1kg. pastes were packed in attractive bottles of 250gms and 500gms papads were available in packed in attractive bottles of 250gms and 500; and fryums in 250gms and 500gms packs.

Competition

In the South India papad market, SIF enjoyed a 23% market share. Its closest competitor was Durga Papads which had a wide range of papads and a 14% market share. Durga Papads was planning to expand to North India.

In the dry flour marker, SIF held a 22% market share, and its two biggest competitors were Bhavana Flour Mills and Shanghi Flours with a market share of 12% and 18% respectively.

In the batter market SIF was the major player with a 27% market share in the organized sector. However there was stiff competition from new entrants like Akshaya Foods and Swathy Foods who had grown to 12% and 17% respectively in the organized market in India. A well-run company, Swathy Foods competed with SIF also in papads and dry flour, having garnered market share of 7% (in papads) and 5% (in dry flour).

Marketing

Initially production was on a small scale, and distribution done with the help of delivery agents. Increasing demand led to large scale production, necessitating promotion. The early advertising campaigns were executed through newspapers and radio. In addition, hand-bills, printed in the local language, were distributed along with morning newspapers in select towns.

Specific advertisements showcased traditional flavour, and taste was linked with the culture and heritage of India. Typical, quality, South Indian food items with great taste were the message. As a result, awareness about the product increased and thereby the demand.

SIF also offered sample packets of batter products to customers who purchased other products of the company. The promotions and special offers were popular and helped SIF become a household name in the Indian market.

In keeping with general practice, wholesaler got a margin of 2% and retailers 8% on SIF products. Retailers who made sales more than Rs. 5,000 got an additional 1% margin.

Distribution

Until 1992 the distribution to retail outlets was through a direct sales force, and some orders were also taken at the production centre. Once the factory was up and running, making a larger number of products, Shankar saw the need for a broader distribution channel. Two options were thought of. The first was to setup a distribution unit within the organization, and the second was to hire exclusive dealers.

In April 1993 the company took the second option because of its low overhead costs. Twenty dealers were appointed across the dealer's credibility and capacity to undertake and supply a large volume of goods were scrutinized carefully by Dinkar, vice president, Finance. Under the terms of the contractual agreement, 'sale' to a dealer meant the transfer of possession of goods to the dealer for a wholesale price, who in turn would arrange the supply of goods to retail outlets. Dead stock after their expiry period was taken back by the company. This came to an average figure of 2% on total sales. This arrangement worked very well until the mid-1990s given the size of the company.

By the mid-1990s however, SIFs growth required a new structure. A three level (stockiest wholesaler-retailer) distribution channel system was developed with a new discount scheme. The new advertising and marketing campaigns supported the new network; however, though the company had successfully achieved a wide reach in urban India, it was not able to penetrate rural markets, as the people there were not ready to accept the 'readymade' version of their traditional food items. This was considered a great failure as more than 70% of India's population live in villages.

Global Plan

As decided, the Executive Board met at 10 am on 22 May 2006. Those present were Krishnan (SIFs President), Maya Krishnan (Vice President-Operation), Shankar (Senior Vice President-Marketing), Sunder (Vice President-Marketing Research & Sales), and Dinkar (Vice President-Finance)

KRISHNAN: 'Well have to be optimistic about the US market. As you know the Indian population there is large enough to absorb our products. Our market research also revealed that Indian dishes are favored by even local American.'

SHANKAR: 'I accept your views Sunder! But we are forgetting the fact that in the US market, we have to compete with powerful "tinned foods". Considering our limitations, I believe we should start exporting to the US at the earliest. Once we are able to catch up with the US market, we can think of investing in the US.'

KRISHNAN: 'Do you think the Asian market is barren? Considering the fact that the raw material is readily available, at least South Asia could provide us good sales.'

MAYA: 'I do not think targeting entire Asia is viable option. Though the Chinese and Japanese are accustomed to rice, culturally most of these Asian countries are different from India. Also why not European countries like the UK, where there is a considerable number of South Indian population?'

SHANKAR: 'That makes our job much more complicated. The reason being, convincing them to go for our products.'

DINKAR: 'Why not productions centre in UK or US? I believe production overseas would be a better choice, as the overheads then could be brought to the minimum.'

SHANKAR: 'Instead of setting up a production unit overseas, why not licensing options to US and UK?'

KRISHNAN: 'Well, I think, we need to analyze the various possible options. Perhaps a detailed cost-benefit analysis would be of great help to us … Thank you very much gentle-men. We may have to meet here again next week for a decision making exercise. Thank you all!'

After the meeting of the Executive Board, Krishnan and Shankar discussed the situation and listed four strategic options for the internationalization of SIF:

1 Enter into licensing agreements with mid-size food companies in the US and UK for carrying out production and marketing operations in those countries.
2 Produce more in India and directly export to other South Asian countries, USA, and UK.
3 Produce more in India and directly export to other South Asian countries, US, and UK using the services of distribution agencies based on these countries. Set up a production centre in North America to cater to the needs of the customers in Europe and USA.

Conclusions

The company SIF has a long tradition of quality packaged south Indian food. The company has a major market share in south Indian market. The company boasts upon state of art production facility, a strong marketing, and distribution infrastructure and strategy and quality policy. The qualified and experienced human resource is a very strong aspect of the company.

Looking at the growing trend of having south Indian food as snacks, the market, local, and global for the company is ever-expanding. A large Indian population in US and Europe now demands Indian food. Not only is this but the local population also becoming fond of Indian food. Almost a similar situation exists in many of the Asian countries.

Looking at all these strengths and opportunities of the company it becomes inevitable for the company to think of going global. The question remains what should be the strategy?

Case Questions

1. Should SIF go global? If yes, what should be its strategy? If no, why not? What are the business risks involved in the global market?

2. What is the list of the probable markets abroad? What should be the first choice Europe or Asia?

3. Should the company first consolidate all over the country What is the company strategy to beat the growing local competition? Should the company explore tinned food market for south Indian food locally and globally?

16

Re-engineering 'Escorts'

A Case Study in Turnaround Strategy

Learning Objectives

The learning objective of the study is to understand how the 'Escort' involved some top-class talent to helm several strategic leaderships. Not only this how the investment decisions from Escorts has taken, by whom the portfolio has managed. What were the long-term decisions taken for, to sustain in the competitive market? Why the decision has been taken for the higher horsepower (premium) segment tractors and the area they would like to cover. And hence to study the re-engineering of 'Escorts' by business tycoons, i.e., to study the turnaround strategy of the 'Escorts'.

Synopsis

'Escort' was not doing well in the market. The Rs 4,000 crore tractor maker, company has involved in construction, railway equipment, and automobile parts too. To increase the profit of 'Escort', wooed some top-class talent to helm several strategic leaderships. And those talents are from Bajaj Auto, Tractors India, John Deere, and Bombardier, Tata, etc. Escorts took the steps to re-engage with the analyst/investor community too. The group also hired the investment advisor, who tried to concentrate on a core portfolio. For improving the Escort market they have now concentrated on higher horsepower (premium) segment. Now they ensure that three years from now, will be in premium segment.

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The Case Details

This February, when Nikhil Nanda, joint managing director of Escorts and the third-generation scion from the HP Nanda, set out to woo investors in a rare conference call, he faced their concerns instead. Not even the monthly dispatch numbers of tractors and construction equipment are made public, investors rued of a company they perceived as not being transparent.

Investors have been pretty vocal in their displeasure over the way the Nandas have run Escorts, the Rs 4,000 crore tractor maker, with additional interests in construction, railway equipment, and automobile parts. Since 2003, its market capitalization has grown from Rs. 266 crore to Rs. 771 crore. In the same 10 years, the market cap of Eicher a rival that sold its tractors business to TAFE in February 2005 grew from Rs.155 crore to Rs. 8,810 crore. And market leader M&M saw its valuation increase almost five-fold to about Rs. 58,000 crore.

It's been a forgettable 10 years for Escorts, with failures in many unrelated diversifications eroding value. Nikhil Nanda, 39, who was appointed as JMD in September 2007, has been in charge of Escorts for the better part of this utterly forgettable decade. But now, the first faint stirrings of an unlikely turnaround are being felt within the group. Three things are causing this.

The Three New Initiatives

First, its net profit over the last four quarters has doubled to Rs. 103 crore, when compared with the corresponding four quarters of the previous year.

Second, Nanda has personally wooed some top-class talent to helm several strategic leadership roles in the group, raising expectations that the new band of empowered professionals may help stem the rot. 'The first thing I did right was to get the right people,' says Nanda. In the last two years, Nanda has appointed a professional to lead each of its four businesses. Leading this wave is former Bajaj Auto executive S Sridhar, who joined Escorts in October 2011 to head its farm-equipment business, which currently brings in 80% of the company's revenues. (Sridhar was part of the core team that worked with Rajiv Bajaj to help Bajaj Auto get its mojo back.) GVR Murthy, former joint MD of Tractors India, was hired in November 2012 to lead construction equipment, which contributes about 15% to the company's overall revenues.

Two relatively smaller businesses too have new CEOs. Dipankar Ghosh, an ex-Railways officer, with experience in John Deere and Bombardier, joined in October 2012 as CEO of the railway products; and Lalit Kumar Pahwa, an ex-Tata hand who now heads the auto products business came in May 2011.

Third, Escorts is taking tentative steps to re-engage with the analyst/investor community, and hopefully win them back. Sample this, responding to investor criticism at a conference call, Nanda has since made sure dispatch numbers are made public monthly. 'I look at myself more as a custodian,' says Nanda, and quotes the two treatises of Jim Collins 'Good to Great' and 'Built to Last' as his gospel to re-build Escorts. There seems to be a 'turnaround', acknowledges Arun Kejriwal, director of KRIS, an investment advisory firm, who has tracked Escorts for a decade. 'They have done quite a bit of downsizing and are trying to concentrate on a core portfolio.'

Inherited Irritants

Nanda may have been at the helm for almost six years now, but the roots of some of Escorts' biggest problems go back before his time. An unrelated diversification into telecom via Escotel, which owned licences to operate in Punjab, UP (East), Rajasthan, and Himachal Pradesh, since the group, which lacked the alacrity and deep pockets to match other telecom entrepreneurs. Telecom was divested later. So was its crown jewel Escorts Heart Institute and Research Centre, with four speciality hospitals.

As recently as last year, a merger of three group outfits earned the ire of proxy-advisory firms, who argued the move will hurt minority investors.

Even as the group was coping with these challenges, rivals in the tractors business made significant moves. TAFE gobbled up Eicher's tractor business in 2005 and M&M acquired Punjab Tractors in March 2007, leaving Escorts as the weaker third player. Nanda realizes that. 'Our plate is full,' he says, adding the group has since eschewed the aggressive diversification of the nineties. Its shaky financial position also limits possibilities.

'They (Escorts) are tight on cash,' says a senior executive of a leading tractor maker, not wanting to be identified. In the last five financial years (October to September), Escorts net cash generation has ranged between Rs.111 crore and minus Rs.100 crore. 'They have to deal with the short term even as they have to find the cash for the long term and free cash flow. That begs the question how are they going to fund their expansion?' adds this executive.

Management Styles

At a chance meeting with Anshu Jain, co-chairman of Deutsche Bank AG, at a party in New Delhi earlier this year, Nikhil Nanda earned a rare encouraging word. 'You're in good businesses,' Jain is reported to have said when young Nanda introduced himself and his businesses to the banker.

Nanda is slowly emerging as the new face of hope for Escorts. He credits his father Rajan Nanda, the chairman, and his team as the catalyst for the change that is taking place. But people at Escorts credit the junior Nanda and his willingness to delegate responsibility to a new breed of professional managers.

In the Escorts culture, they say, Nanda's style is refreshingly different. He empowers people to take decisions after building consensus on the targets. Nanda's style of managing, Sridhar says, is different from that of Rajiv Bajaj, his former boss. 'He (Rajiv) plays hard. He is competition- and brand-centric and will precisely differentiate and then attack competition,' says Sridhar, who cherishes his decade-long association with Bajaj Auto and Rajiv Bajaj. By comparison, says Sridhar, Nanda is a 'values-driven' guy. 'As a boss, he is only an enabler.' In his first meeting, Sridhar walked in expecting to be grilled on industry issues, but was instead surprised by a barrage of questions that Nanda used to understand him as a person. 'He even recorded the interview, wanting to reflect on it later,' Sridhar recalls.

Aggressive Strategy Implementation

Under Nanda, Escorts has been cutting flab: its white-collar headcount is down to 1,250, from 1,577 in 2010–2011. This will be pared further to 900 by 2014–2015, says a senior company official, not wanting to be named. Interest costs have been pared by 15% to Rs 43 crore, from Rs 51 crore. Receivables are down to 30 days, from 40 days; their value is down by Rs 80 crore from the last half. 'The focus is on cash, cash and cash,' Nanda says. He explains how Escorts freed up space in its Faridabad headquarters by one-third, and cut flab even while increasing capacity.

While these incremental gains are welcome, Escorts needs to regain some of its lost tractor market share before analysts take the company seriously again. In the last five years, it has seen its share drop by 11.5%. 'It is not an industry where it is easy to gain market share,' says the executive from the rival tractor maker quoted earlier.

Sridhar, the new head of the farm equipment business, is going back to the lessons he learnt from the Bajaj Auto revival and reapplying them at Escorts. Bajaj introduced Pulsar, a premium motorcycle, to fight established leaders in the bike commuter segment and followed it up with the Discover at the lower end to engage competition with a pincer attack strategy.

At Escorts, Sridhar is implementing a similar two-pronged strategy. In the higher horsepower (premium) segment, the Farmtrac tractors will open up a new market of 50–60 horsepower tractors. In the lower, Powertrac segment, the focus will be on fuel economy.

With this, Escorts claims it has retained pricing and on odd occasions increased prices in a slowing market. 'For us, M&M and TAFE are not the competition,' says Sridhar. 'It is John Deere, an American maker of high-powered tractors. We will be focusing on premium tractors.' Counters the executive from the rival tractor maker: 'Higher horsepower tractors have not evolved a lot in India and that's something they've to keep in mind. It is not going to be easy in this country.'

Escorts won't have it easy since M&M and TAFE dominate the market, analysts say. 'Where will growth come from,' asks KR Choksey, a veteran stockbroker cum investor. 'The market is not growing and so how will Escorts grow?' Choksey, an Escorts shareholder, says talk of rapid expansion when the industry is slowing down is a difficult proposition.

One answer, Sridhar counters, could be to venture out to East European countries, Southeast Asia, and Africa. But he is confident that a premium play in the domestic market will also click. 'Hopefully, we won't take 10 years (as Bajaj did), but fewer, as we'll avoid mistakes from experience,' he says. 'Three years from now, we'll be playing only in the premium segment and there is space for every player to grow.' Nanda, his boss, is game for the race. 'We are already on the treadmill,' he says, adding in jest that he lives in Escorts Faridabad HQ, returning to Delhi only to sleep.

Conclusions

Mr Nikhil Nanda, joint managing director of Escorts, has taken a good strategic decision to involve the different giants of this sector for the re-engineering. His decision to make use of intellectual persons and their expertise in this situation is really appreciable. He brought all expertise under one roof and tried to increase the profit share. Hence the chances of getting at top position for 'Escort' have increased. Secondly the market which was not growing and so how will Escorts grow was the question, but for any business these situations are coming; only the thing is how the companies are tackling these situations. The Escort group now has concentrated on higher horsepower (premium) segment, the Farmtrac tractors, the new market of 50–60 horsepower tractors, and assure to capture the market in three years.

Case Questions

1. Farm equipment sector is predominantly dependant on rains and government policy on agriculture. Even giants like M&M (Farm equipment sector) who is global leader in farm equipment market has hiccups due to seasonal fluctuations and adverse economic policies. Escorts seems to have lost its ground in the domestic market, will the ornamental changes initiated towards a turnaround bring back Escorts lost glory?

2. Could one imagine that from long-term points of recovery and consolidation few senior executives (brought in form otherwise progressive set ups and different market segments) help deliver a full recovery from the collapse? Under trying financial situations is there a guarantee that these same executives will stay put in constrained situations? What if they fly off to greener pastures, will you start from fresh again? It is in the long term strategy with appropriate business environment analysis including risk factors—is this seen in the Escorts turnaround?

3. Product development/diversification to niche segments which does not guarantee any potential (compared to two wheelers as referred in the case) will be like a shift from frying pan to fire.

4. Do you have any comments on product and marketing strategy adopted by Escorts in the turnaround efforts?

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The Game Changer

A Case Study on Strategic Marketing Planning of Starbucks' Coffee

Learning Objectives

This case study details Starbucks' growth, expansion, and the changes that were instituted over its history. Focus is on Schultz's strengths as CEO and the role he played in Starbucks' growth. It highlights on Schultz's leadership journey, the lessons he learned personally during Starbucks transformation, the case offers a range of vital lessons on leadership, organizational transformation, restructuring, strategy, innovation, entrepreneurial vision, and customer service.

Synopsis

Starbucks' founded in 1971 in Seattle by founder, Howard Schultz, was its CEO for most of the history of Starbucks. In 2000, Howard Schultz became the chairman and chief global strategist, to overlook Starbucks' international expansion. Shareholder unrest triggered the departure of CEO James Donald, who held the post for less than three years. Set against the backdrop of the Great Recession, the case also considers the impact of unprecedented important shifts in consumer spending and confidence as well as new competitive forces on Starbucks' transformation. Schultz wants Starbucks to get back to basics. The case offers us an opportunity to find how Howard Schultz and team saved Starbucks from near collapse, by both executing return to its core values and at the same time, investing in a range of new products, focusing on customer experiences

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and organizational capabilities designed to make the company capable for achieving success in an unstable turbulent global economy.

Introduction

Howard Schultz, recognized for his entrepreneur skills and leadership built Starbucks Coffee Company into the 'World's Most recognized and respected businesses', a company dedicated to strengthening communities through human connection and social innovation.

Howard grew up in public housing and was the first in his family to graduate college. As a young entrepreneur, he had a dream to build a different kind of company, one that delivers business excellence through a culture of compassion.

Under his leadership, Starbucks has delivered approximately 180 times in shareholder returns since its initial public offering in 1992, while initiating programmes like comprehensive healthcare, free college tuition, and stock ownership for all eligible employees. Starbucks has 26,000 stores in 75 countries and ranks third on Fortune's list of 'World's Most Admired Companies'.

Howard's pioneering initiatives through Starbucks and the Schultz Family Foundation have extended employment and educational opportunities to hundreds of thousands of partners (Starbucks employees) and people outside the company. In 2014, Howard developed the Starbucks College Achievement Plan (SCAP) in alliance with Arizona State University President Michael Crow, enabling partners to pursue their college education tuition-free through ASU Online.

History

Howard's Starbucks journey began in 1981 when he walked into the first Starbucks store in Seattle's Pike Place Market and discovered a local business that was passionate about roasting the highest quality coffee. He moved from his native New York and joined Starbucks in 1982 as director of operations and marketing. At the time, there were only four Starbucks stores.

One year later, on a business trip to Italy, Howard was captivated by the romance of the Italian coffee bar. He returned to Seattle with a vision of bringing the Italian coffeehouse tradition to the United States, creating a unique place for human connection and a sense of community. After leaving Starbucks for a short time to start his own II Giornale coffeehouses, he purchased Starbucks six stores and roasting facilities in 1987 with the help of local investors, beginning a global expansion that would change how the world consumed coffee.

Howard Schultz is the CEO of Starbucks who had purchased it from its original owners in 1987 after many attempts to convert the Coffee Bean Shop into a Café. His original vision was to base the stores of the authentic coffee shops he saw when he visited Milan, Italy. He had opera music playing in the background at each location. Each Starbucks store is designed based around that existing structure that they had leased due to the company's desire to control the store's opening costs. He wanted to create the experience of 'third place' apart from home and work. He wanted a place where people could come relax and/or socialize. Schultz still wanted to sell premium coffee beans and coffee equipment yet wanted the Italian coffee culture.

Chairman since 2000, Howard resumed the role of president and chief executive officer in January 2008, with a renewed focus on Starbucks coffee heritage, innovation, and enhanced customer experience. Starbucks' financial underperformance was likely as much due to the economic slowdown as it was self-inflicted. In an apparent instance of misplaced cause-and-effect, Schultz blamed the company's leadership for focusing too much on rapid expansion, opening too many stores, and diluting the in-store Starbucks experience. Behind the CEO's back, Schultz started working with strategy consultants and other board members to develop a 'transformational agenda' centred on the core values of the company he had founded in 1982. In 2010, after Schultz's return as CEO in 2008, he retransformed the company once more to improve the company's leadership and change some roles for his top employees. He had three main areas to work on: 'strengthen the core, elevate the experience, and invest and grow'.

Schultz wanted to focus on being an environmentally friendly company through fair-traded coffee, his C.A.F.E. practices, and recycled materials used throughout the store. He also had to focus on giving back to the community whether it was through youth programmes, charities, etc. Starbucks has changed its strategic vision five times throughout its life span. At first it was just a premium coffee bean shop selling beans and coffee equipment. Then Schultz came along attempting to make it into a unique Italian coffee shop. Along the way they wanted to great the 'third place' experience and expand throughout the United States. As the years progressed they expanded internationally and into more retail stores with Frappuccino's, ice cream, coffees, etc. They also entered into relationships selling their products to Hotels, Airlines, and Universities to name a few.

Starbucks has always kept one major thing in mind. They strive to keep their employees happy, well trained, and make Starbucks a great place to work. While doing that Schultz and his team came up with a plan. They would offer health care insurance that would pay up to 75% of it. Also, they would allow all employees (full time or part time to reap the benefits of the stock in Starbucks). Everyone was now looked at as 'partners'. Yet, as the strategic vision evolved the company branched out further by going international (in more than 50 countries) as well as expanding into retail. They created licensing contracts with Pepsi Co., Unilever, and Kraft foods to properly market and promote their brand in grocery stores, hotels, restaurants, offices, universities, and health care institutions.

Starbucks is having focused on differentiating strategy. It is focusing on a market niche, the coffee lover, who wants to experience a unique and special experience when they walk in. Starbucks has made it their priority to make sure that even the Coffee Aroma is the key feature in the store. They have even removed the breakfast sandwich because its smell was overpowering the coffee aroma. Although Starbucks has coffee Espresso and Lattes, it also offers Tazo teas, pastries, music, and coffee equipment. It can provide a product for all tastes yet it is a focused differentiating strategy because it has a focused niche. It could be compared to its 'competition', McDonald's or Dunkin' Doughnuts, but the quality and premium service experienced wouldn't be the same. That is why Starbucks has a competitive advantage over its competitors.

As stated before Schultz and Starbucks' team has set a rigorous training programme for all of its employees. All of the employees have to go through 24 hours' worth of training within their first two to four weeks on the job. They have 'classes on coffee history, drink preparation, coffee knowledge, customer service, retail skills ... and a four-hour workshop called “Brewing the Perfect Cup”’. Their main goal is to provide the perfect cup of coffee to ensure customer satisfaction each and every time they enter a Starbucks store. Having a happy employee and work environment guarantees a happy customer. And if the customer is not happy with their product, the employee will offer them a free compensated drink on the house to ensure their loyalty to the brand.

Starbucks values its coffee, partners, customers, stores, neighbourhood, and shareholders. It is all stated in the mission statement provided. They value a premium coffee bean with superior quality. As well, they want to provide a consistent experience whether you walk in the door in Memphis or Seattle. They value a place outside of work and home that provides a haven and a place for them to let loose. Starbucks values the community and its neighbours and strives to help those in need.

Starbucks’ Six Principles

1. Provide a great work environment and treat each others with respect and dignity.
2. Embrace diversity as an essential component in the way they do business.
3. Apply the highest standards of excellence to the purchasing, roasting, and fresh delivery of their coffee.
4. Develop enthusiastically satisfied customers all of the time.
5. Contribute positively to their communities and their environment.
6. Recognize that profitability is essential to their future success.

CSR Strategy

Starbucks’ social responsibility strategy is something to be looked up to. Through organizations like the Fair Trade Certified Coffee that works to provide farmers with adequate prices so that they can provide for their families, afford health care, education, and live comfortably. Not only did they start this initiative in 2000, but they continued to make their coffee purchases more and more fair trade certified. For example, Starbucks went from 10 million pounds purchased in 2005 to 39 million pounds sold in 2009. They also have their own guidelines called C.A.F.E. (coffee and farmer equity). It helps farmers grow coffees in a safe way to be environmentally friendly and provides safe working conditions and well as ensures product quality. Without going into too much detail Starbucks thrives to reduce its environmental footprint in every way possible. They use recycled products throughout their stores nationwide. They promote personal mugs to be brought in to reduce waste and customers benefit from it because they get 10 cents off their purchase. As well coffee grounds are 'packaged and given to their customers, parks and schools … as soil amendment'. In one of their roasting plants in South Carolina they became LEED (Leadership in Energy and Environmental Design) Certified. The building used wind-powered light and water fixtures. And during construction, over 75% of the leftover materials were recycled. This company's certification caused Starbucks to 'achieve LEED certification for all company-operated facilities by the end of 2010'. These are just some of the many things Starbucks does to help the community and their environment. This isn't just a front, it is a true and honest value that Schultz and his team takes pride in.

Starbucks' performance throughout 2005–2009 was perfectly normal. The down slope that occurred in 2008 and 2009 is only natural due to economic times. If peoples' pockets are in a crunch, not many people are going to go to spend that extra buck on the premium coffee experience. Therefore, their profits will decrease causing much needed improvements to occur.

Marketing Strategy

Schultz's gave transformation agenda for 2009–2010. After his return as CEO he wanted to retransform the company into something greater than what it was. As stated earlier he had three themes: 'Strengthen the core, elevate the experience, and invest and grow'. Some of the things he changed were to slow down new store openings, close underperforming stores in the US, closing stores in Australia, and only focusing on their three key cities (Brisbane, Melbourne, and Sydney), make all the stores environmentally friendly as well as designing all the stores based around their surrounding neighbourhood. Schultz decided to take out the breakfast sandwich because it interfered with the coffee aroma. He also introduced healthier food and drink options that tried to cut back on artificial flavouring dyes, and high fructose corn syrup. He has done a numerous amount of other things for the company since his return to CEO, Schultz has created a more dynamic, strong, and giving company that he couldn't have imagined without his time off. Schultz has done a tremendous job because he has brought his employees' happiness, and in return his customers are satisfied.

Starbucks chose an **unconventional marketing strategy** that may be unique and seldom-tried, that will almost perfectly match the concept that the company wants to portray.

1. **Perfect cup of coffee**—Emphasis on product quality. Their coffee, even though priced slightly more expensive than expected, is notorious for satisfying customers with its rich, delicious taste, and aroma.
2. **Third place**—Creating this unique and relaxing 'experience' and 'atmosphere' for people to go to between home and work has been very important for the company as they realized that this is one of the strongest concepts attached to the company, to which customers have been strongly attracted.
3. **Customer satisfaction**—From the entrance to the store to the very last drop of their coffees, it is a must that customers feel the uniqueness of enjoying their Starbucks coffee experience.
4. **Creating a Starbucks community**—The Starbucks marketing strategy has even expanded to create a community around their brand. On their website, individuals are encouraged to express their experiences with Starbucks history, and the company strives to 'personally' join in the discussions.
5. **Smart partnerships**—Starbucks Coffee Company has been known to create strategic partnerships that demonstrate the fact that another way to grow your business is to partner smart.

Expansion of more Starbucks stores throughout the world will be beneficial to the company's growth. The continuance of employee training and customer satisfaction is key. It is imperative for Starbucks to create a consistent product at home and across seas. But, allowing room to tweak their product to offer a taste that certain cultures would appreciate, packaging sizes adequate for their pantry, or equipment capable of fitting into their home.

After more than three decades as Starbucks chairman and CEO, Howard has redefined the role and responsibility of a for-profit, public company, proving that a business can exceed expectations by sharing success with its people and the communities it serves.

Chairman since 2000, Howard resumed the role of president and chief executive officer in January 2008, with a renewed focus on Starbucks coffee heritage, innovation, and enhanced customer experience. Today as always, Howard remains true to Starbucks' mission 'To inspire and nurture the human spirit one person, one cup and one neighborhood at a time'.

Porter's 5 Forces Model

Porters 5 Forces and their level of threat to Starbucks. The bargaining power of suppliers is high because of the natural resources needed to create their ingredients and Starbucks believes in finding fair-trade and high-quality beans, often from other countries. These specifications limit the number of suppliers. The threat of new entrants is medium in that the coffee market is changing. The need for ambience and a place to share is losing edge to the on-the-go alternatives, and should a new entrant come along with a different business model there is room for threat. However, Starbucks is the household name. Industry competitors are on the rise because McDonalds creating the McCafe line. Peets have increased presence as well. Threat of substitutes is low, because coffee is always going to be a desired drink and pastime of choice.

Starbucks Today

- $15 billion chain coffee business
- Total net revenues increased 10% to 2.8 billion
- EPS increased 21% to $0.34
- 16,706 Starbucks stores in the world located in more than 50 countries.

Conclusions

Starbucks' success is achieved through a few factors. Outstanding quality of the coffee brewed excellent service provided at the stores. Fast growth of new stores all around the world. These factors not only have increased the sales but also the reputation among the coffee lovers. Starbucks encounters aggressive competition in all areas of its business activity. The market for each of their business segments is characterized by vigorous competition among major corporations with long-established positions and a large number of new and rapidly growing firms. Anyway, as Starbucks have a good financial capacity with good strategies; it can overcome all the competitors to shine high as the first-class coffee purveyor.

Starbucks has stated it plans to keep its global strategy of identical stores offering identical prices, with a modified menu. It is worth noting that other retailers that insisted on following standardized approaches outside the West have often not done as well as they could have. However, Starbucks also wanted to avoid direct competition with highly Starbucks has stated it plans to keep its global strategy of identical stores offering identical prices, with a modified menu. It is worth noting that other retailers that insisted on following standardized approaches outside the West have often not done as well as they could have. However, Starbucks also wanted to avoid direct competition with highly Starbucks has stated it plans to keep its global strategy of identical stores offering identical prices, with a modified menu. It is worth noting that other retailers that insisted on following standardized approaches outside the West have often not done as well The case is structured to let the students analyze and understand: (1) Reasons for Starbucks' success and its growth into the world's largest coffee chain; (2), What positive and negative impact from 2008 after the return of the former CEO and co-founder Howard Schultz.

Case Questions

1. Why do companies turn to founder CEOs long to take them out of a difficult situation?

2. Hiring Howard Schultz as CEO rather than hiring a new CEO was right decision. Justify?

3. What strategic factors account for Starbucks' success in developing brand equity?

18

Never Flip Our Cart—We Are 'Flipkart'

A Case Study on E-commerce Giant Flipkart

Learning Objectives

How to handle the challenges of e-commerce over traditional offline shoppers. To know how consumers are evaluating e-commerce sites for their purchase. To understand and estimate the consumer perception and factors affecting their decisions for choosing e-commerce sites. The main target is stronger supply chain and aggressive acquisitions. It helps to understand the joy of success and learning from failures in a very dramatically way.

Synopsis

Flipkart is not an Indian company since it is registered in Singapore and majority of its shareholders are foreigners. Because foreign companies are not allowed to do multi-brand e-retailing in India, Flipkart sells goods in India through a company called WS Retail. Other third-party sellers or companies can also sell goods through the Flipkart platform. Flipkart now employs more than 15,000 people. Flipkart allows payment methods such as cash on delivery, credit or debit card transactions, net banking, e-gift voucher, and card swipe on delivery. On 15 September 2007, Sachin Bansal and Binny Bansal (not related) started Flipkart as an online bookstore. The two had known each other since 2005 when they attended the Indian Institute of Technology Delhi (IIT-Delhi) together and were colleagues at Amazon briefly. Eleven years later, the world's largest retailer, Walmart, has agreed to

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buy a controlling stake in the company, Softbank chief executive officer Masayoshi Son said today (09 May). Flipkart's journey has been nothing short of a roller-coaster ride. The company went from record-breaking investments and an acquisition spree to failed business experiments and devaluations—only to bounce back.

Case Contents

As Sachin Bansal moulds strategy that can keep Flipkart scaling peaks at pace, he's also grappling with a conundrum that's gotten more complex. 'We are entering an interesting phase where Flipkart is not a small startup anymore,' Flipkart's executive chairman said at a recent technology conference. 'The question is how we set up an organization in such a way that it builds up itself. How do we create an environment where the next-big-thing happens?'

Flipkart needed just eight years to become India's most valuable e-commerce company. Even so, it cannot afford to let its momentum slack as younger, nimbler rivals gain speed. Which makes hiring the right people for different growth stages the most crucial of management functions. 'It's a different ballgame scaling a company from 10 to 100 to 1,000. We have made sure we have retained some values across the board but don't get hung up on old ways of doing things,' Bansal said, 'and having to do that every two years is challenging.'

This month, Flipkart overhauled its management, bumping up Sachin Bansal as chairman to focus on fundraising and strategy and cofounder Binny Bansal as chief executive responsible for daily operations. The layer below, too, saw some roles realigned. An organizational rejig of this nature is a classic example of juxtaposing suitable senior talent with a rapidly scaling organization, and, importantly, at the right phase of its lifecycle.

With a number of start-ups being heavily funded, hiring the right talent is a top priority for investors, too. Venture capital funds Sequoia Capital, Accel Partners, and Matrix Venture Partners have teams to assist.

Their portfolio companies identify the right mix of people. Experts say there is a seminal shift in terms of the kind of talent required at different stages of a start-up's growth. At the early stage, a start-up is still figuring out its business model and cracking code, which requires people with flexibility and the nimbleness to experiment and come up with solutions.

'Then you need people who have experience of having done this before,' said Ganesh Krishnan, founder of entrepreneurship platform Growth Story. Krishnan elucidates his point by citing an instance from one of his most successful ventures, Tutor Vista. After the company raised series-B funding the management decided to hire a chief operating officer. Krishnan recalls bringing in someone from an earlier venture, but it was a disaster, he remembers.

'Not because he was not good—he was a top performer used to running thousands of people. But the Tutor Vista model was not proven. Running thousands of people is different from trying to prove the model,' Krishnan said.

A year later, Tutor Vista hired five people from top B-Schools but with little experience to work directly under the founding team. 'That worked beautifully for us,' Krishnan said. The online tutorial company was later sold to Pearson Education Services in 2013 for $213 million.

'If a startup gets people from multinationals too early in its lifecycle there is the danger of a misfit. They are used to certain ways of thinking and are used to some size to grow business further,' said Krishnan, who consciously avoids bringing in people who have had a standardized ladder of growth.

For Paytm founder Vijay Shekhar Sharma, the key parameter to discovering the right talent is based on the person's ability to take hard decisions with fewer amounts of data and time. 'Big companies have the luxury of time and data, which small firms don't.'

For leadership roles, Sharma said, a start-up should focus on hiring people with horizontal skill-sets rather than mere vertical specializations. 'The role of a person will change over time, especially in the early days. CXO-level hiring should always be done slowly and with caution,' he said. Relevance is key. Paytm has beefed up its top management in recent months with several key hires, including Vikas Purohit from Amazon India, Abhishek Rajan from Myntra, and Varun Khullar from medical devices firm Boston Scientific.

Gita Dang, founder-director of Talent Advisory Services, said she often finds a disconnect between what companies want and what they need when scouting for senior leaders.

The second disconnect is what the venture capitalist, who has funded them, thinks they need 'The VC will look for somebody who can come in at a different level–and they are looking two levels beyond. Founders don't necessarily get that.' Hector Beverages CEO Neeraj Kakkar believes every entrepreneur.

Scouting for a senior executive must answer this critical question: 'Do I hire for current business capacity or next year or for three years down the line?'

Entrepreneurs say infusing the right culture is as important to retain senior hires. In 2012, In Mobi was in trouble despite growing from 200 to 1,000 people and forecasting a fivefold growth in business, recalls founder Naveen Tewari. That year, no products were launched and growth decelerated. Tewari figured something was fundamentally wrong. Even after hiring the best talent, the culture wasn't built for product development and innovation.

'No harm thinking about (hiring) a superstar but you must know when to bring him in,' Dang said, believing that the right time for this would be between series B and C stages of funding. 'Else, you won't be able to keep them busy.'

Conclusions

Every time they require updating their Internal Structure Systems and Innovative Management System with sound database to provide end-to-end connectivity across all the different processes to reach out to its suppliers, partners, and customers effectively. Competition is getting tougher and they need to prepare themselves to fight with the regional players as well. To regain the lost grounds, Flipkart should immediately diversify innovatively in other fields and services. They need to come up with an innovative way of promotion to beat the competitors and gain the share.

Case Questions

1. Why Walmart invested in Flipkart?

2. How do you minimize the number of returns customers make?

3. What are your suggestions to handle the challenges of e-commerce over traditional offline shoppers?

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Lenovo India

The Strategic Distribution and Positioning Challenges: A Case Study on Marketing Strategy

Learning Objectives

To study different marketing strategies adopted by Lenovo India To elaborate new challenges adopted by Lenovo India. To focus on how Lenovo reaches customers through their distribution network. To study success and failures faced by Lenovo India.

Synopsis

Lenovo is one of the world's leading personal technology companies, producing innovative PCs and mobile internet devices. Lenovo is the world's largest PC vendor and fourth largest smartphone company. Lenovo has grown faster than the market for more than four years because of its exceptionally engineered products are meant for those who do and its effective marketing strategy. Lenovo makes the products that customers need, whether smart connected or infrastructure devices. This case study focuses on the important marketing strategies like segmentation, targeting, positioning (STP) of Lenovo which makes them perfect. Case study will also help to understand the new challenges, paths of failures and success for Lenovo.

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What Is Lenovo up to in India? New Challenge

Lenovo India wants to protect its leadership in PCs, and attack for gains in its new mobile and tablet businesses. Questions like: Can it succeed where Acer and Dell have failed and Why Lenovo is looking to protect, and attack?

'We want to win in India—that's the biggest initiative this year,' says Yang Yuanqing, 47, chairman and CEO of the $30 billion Lenovo Group. For the global chief of the world's second-largest computer maker, this means selling one million smartphones and 300,000 tablets this year in India, where it has just started selling these two categories of gadgets.

Amar Babu, the 48-year-old managing director of Lenovo India, has his task cut out. He toes his boss' global strategy for India. 'It will protect and attack,' he says. Protect its numerous uno position in PCs, and go all out to build the smartphone and tablet businesses from scratch. IDC, a technology research firm, expects sales of smartphone and tablet in India to grow at a compounded annualized 57% and 29.1%, respectively, over the next five years.

By comparison, growth in PCs is expected to stay flat at 0.7%. 'The PC market is marred by challenges owing to continued market contraction and shift in demand to portable devices like smart phones and tablets,' says Kiran Kumar, research manager, client devices, IDC India. Still, a challenge goes, this transition for a computer company is not just about riding piggyback on segment growth.

Two of Lenovo's illustrious peers, Dell and Acer, failed to cross over. And notable electronics majors like Sony Ericsson and LG hit a wall after recording initial gains, such as the overcrowding there are about 30 smartphone makers and price sensitivity characterizing these businesses. For Lenovo, there are challenges unique to it as well. The Chinese company made its mark in India by selling PCs to large companies via bulk orders. For example, in 2012, a single order from the government of Tamil Nadu was for one million laptops, made it the market leader. But smartphones and tablets are sold mostly to individual consumers making it an entirely different proposition.

'PCs and laptops are a 50–60 city market. For smart phones, it's 400–500 cities and villages,' says Arvind Subramaniam, partner and director, Boston Consulting Group, a management consulting firm. ‘How you set that distribution up will be the key,’ he says.

Distribution Marketing Strategy of Lenovo

Lenovo distributes most of the PCs through its five national distributors, including Ingram Micro and Redington, who also distribute Apple, Samsung, and BlackBerry. But for tablets and smartphones it is also fanning out through regional distributors, who are typically state-specific and do business worth Rs 300–1,000 crore, against Rs 10,000 crore for an Ingram. So, for example in Gujarat where it started test marketing smartphones in October 2012 it has tied up with Aegis the local distributor is Supreme Computers in Tamil Nadu and Peripheral Solutions in the NCR.

‘To reach out to small towns and the hinterland, we have tied up with 40 regional distributors,’ says Babu. Lenovo started engaging with regional distributors about two years ago when it tied up with about 20 of them. Once it decided to sell smartphones and tablets, it struck more regional tie-ups which is its sales model in China as well. ‘We want our regional distributors to be exclusive to us,’ says Babu. ‘We will, in turn, ensure they have exclusive rights to distribute Lenovo products in their catchment area.’ ‘Lenovo is a new entrant and is yet to make a mark,’ says Simpy Singh, owner of KL Sons, a distributor in Haryana servicing Ambala, Karnal and Kurukshetra.

Samsung throws carrots: you meet targets and get freebies, holidays, bonuses whereas Motorola, Sony Ericsson, and Videocon failed as their retailer engagement was not great. The Dell sales team was too overqualified and could not speak our language.

According to Babu, Lenovo has about 6,000 retailers for tablets and smartphones. But this is not enough to cover the country, he adds. We have to ramp up to at least 25,000 and this should happen soon. It is also looking to increase its franchise outlets from 1,200 to 2,000 over the next year. In February, Lenovo also tied up with Reliance Communications to sell its smartphones. It’s a dual SIM phone, which offers both GSM and CDMA on a single device, says Babu. However, unlike Western markets the Indian market is not carrier-driven and people buy phones independent of the carrier. 'India is a tough market to win in,' says Subramaniam of BCG.

Market Positioning Strategy of Lenovo

The Indian market is also underpenetrated in smartphones. Only about 10% of the 700 million users use smartphones. According to Arvind Vohra, director of Gionee revealed that around 1.5 billion $ Chinese makers of mobile phones entered India last week where 10% penetration is the take-off point for smartphones.

We have seen this in China and other markets, he says. 'India is set for hockey-stick growth in these devices now.' Babu's reading is similar. 'The smart phone market in China was 10% of the entire phone market about 18–24 months ago and today it's 75%. There's enough evidence India will also see such an explosion. We will be able to leverage that scale in China (where it is number two, behind Samsung) to offer a comprehensive product portfolio in India.'

Statistics of Lenovo Market in India

In India, where 70% of phones are below Rs 2,000, Lenovo is offering five smartphones, ranging from Rs 6,500 to Rs 28,000, against a 40-strong product suite in China. In tablets, it is from Rs 14,000–30,000; in other words, its entry-level price is about twice that of those of HCL and Micromax. 'We don't want to just be in the premium or mainstream segments, but in the entry-level segment as well,' says Babu.

'As volumes increase, we will look at lower price points.' A Rajasthan-based regional distributor, who didn't want to be named, feels Lenovo will have to lower prices to succeed.

Lenovo India's current strategy is to deliver good value for money. 'We want to deliver the right mix of features, performance and price,' says Babu. He gives the example of the Lenovo P700 smartphone, which retails at Rs 12,000 and is targeted at professionals. 'The P700 battery gives a one-week standby,' he says. 'We differentiate on battery life, touch-screen, display, sound quality.'

Successes and Failures Faced by Lenovo

Acer, the Taiwanese company that is globally ranked fourth in PC sales, went down this road in India, only to pull out within a year; it is open to a re-entry. 'You need lot of upfront investment in smart phones,' says S Rajendran, chief marketing officer, Acer India.

India is not a carrier driven market and hence your costs are high. You need a big ad and marketing budget to build the market, and overheads can go out of control when selling in villages and small towns where the market might be smaller than you expected. 'TC Sudhir of United Telecoms, which distributes in six states, says some global vendors had a high price premium. But devices would hang and users dumped them. If the product is bad, you can't push it,' says Sudhir, chief operating officer, mobile devices, United Telecoms. Besides, computer makers don't have a good understanding of the buyer as their DNA is largely enterprise sales. That's why some of them exited a growing market. According to Anil Sharma, managing director of UT Electronics, a Chandigarh-based distributor for northern regions, India is not a single market like Singapore or Dubai, but multiple markets. In Andhra Pradesh, users don't want a Hindi keypad. In UP, they are fine with it, he says. Products for each state need to meet local user needs. Typically, 10–12% of the cost of device is the cost of selling. Companies need to keep this low. Vohra of Gionee points out that Samsung spend more than four times of Apple on advertising and marketing $11 billion in 2012 to emerge as number one globally that year. Companies need to create that visibility to capture the market, but this cash burn can be counterproductive if other things—technology, pricing, and distribution are not right. Lenovo is nudging at the high end, going up against the likes of Apple and Samsung. It is also part of the conversation to buy BlackBerry, the troubled Canadian smartphone maker, with Yuanqing saying Lenovo could consider it. BlackBerry is no longer where it was five years ago. Apple and Samsung have stolen its thunder. It's trying to do lot of things to revive its fortunes, but it's too little, too late, says Sanjay Dhawan, leader, technology, PricewaterhouseCoopers. But for its brand and presence in emerging markets, it will be a good target. Interestingly, in India, Lenovo's brand ambassador for laptops is actor Ranbir Kapoor, who also endorses BlackBerry. 'He has done really well for us in PCs,' says Babu. 'Since he is with BlackBerry, we will not have him for phones. Actually, it's early days to sign up a brand ambassador for smart phones and tablets we need a certain scale to justify that investment.'

Outcome

Lenovo's long-term development is inseparable from a unified and correct guiding ideology. Lenovo will be able to establish a sound management system in order to guide the company to be stable, healthy, and rapid development. From the strategic marketing theory and applied research, we can see that the marketing strategy of the Lenovo competition is not watching competitors, and only targeting to market shares, but the Lenovo must choose the correct target markets and market positioning, This position must be conducive to the long-term competitive edge in the market building, and the development of marketing strategies must support the market, help enterprises in voluminous and complex competition in the market environment find a way out for the development of enterprises. Obviously, the strategic marketing is the only way for facing the new changes in the market economy and Lenovo does those its marketing strategy and operations are market-orientated.

Conclusions

Lenovo is one of the world's largest makers of personal computers. Formed by Lenovo Group's acquisition of the former IBM Personal Computing Division, the company develops, manufactures and markets reliable, high-quality, secure, and easy-to-use technology products and services worldwide. Their mission is to provide businesses and consumers with smarter ways to be productive and competitive and to enhance their personal lives. Operating in more than 60 countries, Lenovo is dedicated to serving the needs of the customers, partners, investors, employees, and local communities with a business model that is based on: Innovation, Operational efficiency, Customer satisfaction, Sustainability. So, we really believe that Lenovo India got a beautiful future.

Case Questions

1. Do you think the strategy adopted by Lenovo will see them achieving set targets over dominant rivals like Samsung and others?

2. When the selling costs dominate your overhead expenses and India being predominantly a rural and semirural market segments, with inroads already made by the market leaders, how would Lenovo strike a balance between costs and price sensitivities simultaneously?

3. In comparison of Chinese market how will Indian market deal with the sale of large number of smartphones?

4. Will the marketers in India could penetrate the customers effectively? If yes then how?

20

Voltas AC Puts LG ACs on 'Heat'

A Case Study in Sustaining Competitive Advantage

Learning Objectives

To understand the business strategies in the Indian consumer durables, 'white goods' markets. To understand localized businesses and their 'customization' in the Indian market. To be able to apply BCG matrix to the companies in this case study. To analyse Indian market conditions for business strategy. To be able to build a product portfolio for the companies in this case study. To evaluate and differentiate between the business strategies of similar consumer durables—'white goods' businesses.

Synopsis

It was in 2006 when Voltas launched its new brand positioning with a tag 'Indian ka dil, India ka AC'. Though it might have won 'India ka dil' a long time back, it took the homegrown brand a decade to become 'India ka AC'. According to market sources, Voltas ended FY'17 with a 19.5% market share. Its bugbear—South Korean biggie LG—logged in 18.4%, forcing it to cede the coveted crown to its Indian rival.

Voltas continued to maintain its lead in the first two months of the first quarter of this fiscal. Pradeep Bakshi, president of Voltas, would, however, like to set the record straight. 'Voltas has been the clear leader in the room AC business since the last five years,' he says. What has helped the brand gain leadership, he lets on are a well-differentiated product

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portfolio, positioning based on sharp consumer insight, highest distribution reach and brand equity, and a customized approach for the Indian market.

Introduction

The imagery of 'trust' being part of the Tata group, the 'all-weather' and 'energy efficient' brand positioning all had a role in reinforcing dominance. 'The brand is seen as the expert in the space of comfort and cooling,' he says. It has been a remarkable comeback, reckon marketing experts. Voltas had ceded ground to Korean rivals, starting in the late 90s and the early part of last decade. 'It's a tenacious brand and the latest numbers only reinforce the belief that Indian brands can beat the global biggies,' says Ashita Aggarwal, head of marketing at SP Jain Institute of Management and Research. In 2012, when Voltas introduced its all-weather AC backed by a character called 'Mr Murthy' in its TV commercials, it took a huge leap in terms of connecting with consumers. While other brands were shouting themselves hoarse about features, Voltas had Murthy talking to people.

Aggarwal observes the campaign for Voltas not only helped in simplifying the jargon, it also prodded people to use ACs all year round. What also worked was sticking to a wide portfolio. 'It's a marketing disaster to put all your eggs in one basket,' says Aggarwal. LG, she points out, lost out on this count. The Korean major, for its part, is sticking to its inverter AC gambit. LG, claims its AC business head managed to transition from regular ACs to 100% inverter ACs range and leads the split AC market in India. 'LG is far ahead of the competition with 47% share in May in split AC inverter segment,' asserts Vijay Babu, business head of ACs at LG Electronics India. Babu though, concedes that the industry share of inverter technology within split air conditioners has increased from 12% in 2016 to 31% in 2017.

This means losing out on 70% market, which is non-inverter! From a high of 16.2% share in FY16, LG slipped to 10.5% in multi-brand outlets in May this year. Babu, however, is not pressing the panic button. Next year, the inverter AC market is expected to grow further and LG will continue to maintain product leadership, he says.

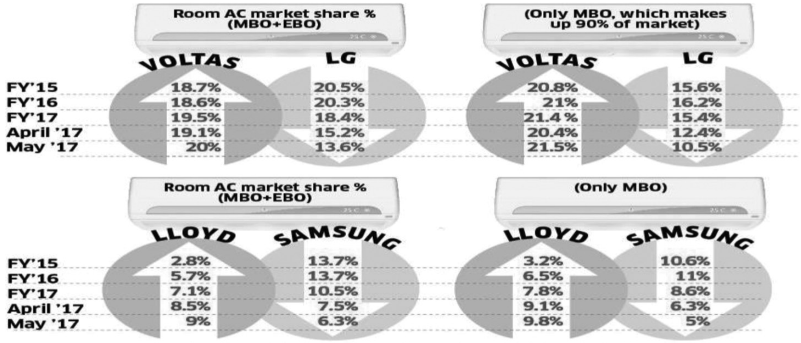
Outwitting the Korean Brand

The fixation of the Korean MNCs with inverter ACs baffles experts. In spite of the dominance of smartphones, feature phones still make up over half the market. 'And they are not dying,' says Aggarwal. If one seeks to win market share in a country like India, then one has to be present across the categories so that a wider set of users can be catered to. Indians, she avers, have scored over the MNC rivals in understanding the needs of the local market and users. For the time being, 'smarter' Murthy has outsmarted the Korean giant.

The Figure 20.1 above indicates the steady rise of the AC market share of Voltas as well as Lloyd vis-à-vis Samsung in 2017.

Lloyd Batters Samsung

When in February this year, lighting and electrical appliances major, Havells, announced its move to buy the consumer durables business of Lloyd Electrical and Engineering for a staggering tag of Rs 1,600 crores, it surprised many. Experts deemed it a 'costly' buy. Havells Chairman and Managing Director, Anil Rai Gupta however, stuck to one of the basic tenets of marketing: value is always bigger than price. Cut to July. In less than 50 days since the acquisition got completed in May, Lloyd has done a business of close to Rs 300 crores. Gupta stands vindicated. 'It is a good



Source: GfK; Motilal Oswal; EBO is exclusive brand outlets and MBO is multi-brand outlets

Figure 20.1 Market share of Voltas, Samsung, and Lloyd

and satisfying start,' he says. 'I always see a value.' The real value, however, can be gauged from the fact that the little-known Indian brand, which has always been under the radar and recently roped in Amitabh Bachchan as its brand ambassador, has trampled South Korean biggie Samsung in the AC segment.

From a meagre 2.8% market share in the financial year 2015, Lloyd closed the last financial year with 7.1%. The rapid growth continued in the first two months of this fiscal: 8.5% in April and 9% in May. The numbers, when contrasted with Samsung, presents a stark picture. When Lloyd was crawling at 2.8% in FY'15, Samsung was lording with 13.7% market share. It closed FY17 with a lower share of 10.5%, but still ahead of its unlikely rival (refer to Figure 20.1 above). However, in April and May this year, it dipped to 7.5% and 6.3%, respectively. It would be tough, reckon marketing experts, for the South Korean consumer durable player to stage a comeback. 'Oops, that's a big loss,' says brand strategist Harish Bijoor. In the category of air conditioners, just as in the case of any other consumer durables, it means a loss of home or office for the next six years minimum. 'AC has a habit of blocking repeat buys. To that extent, this loss is a heavy one,' he says. Bijoor contends that the alarming dip in market share might be due to a combination of an act of omission or commission by Samsung and its hungry rivals.

Samsung's 'Bane'—the Inverter AC

At times, MNC brands tend to get lulled into imagining their brand value will pull them through, but that seldom happens in the close-to-commodity category such as AC. The Indian players, Voltas and Lloyds, lead on performance, says Bijoor. A hard-working Indian product may be close to a commodity, but at the same time is offering the ability to tame the Indian summer altogether. Apart from aggressive rivals, what also hit Samsung were two strategic blunders, say experts. First, Samsung exited the window AC market way back in 2012, citing de-growth in the segment. Windows, at present, is still over 12% of the Indian room AC market. Secondly, the South Korean player has been focusing more on inverter ACs over the last year or so. This move, point out experts, has also turned out to be counter-productive. In its research report in April this year, Motilal Oswal puts the share of inverter ACs at 30% of the entire AC market. By 2020, inverter ACs is likely to account for 50% of volume, the report predicts.

Samsung, however, asserts it got its calculation right. 'The non-inverter segment is de-growing,' says Rishi Suri, director of Consumer Electronics at Samsung India. Inverter AC, he adds, is the need of the hour and this is what the consumers are looking for. 'We have the highest market share in inverter segment,' claims Suri, declining to share numbers. Samsung, he points out, wanted to come up with a product which is more meaningful for consumers, apt for the Indian market and is more energy efficient. For the time being however, Suri's bet on inverter ACs is not supported by the rapidly sliding market share. Gupta of Havells too has been betting on inverter ACs, but not at the cost of ignoring other segments. 'If consumers want other options, why not offer them?' he asks, adding that one should not drive the market to change fast. For now, Gupta should be elated with the strategy of the MNCs to focus only on inverters as it helps Lloyd remain 'cooling ka baap'.

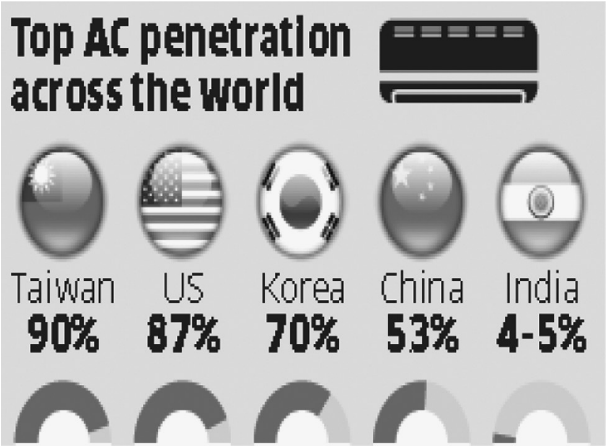


Figure 20.2 AC usage across countries

Growth Prospects

Despite GST-led reduction in inventory by trade, analysts see good growth in revenue in FY18. Voltas' revenues for the quarter ended June 2017 (Q1) were broadly in line with the street's expectations despite the goods and services tax (GST)-led reduction in inventory by trade partners. The company's profitability bettered than expectations, surprising investors. Given the return to normalcy in the air-conditioning segment, improvement in orders in projects, and expansion in margins, analysts believe the company will perform well, leading to its stock price rising.

Unitary cooling products, which is primarily the air-conditioner (A/C) segment and contributes two-thirds of the company's revenues, grew by a little over 1% on a year-on-year basis despite the destocking of inventory due to the GST. The company also highlighted that Q1 growth was restricted owing to unseasonal rain in southern India, apart from uncertainties surrounding the GST. What's more, Voltas has further strengthened its market leadership in the room air-conditioner market (at multi-brand outlets) with an increased share of 22.2% as at the end of June 2017 compared to 21.4% at the end of March 2017. The Electro-Mechanical Projects (MEP) and Services, i.e., the engineering segment, which gives almost a third of its revenues, growing 14% year-on-year, did compensate for the slower growth in the cooling products segment. More importantly, it impressed on the profitability front with sharp improvements in earnings before interest and tax (EBIT) margins at 5.3% compared to 1.9% year-on-year. The management said it had been focusing on profitability in this segment. Among key orders booked in Q1 include ~Rs 490 crores for electrical projects in India, ~Rs 359 crores MEP work for a commercial building in the United Arab Emirates, and ~Rs 137 crores MEP work for a museum in Oman.

The overall order book of the segment thus was up 11% year-on-year at ~Rs 4,906 crores as of 30 June 2017. Analysts say that given the lumpy nature of this business and as low margin legacy orders have been gradually executed, the next 12–18 months will see the improving profitability trend continue. With this, Voltas' revenues at ~Rs 1,962 crores grew 6.35% year-on-year, and were largely in line with the Bloomberg consensus estimate of ~Rs 1,983 crores. Net profit was at ~Rs 188 crores, however, it beat the consensus estimates of ~Rs 167 crores. Earnings before interest, tax, depreciation, and amortization (Ebitda) at ~Rs 210 crore also came higher than the ~Rs 206 crore indicated by consensus estimates. Analysts at Motilal Oswal Securities said that the EBITDA margin of 10.9% was slightly higher than their estimate of 10.5%.

Outcome

While GST hiccups may have restricted A/C segment revenues, analysts see sales normalizing. Analysts at Jefferies, after their channel checks in July, said that normalcy had returned and dealer orders from companies had picked up for new stocks while price change is in the 0–1% band to reflect the GST impact across product ranges. Though the second quarter is the lean season for the A/C business, orders have begun with double-digit growth year-on-year, say analysts. Analysts at Antique Stock Broking had earlier said that GST implementation will impact revenues in the near term, but should normalize on a full-year basis and they see 25% compound annual growth in earnings during FY17–19. For the A/C segment, analysts expect the company to be one of the key beneficiaries of LG exiting the fixed-speed room A/C segment, and healthy demand continuing driving growth particularly from the North. Further, analysts at Edelweiss see the government's recent directive to prioritize domestic procurement in metro projects will benefit companies such as Voltas for system contracts.

Conclusions

Tatas is a strong group, Voltas, one of its verticals, has performed as a star in its product mix. Initially, in 2015, it was lagging behind the Korean brand Samsung, however, with a business strategy matching the Indian market, it edged ahead and settled for a 6.4% market share above Samsung by May 2017 (Figure 20.1). In the same time period, Lloyd, a Havells acquisition, with Amitabh Bachchan as its brand ambassador, also moved forward leaving Samsung behind showing the knowledge and affinity of Indian businesses to local markets and their trends, leading to their success. This case study proves this in the Indian AC market.

Case Questions

1. Only around 2004–2005 Voltas had become almost a 'pain in the neck' for the holding company Tata Sons with soaring losses and product and market failures. In fact the company had to sell its iconic assets in prime locations in Mumbai and other cities in India to keep its head above water.

   What business strategies really helped Voltas to pose a threat to giants such as LG and Samsung?

2. Is it advisable for the House of Tatas to invest in group companies like Voltas who shine like sunshine in rainy season once in a while their contribution to corporate exchequers is minuscule and while Tatas have many other major businesses like the Auto and Steel sectors to focus for survival?

3. There is perhaps an incumbency factor in the brand name Voltas which many have only historical value but not as a saleable brand today. Should Tatas think of an Indian name for Voltas with a separate long term product diversification plan?