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Entrepreneurship Development

Indian Cases on Change Agents

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Editor
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for
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To

the

Academic Community

Interested in Entrepreneurship

Preface

We are experiencing a paradigm shift with tremendous interest and excitement growing among youngsters to pursue entrepreneurial careers. The IT boom that began in the 1990s helped break the myth that entrepreneurship is reserved for people with a certain social background. The ninetees also witnessed the emergence of a large number of entrepreneurs who had fire in their bellies and dream in their eyes to start their own ventures and be employers rather than be employees. They had ideas and, in several cases, relevant experience, but very little capital to fund. They had determination to prove themselves and create wealth. It became a wave, and is shaping up like a tsunami that will wash the shores off several myths about entrepreneurship. A recent study conducted by me has shown that Indian entrepreneurial firms, distinct from family businesses, have already emerged as a force to reckon within the top 100 companies in India. They have set benchmarks for productivity, governance and growth strategies.

Naturally, there is a growing demand for entrepreneurship education. It ranges from curiosity to understand what it is to serious enquiries for specific assistance such as for funding. This is an excellent trend. We should not expect young graduates to start their ventures soon after graduation. While a small percentage ventures out soon if the environment is conducive and their preparedness is high, most others would wait for the opportune time to come in the subsequent years. This is the trend noticed across the world, including in the US whose business and engineering schools are considered the Meccas of entrepreneurship.

The role of educational institutions in building an entrepreneurial society is crucial given that the new crop of entrepreneurs has to come from them, immediately after graduation or later. Educational institutions have to prepare the seedbed of entrepreneurship and sow some seeds that would germinate over the years. They should not be worried about the number of ventures students start soon after graduation. This is particularly so in India and other developing countries where most students do not come to schools with prior experience. Hence, the educators' responsibility is to guide, not misguide.

Are we ready to play this crucial role? Unfortunately, the answer is a big no from all institutions barring a few top notch institutions that have built up necessary capabilities over the years. While most educators know broadly what entrepreneurship education is, they do not know what-to and how-to of it. There are others who do not know or have access to teaching materials.

A common challenge that is faced by all such educators is the limited availability of materials to teach from. Since case method is found to be a superior method to build entrepreneurial and managerial capabilities, there is a dire need for a pool of good quality cases. Students appreciate cases that are drawn from the environment which they are familiar with. There are not many cases available, particularly in one collection.

This is a small contribution to fill this void.

This collection of cases reflects instances of such agents of change; what a variety of entrepreneurs have done both on economic and social fronts in different parts of India. All cases discuss the start-up phase, how they spotted the opportunity and the challenges they faced in building their ventures. Some cases, such as "Switz Foods, Calcutta", "What's in Store—case study of Subhiksha" and "From Stabilizer to Theme Park" cover their growth experiences too. While cases such as "Mahesh Edible Oils" are based on traditional manufacturing, there are new-age firms such as "Fact Tree Global Solutions" on the new economy end. "Future Kids" is a case at the school level and "WIMI Long Duration Executive Education" at the higher educational level. The cases on social entrepreneurship are particularly relevant now with the growing interest in such ventures among academics and students. We have included some of the best such ventures here. "The Banyan", "Parivaar" and "Navnirmiti" are all excellent social ventures started in recent years, out of passion of those involved.

The Society of Entrepreneurship Educators (SEE), the social network of, for and by academics interested in entrepreneurship has selected these case studies through a national-level competition. The final 16 cases published in this volume were selected from a pool of 40 and have been revised repeatedly by experts with skills in writing management cases before finalization. These cases have been edited not only to ensure accuracy of language, but also to make them appropriate for class room discussions.

The cases in this volume provide variety in many ways. We believe that it will be a rich source book for any academic "teaching" entrepreneurship. Since we have retained the classical nature of a "case" that keeps most of the analyses out of the text, each case is a rich base for class room discussion that can develop insight into the content and process of entrepreneurship.

K. Ramachandran

Acknowledgements

We acknowledge with deep respect all the authors for their contribution and sustained interest in entrepreneurship. Professor S. Srinivasa Rao, one of the pioneers of case writing and teaching at the Indian Institute of Management, Ahmedabad, worked with me in revising the cases. SEE is most grateful to him for his commitment to the cause of case method and efforts to make this an excellent collection. I would like to express my deep sense of appreciation to my colleagues from across the country who have directly and indirectly supported this venture.

Finally, I take responsibility for all the omissions and shortcomings of this volume.

K. Ramachandran

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Essence of Entrepreneurship and Case Method

Karsanbhai Patel came from nowhere to create 'Nirma' detergent powder about three decades ago. He showed Hindustan Lever and others that an unsatisfied group of people lived below their radar who wanted cheaper but effective washing powder. Nirma went on to become a legendary success story.

There are many such stories of successful people who became immortal by creating new products and services and transforming the way we live. Incidentally, they became very wealthy too.

They spotted an unmet need and offered an innovative but acceptable solution to people. In the process, they took calculated risk and convinced customers why they should buy their solutions. Money came more as a recognition of their achievement.

We have many Karsanbhais around in different industries and markets. There are others in non-commercial sectors too such as education and social service. They have the passion to innovate and win; they do not give up easily, and are prepared to work hard and face hardships. They are entrepreneurs, and these qualities reflect the essential meaning of entrepreneurship.

There is another class of entrepreneurs—people like Ram.

Ram set up a small pan shop when he realized that there was always a rush at Shyam's pan shop located near the bus stand. Ram worked hard and provided good quality service. Later, he responded to the growing demand for a kitchen items shop and then a readymade garments shop. He became rich and led a very happy life with his family.

In the case of Ram also, he spotted an entrepreneurial opportunity, took some risks and gradually grew his business. Unlike Karsanbhai who continued to grow and start other ventures, Ram was content with his three ventures and the somewhat stable income that came from them. For entrepreneurs like Ram, business is a means to survival and comfortable life.

Most business people are Rams and not Karsanbhais. Conceptually, people like Karsanbhai are called entrepreneurs, though the different shades of Rams also have several of the features of a classical entrepreneur.

Joseph Schumpeter, who is credited with defining entrepreneurship, wrote: "The entrepreneur is an individual who introduces something new in the economy". He went on to explain that 'new' could mean innovations in technology, raw material, product or market or any essential part of a business. Building on the Schumpeterian argument, we can find a variety of innovations across any link of the value chain that can be exploited commercially. People who make such minor and major innovations are entrepreneurs. Peter Drucker also described an entrepreneur as someone who gets something new done.

Several psychologists, sociologists, economists and management researchers have given us a list of behavioural attributes of an entrepreneur. The most essential among them are the following:

- Passionate about doing something new or a specific idea
- Confident about winning
- Persistent with the idea and actions to accomplish the goal
- Persuasive to win support of others
- Hard working and extracting work from others
- Adaptable to situations and flexible
- Team-oriented to build and grow fast
- Innovative to achieve better results
- Optimistic and not giving up in the face of major difficulties
- Independent thinking and not carried away by the ideas of a few others
- Ability to manage risk
- Orientation to build technical, financial and human resources
- Ability to observe and identify changing customer needs
- Relevant technical and managerial skills

The extent to which these qualities are required, and in what combination, to become a successful entrepreneur obviously varies, depending on the external environment and challenges involved in converting the idea into a commercially attractive product or service. While some are knowledge driven, the others are either skill or attitude driven. Some, such as 'observing and identifying changing customer needs' has elements of knowledge of products and services, analytical and observational skills and positive attitude towards them.

The challenge for the instructor is to build the capabilities in the students. Understanding of the policies related to small-scale enterprises is important but not one of the critical capabilities. Hence, instructors have to decide how these relevant capabilities can be best developed in students.

CAN ENTREPRENEURSHIP BE TAUGHT?

As noted above, entrepreneurship involves a combination of attitudes, skills and knowledge (ASK) and is hence difficult to teach. We can certainly facilitate the development of these capabilities. In that sense, educational institutions can provide the inputs for students to become entrepreneurs, though it may not be taught in the conventional way.

How Do We Do It?

Most entrepreneurs not only innovate but also get involved in execution. Some continue with the organizations to become their strategy and operations heads, while others quit managerial responsibilities on the way. It is useful to understand the differences in key capabilities required in an entrepreneur at different stages in the life of a business.

As shown in Exhibit 1, the entrepreneurial journey begins with developing and demonstrating an attitude towards entrepreneurship. This is when entrepreneurs start getting serious with ideas and spotting opportunities. Most entrepreneurs prepare a business plan, often as an instrument to get external funding. However, the critical role of a good business plan is in terms of helping the entrepreneur think strategically and be aware of the possible pitfalls, whether external or family funding is involved or not. In the process of preparing a business plan, students build not only analytical but also synthesizing capabilities for starting and managing an enterprise. As the project gets executed, the entrepreneur would realize that several of the assumptions made earlier have to be dynamically revisited and adjusted in the plan.

The capabilities required to manage the venture during the startup and growth stages and later are different. For instance, most entrepreneurs learn to work on multiple fronts such as operations, accounts, finance and marketing simultaneously in the startup phase. Later, they learn to recruit and delegate work to new team members. Since entrepreneurs have to keep taking decisions on an ongoing basis, developing analytical and decision-making capabilities at all stages is very important while teaching entrepreneurship.

Pedagogical options are critical for the success of a course in entrepreneurship too. Some of the typical questions we should address before freezing the pedagogy are the following:

- What capabilities should the students have at the end of the course?
- What is the current level of supply of these capabilities? How much of gap filling is required?
- How much time do we have?
- Which part of the year is this course offered?
- Which part of the week and day are the sessions likely to be offered?

➢ What are the options we have in terms of providing them? Can we use cases, lectures, projects, industrial visits, role play etc.?

➢ Which among these options are most appropriate for building each of the capabilities or their mix?

Based on such an analysis, we can decide the most appropriate pedagogy for the course. For instance, case method is a versatile tool to build entrepreneurial capabilities.

RELEVANCE OF THE CASE METHOD

Cases are descriptions of summarized real-life situations that provide opportunities for discussion and capability-building in students. They capture one or more decision-making contexts with adequate information for analysis of alternative solutions. There are two types of cases:

(1) Problem cases: As the name suggests, these cases have one or more major and minor decision-making dilemmas. They provide opportunities for building analytical and decision-making capabilities. Most of them help develop conceptual discussions in the class.

(2) Case histories: These are descriptions of what happened, but closing without a decision-making dilemma. They capture a number of interesting events that happened, providing opportunities for analysis. They also provide a number of learnings that can be the basis for developing conceptual discussions in the class.

Most practitioner-oriented disciplines have adopted case method as the most appropriate learning pedagogy. Management discipline started using it after observing the experiences of medicine, law and engineering. Entrepreneurship, forming part of the management family, naturally found case method to be one of the most appropriate tools to build relevant capabilities in students. The basic logic for this emanates from the fact that where decisions have to be taken based on partial information, analytical ability and judgement are crucial. Here the role of the teacher is to help students find answers to minor and major problems. The experience of case analysis enables students gain confidence in their own judgements. It automatically builds listening skills, speaking skills, team skills besides, of course problem-solving and decision-making skills, through application of a variety of tools, techniques and intuition. In that sense, a case discussion elevates the class close to a real-world situation.

Cases are not an end in themselves. They are only vehicles that can be used to reach an end. Hence, teachers have to be careful about the purpose of a session before choosing not only the pedagogy (e.g., case, lecture or something else), but also the nature of a case, if that is the chosen pedagogy. This is because each case has one or a few central themes. For instance, the cases in this volume varies a lot in terms of the issues covered. In that sense, it will be useful for the teacher to read several of these cases before finally deciding which all cases to use for what all purposes.

APPROACHES TO CASE TEACHING

There are three important steps involved: choosing a case, preparing the case and discussing the case. Teachers have to pay attention to each of these since the impact of a case and value addition in a class are the cumulative effects of these 'value links'.

Multiple approaches are followed in a 'case' class, depending on the dynamics of the situation. Some of them are discussed below:

- Open the class by asking one of the students to summarize the key decision-making dilemma, and ask the same or a different student to answer 'what to do next?'
- Open the class by the teacher setting the background with a few sentences and picking a student to answer 'what to do next?'

In either of these approaches, the aim is to get to the key decision-making stage quickly. Naturally, the core question leads to a number of sub-questions involving 'why, how, when …'. In the process, the teacher should be able to elicit all major alternatives and decision-making criteria from the students through a set of counter questions and discussions. The teacher's role is to direct and facilitate the discussion, and encourage students to actively participate. The teacher has to mentally allocate time for exploring each of the alternatives and learning opportunities so that the session accomplishes its purpose within the planned time span. Of course, some very interesting and relevant dimensions and learning opportunities may come up, which have to be handled dynamically by either extending the time allotted for the case or addressing such issues separately.

The teacher has to plan a judicious use of the black/white board space for capturing the essence of the discussion. All essential case data and analytical points should be written on the board as they are discussed. There are advantages of allocating different parts of the board for different stages or aspects of the case. For instance, by summarizing the discussion at the end of the session becomes more logical and clear and students will see a pattern emerging from the analysis.

It is useful for the teacher to keep in mind the key theoretical concepts and frameworks either developed or recalled during the class, and discuss them as the class progresses. This will integrate the theoretical discussion with the case discussion very well and enable students to see the applications of various tools in real-life situations.

Time management is one of the most challenging parts of a case discussion. The teacher has to maintain a balance between depth and breadth of the discussion and keep the discussion progressing in the right direction. Since there are always a number of minor issues or issues that are not crucial to the purpose of the specific class session, the teacher has to be alert to avoid the discussion going at a tangent.

Yet another challenge often faced, particularly when there is a grade component called 'CP' or 'Class Participation' involved, is to choose a student to speak from among the many who raise their hands in the class. Here again, the teacher should be alert to sift the relevant from the irrelevant. This can be achieved by testing the depth of analysis and preparation done by the student. The teacher may ask a few probing questions to see whether the student is making a superficial point for the sake of an 'arbit CP' or not.

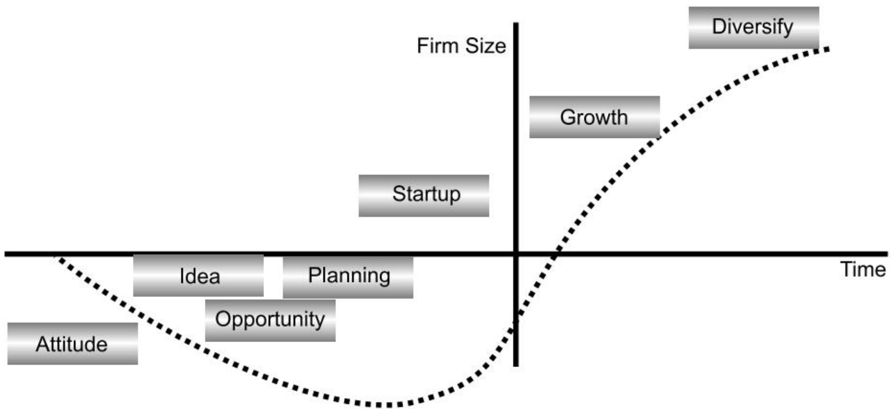
Sometimes, teachers tend to fit a case into a framework or theory. This is a wrong approach. A case is a vehicle and should be treated so. We should not discuss a case for its own sake. In that sense, the teacher should be very clear about the purpose of the session and the role of the case in achieving it. Through the case discussion, the theory should evolve on the board, like a painter making a picture with several colours.

Some cases have specific questions at the end that makes the work of the student focused on them. While the classical approach given is not to give 'assignment questions', there is a growing tendency among teachers to provide a few leading questions. This makes the process of discussion much more focused than without them.

Cases need not be discussed in detail always. Depending on the context, there are other ways of using a case to accomplish the session goal. For instance, a case can be used for role play or student presentation, depending on the number of students, time available, need for evaluation and so on.

In short, teaching using case method is several times more challenging than lectures, which are passive. The benefits are also much more. A good teacher should be excellent not only in explaining the theoretical dimensions involved, but also a quick thinker, and aware of managing the sensitivities of the class and time.

Exhibit 1: Firm Life Cycle and the Entrepreneurial Journey



Case 1

Switz Foods Private Limited

Narasimha Kamath B., Munish Thakur, Rahul Roy and Subir Bhattacharya

It was 9 a.m. Alok Dey, General Manager of Switz Foods Private Limited (SFPL), was in his favourite office chair sipping a cup of hot coffee. But the chair was no longer comfortable, for he saw a competitor outlet open on his way to the office. The words he heard last evening from his Finance Manager, Sarkar, echoed in his ears:

> "The growth in profits for this year (2004–05) will be less than expected. This is the first time in the last five years we are not able to meet our numbers!"

Thoughts began to flow as to how the company had grown over the years. SFPL had been the best in cakes and bakery business. His team had delivered the right product, in the right quantity, at the right time and with optimal cost. But Dey knew that the times ahead would be hard with increasing competition from domestic players and global heavyweights. He was deliberating on how to meet the newer challenges. Two possible solutions emerged. The first was to reduce cost by decreasing the uncertainties in the system, and the second was to increase volumes by entering new markets.

'Monginis, The Cake Shop' was the name by which Kolkatans knew SFPL. It was jointly owned by T.F. Khorakiwala and Arnab Basu. It manufactured and distributed savouries, pastries, cakes, birthday gateaux, cookies, breads and other bakery items. Products were divided into two categories: (1) pastries and cakes and (2) savouries. As a craft bakery, Monginis needed manual skills to give the desired shapes to its hot-selling cakes. The products reached the customers through franchisee outlets all over the city. Switz paid royalty to Monginis Foods Limited, Mumbai, for using the brand name.

The bakery industry in Kolkata was highly competitive. Monginis led the market followed by Sugar & Spice. Other players were Kathleen, Flurys, Upper Crust, Cakes 'N' Bakes, Hot Breads, Ambrosia, Modern Bakery and Kookie Jar (Exhibit 1 gives the market share of dominant players). Kookie Jar, Upper Crust and Flurys catered to upper segment and the rest to middle and lower segments.

SFPL was an entrepreneurial organization. This was evident in its innovative ways of doing business right from inception:

- It was one of the first organizations to cover the whole of Kolkata under a single distribution network.
- It was the first organization in the industry to start selling savouries through franchisee network at the time when savouries were sold through sweetmeat shops in Kolkata.
- The policy of taking back the leftovers at the end of the day with no extra cost to the franchisee ensured high sales and ensured fresh products to the customer.
- It realized the importance of having a sound distribution network for perishable commodities. It accordingly invested heavily in logistics.
- The organization adopted latest technologies to keep pace with the changing environment. It deployed latest machines and automated the production process.

HISTORY

Khorakiwalas bought a small chain of bakery 'Monginis' in Goa in 1978. It became a big brand name in the bakery business 20 years later. The business was moved to the lucrative market in Mumbai. Cakes were perceived as western food; hence, the growth in the initial years did not meet the expectations. Khorakiwalas were looking for avenues to expand the business. Saudi Arabia was seen as a good proposition as they had familial ties there. It was also a lucrative market. They established *Al Mintakh Sweets and Pastries* in collaboration with a local partner. The business flourished, and more units were opened in Oman and U.A.E. The whole group was named as Switz Corporate with presence in more than 10 countries and head office in Dubai. Meanwhile, Mumbai business also picked up. Monginis started a chain of retail outlets in Mumbai in various parts of the city.

SFPL was part of Switz India Limited, which was a part of the Switz Corporate Group. Arnab Basu, who was instrumental in starting the operations in Kolkata, handled Switz operations in India. The group had seven factories in different parts of the country and manufactured bakery products. SFPL was one of them. It manufactured the highly perishable products ranging from one to three days. Over the years, SFPL came up with innovative strategies to stay ahead of competition and carved out a name for itself in the hearts of the Kolkatans. Monginis had the easiest and fastest brand recall among all generations and sections of city in bakery industry.

THE OPPORTUNITY-RECOGNITION PHASE

T.F. Khorakiwala had about 20 years of experience in bakery business and had expertise in trading of bakery machinery. Basu, a friend of Khorakiwala, was working as a probationary officer in the State Bank of India. He also had experience with Hindustan Lever Limited in its marketing division. He left his job to join

Khorakiwalas in Mumbai in late 1970s. Soon, Basu was sent to Saudi Arabia to handle the operations of Switz Corporate. Under Basu's leadership, Switz grew rapidly. However, because of the growing unrest in Middle East in 1980s, Basu decided to come back to India and settle in Kolkata, his hometown. He looked forward to start a business. The only business he could think of was bakery. He knew the intricacies of the business and had mastered the trade. Basu contacted Khorakiwalas in Mumbai who gave him a green signal to sell Monginis products in Kolkata. The products sold were mainly packaged cakes with relatively longer shelf life of 1-2 months. The products were initially transported from Mumbai and sold in Kolkata. It took almost 10–15 days for transporting these products. This started in 1988 and continued for the next three years.

Kolkatans did not have great liking for packaged cakes. They wanted something fresh. Fresh cakes were not available in most parts of the city as almost all good bakeries like Nahoum's, Firpo's and Flurys were located in central Kolkata. To get a fresh cake, a customer had to travel to central Kolkata. A cake for special occasion required an additional trip to place an order. What further complicated the problem was that cakes often decorated with creams required careful handling, maintenance of temperature and proper transportation facilities because of their perishable nature. The difficulties arose due to packing and stacking constraints. Dey recalled:

> "All those who wanted to buy good cakes had to travel all the way to central Kolkata. We realized that there existed an opportunity. There were many people who having bought a cake from the Park Street area[1] finally landed home with a spoiled one. Also, an average Kolkatan could not afford the highly priced cakes. The fact that people had to travel to central Kolkata made the cakes even more expensive."

Basu and Dey realized that selling cakes at locations close to the customers would solve the problems of perishability and transportation. Therefore, products had to be manufactured within city limits and sold at or near customer's doorsteps. This arrangement would shift the liability of transporting cakes from the customers to the company. Basu, who had already seen all this with Switz, decided that it would be a good idea to manufacture the products in Kolkata and sell them through exclusive franchisee network rather than asking for products from Mumbai.

DEVELOPMENT STAGE: FRANCHISEE NETWORK AND FRESHNESS

The decision was taken to provide cakes near customer's residence. But implementing the idea was difficult on account of limited resources. Banks and other financial institutions did not extend help. Finance was managed primarily from personal savings and contacts of Basu.

Finding competent personnel to manage the business was another problem. Basu handpicked a few of the best minds to be part of the top management team. Dey, an

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[1] This was a central location in Kolkata which flourished during British rule in India and stayed in limelight post-independence.

alumnus of Indian Institute of Technology, was hired for technical support. Maitra, who was working with ITC, was hired to head marketing. Others included Acharya, Saha and Ghosh, all considered best in materials management, finance and administration.

Scarcity of resources and uncertainty of demand in new business meant that it would be smart to start small. A small production facility was built at the Kasba Industrial Estate[2] and SFPL was born in 1991.

The mission was to give 'best quality' at reasonable prices. The best of raw material and machinery were used. Raw materials from suppliers went through rigorous testing. Top priority was given to cleanliness and hygiene in the factory. Cakes were given different shapes, depending on the requirements of the customers. The artisans manually provided the finishing touches after the products passed through machines. For this very reason, SFPL called itself a craft bakery where the entire process of cake preparation could not be replaced by machines.

Once the production began, the next vital step was to take the cakes to customers. The outlets were named 'Monginis —Your Friendly Neighbourhood Cake Shop'. Initially, it was difficult to attract potential franchisees to open an outlet for bakery items as the concept of franchisees in bakery did not exist. Bakery was associated with bread and tiffin cakes and was looked down upon as not so profitable and traditional. It was considered to be a business of the uneducated. SFPL did not have the necessary capital to build franchisee shops of its own. Kolkata at that time had high level of unemployment. Maitra remembered:

> "We targeted unemployed and relatively less educated youth. But, they had to be street smart. Our target person had to have a house with a room on ground floor, which could be used as a shop to sell Monginis products."

This was a win-win strategy as SFPL did not have adequate resources and the youth wanted jobs. This strategy was successful, and the company could attract its first franchisee in Dhakuria, a place in south Kolkata. The franchisee was given commission proportionate to sales achieved at the end of the day.

Unforeseen problems surfaced. Due to demand and production fluctuations, there were stock-outs on few days and leftovers on others. The franchisee was sceptical about the unsold goods and did not want to take any risk of incurring losses. This hurt the growth, and sales did not increase. Management attributed it to the franchisee's fear of running into losses due to leftovers. To allay the fears, the company decided that all the unsold products at the end of the day would be taken back with no cost to the franchisee. Monginis wanted to be recognised as a company that was associated with *freshness*. Maitra recalled:

> Customers started to perceive freshness and Monginis together, and we were the first in Kolkata to have this policy of taking back the leftovers at the end of the day.

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[2] It was a special area on the fringes of Kolkata developed by the government for promotion of small- and medium-scale enterprises.

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The policy of taking back the leftovers had a caveat. Before the end of the day, the franchisee, based on his demand estimates, would place the order for the next day. Orders were delivered to him the next morning. The orders were of two types: (1) normal orders and (2) special orders. The leftovers from the normal orders were taken back but not from special orders. The rationale was that special orders were received from customers based on actual demand and there was no risk of loss to franchisee. Sometimes production department had to go out of the way and produce special orders in the night shift so that delivery could be made to customers the next morning. Monginis honoured the special orders at all costs.

Selling reasonably priced fresh cakes through middle-class neighbourhood shops was an immediate success. Customers liked the idea of fresh cakes being available at their doorsteps. By the end of first year, Monginis recorded sales of Rs. 6 lakh at 1991–92 prices. Saha said:

> "We were able to rope in two franchisees during the first year of this decision. We won over the franchisees, who were earlier sceptical about the losses due to leftovers, as they generated sufficient monthly commission."

The whole process of taking orders, planning for production, delivering products and keeping track of activities at franchisee's end was handled manually. Some departments felt that the manual systems took a significant amount of time in planning the requirements of day-to-day operations. Therefore, production department decided to go for an information system (IS) package that could help it in its decision-making of how much to produce in batches. SFPL installed its first computer in 1993 and used LOTUS[3] as a database to maintain franchisee information, the details of orders placed and the credit balances.

THE GROWTH STAGE: EXPANSION

Monginis saw a huge jump in its sales after the first year. Sales increased to Rs. 250 lac at the end of 1994 – 95, and the number of outlets reached 23. The year-on-year rate of growth shot up exponentially. Then, existing infrastructure soon came to be perceived as a bottleneck. Frequently, the production fell short of the demand because of limited facilities. The existing production area required expansion. Its facility at Kasba was expanded with latest machines and increased manpower. It was able to reach more customers, and the sales began to grow (Exhibit 2).

In 1993-94, Switz became the first bakery to sell savouries through its network of franchisees. Other bakeries had also started selling cakes through small franchisee network. SFPL increased the number of variants in both the product categories and in franchisee network (Exhibit 3). By 2004, entire Kolkata was covered under one big franchisee network. Monginis shops could be seen in all parts of the city, including suburbs. To service all these franchisees at the right time and in right conditions,

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[3] Lotus used to be the registered trademark of electronic spreadsheet software, manufactured and distributed by the Lotus Development Corporation.

Switz had established the biggest fleet of vans in cake industry in Kolkata. These vans were designed to carry perishable products. Soon Switz realized that transportation was not its core competence and outsourced its logistics to Mahindra and Mahindra in 1999.

Success brought its own problems and challenges. Others started imitating Monginis strategies. There were low-entry barriers. Anyone who knew how to bake good cakes could enter the market. Ghosh said:

> "We did not react much to the competitors. We just focused on providing quality and fresh products to the customers."

The limited way in which Monginis reacted to the competition, besides increasing the product variants, was to collaborate with other organizations that marketed complimentary products. It collaborated with Pepsi Foods, Kwality Ice Cream (India) and Biskfarm to stock soft drinks, ice creams and biscuits at its franchisees. These were products that could be consumed along with pastries and savouries.

Urged by intense competition and the fast-changing dynamic environment, Monginis carried out a significant innovation at the end of 1999. The company initiated a series of changes to reengineer its production processes. It promoted the establishment of Dream Bake Private Limited for the production of packaged cakes, which was a separate venture. SFPL also changed its organizational structure from hierarchical to flat and flexible.

One problem which still worried SFPL management was a gap between demand and production. The organization was trying to bridge the gap by proper information flow along the supply chain. This was a complex task as each department had acquired systems that best suited its need of data analysis. This made compatibility of information difficult at organizational level, across departments. For example, the production department used Excel, despatch department that handled both the order processing and finished products had Access database, and finance department had Tally software. The operating systems in use were different. The orders were received over phone, noted down on paper, and then entered into the system for processing. This led to isolated pools of information, some of which was redundant and on several occasions led to inconsistencies.

Saturation

The number of Monginis franchisee outlets had risen to 102 by December 2004. The nearest competitor had only 68 outlets. The operations covered the entire metropolitan area of Kolkata, which made further expansion difficult. Further penetration might lead to channel conflict. The sales were estimated to touch Rs. 2,300 lakh by the end of the financial year in March 2005. Over last 4-5 years, global players like Domino's, Pizza Hut, Barista, and Café Coffee Day had entered fast food market in Kolkata. These joints were specifically attracting youngsters from middle class who earlier went to Monginis. This had led to increased competition, especially in savouries.

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Thus, a saturating market, increased competition, and lower margins were becoming major concerns. The management formed a team to investigate the issues and draw an action plan. The managers of each functional department were made part of this cross-functional team. The team decided to look into every aspect of the business howsoever small it was, with focus on cost cutting and reduction of uncertainties. It also wanted to explore the possibilities of reaching new markets. Maitra started the proceedings of the first meeting:

> "If we go at this rate our profits are sure to plummet. We need to reduce the leftovers at all costs. Also increasing the in house process efficiency and effectiveness should be high on our agenda."

The team was aware that the proper flow of material and information was vital to reduce the uncertainties in the system. The team drew a macro view of the supply chain structure (Exhibit 4). They classified information flow at the following levels: customer, franchisee, management, factory and supplier (Exhibit 5 gives daily activity flow). The team prepared excerpts in each category.

Customer

The team started with the focus on customer:

> "Customer is the king in business and should get the highest service. 'Give him what he wants, where he wants and the price at which he wants' has been the driving force in the organization."

Customers' views about Monginis on price and image were summarized (Exhibit 6). On retrieving the historical data, the team found that the customers' eating habits at Monginis cake shop varied, based on day of the week, date of the month, the outlet location, occasions, festivals etc. The variations were significant. Maitra estimated stock-outs to be around 5%. But he was of the opinion that the customers usually went in for the items available on the shelf. The ambience and the decor at the franchisee outlets also had a significant impact on the buying habits.

Franchisee

The franchisee network had grown far and wide and covered the entire Kolkata metropolitan area (Exhibit 3). The outlets gave normal order to the factory in the evening over phone. The sales persons transferred the special-order information to the factory. The franchisee received the products in the morning, returned the leftovers of the previous day and made on the spot payment of the sold products.

To get a first-hand account of the happenings at the franchisee, the team visited the franchisee shops at different points of time. At about 7:30 in the evening in a Park Street outlet, it was found that there was no stock for many items. A customer was overheard saying that he had to miss his favourite patties three days in a row. The stocks at many other outlets were also significantly less during evenings. A look at past orders revealed that the amount sent to the franchisee was less than that asked for in most of the cases. The management was aware of this but did not want to risk sending more products and incur increased loss due to leftovers. The team was looking for an appropriate method that could help it predict, as best as possible, the amount of each item to be produced and shipped to the franchisee. The objective was to increase the sales of each franchisee and minimize the leftover.

Management

The management policy had been successful because of the professionalism adopted in running the business. It followed centralized decision-making for managing its supply chain. Ghosh said:

> "We face a lot of challenges with perishability and logistics, and learn new things every day. We work on a T+1 day trading cycle when even the stock market follows a T+3 days trade settlement cycle!"

The management went in for capacity augmentation, investment in new machinery, promoting new businesses etc. They wondered if installing new information systems could integrate business globally. Management felt that they lacked the computing infrastructure to perform detailed analysis and come up with optimal inventory of raw materials, production batch sizes and schedules, franchisee sales, market growth etc. The team was looking for standard software and packages that could talk to each other and aid the management.

Excise duty was another area of concern as it was raised back to 16% (Exhibit 9). As the items produced were price sensitive, management was thinking about negotiating excise duty rates with the government through industry cooperation.

Factory

The production at SFPL was divided into two shifts – day and night. The orders for day 1 (tomorrow) were received on the evening of day 0 (today). However, to optimally utilise the production capacity, certain portion of day 1 demand was produced in the day shift of day 0. Production normally took place in accordance with the production work order, which was given by the production head, after looking at the daily sales plan given by the operations head. The orders were received via phone or fax or through sales representatives and then entered into the system. The information was then processed to obtain the production required for the day. Once all the orders for the next day were received, the factory evaluated deficits. The company met the special orders at all costs. During the day of production, the items were first assigned to special orders. The deficit items were taken for production in the night shift only if it was above a certain threshold, which was set by the production head. Threshold was usually based on feasible batch size for that particular item.

Each product category was divided into different items, and each item had a number of variants. For example, a pastry could be round, rectangular or heart shaped, could have different toppings, made with or without egg and could be of different weights. Similarly, a savoury could be vegetarian or non-vegetarian, have different flavours and have variants based on the gravy fillings. The production therefore was formula-specific and was called 'recipe.' The entire production process was sub-divided into separate processes. The team drew the production process flow for pastries and savouries (Exhibit 7). Even if there was a higher demand from a franchisee for normal order, the production department had the final say on the amount that it would produce. Production department would decide, mainly, based on production capacity, stock availability, and manpower. After the production process was over, the products were put in crates and transferred to the finished goods godown for final despatch. The despatch took place in accordance with the delivery schedule, as defined in the sales order. The details were updated in the Excel sheet and stored for future reference.

Despite the fact that the top management exercised various controls to reduce the gap between demand and supply, there was always one that was greater than the other. Some of the factors responsible for the gap were festivals, strikes, cricket matches, rains and heat. Though the company had a method of dealing with the gap, it was not very efficient. All franchisees were divided into three categories — A, B and C — based on the amount of leftovers returned. The A category was the one where the franchisee made a good forecast and usually returned minimal unsold items. Category C was the other extreme. If production was greater than the demand, then the extra products were distributed among franchisees based on their category. The A category franchisees got maximum, B category less than that while C category did not get any. Similarly, in case of shortage, the A category franchisees were given what they had asked for, B category were given little less than demanded and C category were given the minimal.

The team had a fresh look at the recent months' orders and supply. One of the problems was that it was difficult to calculate costs for each item because there was no appropriate bill of material. The processes were mostly integrated, and there were no accounts of the losses that occurred on its way from raw material to finished stock. Apportioning the cost to each item was difficult, and judgement was used to do so (Exhibit 8).

Supplier

Flour, sugar, eggs and fat were the important raw materials. Most of the orders with the suppliers were pre-negotiated, but some were negotiated as and when demand arose. SFPL followed the 'order up to level' inventory policy and held stock that was sufficient for about a week. The other raw materials like cocoa products and spices were ordered in lots that lasted for about a fortnight. The supplier received the orders for fresh vegetables and meat the previous night and was delivered the next morning. It was the responsibility of the supplier to deliver this material to the factory premises. After the quality inspection process, the accepted materials were updated in stock and the rejected materials were sent back to the supplier. The ordering process was manual. Stock keeping was done every alternate day.

Market

The market for bakery products was growing (Exhibit 10). There was a good demand for cakes and bakery products in smaller towns. Maitra felt that this market could be tapped. He believed that this was the best way to increase the revenues of the organization. He thought that 10 big towns in West Bengal after Kolkata could accommodate at least three franchisee outlets each. This was potentially a big market. These cities had a large middle class that Monginis could target. Most MNC food joints were unlikely to move to these locations in the near future. Two alternatives were discussed on how to cater to this market.

The first alternative was to start production facilities in these towns. This would entail manufacturing quality products comparable to the ones produced and sold in Kolkata. The problem was to get expert artisans in these small towns. Another problem was that new plant and machinery would be needed. This could increase costs and hamper feasibility of business in these areas at the current level of technology.

The second option was to transport the products manufactured in Kolkata to these cities. The decision could dilute the company's image of *freshness*, its key plank. All the products of SFPL were highly perishable with a shelf life of 12–30 hours and required special handling, packaging and transportation. In addition, the products had to be stored at right temperature during transportation, which varied from under 10°C to above 60°C.

Information System

A prominent characteristic of SFPL value chain was that it depended significantly on coordination among various departments. But it did not have an integrated IT system that could help the development of IT strategy, manage supply chain operations, and support and maintain infrastructure. Distinct operating systems (Windows 98/2000/XP, Unix, Windows NT) and databases (MS Access, Sybase) existed simultaneously, resulting in data isolation and inconsistency. Isolated systems had the risk of information conflicts and functional redundancy. The current systems lacked the capability to manage, control and support multiple sites, and the ability to adapt to dynamic environment. The team felt that an integrated IS package was needed. It was aware that the management would check what benefits would accrue from an integrated IS.

The initiative of planning for a new IS was prompted by limitations in the existing systems as they were neither able to keep up with the evolving needs due to organizational expansion nor did they satisfy the increasing demands for information sharing and data analysis. The existing systems did not have the capability to learn and make recommendations regarding the ordering quantities at the outlets for the different products. The focus of team meetings was on reviewing the right packages and clarifying the business necessities that called for installing the package. The main reason was to enhance the efficiency of data acquisition and make accurate and timely information available to everyone in the organization. The team expected IS plans to achieve significant improvement in productivity, reduction in manpower and elimination of manual delays and errors. This was part of a larger attempt towards reducing costs and increasing market share and profitability. They expected the software to improve their critical business processes such as planning, production management, inventory control and faster decision-making. Potential benefits could include breakthrough reductions in working capital, information about customer wants and needs, the ability to view and manage the extended enterprise of suppliers, alliances and customers as an integrated whole. However, these systems were also expensive, complex and notoriously difficult to implement.

Over the last two months, Dey had been spending long hours with his team collecting the facts of the organization and drawing conclusions. He was not sure if there was a good solution. Product variety, stock-outs, leftovers, collaborations, franchisee contracts, enterprise system deployment, new markets, competition, transportation — the list could go on. The situation was confusing. He sometimes felt that it would be a tightrope walk to address these questions, while at other times he felt that the company was doing well and they just needed to maintain it.

What Next?

Having finished the coffee, Dey reviewed his schedule for the day. At 10:00 he had a meeting with Maitra to review the recommended markets. He was somewhat concerned about entering new regions for it demanded significant investments. At 11:00 he planned to sit with Saha to finalize the production policies and the vision to achieve lean manufacturing. He was not sure if he had to recommend significant changes to the management. At 2:00 he would talk to some franchisees over phone. These people represented Monginis face to the customer, and their input was vital. At 3:00 he had an appointment with the suppliers and was confident of getting their approval for the proposed change in ordering policy.

Dey decided to keep his focus on the session coming up the next day with the Board, where he had to put forward the current challenges faced by the organization and also suggest solutions. At the end of the day, he needed to finalize the report and prepare the presentation scheduled for next day. He wondered if he was in for another sleepless night. The final touches to the IS requirements for the organization and the strategy that should be adopted was still pending. He knew that whatever he suggested required rigorous validation in terms of benefits. The system implementation would call for changes in organization restructuring which could mean redundancy of some posts, change in processes, and most importantly — heavy investments.

Monginis had initiated many innovations in the past. Is another innovation round the corner?, Dey wondered.

Exhibit 1: Market Share of Bakery (Cakes/Savouries/Pastries/Gateaux) Industry

Year 2004

Company	%
Monginis	46
Sugar & Spice	24
Kathleen	12
Flurys	9
Others	9

Source: SFPL estimates.

Note: Only branded players are considered. Sweetmeat shops and artisanals not included.

Exhibit 2: Revenue Statement (Rs. in Lacs)

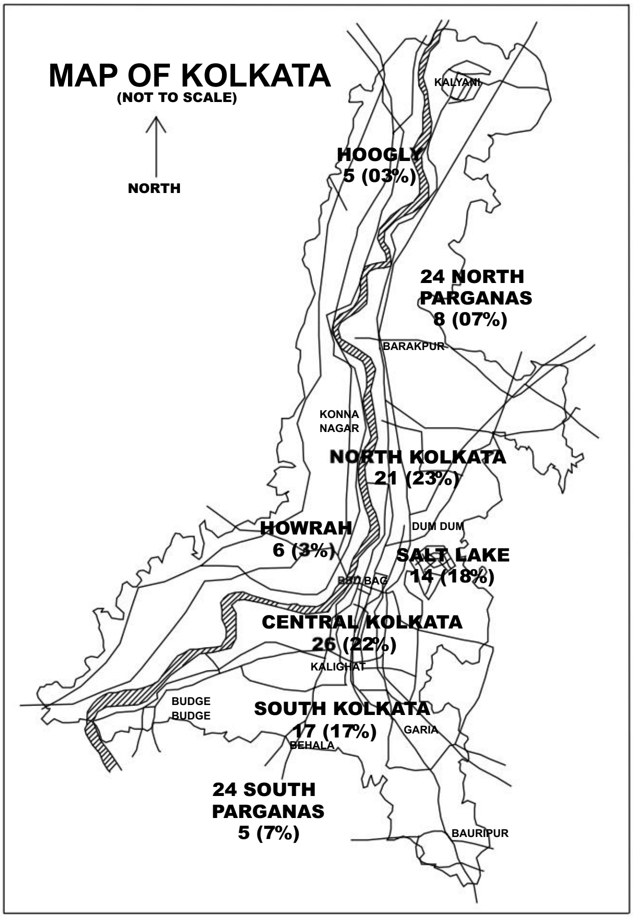
	Cakes/Pastries/Gateaux			Savouries		
Year	Sales	Costs	Leftover %	Sales	Costs	Leftover %
1991–92	6.16	7.48	—	—	—	—
1992–93	53.28	56.60	—	—	—	—
1993–94	81.47	80.06	1.52	41.79	41.07	9.38
1994–95	171.42	168.03	1.58	80.69	79.09	10.61
1995–96	326.95	323.70	1.43	146.88	145.42	10.08
1996–97	591.77	576.52	1.23	220.96	215.26	10.45
1997–98	667.10	657.89	2.06	516.23	509.10	8.43
1998–99	936.52	928.95	1.74	468.39	464.60	11.04
1999–00	978.69	966.97	1.19	528.31	521.98	6.98
2000–01	752.09	743.20	1.50	637.63	630.09	5.61
2001–02	713.46	687.83	1.83	694.42	669.47	5.96
2002–03	885.29	845.83	1.76	869.15	830.40	5.66
2003–04	1,071.81	1,014.87	1.81	913.68	865.14	6.72
2004–05 (E)	1,225.00	1,163.75	2.78	1,075.00	1,021.25	6.14

Source: SFPL.

Note: Leftover % = Leftover quantity * price * 100/total sales. Cost includes the leftover (that is scrap) loss.

Exhibit 3: Growth in Franchisee Outlets. Outlet Spread in Kolkata Metropolitan Region, December 2004

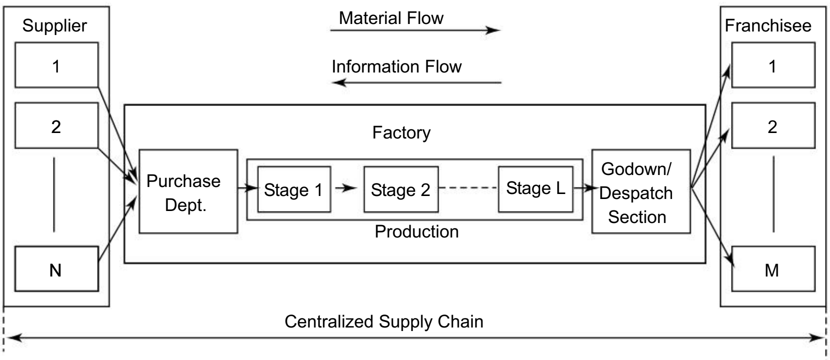
Year	No. of Outlets	Year	No. of Outlets
1991–92	—	1998–99	56
1992–93	2	1999–00	62
1993–94	5	2000–01	71
1994–95	23	2001–02	79
1995–96	33	2002–03	87
1996–97	39	2003–04	96
1997–98	50	2004–05 (E)	103



Source: SFPL.

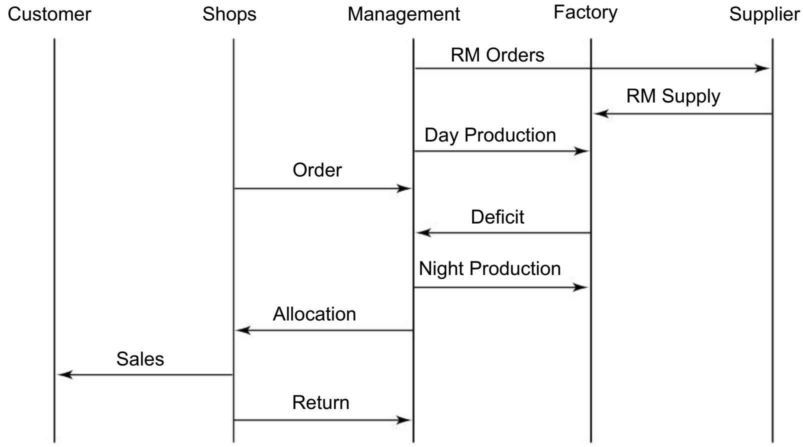
Note: Figures in brackets indicate revenue percentage from that region

Exhibit 4: Schematic View of Monginis Supply Chain



Source: Drawn as per our discussion with SFPL management.

Exhibit 5: Activity Flow Diagram



Source: Drawn as per our discussion with SFPL management.

Exhibit 6: Monginis in Customers' View

Prices of Monginis Cakes vs. Competitors	Percentage
More expensive	4
Slightly expensive	29
At par	49
Slightly cheaper	3
Don't know/can't say	15

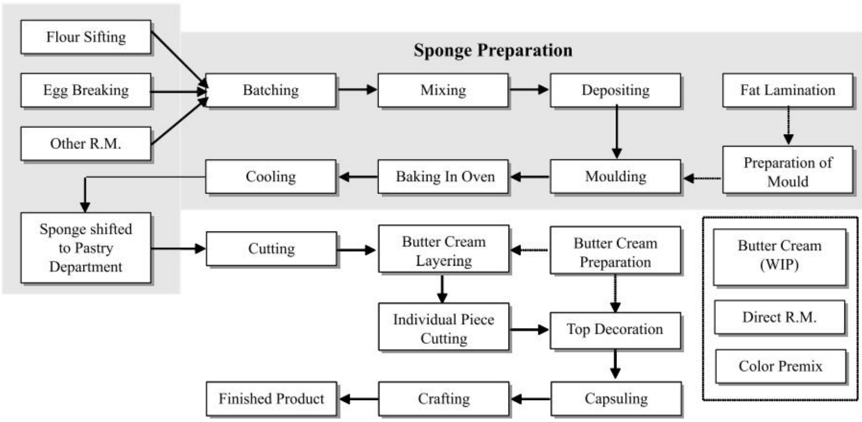
(Figures in %)

Image of Monginis Cake vs. Competitors	Quality	Taste	Packaging
Better than competitors	77	76	72
Same as competitors	11	11	10
Worse than competitors	1	1	3
Don't know/can't say	11	12	15

Source: ACNielsen ORG-MARG Report, January 2005.

Exhibit 7: Production Process

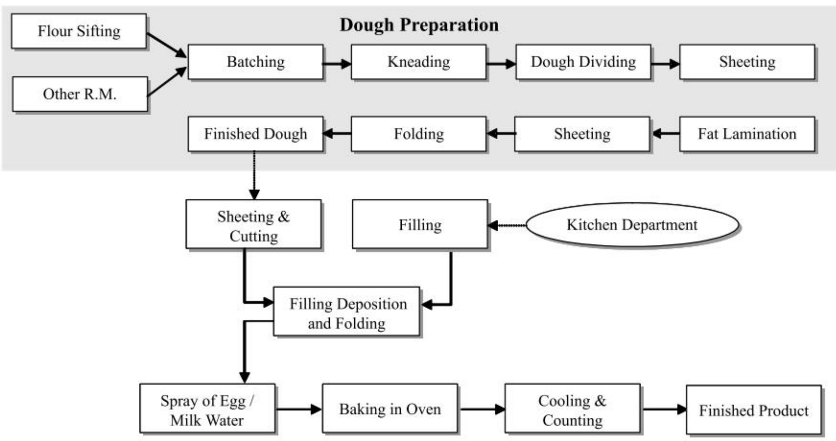
Generic process flowchart of pastries/gateaux



Source: SFPL production documents.

Note: RM—raw material; WIP—work in progress.

Generic process flowchart for savouries



Source: SFPL production documents.

Exhibit 8: Representative List of Products

Item Name	Retailer SP (Rs)	Producer SP (Rs)	Prodn. Cost (Rs)	Avg. Order Qty. Special	Avg. Order Qty. Normal	% Var. Normal Qty.	Prodn. Qty.
Cakes/Pastries							
Milk cake	6.00	5.00	4.50	148	1,152	11.24	1,301
Choco muffin	6.00	5.00	4.50	97	1,235	12.10	1,329
Crown cake	5.00	4.20	4.00	145	1,115	12.19	1,260

Contd.

Item Name	Retailer	Producer	Prodn.	Avg. Order Qty.		% Var.	Prodn.
	SP	SP	Cost	Special	Normal	Normal qty.	Qty.
Butter scotch	6.00	5.00	4.00	130	1,794	10.31	1,891
Strawberry	6.00	5.00	4.00	33	1,342	14.13	1,258
Vanilla	8.00	6.80	6.00	13	528	26.13	566
Choco chips	8.00	6.80	6.00	76	1,503	5.48	1,495
Choco delite	8.00	6.80	6.00	36	1,242	8.69	1,088
Truffle pastry	10.00	8.50	7.50	84	1,008	26.33	1,199
Toffee pastry	5.00	4.20	3.50	90	1,318	6.16	1,435
Savouries							
Panir kachouri	6.00	5.00	4.00	293	2,277	5.84	2,748
Fish kachouri	10.00	8.50	8.00	94	1,402	7.41	1,482
Mistisukh	5.00	4.20	3.50	632	1,133	9.14	1,765
Veg. patties	7.00	6.00	5.00	2,398	3,736	4.88	5,629
Chicken patties	10.00	8.50	8.00	1,386	4,356	7.83	5,153
Chicken titbit	6.00	5.00	4.00	823	2,423	4.27	3,346
Veg. pizza	8.00	6.80	6.00	83	1,374	3.86	1,456
Chicken pizza	12.00	10.20	9.00	53	1,650	5.53	1,703
Fish spring roll	14.00	12.00	10.00	90	1,350	8.77	1,352
Cream roll	10.00	8.50	7.50	332	1,053	8.00	1,102
Chicken spring roll	12.00	10.20	9.00	23	1,156	7.67	1,199
Veg. manchurian	12.00	10.20	8.50	513	1,196	4.46	1,704
Chicken croissant	12.00	10.20	9.00	57	1,337	6.26	1,298
Fish titbit	6.00	5.00	4.00	122	1,145	5.36	1,253
Fish chop	6.00	5.00	4.50	112	1,614	4.36	1,754

Source: SFPL.

Note: Price and Cost are in Rs.; SP—Selling Price

Prices given are for standard products. Price varies based on size, shape etc.

Production cost is an approximate estimate as it is produced in batches

High sales (~Rs. 4 lacs) occur during special occasions like Diwali, Id, Christmas etc.

Low sales (~Rs. 0.5 lacs) occur during strikes, bundh etc.

The high and low sales days are not accounted while taking average

List of representative items (chosen based on highest quantity sold), is not exhaustive

% Variation Normal Order = Variation in normal order quantity * 100 / Normal order quantity

The average order and production quantity shown in the table are daily figures, for 2004

Production is carried out in morning and night shifts

Product Variety - Cakes/Pastries/Gateaux = 1305, Savouries = 59

Daily Avg. Production product variety - Cakes/Pastries/Gateaux = 180, Savouries = 30

Plant utilization is around 85%

Exhibit 9: Statement Showing Effect of Indirect Taxes on Performance (Rs. in Lacs)

	2001-02 Audited	2002-03 Audited	2003-04 Audited	2004-05 Projected	2005-06 Budgeted
Excise duty rate	16%	16%	8%	16%	16%
Net sales	1,254.71	1,546.17	1,792.10	2,011.79	2,493.79
Sales tax/VAT	120.21	166.55	187.83	209.59	326.08
Excise duty	80.60	98.34	65.08	121.37	176.77
Profit after tax	50.58	78.21	105.49	107.00	105.00

Source: SFPL.

Note: Savouries have excise exemption. Switz brand is excise exempted till Rs. 100 lacs of sales.

Exhibit 10: Estimated Market Growth

Bakery products	% Value growth		% Volume growth	
	2003–04	1999–04	2003–04	1999–04
		CAGR		CAGR
Bread	7.2	9.2	5.4	5.8
Pastries	—	—	—	—
Cakes	9.6	10.5	7.4	7.8
Baked goods	7.4	9.3	5.5	5.9
Savoury	6.8	7.3	5.1	5.1
Biscuits	7.0	7.3	5.4	5.9
Others	7.3	8.7	5.5	5.9

Source: Euromonitor, December 2004.

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CASE 2

The Banyan

Shanthi Nachiappan, S.N. Soundara Rajan, E. Padma Priya and G. Shankara Naarayanan

The Banyan, a non-government voluntary organization in Chennai, had been helping and rehabilitating mentally-ill destitute women over the past 11 years. In 2005, it was at crossroads. It ran out of every last bit of space and resources. Reaching out to mentally-ill destitute women and not rejecting anyone who reached them had been their philosophy all these years. Unfortunately, The Banyan was no longer in a position to take in any more women without compromising on quality of care. They tied up with the city police and the state government, and all new cases were being referred to the Institute of Mental Health (IMH) for treatment. Whether they would get the same quality treatment in IMH was a big question mark.

BIRTH OF THE BANYAN

There comes a defining event in the life of individuals which decides the way they would live the life. Ask Vandana and Vaishnavi, they recalled the incident that changed their lives. In 1993, Vandana went to visit her close friend Vaishnavi, who was studying at the Women's Christian College in Chennai. Outside at the college entrance, there was a mentally-ill woman, in mid 30s, half naked, badly bruised and running back and forth. She wept uncontrollably one moment and laughed loudly the next. She was in a pathetic condition.

Vandana and Vaishnavi decided that they must do something. So with their Principal's permission and along with a few friends, they took the mentally-ill woman to a nearby mental health institution. But to their dismay, the institution was reluctant to admit the woman. After visiting various places, they finally got her admitted to an institution. On following up, they found that the woman left the place and nobody knew her whereabouts or fate thereafter.

The duo decided to do something for the protection and betterment of such women. At that instance was sown the seed of The Banyan.

THE FOUNDERS

Vandana and Vaishnavi came from well-to-do families and had good education. Vandana was a year senior to Vaishnavi at college. They had a wonderful rapport; they were like siblings. Both graduated from the Women's Christian College during 1993 and 1994. Vandana went on to finish her MSW from the Madras School of Social Work before devoting full time for The Banyan. Vaishnavi pursued an MBA course but discontinued it as the organization needed more time and attention. Vandana was married, and Vaishnavi was very much contended with her first love—The Banyan.

Both women shared unrelenting compassion for the mentally-ill and destitute women who were left absolutely helpless and uncared by the society. The motto of The Banyan, "I exist, therefore I am," addresses the rights of the marginalized sections of society to live and to be.

STARTUP CHALLENGES

Having decided to start a home for mentally-ill women, the founders first approached their families to get their permission. Their families first opposed, but the duo soon convinced them and got them to support their cause.

Their biggest opposition came from the society. People had stigma towards mental illness, considered it to be a disease and thought that such people should be confined to closed doors in mental health institutions. Some advised them to drop the idea. But they did not give up. They believed that if their cause succeeded, it would be a rebirth for so many mentally-ill women who had lost all hopes in life. Vandana and Vaishnavi went ahead and registered The Banyan as a "secular Indian public charitable trust reaching out to the marginalized sections of society." On August 27, 1993, a new hope for mentally-ill women was born.

Their next challenge was to find a proper accommodation. People were reluctant to rent their places. At last after repeated efforts, they were able to rent a small place. On October 4, 1993, they started the first home, a real protective abode for the mentally-ill women who till that time were living on the streets. The home was aptly titled "adaikalam" (shelter).

Their next problem was raising funds. They firmly believed in the saying "when the going gets tough, the tough gets going." They knocked on the doors of banks, clubs and corporate offices. The duo used well conceived and designed visual presentations to convince the people understand the noble cause they were engaged in. Thanks to a few good-hearted individuals, they could raise Rs. 85,000 in the first year. However, this amount could not fully cover their expenses for that year. There were days when enough food and medicines could not be provided to the inmates.

Then they needed people. Initially, there were just three staff members to attend to the inmates. There was always a problem of determining the pay structure, even though it was for just three employees. They simply were not ready to compromise on the care to the inmates, but they did not have funds to pay the staff adequately.

GROWTH OF THE BANYAN

The founders did not want The Banyan to be merely a place for lifetime, but rather a protective home where mentally-ill women could be taken care of and rehabilitated so that they returned to the mainstream society and continued their normal lives with renewed confidence. But the biggest shock they had was the first death at the home. They wanted to see their inmates getting rehabilitated and join their families, not die. What made the two pursue their difficult path was the joy of seeing their inmates getting rehabilitated and returning to the society.

As news spread and days progressed, the number of inmates started increasing. But there was not enough space available. So they sought government assistance. They got about 6.5 grounds of land from the state government under the Mogappair Eri Scheme in Mogappair West, Chennai. Then they approached the central government. After going through a series of formalities and verifications, they received Rs. 18 lakh every year from the central government under the Swadha Scheme to sustain 200 beneficiaries.

By April 2001, The Banyan had a 24,000 sq. ft. area with large dormitories, a sickbay, spacious office rooms, a modern kitchen and a modern auditorium. It received a generous donation from the Japanese Grassroots Assistance Scheme of the Government of Japan. The Banyan was able to put up a large Therapy Block to offer individualized and group holistic development programmes.

The Banyan model was different from conventional mental health institutions. It focused more on rehabilitation of mentally-ill women, besides caring for them. In fact, it went a step beyond and conducted regular follow-ups of inmates who rejoined their families. It continued to give medicines if needed and counselled them as well as their family members.

They actively tried to create awareness and sensitize people on the problem of mental illness. However, the stigma that mental illness was a disease which could not be cured was so prevalent that people were not simply ready to accept rehabilitated women back in the society. In fact, Vaishnavi felt, "it was easier to handle mentally-ill people than normal people." So they intensified their efforts of spreading the awareness and dispel the myths attached to mental illness

The Quest for Resources

The Banyan grew in size as years passed by. There were instances when there were up to seven women being admitted to the home per week. More number of inmates meant more need for resources. The founders along with volunteers intensified their efforts to mobilize funds. With more than Rs. 10 lakh needed to meet the recurring expenses of the home every month, they were tapping all possible sources. There were only a handful of generous souls who made donations to such causes. However, the founders felt that there were still many people out there willing to contribute and support such causes. It was just that they had to be identified and approached. In fact, 74% of the revenues during 2003-2004 came from donations

(Exhibit 1 gives the income and expenditure statement, and Exhibit 2 gives the balance sheet as on March 31, 2004). Grants from government bodies and income from in-house programmes made up for the remaining 26%.

Marketing

The founders felt that if they were to make people sit up and notice The Banyan better, one of the best methods would be to rope in film and media personalities to support their cause. One early and active supporter was south Indian film actress Revathy. Others were Maniratnam, Bala, Madhavan, Salman Khan, Rohini, Ranjitha, Kushboo, Susmitha Sen and Bombay Jayasri. Famous Hindi film star Vivek Oberoi was the goodwill ambassador for The Banyan.

All these stars spent time with the inmates amidst their busy shooting schedules. They participated in the annual fund-raising show—Basant Utsav—a vibrant festival of music and dance conceptualized by volunteers of The Banyan in 1998. This festival became a regular feature every year. With so many celebrities promoting the cause, corporate groups too joined to become a part of the event. The Basant Utsav 2005 attracted major corporate sponsors like SBI, Reliance Infocomm, Nestle, Sify, ITC, TVS Autolec and Fa.

Many distinguished personalities visited the home. Gerard Fischer, 1997 Gandhi Peace Prize winner, on his visit to The Banyan said:

> One shining example, devoting time and energy to the transformation of the poor and the wretched and to the healing of sick bodies and traumatized minds that I have in the past years come across are two young women, Vandana and Vaishnavi of Chennai. The Banyan, an organization started by these two, is such a wonderful experience to me.

The Banyan raised funds by selling products and greeting cards made by the residents. They organized exhibitions of such products at various premises like schools, colleges and corporate houses. Apart from the Basant Utsav, they conducted similar small events for fund raising.

They were able to attract media support. N. Ram, Editor-in-Chief, The Hindu, remarked:

> A unique organization in Chennai that has done exceptional work in the short period it has been in existence—The Banyan. The first inspiring feature of the work of this organization is the fact that the founders and moving spirits behind it are two young women of remarkable idealism, compassion and practicality—Vandana and Vaishnavi.

Small events like Movie Club every month and other big events like "Netru, Indru and Nalai" involving film personalities also helped them raise funds.

The Banyan prepared District Mental Health plan and organized mental health training programmes for government medical staff. On October 10 every year, it conducted the World Mental Health Day for the state government. It created awareness about mental illness through signature campaigns and programmes.

Human Resources

The Banyan family (Exhibit 4 shows the organization chart) comprised 11 trustees, 80 full-time and part-time resident employees working day/night shifts, two psychiatrists, two general physicians and 125 volunteers. These volunteers and committee members came from various walks of life and had significant expertise and valuable experience in their respective professions. Employees were adequately compensated. Most of the employees enjoyed benefits like food, accommodation, mediclaim, free life insurance and other statutory benefits. Paternity leave was available for male employees. More than money and benefits, the joy of seeing the inmates getting rehabilitated and rejoining their families was what motivated the employees.

The Banyan invited interested young rural women to come and help as psychiatric caregivers to the inmates. After a trial period, if they liked it, they stayed on. They mastered the art of street rescue, pacifying the women, caring for them, getting a court order for treatment, reporting to the psychiatrist who assessed the case and began treatment, documenting details, giving medicines, helping with vocational training, building self-confidence in the residents and finally travelling across India to reunite these women with their families. The Banyan trained over a hundred such psychiatric caregivers in the past decade.

SOME REHABILITATION STORIES

- Viji was brought to “adaikalam”, disturbed and disoriented after being abandoned by her husband. After a nine-month caring at The Banyan, she was ready to go home. The family was hardly enthusiastic or happy to see her. It was then that Viji decided to live on her own, be independent and earn her own living. Staying close to her family, yet fully taking care of her own needs, today Viji was very happy and confident about the future. She gained insight into her illness and the importance of taking medicines. While the attitude of her family changed a great deal over the past two years, Viji was very clear that she would live her life on her own terms. Indeed, the experience at the Home had given her renewed vigour to face life more confidently.
- Jaya, a 56-year old lady, suffered from schizophrenia and recovered. Her elder brother, who was wealthy enough, refused to accept her back as she supported her younger brother over the issue of property sharing. So she could not be reintegrated into the family. She lived in the Long Stay Home of The Banyan.
- Bhanu, a 30-year old unmarried lady, was living with her cousin sister in Chennai. She left home often and returned in a very bad condition. She was picked up by the women police when she was wandering at the local bus stand and was admitted in The Banyan. She was diagnosed with schizophrenia. Her condition improved significantly with medicines and was successfully reintegrated into her family.

The McGraw·Hill Companies

➢ Zabina was brought to The Banyan by police constables in 2002. Once she recovered, she approached The Banyan's Legal Aid Service to locate her husband and get her the maintenance paid. The Banyan's team and its legal counsel visited her husband and learnt that they were separated through a decision of the "Katta Panchayat" (village counsel). In fact, her husband refused to admit that he knew her but later accepted that she was his wife. Anyway, he was not interested in taking her back as he was remarried and had grown up children. Even Zabina was not interested in living with him. She only wanted to get a legally permitted monthly maintenance of Rs. 2,000. Today, she lives happily and confidently with her brother in Pondicherry and gets regular maintenance expense. She is in regular touch with The Banyan.

It was found that over 40% of the reunited residents of The Banyan were doing well (Exhibit 3 gives details of average stay at The Banyan). Around 50% (750/1385) of the rehabilitated women were accepted back by their families. The acceptance rate was much higher in rural areas than in urban areas. Readmission was frequent. People of Chennai and Tamil Nadu took advantage of the proximity of The Banyan.

SERVICES OFFERED

Over the years, The Banyan moved from the concept of a transit home for mentally-ill destitute women to a complete care and rehabilitation centre. It added various services with the best clinical and psychiatric treatment. Its services included:

1. 24-hour hotline connected to a response team stationed at The Banyan to respond to any distress call at any time.
2. Fully equipped residential crisis intervention centre under the guidance of a medical team with vocational training inputs.
3. Innovative group home which saw rehabilitated residents functioning independently outside the Home's support system so that they look to each other for guidance and strength while gainfully employed.
4. Rural outreach programme started on February 8, 2005, with many distinguished personalities from film, industry and media present.
5. Network closely with other non-government (like Ecomwell and Udavi) and government organizations to ensure and protect the needs of the most marginalized sections of the society.
6. Legal-aid clinic to ensure that legal rights of the mentally-ill are protected.
7. Lobbying and advocacy ensuring that the needs and interests of the mentally-ill and their families are protected.

The Banyan so far reached out to over 1,385 women, including 350 women currently being taken care in the Transit Centre (adaikalam) in Mogappair, 48 at their Long Stay Home at Otteri and about 100 benefiting from their out-patient services. (Details about the number of inmates admitted, readmitted, rehabilitated, referred, failed or unfortunately died during last year are given in Exhibit 3B.)

The Banyan won the Best Samiritan Award for their social service.

FUTURE PLANS

The Banyan had numerous projects for the near future:

- ➢ One of them was setting up of a Public Health Centre in Kovalakuppam in Kanchipuram district of Tamil Nadu. This centre, if successful, would be duplicated across the country.
- ➢ Opening a Resource Training Centre for mental health professionals as well as offering therapeutic space for women recovering from mental illness was on the cards.
- ➢ They planned to shift their Long Stay Home from Otteri to Mahabalipuram to function as a Protected Community Centre.
- ➢ The Banyan wanted to get into social research to strengthen its R&D activities.

Vandana said that they have started The Banyan with a dream and passion, and by 2009 they would be able to attain all the above mentioned goals.

Vandana and Vaishnavi identified and started grooming the second line of employees so that even after them, the organization continued to reach out and help the mentally-ill and destitute women.

Vaishnavi concluded:

> The primary function of an NGO is to serve as a role model to the government and the society at large. When a private organization with limited resources can take care of some underprivileged people say mentally-ill persons, handicaps, orphans, etc., why can't the government or the society do something about this issue? The solution is to expand the base of people willing to volunteer and support the activities of such service organizations. The Banyan is basically focusing on raising the number of stakeholders in the arena of mental health and homelessness. Towards this we are actively lobbying with government and non-government bodies. In all of this, the community is expected to play a large part. That's people like you and me!!!

Exhibit 1: The Banyan—Income and Expenditure (Rs.)

Year	Income	Expenditure
1993 – 94	85,677.60	90,809.44
1994 – 95	396,171.90	425,068.56
1995 – 96	1,656,700.00	1,484,965.02
1996 – 97	2,274,259.30	1,778,141.80
1997 – 98	3,614,254.91	3,757,347.82
1998 – 99	4,583,541.41	3,477,771.52
1999 – 2000	13,583,191.00	4,558,498.86
2000 – 01	12,798,967.33	5,873,981.14
2001 – 02	14,398,254.48	11,547,714.57
2002 – 03	13,187,048.73	12,268,865.52
2003 – 04	17,179,502.56	17,691,374.49

Revenue details

Grants	10%
Programme income	16%
General donations	74%

Exhibit 2: The Banyan Balance Sheet as on March 31, 2004 (Rs. in lacs)

	2002-2003		2003-2004	
LIABILITIES:				
General Fund:				
As per Last Balance Sheet	233.52		242.70	
Add: Excess of Income over	9.18		(–)5.11	237.58
Expenditure		242.70		
Corpus Fund		16.47		43.40
Sundry Creditors:		8.69		
As per Schedule III				12.26
Outstanding Liabilities				
Tax deducted at source payable				
Provident fund payable	0.06		0.32	
Salary payable	0.16	3.13		
Outstanding expenses	1.12		0.25	
	1.77			3.99
			1.72	
			1.68	
Total		271.10		297.24
ASSETS:				
Fixed Assets:				
As per schedule – I		227.85		222.84
InvestmentsSavings (taxable)				
bonds 2003				35.00
Current Assets				
Advances & deposits –				
Schedule II		35.02		
Sundry Debtors:				
Vijay Television Ltd		2.94		18.42
Architectural Management				
Services				
Tax deducted at sources				
(refund due)		1.4		0.13
Cash & Bank Balances:				
As per Schedule III		3.76		0.63
				20.20
Total		271.00		297.24

Exhibit 3A: The Banyan: Duration of Stay

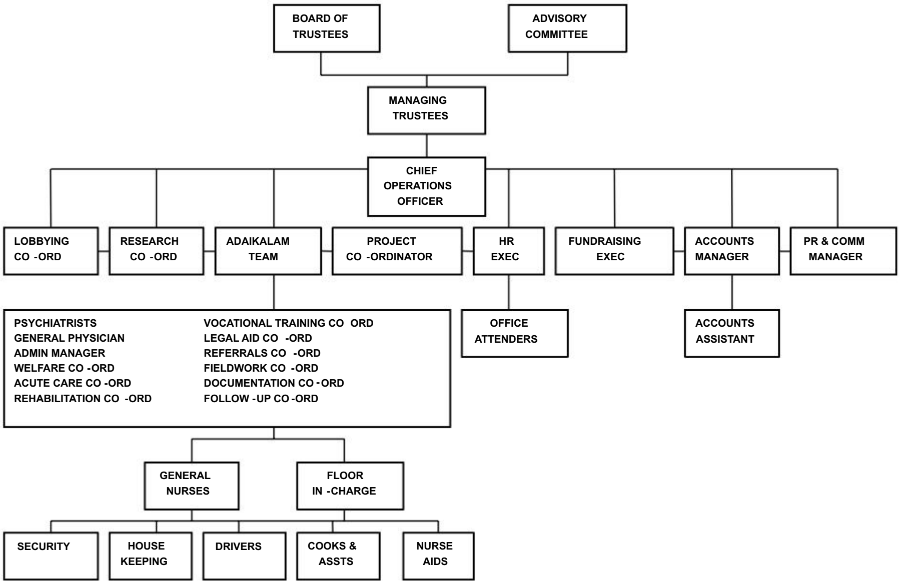
Sl. No.	Duration of Stay in The Banyan	% of Inmates
1	<1 month	0.4%
2	1-6 months	44%
3	7-12 months	14.3%
4	1-2 years	17.3%
5	< 2 years	24.1%

Exhibit 3B: The Banyan: Details of Admission and Others from April 2003 to March 2004

Month	Admission	Readmission	Rehab.	Referral	Failure	Death
April–03	34	6	28	—	3	2
May–03	26	14	32	12	1	1
June–03	22	12	11	2	5	2
July–03	31	4	25	6	1	1
August–03	32	6	16	—	—	2
September–03	20	9	21	3	1	6
October–03	34	7	12	11	1	3
November–03	17	14	19	1	—	3
December–03	30	15	27	6	2	2
January–04	24	4	18	9	2	2
February–04	32	5	13	1	2	2
March–04	25	10	33	17	2	1
	327	106	255	68	20	27

Admission	433	Total admission	327
Rehab	255	Rescue mission	232
Referral	68	Police referrals	50
Failure	20	NGO referrals	45
Death	27		

Exhibit 4: The Banyan: Organizational Structure



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Annual Report of the Banyan.

CASE 3

Aadharshila Design Studio

Neeraj Amarnani

December 2004 morning—Alok Desai was ruminating about the future of his business, Aadharshila Design Studio, a growing design and marketing consultancy services firm founded 18 years ago. He looked out of the window of his cosy, upmarket office in Vadodara and replayed in his mind a conversation he had with his friend a couple of days back:

> Things have moved on, and a lot of water has flowed down the Vishwamitri[1] since I set up shop. I am not sure about the direction I should lead my business in. Should I consolidate my clientele by increasing the scope of services offered, or should I concentrate on some speciality services and continue acquiring new clients? There are so many business alternatives. I am all by myself when it comes to running the entire show.

A creative and independent individual since his youth, with a keen interest in art, design, media and advertising, Desai was always passionate about venturing out on his own. Having completed MBA in Marketing from S.P. Jain Institute of Management and Research, Mumbai, in 1986, he turned down campus recruitment offers and returned to his hometown Vadodara, a city of one million.

GRAPHIC DESIGN AND BRAND MANAGEMENT SERVICES

Graphic Design

Graphic design used graphic elements and text to communicate an idea or concept. It designed promotional displays and marketing brochures for products and services, developed distinctive logos for products and businesses, and created visual designs for annual reports and other corporate literature. It also developed the overall layout

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[1] Vadodara in the state of Gujarat is situated on the banks of the river Vishwamitri.

and design of magazines, newspapers, journals, corporate reports and other publications. Graphic design was becoming synonymous with website development, especially developing aesthetic and functional user interfaces.

Brand Management

Brand management involved managing the tangible and intangible aspects of the brand. For product brands, the tangibles were the product itself, packaging, price etc. For service brands, the tangibles were the customer experience—retail environment, interface with salespeople, overall satisfaction etc. For product, service and corporate brands, the intangibles were the same and referred to the emotional connections derived as a result of experience, identity, communication and people. Intangibles were managed via the manipulation of identity, communication and people skills.

Brand management services operated at two levels: strategic and tactical. At the strategic level, it was about leading the brand's long-term identity and strategic positioning. At the tactical level, it involved guidance of all marketing consumer communications programmes and materials.

Brand management ensured that all communications that touched the consumer were integrated, spoken in one tone and voice, and visually complemented each other. It involved product launches, ad campaign marketing, media planning, point-of-purchase merchandising, co-operative advertising and budgets. Of late, consumers were bombarded with marketing messages everywhere, and the consequent impact could be quite confusing. Thus, it was critical that a brand communicated in one voice.

Brand involved management of various agencies such as events, web programmers, merchandising, telemarketing and sales promotion. It was critical to the brand management function that each of these marketing partners understood the brand positioning thoroughly. It involved time and effort in working closely with them on all projects.

EVOLUTION OF AADHARSHILA

1986–1997

For livelihood, Desai took up a contract with a family acquaintance to market IBM PC compatibles. He developed the marketing communication strategy, advertisements, catalogues and brochures and was involved in the product launch in the Western market. Simultaneously, he explored the possibilities of venturing out into marketing consultancy.

Around the same time, a friend of his, who happened to be a restaurant manager at a local hotel, Hotel Surya, sought his help in launching a food promotion. His help was appreciated, and the Managing Director of the hotel offered him the assignment of marketing consultant to launch Hotel Surya Palace. "My efforts have paid off. To this day, I hold the account of Surya Palace, and I am an integral part of its marketing strategy formulation and execution," Desai said.

During the next one year, he participated in the launch of three-star Hotel Surya Palace. He worked closely with the advertising agency of the hotel. At that time, in cities like Vadodara, there were not many communication professionals, and advertising agencies, rather than being creative, were more into space selling and media buying. This agency, thus, asked him to be their creative consultant for other jobs too. This second assignment broadened the interface with the local industry and offered knowledge and experience in diverse sectors and creative technologies.

The agency then approached Desai to handle its client management processes. To put it in his words, "I always wanted to be in the back office, working in a creative capacity, but never in hard core sales and client service. I politely declined the offer and continued as the creative head."

During the launch of Surya Palace, Desai developed an insight into the business of design, development and execution of campaigns. This inspired him to set up his own small design shop to offer design services and marketing consultancy in 1987. Having secured a couple of marketing consultancy retainerships, he rented his first business premises in the posh business area of Alkapuri. This coincided with his securing a speciality chemical manufacturing firm as a client. According to Desai:

> The assignment was my first foray into B2B marketing,[2] and extended from branding of the product, developing technical literature, packaging and product presentations, sourcing collaborators, including foreign ones, right through testing and sampling products. It was an exercise in techno marketing.[3] I was able to cull all that I had learnt in my MBA into a comprehensive product management strategy.

Desai felt that the marketing consultancy restricted his development across industries and media and limited his capacity to undertake more work. His business was limited to a few clients, and this concerned him. He decided to focus on graphic design services, along with value added services, across a large cross-section of clients. He anticipated progress in the field coinciding with the advent of computers and their utility in design creation.

His judgement seemed justified as he enjoyed exclusivity of business from 1987 to 1992. By 1988, he was getting design orders from top corporates such as FAG Bearings, Transpek Industries, ABS Plastics (later named Bayer ABS), Petrofils, IPCL, Banco Products, Asea Brown Boveri and Gujarat Alkalies and Chemicals Ltd. These large company assignments involved developing promotional literature and collaterals as well as designing exhibition stalls. Earlier, these clients were getting their requirements executed from Bombay. "At this stage, I had to reap the

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[2] B2B marketing (or Business-to-Business marketing) is defined as the marketing of services or products to another business.

[3] Techno marketing refers to the involvement of a high degree of technological knowledge of the product and its use in the marketing of the product.

benefits of focussing on graphic design. I had travelled along the learning curve, and competition was barely existent at the local level," said Desai.

In 1992, Desai moved to his own office, a 1,400 sq. ft investment in the posh Race Course Road commercial area. He had already decided to concentrate on project fee based graphic design services, rather than extend his business to media buying/releases. The period 1992-1997 was quite a buoyant period of the economy. It marked the advent of liberalisation and privatisation and the consequent increase in corporate spending. Aadharshila thrived and recruited additional manpower.

1997–2004

Around 1997, the local industrial setup, which thrived on chemicals, plastics and industrial products, hit a speed breaker. Orders from the organized and large-sector players for Aadharshila's design services saw a decline.

To counter this fall in revenue, Desai reverted to marketing consultancy retainership. He had been in business long enough to develop experience and goodwill among the local business community. Consultancy assignments were forthcoming and consolidated his presence in the city as an industrial marketing consultant for small and medium enterprises sector.

By 2000, the markets for industrial products and consumer services revived. Having worked on a variety of assignments, Desai felt confident enough to foray into comprehensive brand management solutions. The nature of Aadharshila's clientele at this point ranged from hotels, speciality hospitals, jewellers, educational institutions, eateries, garment showrooms, travel agents, fast food chains, and financial service providers to bakers and confectioners. The brand management contracts included brand creation, launch, growth and sustenance.

MEDIA BUSINESS PROSPECTS

Media business rarely had it so good in India (Exhibit 1). Figures from the Lintas Media Guide, 2005 showed that mass media grew by 22% in 2004, grossing revenues of Rs. 135 billion. The growth was essentially driven by telecom, auto, retail and finance sectors. The Guide also predicted that 2005 will be equally buoyant with a growth of 18%.

Television remained the leading medium with 69% of mass media time, with increasing penetration (there were more than 300 channels now being beamed in India) resulting in the average Indian viewer watching 438 advertisements a week (the global average was 566). However, the startling fact was that the revenue growth was contributed mainly by the unfancied media which grew at close to 30%. This growth was driven by regional language newspapers, with a spate of expansion in editions and geographical territories. Consequently, the local advertisers were being looked at with renewed attention.

Radio, essentially due to the 22 FM stations in 12 cities, claimed 2.2% of the revenue share. The Lintas Media Guide claimed that Indian cinema, with multiplexes drawing high numbers of viewers, was witnessing 18% compounded growth per annum. Outdoor advertising grew by 20% to maintain its share at 5.7%. Internet grew at a fast clip by 30%, but the absolute number did not even constitute 1%. Internet was used essentially as a lead generator and promotion vehicle.

According to Professor V. Srinivasan of Stanford Graduate School of Business, a major challenge of the advertising business was high degree of fragmentation in communication, making advertising through mass media a tough nut to crack (Bennychan, 2005). According to him, the US was already witnessing a decline in mass media advertising.

In the view of John Steedman, Chairman, Mindshare and Maxus, Asia Pacific, the media business in India was a high priority one for GroupM (one of the top five globally marketing communications conglomerates) along with China, given its growth potential and learning opportunities (Agnihotri, 2005).

Synovate, a research agency, was recently mandated for a survey by Pitch and Madison Media to gauge the mood of the industry. The forecasts gave a positive outlook for 2005, with television turning out to be an expected drag on the growth rate (Forecast, 2005). All the key constituent segments—marketers, ad agencies and media agencies—were found to be quite buoyant on prospects for the year, offering better quality products to the clients, increased ad budgets, better quality services, increase in the consumer base, rationalizing of prices of products and services, and an upbeat consumer response.

DESAI'S DILEMMA

Desai's business was now divided into two categories: (A) small- and medium-sized regional players for whom he was handling comprehensive brand management assignments and (B) large-, medium- and small-scale national companies for whom he was handling graphic design assignments. The former included brand creation/evolution/launch, planning and execution of brand strategy, and brand communications. The latter included graphic design for literature, print advertising, trade shows, exhibitions, and multimedia/interactive and websites. There were other opportunities of promotion such as public relations, corporate films, event management and direct marketing.

The available business options were as follows:

A	B
Local or regional brands Comprehensive brand management solutions	Large and medium corporates/NGOs/SMEs

Desai summed up his business alternatives as follows:

Both business segments obviously have their pros and cons. In segment A, I am able to offer the client complete communication solutions. It gives me greater satisfaction and also results in more recognition and decent rewards. I am closely involved with the organization, have a say in their business plans, and have to bother less about the business development perspective of my agency. This has also earned me a good degree of visibility within the local business community, which essentially operates on a relationship basis. I even have a more predictable cash flow and can maintain a compact office. Given that there are hardly any established players in the segment locally, competition is just no issue. Given the increasing need for brand management felt by these businesses due to the entry of national/multinational players, there are huge possibilities.

On the other hand, these players are vulnerable to the "big fish eat small fish" phenomenon. It erodes the security of business in the segment. Also, segment B gives me an opportunity to flaunt big names in my client profile, and also to do B2B media like direct marketing and trade shows. I have made 15–20 corporate documentaries, which seem to be an exciting prospect. There is no emotional baggage while dealing with these companies and provides Aadharshila a piece of much larger advertising budgets. Who knows, I may even go national! I would, of course, have to deal with many more employees/ freelancers. I would have a variety of skill sets such as programmers, graphic designers, videographers, copywriters and event managers to name a few. In all, I have to source work from a client list of over 150.

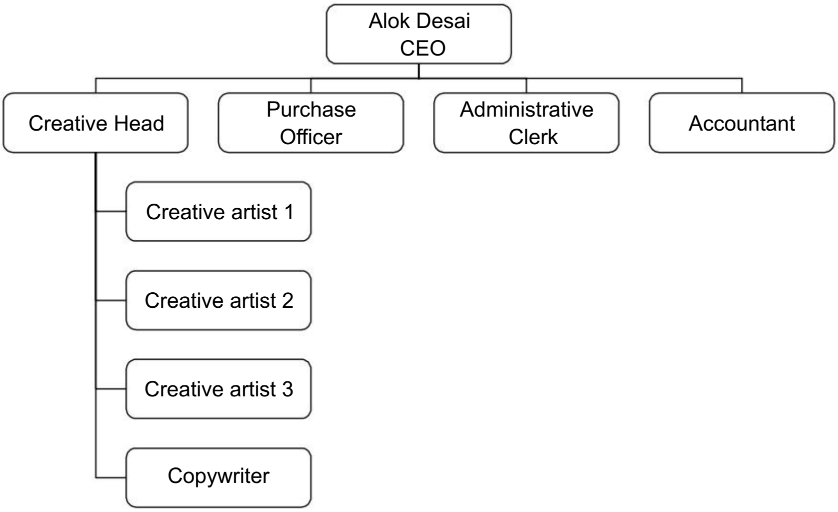
I see opportunities in both segments. Media is a real growth scene, with explosion of alternative technologies. The only hitch is the intense competition in segment B. Due to the absolute level of satisfaction involved and my commitments to some of my long-standing and loyal clients, I would never completely give up on segment A. Also, I am not too sure as to how to handle the manpower situation. I currently employ about eight people (Exhibit 2), with a lot of freelance help available on call. In business development for segment B, I would like to delegate more responsibility and possibly also hire qualified personnel like MBAs for that. This is a largely relationship-determined setting; I don't want to take chances. For segment A, I need to personally service the clients with assistants to back me up. That is my dilemma. How do I grow my business?

Exhibit 1: Media Expenditure Mix 2003/2004 (Rs. in crores)

Year / Medium	2003	2004	% change
TV	4044	4608	14
Press	6068	7810	29
Radio	245	299	22
Cinema	15	18	20
Outdoor	571	686	20
Internet	57	74	30

Source: Lintas Media Guide, as quoted in Impact (Jan. 31–Feb. 6)

Exhibit 2: Organogram of Aadharshila Design Studio



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CASE 4

Mahesh Edible Oil Industries Limited

Vijai Caprihan

January 1, 2005 was a cold, foggy morning in Agra. But there were warm smiles on the faces of the Rathour brothers and their employees. The glass panel of the entrance announced:

CONGRATULATIONS!

YOUR COMPANY HAS JUST CROSSED RS. 100 CRORE MARK

Shiv, Brij, Dinesh and Mahesh, the four Rathour brothers, shared sweets with their employees.

Shiv, the eldest brother, had a serious look. He looked out of the window. Thanking the Almighty for His grace, he flashed back to the late 1970s, when as an energetic 11-year-old he had joined his father in trading mustard seeds.

His father, Ram Babu Rathour, a simple, down-to-earth, unegoistic man, belonged to an agricultural family in Chitora village, 30 km from Agra. In early 1960s, he commenced trading business, buying loose mustard oil from small expeller[1] units in Chitora and selling it door to door in the surrounding rural area on his bicycle. In 1965, he moved with his wife to Shamsabad, a small town 24 km from Agra. He shifted from oil to mustard seeds, pulses, wheat and cereals. The trading operation was in partnership with his friend and later with relatives. He and his partner invested Rs. 10,000 each. They purchased mustard seeds from farmers coming to Shamsabad and sold to oil mills in Delhi, Kanpur, Haryana and West Bengal. They had a turnover of Rs. 2 lakh in the first year.

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[1] Expeller was a machine for crushing oil seeds and extracting oil and getting the by-product. The seeds were put in a funnel and passed through a clock-wise rotating toothed cylinder. Towards the end of it, there was a crushing wheel rotating anti-clockwise. The oil got squeezed out and flowed into a sump below the cylinder. Behind the crushing wheel, the residual was ejected out, which was used as animal feed. The oil produced by this method got heated due to the rotary motion. It lost its pungency. Research established that pungency was good for the heart.

Though trading of mustard seeds was done through brokers, Ram Babu accompanied the truck with the seed to the customers to eliminate transit losses and insurance costs, and collect payments. His eldest son, Shiv Kumar, was born in 1966.

1970s

Shiv joined school in 1970, but he did not enjoy classroom learning. He preferred to spend his time outdoors. He observed business very closely. In 1977, after being unsuccessful in VII standard, he joined the family business. By then, his father parted ways with his partners and worked in partnership with Shiv's maternal uncle. When Shiv joined the business, this partnership too came to a close. Shiv started to handle trading operations with a turnover of Rs. 5 lakh. His father set up Babu Lal Oil Udyog with two oil expellers. They produced 350 litres of mustard oil daily.

Like father, Shiv accompanied trucks to deliver seeds to the oil mills. This gave him an opportunity to see the manufacturing process. In 1979, he started Mahesh Trading Company. He learnt about procurement of seeds, warehousing and value addition. Apart from monetary value, each visit to a mill gave him some food for thought. He asked: Why should someone add value to the seeds procured by him, not himself?

1980s

Shiv now had three brothers—Brij, Dinesh and Mahesh. All four worked towards a common goal, but had varying personalities. Shiv was a visionary, optimistic, extrovert and a driving force. Brij Mohan was an introvert, pessimistic, highly analytical but with eyes of a hawk. Dinesh was a reserved extrovert, very ambitious, confused, believed in having discussions with everyone but doing what he wanted to do. His discussions were directed towards getting endorsements to his own thinking rather than evaluating others viewpoint. Mahesh, like Brij, was a reserved person with a great understanding of human element, a highly calculative decision maker, and a great motivator.

The growing family needs led to financial pressures, and father and Shiv felt the need to expand their business. While the others started schooling, Shiv was busy learning more about the mustard oil business. There were three oil mills already operating within 100 km radius of Shamsabad—B.P. Oil Mills and C.R. Oil Mills at Agra and Ganesh Oil Mills at Aligarh. These mills were major players in "kachi ghani"[2] mustard oil.

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[2] Kachi ghani was a process of producing mustard oil where original pungency was retained and was, therefore, good for the human system. The fresh seeds were first pulverized in a "kolhu", which was a metal base with wooden vessel inside. The seeds were slowly pressed in it by a rotary spindle which ran for 45 minutes per cycle. The protective skin of the seed peeled off and the pulp got mashed extracting some oil. The skin settled on top of the pulp and was removed and used in making the oil cake. The pulp was then put in an expeller which took out all the oil. In this process the oil did not get heated.

By the late 1980s, the business grew to Rs. 25 lakh. It was a phenomenal growth. But Shiv felt the need to grow and not remain a mere supplier of seeds to mills. He wanted a mustard oil mill that would be greatly respected for its quality product and fair dealings.

A brief note on the edible oil industry, competition, government policies and economic environment is given in Exhibit 1. An independent research on advantages of mustard oil over other edible oils is given in Exhibit 2.

An action of a fellow trader in Shamsabad worked as a catalyst for Shiv. This trader had a small mustard oil mill and mustard seeds trading business. He offered slightly higher prices to the farmers and diverted the seeds to his own factory. This hurt Mahesh Trading Company.

One evening in November 1988, Shiv and his parents were sitting on cots in the courtyard of their house discussing business and future prospects. His inherent business sense could see higher profits by eliminating middlemen. He visualized companies procuring raw material, converting it, and then selling the produce directly. He could foresee his own trading operations coming to an end and his determination to enhance value growing. After a lot of hesitation, Babu Lal agreed, but wanted Shiv to set up a small unit to emerge as a local player. However, Shiv wanted a unit which would compete with the larger ones on quality and price. Ultimately, they decided to start small but aim big.

In 1988, in view of the requirements for the next 25 years, Shiv bought 40,000 sq. m. of land on the outskirts of Shamsabad. They had money to pay for the land, but not for land registration. The Rathours at this junction raised loans from friends and family members and got the land registered.

This land, 100 m south of Shamsabad–Agra road, had no approach road. Shiv recalled how the four brothers worked shoulder to shoulder to construct the connecting road. That was their first joint achievement. In 1989, while the younger brothers were still studying, Shiv made the following decisions:

- Deliver the expected value to customers, which would, in turn, deliver value to the organization.
- Develop not only a community of customers, but also a community of employees.
- Be totally fair to all the stakeholders.
- Build an organization that enjoys freedom on all parameters.

1990–1995

For the Rathours, their dream of having their own mill became reality. Financing the project was a problem. Shiv, therefore, applied for a loan of Rs. 16 lakh from UPFC (Uttar Pradesh Financial Corporation), which was sanctioned at 19% interest. During 1990–92, UPFC financed 56 mustard oil units, of which then, 55 got closed down subsequently.

The loan helped them to construct a small building for the plant. The brothers supervised the construction. To invest only in production and to maximize value addition, Shiv curtailed expenditures in the following ways:

- ➢ No boundary to the plot was constructed to avoid dead investment.
- ➢ The small plant had only a brick floor to lower the cost. Money was kept only for machinery and working capital.
- ➢ Factory was made. No office was constructed. Shiv's briefcase served as an office.

In March 1991, the small plant of Mahesh Edible Oil Industries Limited (MEOIL) commenced production. When the plant was almost 80% ready, there were still no signs of getting an electricity connection. Undeterred, Shiv utilized his political connections and obtained an electrical connection directly from the feeder.

The plant initially had 32 kolhus, having an average output of 6,800 litres per day. With time, the factory had 472 kolhus, installed in two units with an output of 1,25,000 litres per day. (Plant layout is given in Exhibit 3.)

His younger brother, Brij Mohan, who had just completed his XIIth standard with Mathematics, was inducted into business as soon as the plant got ready. Dinesh, who was still studying, looked after the night shift production till 1994. During the day, he visited college when he wanted to, otherwise he did outdoor chores for the factory.

SHIV KUMAR'S BUSINESS PLAN

Procurement: Initially, his trading company supplied mustard seeds to the plant. Convinced that one of the ways to add value was to get the lowest procurement price, all purchases of raw material were made on cash payment. Credit, he believed, added to the cost and reduced value addition.

Production: One major decision taken was to ensure 100% quality check so that the plant never had to stop production either because of shortage of raw materials or mechanical breakdowns. The layout was designed by Shiv to ensure a smooth flow of process and quality check at each conversion point of the raw material (Production process is given in Exhibit 4).

Finance: The high rate of interest of UPFC bothered Shiv and Brij because it adversely affected their expansion plans. By 1993, they cleared the UPFC loan. Shiv recalled when they made their first repayment to UPFC, their officer was surprised why the firm was paying up as soon as production commenced. For the first five years, no unnecessary investment or expenditure was made. All profits were reinvested into the business to increase production capacity. For working capital, they operated only on cash credit limits.

Sales: Shiv wanted to rotate capital very fast. To make substantial profits for reinvesting in business, he commenced marketing unbranded loose oil. The oil was sold through a broker in Agra, and all dispatches took place in tankers. Oil cake, a by-product, was marketed through wholesalers. The goal was to sell whatever was produced as early as possible. The company closed year ending 1991 with a sales turnover of Rs. 2.90 lakh (Sales figures are given in Exhibit 5).

SALONI

A broker friend, Hari Shanker Varshney, suggested Shiv that MEOIL sell packed oil under own brand name. Though Shiv accepted the suggestion, he was at a loss for a brand name. The friend suggested his niece's name, Saloni, as a brand. The name appealed to Shiv; it sounded feminine and meant beautiful in Hindi. Sale of loose oil in tankers was stopped, and *Saloni* was launched in 15-litre tins. But the intermediaries hesitated to stock a new brand in the market because of the brand image which was created by the earlier players. Unknowingly, segmentation was done and value added. Shiv handled sales till 1994, penetrating into markets as distant as Kolkata.

AN ACCIDENTAL OPPORTUNITY

In 1994, a truck laden with oil tins was on its way to Kolkata. Shiv received a call one night informing that the truck had met with an accident in Gaya, a small town in Bihar. He deputed Dinesh to visit the site of the accident and take possession of the consignment. Having done that, Dinesh accompanied the truck to Kolkata and sold the consignment of damaged tins through the broker. This was Dinesh's first visit to a market. He spent a few days in Kolkata and thought of various ways to increase sales in that market. Having located a consignee agent, he called Shiv and took his permission to appoint the party. This was the beginning of the company establishing its own channel, eliminating brokers. The sales in Kolkata immediately witnessed a 100% growth.

1995–1999

There were major premium brands like Engine, Elephant and Ganesh. Apart from major competition from the unorganized sector selling loose oil, ITC, Fortune and Dhara were introduced. Market segmentation to serve specific buying needs was undertaken by introducing a 1-litre consumer pack. This enabled them to enter the retail market from the earlier bulk market. The product was available in a choice of packs (Current product range is given in Exhibit 6). They were targeted for the lower segment and positioned as premium quality oil at reasonable prices.

In 1997, Dinesh, who had completed his M.A., moved to Ranchi to tap the potential of Jharkhand. This led to a distribution network of 6,000 direct channel members and 40,000 indirect channel members. Initially, there was resistance from distributors because of competitive pressures. They had to eliminate them and go direct to retailers and fight price wars.

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In August 1998, a terrible tragedy unfolded in Delhi and some other parts of the country. This epidemic was referred to as "dropsy".[3] On 27 August 1998, the Government of India banned the sale of mustard oil. On 4 September, it imposed a ban on the sale of all unpackaged edible oil. The Edible Oils Packaging (Regulation) Order 1998 was introduced, banning the sale of all loose edible oils. Many mustard oil mills closed down because of the ban. MEOIL's commitment to quality paid rich dividends. *Saloni* passed all tests, and they successfully tapped the vacuum created by the exit of many players.

It was then that they started to create a more extensive and intensive distribution by appointing distributors and opening their own depots. They soon had a hybrid distribution structure. Since 1998, in 14 major markets, MEOIL sold directly to retailers through its van salesmen. In other towns under the depot, they appointed distributors/wholesalers. The marketing organization was based on direct reporting by the field force to the corporate office (Marketing organization is given in Exhibit 7.

Completing his B.Sc. in 1999, Mahesh took over the responsibility of the production function. The output of the plant at that time was 46,000 litres per day from 232 kolhus. He immediately had two major areas of concern—production and packaging-related. He observed that the maintenance costs were very high and workers were not held accountable when production declined.

As a first step, he assigned specific responsibilities to predetermined teams. He initiated action to reduce costs and improve productivity. He introduced a production-oriented incentive scheme and streamlined the production process. The testing laboratory was upgraded and in-process checks were incorporated. Mahesh also observed that the packaging material was being procured from suppliers who were located at quite a distance from the plant and at rather exorbitant rates. The suppliers delayed their delivery and thereby delayed the company's dispatch schedule.

Another unique process adopted by Mahesh was to totally ban the entry of suppliers to the factory. The trucks arrived with the seeds at the gate. After handing over the dispatch documents of the supplier, the gate keeper generated an inward statement in which name of the supplier was not mentioned. Company's own drivers took the truck, while the driver/labour accompanying the truck were given coupons to rest and eat at the canteen outside the factory gate. At no stage did anyone in the factory knew the source of the raw material. This information was available only with the Finance Director. Thus, a totally transparent test was done on the quality/quantity of the seeds received. The payments to suppliers were made on the basis of actual weight received, not dispatched.

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[3] Dropsy was caused by adulteration of mustard oil with argemone oil, which was because of argemone seeds being mixed with mustard seeds. The adulteration led to nausea, vomiting, diarrhoea, abdominal swelling, kidney damage, breathlessness due to retention of fluid in the lungs and, in extreme cases, led to death due to heart and liver failure.

2000–2004

Post-dropsy period induced the Rathours to focus on their respective areas, undertake a SWOT analysis, and examine their strengths and weaknesses. These four years brought growth, value addition and self-introspection. Employee commitment was exceptional, and attrition was very low. The company started an employee welfare fund, wherein each employee donated a certain amount per month and the company made an equal contribution. The fund was managed by the workers. The management had no say in administering this fund.

By now, the brothers were well entrenched in their respective areas of work. Each took independent decision. Coordination was based on simple assumptions—run the factory 24 hours, 365 days a year and monitor current assets—profits would come on their own. The changes brought in these four years were greater than the earlier decade of their existence.

Procurement: Shiv did not spend more than a minute to finalize an order. Typically, he spelt out his requirement of quantity, price and delivery schedule. He left the decision to do business to the supplier. This approach helped him to book entire lots offered by NAFED (National Agricultural Federation). His clarity of thought and foresightedness ensured that the factory always had raw material in abundance. He enjoyed lowest prices because of "zero credit".

As the year 2004 was coming to an end, Shiv, Managing Director, who had the specific responsibility for purchase, started thinking of procuring seeds on a "back bid" basis. He was planning to have e-purchase offices located in supply markets. Once he posted his requirement in quality, quantity and delivery schedule, the suppliers could bid online. He believed that open competition would help him get lower prices, and a quality check at the originating place would help reduce time and costs at the factory. He contemplated having test laboratories at major supply centres in mustard-growing areas.

Finance: During the first decade, data processing and record-keeping were done manually. Delays in data resulted in excessive costs and lower profits. In 1997, Brij started using customized Fox Pro software. In 1999, web-based software was developed, but it had to be scrapped because it did not deliver the required output. Finally, in 2000, Brij went in for ERP. As Director Finance, Brij was in total control of the assets. He was able to access information on purchase orders, receipts at factory gate, weight taken at weigh bridge, inward stocks, in-plant inventory of raw material in warehouse and process, sales tax, bank position, finished goods inventory in warehouse and transit, depots stock, each retailers performance, stock valuation, billing and realizations (ERP system is given in Exhibit 8. For online working and giving online sanctions to depots, V-SAT linkages were established in 2002-2003 (V-SAT connectivity is shown in Exhibit 9.

ERP and V-SAT helped in overall control and logistics. Inventory costs were reduced to the bare minimum by moving stocks for weekly requirements to depots. Interest on bills receivables was reduced by generating invoices on the ERP system.

If the buyer outstanding was beyond the permissible amount in days or value, the invoice was rejected. The depot had no authority to violate the sanctioned limits. Brij's worry, however, was lack of proper system at the corporate office to avoid uncalled for approvals for limit violation, which the marketing division made at times to meet its overlooking the organizational objective. He also feared that some depot in-charges or C&F agents might be utilizing MEOIL's collections for their own business, or might be having new agency approvals for retailers who owed money to the company, and on whose names invoices could not be raised.

Marketing: Dinesh, Marketing Director, always had reasons to worry. Having established sales because of the dropsy-generated vacuum, a very rapid expansion in distribution took place. He controlled 80 odd sales people directly and depended on them to generate sales and goodwill among the channel members.

Most of his time was spent on haggling over discounts because of the speculative nature of the commodity and raw material price fluctuations. Since volumes were the mantra, his policies were all target oriented. Initially, he assigned targets to the sales personnel on his gut feel of what could happen. Performance incentives were based on these targets. There were lacunae in the scheme that resulted in very poor effective calls to sales ratio. The success was 20%. Since sales were given priority, the sales force ended up ignoring expanding channel and its management.

The number of outlets increased due to new geographical markets. *Saloni* had presence in UP, Uttaranchal, Bihar, Jharkhand, Orissa, West Bengal, Assam and other north-eastern states. The brand was a leader in 14 major towns where it did direct distribution to retailers. In terms of sales volume of kachi ghani mustard oil, it was fifth in India.

Its by-product, oil cake, was sold through brokers or consignee agents. Dinesh was desperately looking for ways to market oil cakes more innovatively and lucratively.

He appointed a marketing consultant in March 2004. The consultant suggested ways to involve the sales force in decision-making. He emphasized that if commitment of sales people had to be increased, they had to be empowered. Sales targets should be worked up from the grassroot. The front-line sales people should be encouraged to work up their own targets after thorough analysis of the areas assigned to them. They should be encouraged to suggest methods for greater market coverage.

Dinesh discussed the plans developed at the grassroots level, suggested improvements, and got their endorsement. At the end of 2004, the sales force was trained on the use of computers, and all their reporting was made online. Since online reporting reduced personal conversations, Dinesh was looking at methods for improving control. All this resulted in increased sales, but achievement of results in all spheres was still a dream.

After conducting a training-need analysis, the consultant suggested a training programme to impart dealer management, time management and selling skills. Dinesh viewed training as an expense rather than an investment. The consultant then indicated that MNCs would soon enter the Indian market with mustard oil and would cash on their extensive distribution base. MEOIL had to entrench itself in the market before this happened.

Not to place all eggs in one basket, Dinesh was keen to enter the CSD (Canteen Stores Department of the Ministry of Defence) market, explore overseas potential and widen consumer base by going national.

To manage the sales force better, it was suggested that there should be a proper human resource management policy and systems at the corporate office. Dinesh immediately responded by appointing a consultant who spent a day each week at the office.

The marketing consultant said that it was necessary to "build systems and processes like a building, brick by brick". He advised Dinesh "to have a strong organization, first make the foundation strong and build the front line people". The following crucial parameters for improvement were identified:

➢ Priority on payment realization.

➢ Developing existing channel members to perform better so as to upgrade them and help them move to a higher classification such as D to C, C to B, B to A and helping those already in A to be super retailers and peers for others.

➢ Market expansion and market penetration.

The consultant suggested that the incentive scheme for the sales force should focus not on sales but on the above parameters. In other words, they would not have a sales target but a collection target. He suggested that the scheme should also incorporate incentives for upgrading dealers, turning non-dealers into dealers and venturing into new areas.

Dinesh felt the consultant was laying too much emphasis on development of people, on systems etc., rather than on increasing sales. Finally, not being able to see eye to eye with each other, the consultant was asked to leave.

Production: These four years added feathers to Mahesh's cap. Production capacity increased 100%. As of 31 December 2004, 472 kolhus were operational. He added another 240 to the 232 he took over when he joined. A new plant was constructed for expansion. The plant was ISO 9002 approved.

On joining the business, his immediate concerns were cost reduction and productivity increase. More than half the workforce at the plant was workers. He first developed eight sections in the plant. One section comprised of two production lines consisting of total of 60 kolhus and 5 expellers. It had eight helpers, including a lineman, foreman and a kolhu cutter. In addition, there was the expeller labourer and an oil man. The responsibility of the last person was to ensure that the wooden surface of the kolhu was perfect to ensure proper pulverizing of the seeds. The sections were under a supervisor. The plant had two supervisors per shift—one supervising three sections and the other five. Mahesh then designed unique incentive schemes for the production teams and maintenance personnel. (The production-oriented incentive schemes are given in Exhibit 10.)

To reduce production holdups or breakdowns, he divided the maintenance teams into non-electrical and electrical.

For non-electrical maintenance, a competitive spirit was generated. Spare parts were issued only as replacement to defectives. Each month, line's maintenance expenses were tabulated. The line with least maintenance was awarded Rs. 500.

In electrical maintenance, the major problem was that motors were getting burnt because of inadequate maintenance. An incentive of Rs. 600 was paid to the maintenance lineman if there was no report of a motor getting burnt in a month. If there was one failure, there was no incentive and no penalty. If there was more than one burning case from the same line, the lineman bore 15% of the repair cost. This scheme ensured perfect maintenance of electrical motors and equipment.

In 2004, outsourcing of HDPE plastic jars, corrugated cartons and gunny bags was stopped. These were produced in the plant. MEOIL invested in the plant and machinery, bore electricity expenses and procured raw material. The production was given on a labour contract to their earlier suppliers, who now manufactured only for MEOIL. This system reduced costs of jars by 25% and cartons by 30%.

Vision 2010

The four brothers were celebrating the milestone reached. Each was in deep thoughts. Their vision was Rs. 1,000 crore by 2010. Each pondered what his next course of action should be to achieve their dream. Or had they dared to dream the impossible?

Shiv wondered if he could do more than just back bidding. Would a total backward integration be useful? Should he go in for contract farming? How could he procure 10 times more raw material, ensure timely delivery and least costs?

Brij thought of possible processes to be adopted to ensure complete financial discipline without upsetting sales and ensuring that company's money was not misappropriated.

Dinesh wondered whether to increase markets or manpower? Should he opt for company-owned oil-vending outlets? What would be the right time for Central Sales Depots (CSD) and exports? What kind of an organization would he have to handle Rs. 1,000 crore sales? Could he achieve in his existing territory or should he go national? He was approached by two MNCs in the first week January 2005 that were looking for strategic alliances. One wanted to outsource mustard oil under their brand, and the other wanted MEOIL to buy seeds from it and pay back in the form of oil cake.

Dinesh could see that the marketing consultant's forecast coming true. Therefore, was training and dealer management required? Should the objective-oriented incentive scheme suggested by the consultant be introduced or they just concentrate on sales alone? To achieve higher volumes, how could sales force productivity be increased?

He came across a research paper on advantages of mustard oil. Should he use this and other supporting reports/sources to convert non-users to users? This would

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mean taking on the remaining edible oil sector head on. Could they sustain it or would they be spending too much effort and resources on such a war? Or should they operate behind the scene by promoting an NGO to educate people on advantages of raw mustard oil? Should they outsource other food-related products and market under their brand through the same channel?

Mahesh, on the other hand, was pondering over other innovations he had to carry out at the plant. Should he look for possible expansion at the present site, or should he consider setting up additional plant in either a mustard-growing area or in a high-consumption market?

What had been bothering the Rathours was how to continue the process of value addition? Was this the only way for sustainable growth? Do they have to move from being a family-owned business to a family-led business?

Exhibit 1: The Edible Oil Industry

Industry

India is a major player in the international edible oil market. It is the largest importer and the third largest consumer of edible oils (after China and EU). However, the per capita consumption is around 10 kg per year, which is considerably lower than most developing countries. Palm oil (mainly imported) and soyabean oil account for almost half of the total edible oil consumption in India, followed by mustard and groundnut oil.

Edible oils are made out of various kinds of seeds, flowers and vegetables. Sunflower, safflower, soya, groundnut, mustard, palm and coconut are some of the raw materials used for different cooking mediums.

India is a vast country and people of several of its regions have developed specific preferences for certain oils, largely depending upon the oils available in the region. For example, people in the southern and western parts prefer groundnut oil, while those in the eastern and northern parts use mustard seed/rapeseed oil. Likewise, several pockets in the south have a preference for coconut and sesame oil.

People of northern plains are basically hard fat consumers, and therefore prefer Vanaspati, a term used to denote a partially hydrogenated edible oil mixture. Vanaspati has an important role in the edible oil sector. Its production is about 1 million MT annually, i.e. about 13% share of the edible oil market. It has the ability to absorb a heterogeneous variety of oils which do not generally find direct marketing opportunities because of consumers' preference for traditional oil such as groundnut oil, mustard oil and sesame oil. For example, newer oils like soyabean, sunflower, rice bran and cottonseed and oils from tree and forest sources have found their way to the edible pool largely through the vanaspati route. Of late, things have changed. Through technological means such as refining, bleaching and de-odourisation, all oils have been rendered practically colourless, odourless and tasteless and, therefore, have become easily interchangeable in the kitchen. Newer oils, which were not known before, have entered the kitchen, like those of cottonseed, sunflower, palm oil or its liquid fraction, palmolein, soyabean and rice bran. All of them are again essentially bland, processed edible oils. About 60-70% predominantly groundnut and mustard seeds are used to make non-refined or filtered oils. These tend to have a strong and distinctive taste preferred by most traditional customers. About 70% of these filtered oils produced are by the organized and semi-organized sector plants producing 2,000–10,000 MT per month. It is often branded by large manufacturers. The lower quality and generally lower cost filtered oil produced is mainly by the small-scale village-based processors using expellers.

The oil is mostly sold loose directly to the consumers from a variety of containers, often within 2-3 days of production. These local crushers produce between 0.5 and 2 MTs per month. This decentralized production and marketing pattern may account for around 20% of all edible oils in the country. Such oil is sold either directly or through "kirana shops".[4] However, oil extracted by this method lacks the "pungency" which is considered to be the benefit of mustard oil. Some large industries slowly grind mustard seeds in "kolhu's" device, in which the seeds get pulverized slowly helping to retain the pungency of oil.

In the production process of MEOIL, fresh seeds are first destoned, which means stones and other particles are removed. Mustard seeds then are sent to "hoppers" from the warehouse by means of screw conveyors and elevator. The hopper distributes seeds equally amongst "kolhus" through a shoot. Here, pulverization of seeds takes place separating the protective skin of the seed, which is removed and is used in making the by-product. The pulverized seeds get transported to expellers where further crushing takes place and the oil flows through pipes to filters. After a series of filtration, the oil is stored in tanks which are the feeder for the packaging machines. A by-product of the process is the "oil cake" used as cattle feed and has a large domestic and overseas market.

The share of raw oil, refined oil and vanaspati in the total edible oil market is respectively 42.0%, 42.7%, and 13.4%. Typically, 70% of the production cost is of the raw material. Saloni falls in the category of raw filtered oil.

Competition

MEOIL has faced competition on more than one front. When it first started to see loose mustard oil, buyers in the wholesale market were hesitant because of pressures from local unorganized expeller units not to buy loose oil from unknown sources.

Once branding was done, the three existing brands at that point of time started to pressurize retail outlets by reducing their prices and extending credit with a view to kill the Saloni brand at the introduction stage.

Since it has been a belief that mustard oil is good for health, and the Indian population was becoming a victim of increasing cardiac disorders, other edible oils

[4] Kirana Shops: These are the commonly called corner shops in small localities selling grocery.

such as sunflower and soya etc. started to position themselves as zero cholesterol oils and an ideal cooking medium to reduce heart problems.

Existing brands of oils pressurized distributors from stocking Saloni. This led MEOIL to go in for direct supply to retailers.

Government Policies

The government took various steps to enable growth of the edible oil sector. One was the setting up of the Technology Mission on Oilseeds in 1986. This gave a thrust to government's efforts for augmenting production of oilseeds. This is evident from the very impressive increase in the production of oilseeds from about 11.3 MT in 1986–1987 to 24.8 MT in 1998–1999. There was some setback in 1999–2000 because of the unseasonal rain followed by inclement weather. The production of oilseeds declined to 20.7 MT in 1999–2000. However, as per available information, oilseeds production in 2003–2004 was estimated to be 25.1 MT. The other dominant feature which has had significant impact on the present status of edible oilseeds/oil industry has been the programme of liberalization under which the government's economic policy allows greater freedom to the open market and encourages healthy competition and self-regulation, rather than protection and control. Controls and regulations have been relaxed resulting in a highly competitive market dominated by both domestic and multinational players.

Liberalization of seeds imports as a result of the new economic policies, contributed to increase in production of non-mustard edible oils. The table below gives details of oilseeds:

(In lac tonne)

Oil Year (Nov.–Oct.)	Production of Oilseeds	Net Availability of Edible Oils from All Domestic Sources	Consumption of Edible Oils (from Domestic and Import Sources)
1998–1999	247.5	69.60	95.82
1999–2000	207.1	60.15	102.11
2000–2001	184.4	54.99	96.76
2001–2002	206.63	61.46	104.68
2002–2003	150.58	47.28	89.94
2003–2004	251.43(4th advance estimates)	71.09 (Est.)	121.09 (Est.)

Source: (i) Production of oilseeds: Ministry of Agriculture

(ii) Net availability of edible oils: Directorate of Vanaspati, Vegetable Oils & Fat

There has been a persistent gap between demand and domestic availability of edible oils. The government, with a view to avoiding scarcity of this item and consequential rise in prices, has been allowing import of edible oils. In pursuance of the policy of liberalization of the government, there have been progressive changes in the import policy in respect of edible oils during the past few years. Edible oil, which was in the negative list of imports, was first decanalized partially in April 1994 with permission to import edible vegetable palmolein under OGL at 65%

duty. This was followed by enlarging the basket of oils under OGL import in March 1995, when all edible oils (except coconut oil, palm kernel oil, RBD palm oil and RBD palm stearin) were brought under OGL import at 30% duty, and then further reduction in duty to 20% plus 2% surcharge in the regular budget for the year 1996-1997. Another surcharge of 3% was later imposed bringing the total duty to 25%. In order to increase imports and to curb the high domestic prices, this duty was further reduced by 10% in July 1998. In order to harmonize the interests of domestic oilseeds growers, consumers and processors and to regulate large import of edible oils to the extent possible, the duty structure on edible oils has been revised four times in a span of 14 months. The latest revision was effected on 1 March, 2001. The custom duty on CPO meant for vanaspati manufacture has been raised from 25 to 75% except in case of sick vanaspati units where duty was kept at 55%. However, vide Notification No. 44/2001-Custom dated 26 April 2001 issued by the Department of Revenue, Ministry of Finance, entries relating to concessional rate of custom duty @ 55% on crude palm oil (CPO) for sick vanaspati units has been omitted. Now, there is a uniform rate of duty @ 75% on CPO for all the vanaspati units, whether sick or otherwise.

The duty on refined oil has been raised to 85% (basic) except in the cases of refined soyabean oil and refined mustard oil, where the duties are 45% (basic) and 75% (basic) respectively. Special Additional Duty (SAD) is levied on import of refined oils at the rate of 4%.

The government has allowed the import of oilseeds. However, virtually, there has been no import of oilseeds largely because of the following safety measures imposed by the Government:

1. A splitting/cracking requirement of soyabean at the port
2. Quarantine restriction

Export-Import Measures

Some of the important measures recently taken are:

1. Exports of all oilseeds such as HPS groundnut, sesame seeds, sunflower seeds, mustard seeds etc. when exported for consumption purpose, have been made free without any quantitative/licensing requirements.
2. Free import of soyabean in split/cracked form has been allowed. Free import of rapeseed/sunflower has also been allowed, subject to quarantine requirement. Import duty on oilseeds is 45%.
3. Export of vegetable oils such as coconut oil, cottonseed oil, corn oil, kardi oil, linseed oil, mustard oil, nigerseed oil, palm oil, palm kernel oil, rapeseed oil, ricebran oil, salad oil, sunflower oil, sesame seed oil, soyabean oil have been made free.
4. Export of groundnut.
5. Edible Oils Packaging (Regulation) Order, 1998.

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6. Vegetable Oil Products (Regulation) Order, 1998.
7. Solvent Extracted Oils, De-oiled Meal and Edible Flour (Control) Order, 1967.
8. Pulses, Edible Oilseeds and Edible Oils (Storage) Control Order, 1977.

These Control Orders provide for "in-process" surveillance in respect of the quality, packaging, labelling, production, oils used in vanaspati etc. through regular inspection of the manufacturing processes, factory records, drawal of samples etc. A well-equipped laboratory is available with the Directorate for analytical testing of samples.

Exhibit 2: Research Report on Mustard Oil

Diet and risk of ischemic heart disease in India

Tanuja Rastogi, K Srinath Reddy, Mario Vaz, Donna Spiegelman, D Prabhakaran, Walter C Willett, Meir J Stampfer and Alberto Ascherio

Background: Ischemic heart disease (IHD) is a leading cause of death in India. Dietary changes could reduce risk, but few studies have addressed the association between diet and IHD risk in India.

Objective: The goal was to address the association between diet and IHD risk among Indians in New Delhi (northern India) and Bangalore (southern India).

Design: We collected data from 350 cases of acute myocardial infarction and 700 controls matched on the basis of age, sex, and hospital as part of a hospital-based case-control study in 8 hospitals. Long-term dietary intake was assessed by using food-frequency questionnaires developed for New Delhi and Bangalore. We used conditional logistic regression to control for the matching factors and other predictors of risk.

Results: We observed a significant and dose-dependent inverse association between vegetable intake and IHD risk. The inverse association was stronger for green leafy vegetables; in multivariate analysis, persons consuming a median of 3.5 servings/wk had a 67% lower relative risk (RR: 0.33; 95% CI: 0.17, 0.64; *P* for trend = 0.0001) than did those consuming 0.5 servings/wk. Controlling for other dietary covariates did not alter the association. Cereal intake was also associated with a lower risk. Use of mustard oil, which is rich in α-linolenic acid, was associated with a lower risk than was use of sunflower oil [for use in cooking: RR: 0.49 (95% CI: 0.24, 0.99); for use in frying, RR: 0.29 (95% CI: 0.13, 0.64)].

Conclusion: Diets rich in vegetables and use of mustard oil could contribute to the lower risk of IHD among Indians.

Source: American Journal of Clinical Nutrition, Vol. 79, No. 4, 582-592, April 2004© 2004 American Society for Clinical Nutrition

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Exhibit 3: Plant Layout

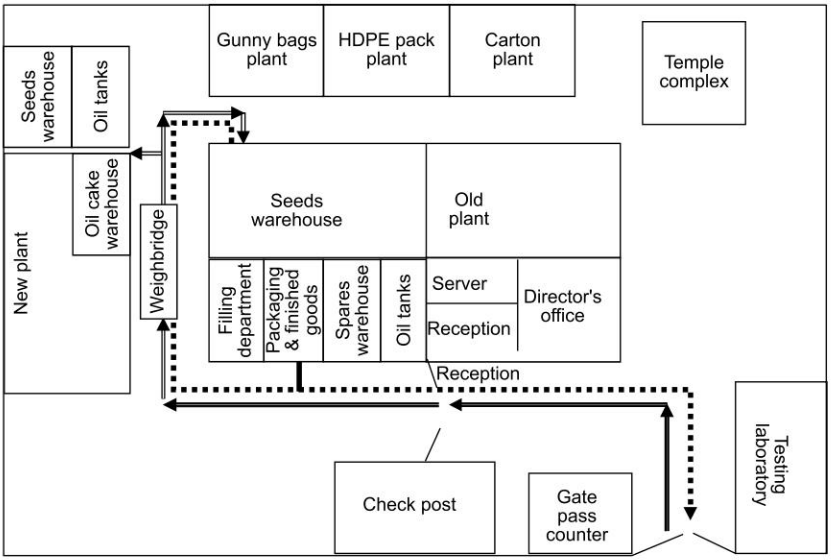


Exhibit 4: Production Process

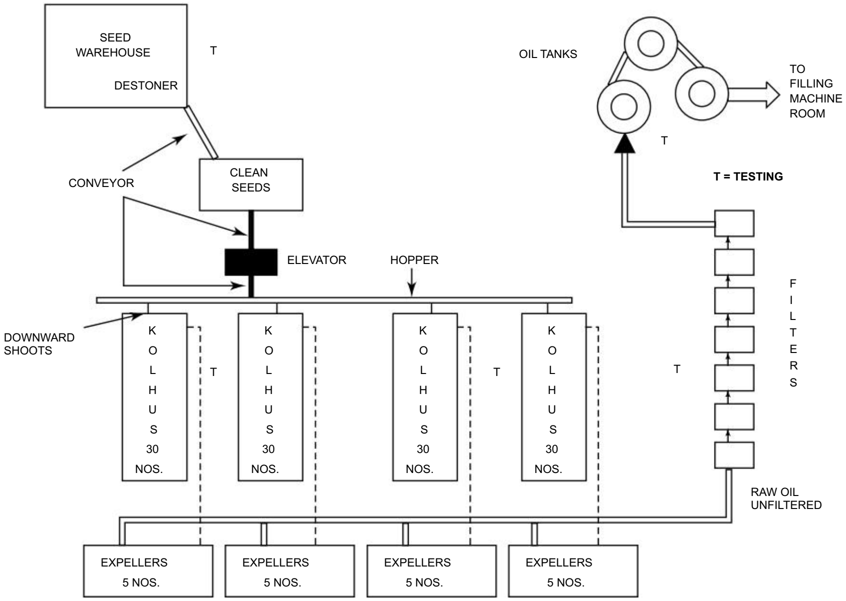


Exhibit 5: Sales Figures

Financial Year	Sales in Rupees (lacs)
1990-1991	2.90
1991-1992	168
1992-1993	422
1993-1994	537
1994-1995	718
1995-1996	834
1996-1997	1,418
1997-1998	2,090
1998-1999	2,991
1999-2000	3,723
2000-2001	4,403
2001-2002	5,289
2002-2003	7,202
2003-2004	9,445
2004-2005(anticipated)	14,000

Exhibit 6: Currrent Product Range

Packing Sizes and Material

Volume	Material			
	Pouch	Bottle	HDPE Jars	TIN
100 ml		◆		
200 ml		◆		
500 ml	◆	◆		
1 L	◆	◆		
2 L		◆	◆	
5 L			◆	
10 L			◆	
15 L			◆	◆

Exhibit 7: Marketing Organisation

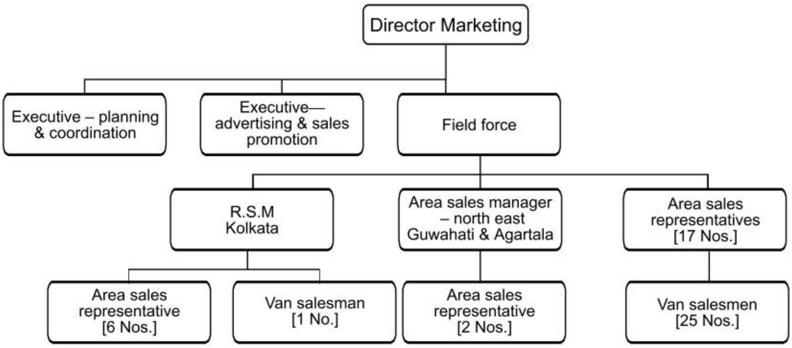


Exhibit 8: ERP System

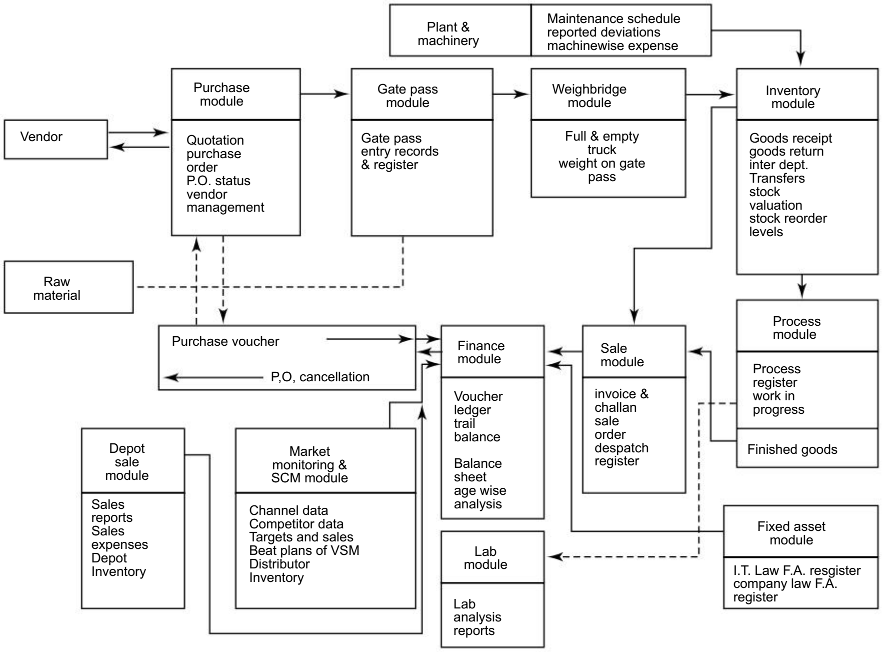


Exhibit 9: V-SAT Connectivity

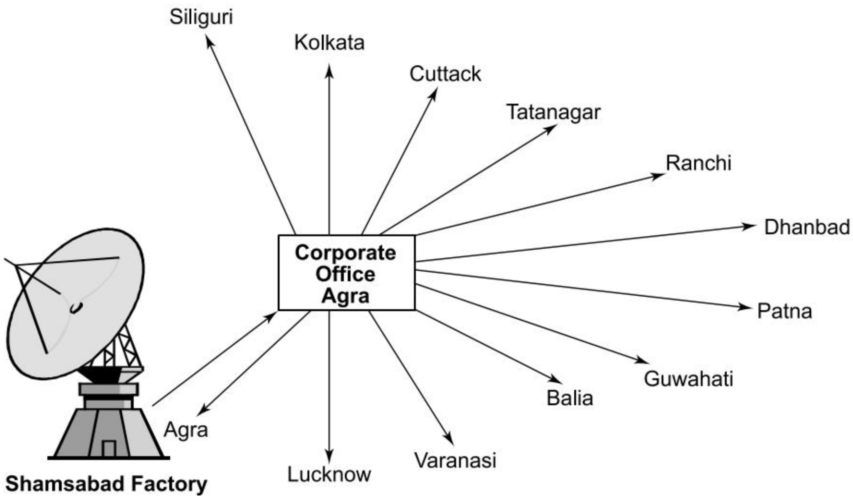


Exhibit 10: Production Incentive Schemes

Plant Workers Performance Report and Awards Scheme

- Basis of ascertaining those qualifying is QC checks at least four times a day at various stages of processing oil and its by-product.

The following are the progressive reports:

1. Kolhu ghani time duration: Number of times seed put for pulverization [say 13 and 10]; time for each pulverization process [say 45 and 60 min respectively], quantity of seed [fixed at 20 kg each time], number of kolhus used [say 260] = total seed crushed [13 × 20 × 260 = 67,600 + 10 × 20 × 260 = 52,000 Total 119,600]
2. Target of oil production for this quantity: 412.62 quintals
3. Net production of oil obtained: 410.25 quintals
4. Variation: + nil – 2.37 quintals
5. If oil produced is less, then target the reasons: no power for 10 min

Parameter	Actual	Ideal for Lot	Variation	Total Month Marks
% of oil content in cake	7.83	7.62	+0.21	-2.37
% moisture content in cake	11.53	10.25	+ 1.28	-1.27
Tank No. 1 essential oil	0.359	0.340	+ 0.019	+ 0.222
Tank No. 1 acid value of oil	0.89	1.0	- 0.11	-0.03

Note: The objective is to have zero % variation. The concerned workers are advised of performance and ratings on daily basis and are suggested methods for better performance.

- For oilmen, statement shows number of samples drawn in the month, marks obtained, average marks, and an average of entire plant is calculated. Those between the average and desired levels are given the award. The foreman and supervisor for the team of the section are given weightage on entire team's performance.
- For the kolhu section, there is a scheme for each production line. The tabulation is done as under:

KOLHU SECTION : Say B

Lineman	No. of Samples Drawn	Avg. Moisture in Ghani	Avg. Oil Content in Ghani	Award
Dori Lal	5	12.28	21.68	200.00
Naval	4	12.08	21.61	200.00
Kalyan	4	12.26	22.09	NIL
Bachu	1	12.60	24.53	NIL

Note: Those who have an average closest to the targeted are awarded. The targeted moisture and oil content is fixed for each lot depending on quality of seeds.

- For a kolhu cutter, there is a similar scheme but incentive is higher because the quality of ghani made depends on his skills.

- For incentives on oil cakes, a similar report is made for each foreman, supervisor and oilman. Depending on tests, they are awarded marks on deviations based on targeted quality.
- Maximum monthly incentives for each level at the plant are tabulated below:

Level of Employee	Maximum Incentive Per Month (Rs)
Foreman	1100.00
Kolhu cutter	500.00
Oilman	400.00
Lineman	400.00
Expeller labour	200.00
Helper	100.00

CASE 5

Future Kids School

Ratnaja Gogula and Atul Nainwal

In 2005, Future Kids School (FKS), Hyderabad, had 560 students, 65 teachers and 55 support staff. It focused positively on "The Child". Shailaja Rao, teacher, Director and founder of FKS, received the Rotary Vocational Excellence Award in 2000 from the Rotary Club of Bhagyanagar for outstanding service and exemplary standards. The award recorded that she was a living example of courage, determination, conscious idealism and positive leadership.

FKS AFTER EIGHT YEARS

FKS was started on 8 February 1997 with a seed capital of Rs. 8 lakh, which included a bank loan, personal savings and loans from the family. FKS, which started with 20 students on a 4,000 sq. ft rented space with one teacher and five support staff, was in 2005 the proud owner of four dispersed 18,000 sq. ft of leased buildings, a kitchen feeding 1,000 students daily, 3-acre owned premises, an FKS franchise at Rajahmundry and 16 school buses. FKS gave the child an education as a "child would want it", an education which fostered emotional balance, and an education that instilled integrity. FKS withstood the onslaughts of neighborhoods, bureaucratic delays, infrastructure lacuna, lack of skilled teachers and resource crunch.

Shailaja was a graduate in Home Science from the College of Home Science, Hyderabad, and a post-graduate in Child Development, Nagpur University. Her "passion for children and their point of view" distinguished her as a teacher, Director and entrepreneur. She was also a consultant to a start-up school "Little Woods" at Kakinada and a 20-year-old second generation run school "Happy Hours" at Bhubaneswar.

THE SIDELINED CHILD

When asked what motivated her to start FKS, Shailaja responded that she had the "benefit of the worst teachers". She was a disheartened and sidelined child at school.

She was the victim of teacher discouragement and rebuke. Sometimes, her books were flung out of the class room. She often wondered why it was so difficult for her teachers to make a subject interesting for her, and why it was so difficult for teachers to touch her soul. This emotional scar stayed with her right through her college days and later prompted her to set up a school. All she wanted to do in her lifetime was to create a place of learning which the child would cherish, a place of learning which the child would look forward to going to everyday, a place of learning where every child was understood for who she or he was. This was what Shailaja wanted to achieve by educating the parents of the need for moving away from conventional methods of teaching.

THE NASCENT ENTREPRENEUR

Shailaja started her career in 1987 as a nursery school teacher at the Vizag Steel Plant, Visakhapatnam. In 1988, she joined St. Joseph's College for Women, Visakhapatnam, as a part-time lecturer in child development and psychology. In February 1989, she teamed up with a senior student from her school in launching Chip & Dale, a playgroup-cum-nursery school at Visakhapatnam. This novel and successful venture lasted for four years. Though the partners possessed complementary strengths in running Chip & Dale, their personality differences and private compulsions to move abroad did not allow them to continue the partnership. In 1993, they sold Chip & Dale.

Shailaja was the "Head Teacher" of a computer firm in the Gulf till she returned to India in December 1996. Her disenchantment with her job in the Gulf and her encounter there with children, who were allowed more spontaneity in school, egged her on to set up FKS in February 1997.

THE ENTREPRENEURIAL SKILL

Shailaja had a skill in finding real-time solutions to problems faced by people. Her childhood was spent as an uncared student. She concluded, "If this is not what I want of a school, there must be others too who feel the same way as I do." The answer was FKS.

CHANGE AGENT

The absence of "child centric" schools combined with stressed family lifestyle of working parents provided Shailaja the opportunity. In 1997, most schools in Hyderabad had rigid courses and set patterns of teaching. Teaching innovations was absent. Child customization was unheard of. Parental guilt of not giving desired attention to the child was prevalent. Shailaja's intent to set up the school of her dreams, therefore, matched with the latent needs of children and parents.

Shailaja understood the importance of bringing in evolutionary changes. One effort was the "Open House" that she periodically held for parents since 1997. In these sessions, Shailaja nurtured change among parents.

Within two months of starting FKS in 1997, summer set in. Shailaja again reacted to parental needs. Children of working mothers needed to spend their summer vacation enjoyably, fruitfully and safely. Shailaja held two summer camps in May and June. Both the camps were an immediate hit with children and parents. The camps drew in children from all age groups. Shailaja had an opportunity for the first time to think beyond the kindergarten group.

These two camps proved to be a trial period for young mothers too. They were able to assess FKS. The summer camps were an opportunity for Shailaja to showcase her objectives and dream for FKS as the ideal school for children.

"Saturday Kids Club" was another initiative during this period. It immediately drew the attention of parents.

Though, during 1999-2000 the emergence of schools like Oakridge seemed a little daunting, there was no looking back for Shailaja. The path was strewn with obstacles, personal trauma and delays, but it was one speckled by the loving support of family, colleagues, friends, spirituality and providence.

RISING PARENTAL SUPPORT

The first major hurdle came in 1998 when Shailaja was asked to vacate the rented school premises during an academic year her father passed away. During this period, the support she got from parents was immense. They helped her find new premises. From here, she operated the nursery and playgroup. By 1998, Shailaja had eight teachers and 80 students. More and more parents were convinced by her operational style. They saw her as "parent friendly" and "child focused". Children came all the way from Charminar and Medchal—20 km from FKS. Even in 1998, she had parents from Chennai and Nasik enquiring about franchise of FKS.

Shailaja faced the dilemma of whether to grow vertically or horizontally. She chose vertical growth. By 1999, Shailaja was ready with Standards I and II. Now, the challenge was not getting parents to believe in her style, but recruiting right teachers. Parents promoted FKS by "word of mouth". By 1999, Shailaja knew that she had "arrived".

TRAINING TEACHERS

When recruiting teachers, Shailaja found that most of them were experienced and qualified, but were unwilling to be a part of the change process. They were rigid in thinking. They did not empathize with the child. Her entrepreneurial skill once again emerged to solve the problem. She recruited teachers on a trial basis for 10 days and used this time to judge their "willingness to learn".

In 2005, the 65 teachers at FKS were completely in tune with Shailaja's vision. They were the most cheerful, helpful and accommodating. Most of them were mothers and were convinced partners in "The Child". They had no appointment letters. They had no formal appraisal system. They carried out self-appraisal. They got monthly salaries of Rs. 2,000–8,000, depending on their experience at FKS.

When asked how Shailaja managed to ignite their passion for work, the teachers unanimously answered that she treated them all as a family. Shailaja took time to discuss their personal lives and gave them advice on balancing their individual interests with family interests. She gave them an opportunity to grow and develop in the field of education. The teachers defined FKS as a place that gave them joy, learning, friends and an opportunity to develop. They saw their experience with FKS as "teacher foundation well laid". Shailaja's concern for her employees was complete. Whenever they were late in reaching home, she packed food for their families.

Teachers had weekly review meetings on Saturdays to discuss and share teaching methods and class-room behaviour. The Saturday reviews were primarily aimed at reinforcing in the teacher the importance of inculcating spontaneity in the child.

The Friday spirituality exercise was another learning opportunity. Shailaja spearheaded this exercise and helped teachers to overcome their professional and personal fears and anxieties. Shailaja believed that what hinders a person from realizing his/her full potential in any sphere of life was fear. Friday exercise was an occasion to help teachers overcome fear.

The hierarchy of teachers at FKS was trainee, assistant teacher, coordinator, group coordinator, principal and director. This structure was only for training and dissemination of work culture. The teachers had a simple no-frills work uniform.

SCHOOL TRANSPORT, DRIVERS AND ROUTES

Shailaja was a shrewd businessperson. As FKS started to grow vertically and student strength increased, Shailaja saw a fresh need emerging from parents. They wanted a school transport with a home pick-up and drop facility. They wanted safe drivers. They wanted attendants in vans to help children board and alight. She needed school vans, drivers and staff that she could trust. Parents were giving her yet another opportunity to display her determination to win them over in her mission. Comparison among children about modes of transport was also an issue that Shailaja wanted to put an end to.

Shailaja's 21 drivers, affectionately referred to as *bhaiyas* (brothers) by the children, staff and teachers, were all long-term acquaintances of her family. The most trusted and seniormost of these drivers—Raja and Ghani—were personal chauffeurs to her father, Kondala Rao, the erstwhile Executive Director at Tata Robins & Frazer, Jamshedpur. Her father and family trusted them. They reciprocated the trust placed in them through their unflinching support to her cause. Shailaja supported some of her drivers in setting up Divya Jyothi Transports of eight vehicles. These vehicles were rented out to FKS. In addition, FKS owned eight vehicles. The drivers were paid monthly salaries of Rs. 3,500–6,500. Through the setting up of Divya Jyothi, Shailaja reassured the people who supported her that their long-term interest was important to her.

Shailaja knew the houses of all the school children. During the initial hiccups of routing and mapping, she personally travelled with the drivers to zero in on the most cost and time-effective route. Her involvement in all functions of her service was complete.

EXPERIMENTING OUTSOURCING

The FKS children came from all strata of society and cultures. Their food habits were different. During lunch children were fussy. There were comparisons of food. Shailaja wanted to discourage these differences between children. She convinced parents of the need to have a common kitchen for children. She initially outsourced food. Soon she realized that the critical function vital to the running of a service enterprise was best handled on her own. Shailaja's mother, Leela Rao, an administrator with 30 years of experience and an extremely talented lady with exceptional organizing skills, stepped in to personally supervise the kitchen with the help of 11 *didis* (sisters). She not only fed 560 children every day with nutritious breakfast, snacks and lunch but also all teachers and staff. Parents, who were hard-pressed for time in the morning, were happy to see their children appreciate the variety of food they got at FKS. Shailaja sometimes faced the anxiety of fastidious parents, but within no time, they got around to see her point of view. Whenever Shailaja initiated a change in the system, she did it incrementally and always with the stakeholders (parents) involvement.

Routine functions like printing, binding and school uniform were outsourced. But Shailaja insisted that there was no routine task that could not be performed by her team if the need arose. In 1999, when she moved FKS into a new building, she painted the building herself.

FINANCIAL RESOURCES

Interestingly, Shailaja never felt stifled or frightened by the lack of financial resources. She always believed that if one was sure of what ignited one's passion as well as the passions of the stakeholders, one could be reassured of financial or other support. Today, Shailaja has the support of bankers, parents, teachers and staff—all the stakeholders. The 3-acre land that Shailaja had acquired, where she commenced operations in June 2005, was a testimony of her belief.

During the early phases of her school, Shailaja adopted cost-saving methods. To make copies, the teachers used and reused carbon paper. They redesigned existing furniture to make worktables for children. They painted walls. Financial issues were transparent, and Shailaja's team empathized with her all through. She ploughed back whatever she gained into the development of the school.

LITTLE PEOPLE PRESENT

FKS had been holding charity shows every year since 2001. The proceeds of the shows were given to orphanages identified by FKS—The Child, Nellore, Anurag Human Resources, Tolichowki, and Child Aid Foundation. Shailaja, who incidentally was also a lyricist and singer, conceptualized all these shows. Her shows had multiple purposes. They inculcated in the children a sense of pride and value for a cause. They developed in them and the teachers an ability to organize. For the parents, these were events of "pure joy".

The "Little People" (the school children) presented all the charity shows. These shows revolved around a theme—Animal Dream, The Magic of Colours, Grandma's Treasury and the Human Dawn. FKS was probably the only school where every child participated on stage. This involvement, Shailaja felt, built a lot of confidence in every child.

FUTURE PLANS

Shailaja Rao, the teacher-director-entrepreneur, was emphatic in stating that all her future investments would revolve around the "child". She would one day produce music for children. She would also engage actively in educating the parents. For Shailaja, the biggest challenge had been convincing more and more parents of the need to be "child focused".

When asked whether FKS was about making money or about fulfilling a dream, Shailaja responded that she was lucky to do something that she liked and also gave her a living. She wondered as to what her and FKS' future would be. What should she do to sustain the momentum?

Case 6

Mess to Restaurant—A Success Story

Suresh Rao M.

It was 6:30 a.m., December 3, 2004, at the courtyard of Gokul Restaurant. The tables were being laid out, plates washed and vegetables cut. The air was filled with the aroma of freshly brewed coffee. Amidst flurry of activities, Naveen Shetty, the proprietor of Gokul Restaurant, was shouting orders on his mobile. This was a big day for him. Just the previous day, he came to know about the Governor's visit to S.P. Jain Institute of Management and Research (SPJIMR) and that the institute had given him the catering order.

Given such a short time and extensive planning involved, catering to some 40 odd high-profile signatories and their subordinates was not a mean task. He had built a long-lasting relationship with the institute because of his excellent service. Naveen personally inspected the entire cutlery that was to be used. After inspection, he sat down in a corner and was very pleased with the progress that he had achieved till now.

At 9:30 a.m., when he started looking at the sales summary of November, the happiness of achievement vanished. The revenues from sales were falling below the average revenues per month during this season. The previous year figure for the same month was more than the target. The restaurant had achieved break even just in January 2003. Naveen felt the pain looking at the sales figures.

PERSONAL BACKGROUND

Naveen Shetty came from a middle-class family of Admar village near Udipi in Karnataka. However, his parental lineage was different from that of the middle class. His grand father had started a primary school in the village.

Naveen's father was the headmaster of the school and supervised its day-to-day affairs. However, he was not contended with the mundane job of running the school and wanted to try his hands in some other field. In 1978, he sensed an opportunity in soap industry and started "Jyothi Soap Factory" for manufacturing washing soap.

As he was new to the industry, he appointed a manager. The business ran into losses from the very first year. All his efforts in restructuring and changing the fortune of the factory went in vain. He was pitted against the big players and could not adapt to the changing requirements of the customers. With the losses burgeoning, he decided to close the factory after six years. During this period, the family suffered losses of approximately Rs. 10 lakh. The entire past savings were wiped out, and the family started afresh. He stuck to his job as the headmaster.

After schooling in his village, Naveen came to Mumbai in 1987 to continue his studies. He attended classes at night and worked in the day. Incidentally, his uncle ran a restaurant and offered him a job in the restaurant. He managed to complete Classes XI and XII. He earned Rs. 350 a month during his initial years. He continued working in his uncle's restaurant till 1991. He was earning Rs. 1,200 when he left. He got an opening in Shree Krishna Restaurant at Andheri (West) as a supervisor. He completed his graduation in Commerce through the evening college. He rose to be a manager in three years with an income of Rs. 3,800 per month.

OPPORTUNITY BECKONS

SPJIMR was one of the top 10 management institutes in India in 1996. The institute was situated in Bhavan's Campus, which also encompassed an engineering college and an arts and science college. There were 180–200 students in the Post Graduate Diploma in Management.

The mess at the institute was run on contract. The contract was given for three months initially, and after satisfactory performance it was extended for 11 months. There were not many takers for the contract, as the mess did not enjoy much popularity among students. Most students went to nearby restaurants and cited bad quality of the food in mess as the prime reason. There was animosity between the students and the contractor. Every contractor felt that it was a loss-making proposition. They knew that the volumes were low. The institute fixed the prices. This drove the contractors to cut down costs and resulted in lower quality. Hence, the restaurants outside the institute attracted 70% of the students. The problem of not having a sustained contractor with satisfactory service was plaguing the institute. Part of the mess was converted into a storage place for miscellaneous things. Only one-third of the initial space was available for the mess.

To subsidize the cost of food to students, the institute provided incentives like electricity, space and water free of cost to the contractors but demanded a fixed menu over a week. Exhibit 1 gives the potential market size for the mess in 1996.

MESS AT SPJIMR

During his stint at Shree Krishna, which was situated next to SPJIMR, Naveen had developed good rapport with the students who used to visit Shree Krishna. One morning, some members of Infracom (a student committee for managing infrastructure of the institute) suggested to Naveen to bid for the contract. Naveen thought this as the much-needed breakthrough. He bid for the contract and was given three months probation. But his condition was that he should be given the freedom to decide the price after three months. He took a loan from his friend and invested Rs. 25,000 for purchasing grinders, mixers and other machinery.

Like the previous contractors, he faced the problem of low student turnout. In spite of low volumes, however, he did not compromise on the quality of food and served better quality dishes. Though it led to losses in initial few weeks, he could strike a chord with the students. The student community noticed the good quality and regularly visited the mess. The number of students increased gradually but not to a level wherein Naveen could profit.

Naveen was still making loss when his three-month period ended. The price per meal in 1996 was Rs. 9. Naveen negotiated the price to Rs. 14. This was a very bold step. It might not go well with the students. Naveen reasoned out that "quality comes with a price and it can't be discounted." It turned out to be a success. Students didn't mind paying extra to get good quality food. The student turnout ratio reached its peak of 90%. The losses stopped. He paid off the initial loan of Rs. 25,000 in the six months. The price of the meal increased to Rs. 22, and the clientele also increased to 600 as some new courses had been introduced. The engineering students had also been transferred to this mess (Exhibits 2 and 3).

RESTAURANT INDUSTRY

The restaurant industry in Mumbai was highly competitive. There were over 40 restaurants in Andheri (West) region alone. The industry was fragmented due to severe competition. There were several speciality restaurants such as Chinese, non-vegetarian, vegetarian, bar-cum-restaurant and garden restaurants.

The raw materials, like vegetables, food grains and finished products, were highly perishable and required fast movement across the supply chain. To get a profit margin of 15%, the inventory had to be not more than 15% of the cost of goods. Also, if the finished product wastages went beyond 10%, the business was not competitive. Hence, estimating every day demand assumed huge significance.

The Shetty community ran most of the restaurants in Mumbai. Since most of them were migrants from Karnataka, they faced stiff competition from local restaurant owners who lobbied with the government to increase taxes on restaurants. For a restaurant of Rs. 2.15 crore annual turnover, the taxes after deductions amounted to around Rs. 5 lakh. The process for obtaining license for selling liquor in bars was also highly complex and involved huge expenditure in the range from Rs. 7 to 8 lakh. It was found that at least Rs 1,000 profit per day was required to recover the license amount alone. A break-even sale of Rs. 15,000-20,000 per day was required. Bombay Municipality Corporation (BMC) had made it mandatory for bar-cum-restaurants to maintain Grade 1 status. This requirement was not mandatory for vegetarian and non-vegetarian restaurants. BMC did the grading based on the type of food served in the restaurant and facilities offered to the customers like A/C, wash basins, toilets, table cloths, spacing between tables etc. Maintaining Grade 1 status added to the cost of the final product substantially.

Bar business had the maximum profit margins of more than 40% of sales, followed by Chinese restaurants with profit margins hovering around 40%. The vegetarian restaurants commanded 25% margins and non-vegetarian restaurants 20%.

Vegetarian restaurants required double shifts, a bigger sized kitchen with experienced chefs and a wide variety of dishes. Non-vegetarian restaurants required only one shift, smaller kitchen, less-salaried chefs as the variety in dishes served was less.

Beyond the Mess

Non-vegetarian food was not allowed inside Bhavan's campus. The students used to go to the restaurants for non-vegetarian food. The restaurants were a bit far away from the campus, served poor quality food and charged more. Another significant trend in the 1990s was fast-food culture in non-vegetarian dishes.

Gossip was a small fast food restaurant at the entrance of the campus. It was the closest point for non-vegetarian dishes. However, the restaurant was not run professionally. The proprietor was more fascinated in stock market than running the restaurant. There were several rules and regulations, which were prominently displayed on a board outside and greatly reduced the freedom of choice for the customers. No wonder the sales were meagre, and the restaurant was making losses. Naveen realized that he had the potential to turn around that loss-making unit.

Shetty's Corner

Naveen offered Gossip's owner a price for the restaurant. Seeing no future in the business, the owner leased the restaurant to Naveen in November 1998. Naveen arranged for loans to lease and renovate the ailing enterprise. He changed the name to Shetty's Corner and served both vegetarian and non-vegetarian food. His approach was totally customer-centric and targeted the student community at large. Within six months, he generated profits and paid off all his loans well before time. The restaurant became a favourite joint for the students and attracted day scholars of Arts and Science College.

Shetty's Lunch Fiasco

In 1997, Naveen ventured into a specialized restaurant serving only non-vegetarian lunch at Malad, a shopper's paradise and hub for shopping centres. The restaurant, however, went in losses. Later on, he realized that one of the major factors for the downfall was the absence of a parking facility in the busy shopping area. Also, Malad had a predominantly Gujarati population who were pure vegetarian by tradition. Naveen had invested considerable amount on interior design and sprucing up other assets, but the losses continued to mount. He closed the shop after 6 months. The cumulative loss was Rs. 2 lakh.

GOKUL RESTAURANT

Genesis

After three years of establishing Shetty's Corner, Naveen realized that Shetty's Corner couldn't meet the increased inflow of customers. So, he decided to expand it. He found an opportunity in Ulhas, an unsuccessful restaurant situated next to Shetty's Corner. It was started in 1983 in an area of 2,400 sq. ft. However, it soon ran into losses and was closed down in the same year. A second attempt was made in 1987, but met the same fate.

In August 2001, Naveen leased the space. Naveen partnered with three of his friends. Together, they took the place on lease for seven years and revived it as Gokul Restaurant. An investment of Rs. 40 lakh was arranged from private parties. Gokul Restaurant offered high-quality vegetarian food at reasonable prices well within the students reach (Exhibit 4).

Naveen was able to break even within 1.5 years of starting the operation. As the popularity soared, it attracted customers from all around Andheri and from other far locations. It became a landmark restaurant. Meanwhile, Naveen strategically turned Shetty's Corner into an exclusive non-vegetarian and Chinese cuisine restaurant. It was an instant hit among the students, and the sales started roaring. The success of Gokul Restaurant had catapulted Naveen's growth trajectory to new horizons (Exhibits 5 and 6).

Customers

Being close to Bhavan's, Gokul Restaurant served majority of the students; they contributed 30% of the sales revenue. The day scholars visited Gokul with their families. Many families of the students who stayed near Bhavan's became frequent customers. Gokul also had a good following among the Bhavan's alumni in the vicinity. Bhavan's students were offered 10% discount. Customers from more than 5 km distance used to come as a family due to nominal prices and unique taste (Exhibit 7).

Sales Pattern

The customer arrival was at its peak during lunch on weekdays and during dinner on weekends. Hence, the average sales remained constant throughout the week. However, the revenues fluctuated over the months. April, May and June had low sales due to the summer holidays. This dry season was common across all other restaurants and continued till the end of monsoon in August. However, Gokul's business picked up immediately after the summer holidays, and it had brisk business even in monsoon because of resumption of classes at Bhavan's. The festive season from Diwali to New Year was another season when the sales were high in all restaurants in Mumbai.

OTHER SERVICES

Naveen also tried catering to institutes and functions. In spite of its miniscule part of the existing sales, he felt it had high potential to grow. Gokul Restaurant had served many marriages in the last few years. Moreover, it was the vendor of choice for any function of Bhavan's. It built up a very strong relationship with the SPJIMR and the campus due to its high level of service and commitment to quality. Of late, with the emergence of new restaurants near the institute, it started feeling the competition.

From the first year itself, Gokul started home delivery at no extra cost and paid 10% commission to its delivery boys. This reduced its profit margins. But it was compensated by its excellent service and high quality that created the necessary customer pull to achieve higher volumes. Besides the home delivery, the delivery boys also distributed 10,000 mini menu booklets periodically at all flats and major locations in Andheri (West). This increased the awareness levels among local people and the door deliveries.

Operations

Naveen sourced all his vegetables and fruits from the wholesale market at Dadar. He had a long-standing relationship with all his suppliers and got considerable discounts over retail price ranging from 10 to 40%. He always treated his suppliers with the same business mind and never delayed the payment. Fruits and vegetables were purchased on an everyday basis, but food grains were purchased on weekly basis from New Mumbai.

Naveen's order quantity was always optimum keeping in mind the perishability of the materials. The supplier transported the raw materials to the restaurant. He, in fact, supplied many other small restaurants in the same area. Initially, Naveen found that wastages were of almost 15% of the finished products and were eating away into his bottomline. South Indian dishes contributed a significant share in the wastage because they were produced in bulk and could not be stored for more than 2-3 hours. However, the cost of production was the least for the South Indian dishes. Naveen stopped serving South Indian meals during dinner to control wastages. He also removed some of the slow-moving items. Such measures brought down the wastage to 5%.

People

Naveen acknowledged, "It is always of paramount importance to get right people for the right job when you start a new venture". He employed most of the people from his hometown. This served two purposes—generating employment to the community back home and commanding deep loyalty from the people. Five members of his family held critical responsibility. In 2004, Gokul had 120 employees.

Organizational Structure

Naveen had two different sets of people—one for production and the second for customer service.

In production, the production manager held the overall responsibility of all day-to-day operations (Exhibit 8). There were four managers specialized in cuisine such as Chinese, tandoori, South Indian and fast food. The managers decided upon the daily demand and supply. They were responsible for the profitability of their line and reduction of wastages. The chefs were primarily responsible for deciding the menu and maintaining the quality of the food. They worked in tandem with the manager to forecast the daily demand. Assistant cooks, whose primary job was to ensure the quality of the end product, reported to the chefs. The chefs and assistant cooks generally demonstrated their competence in the kitchen before they were made permanent.

In customer service, the senior captain was responsible for customer receiving, servicing and complaint handling (Exhibit 9). Each of the three junior captains was responsible for customer service at A/C, courtyard and inner room. They directly reported to the senior captain. There were 5-8 waiters under each junior captain to take orders and supply to the customers. The table boys worked in tandem with waiters, and junior captains supervised them.

Three staff members supported the functions of accounting and cashier. There were ad hoc waiters and table boys for the home delivery and occasional outside catering.

Employee Welfare and Social Activities

In 2003, Naveen supported the education of five employees in a night school and helped them complete their higher secondary education.

The restaurant covered all the medical expenses of the employees. For past three years, medical expenses were around Rs. 2.5-3 lakh. In 2003, it covered two medical surgeries. One employee said, "The day I entered Gokul Restaurant, I felt myself belonging to a new family".

Naveen and his partners contributed considerably to CRY foundation every year. The mini garden and children play area in front of the restaurant was open to public throughout the day. In Naveen's own words, "Organizational growth can't happen without societal improvement and both have to go in tandem".

Chain of Restaurants

Buoyed by the success of Gokul Restaurant, Naveen and his partners decided to expand their enterprise to newer locations. After an extensive survey of various places in Mumbai, considering the population characteristics, facilities available and future growth prospects, they zeroed in on a few selected places (Exhibit 7).

After taking the necessary infrastructure on lease, they opened two bar-cum-restaurants in Goregaon and Malad and a vegetarian restaurant at Charni Road in 2004. The restaurants were expected to achieve break even within the next 1-2 years. The partners ran them for 3-4 months before delegating them to one of the managers.

Challenges Ahead

In spite of continuous growth, Naveen felt that there were significant challenges ahead to be tackled:

The fund that he raised from private parties at 24%, were much costlier than what banks offered at 12%. However, he couldn't get loans from the banks because he did not possess any property that could be used as collateral. He operated all his restaurants from leased spaces and did not have his own place. The high interest rates increased the break even duration and hampered the speed of his expansion. He seriously contemplated how to leverage upon the low interest bank loan.

The shift of boys' hostel to a new building, which was a kilometre away from the institute and farther away from the mess, caused substantial inconvenience to the students. Many small players who did home deliveries tried to exploit the situation. Mumbai also had a very good delivery mechanism due to the presence of dabbawallahs who delivered packed food at an extremely low cost. The small players started supplying meals directly to the hostel rooms at the convenience of the students at a competitive price of Rs. 22. This move resulted in the exodus of students from the mess and occasional dinners at Gokul Restaurant.

Locational advantage of restaurants, like Shree Krishna and Arthi near the new hostel, made competition stiff (Exhibit 10). These restaurants were increasingly successful in attracting students by offering discounts and home delivery. They had better flexibility in pricing to students because of their major business was from non-students. They also brought out frequent promotional campaigns during festive seasons and attracted price-sensitive students (Exhibit 11).

Super-specialty snack joints, like "Bengal Sweets" and "Rajput Milk Farm" started of late, were increasingly becoming popular with the students as they provided an informal and party atmosphere. In addition, they were also light on the purse. The evening sale of Gokul Restaurant, therefore, got reduced.

Control over the various restaurants across Mumbai and the mess required all his time only for monitoring. Most of his time was spent in shuttling between various locations. He faced an uphill task of putting right processes and procedures in place that would make it easier for him to measure the performance of his chains and provide him with real-time feedback.

Impending competition from the medium-priced restaurant ARFA, which planned to start a full-scale non-vegetarian restaurant in front of Gokul Restaurant, threatened to attract a major chunk of the student customer base (Exhibit 11). Naveen realized that both Shetty's Corner and Gokul Restaurant would suffer erosion in their market shares. He had to act fast.

Naveen Shetty pondered over the different challenges.

Exhibit 1: The Potential Market Per Day of the Mess in 1996

Average number of PGDM students registered in Mess = 200

In 1996, there was a separate mess for engineering students

Particulars	Unit Cost	No. of Customers/Day	Market Size
Breakfast	8.00	200	1,600.00
Lunch	9.00	200	1,800.00
Dinner	9.00	200	1,800.00
		Total	**5,200.00**

Note: The expected students taking food in the mess was 60%.

Exhibit 2: The Potential Market per Day of the Mess in 2004

Average number of PGDM Students registered in Mess = 300

Average number of Engineering Students in Mess = 200

Students from other programmes = 100

Currently the special orders are given to Gokul Restaurant

Particulars	Unit Cost	No. of Customers/Day	Market Size
Breakfast	12.0	600	7,200.00
Lunch	22.0	600	13,200.00
Dinner	22.0	600	13,200.00
Special orders created at the restaurant from the institute	140.0	5	700.00
		Total	**34,300.00**

Note: The mess served 70% of this market on any day.

Exhibit 3: Overall Campus Population

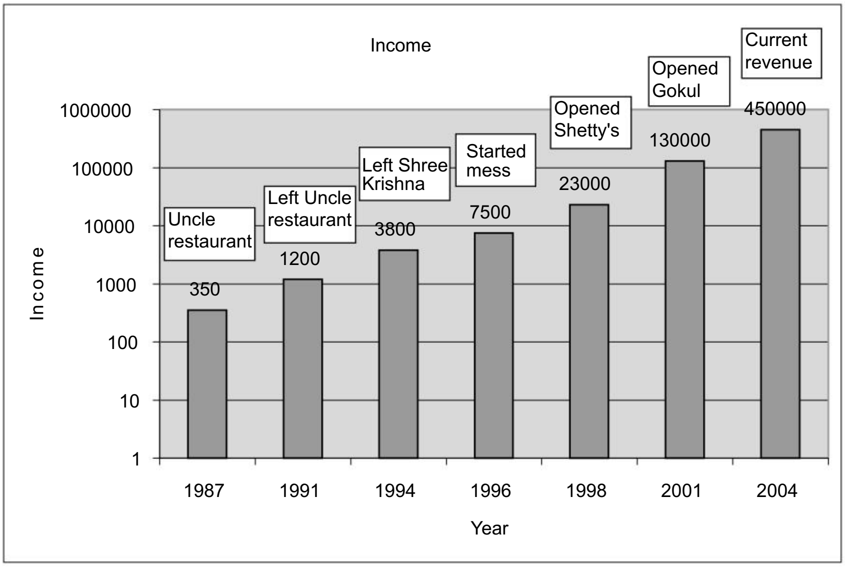
S. No.	College		No. of Students
1.	Sardar Patel College of Engg		3600
2.	Bhavan's Arts College		1200
3.	Bhavan's Science college		1200
4.	SPJIMR		530
	Course	**No. of Students**	
	Post Graduate Diploma in Management	150 + 150	
	Masters in Information Technology	40 + 40	
	Family-Managed Business	150	
	Total SPJIMR student population		**530**
	Total Bhavans Population		**6530**

The McGraw-Hill Companies

Exhibit 4: Price Comparison of Fast-Moving Items of Gokul against Shree Krishna 2001

Dish	Gokul	Shree Krishna
Idli	10.00	10.00
Masala dosa	13.00	15.00
Pav bhaji	22.00	25.00
Veg. sandwich	12.00	12.00
Paneer palak	28.00	30.00
Nan	7.00	7.00
Veg. biryani	25.00	28.00
Veg. noodles	35.00	38.00
Fruit salad	20.00	22.00

Exhibit 5: Growth of Naveen Shetty's Personal Income over the Years



Note: The income is plotted on a logrithmic scale

Exhibit 6: Revenue Figures Per Month for Gokul and Shetty's Corner, 2004

	Gokul	Shetty's Corner
Revenues	1,800,000	130,000
Material cost	800,000	50,000
Labour cost	500,000	35,000
Overheads	140,000	25,000
Operating profit	360,000	20,000

Exhibit 7: Population Demographics of Some Areas of Mumbai

Region	Growth Rate Per Decade	2001 Estimated Population	Population Density Per Sq. Km
Andheri (west)	38.8%	770,144	84,376
Malad	53.1%	900,755	21,219
Goregaon	23.5%	460,816	21,716
Bandra	39.5%	451,885	68,685
Marine Lines	-27.1%	143,976	81,342
Grant Road	-9.8%	365,407	50,680
Elphinstone	-3.0%	505,464	48,231

Source: Data from Indian Census provided by Tata Energy Institute, New Delhi.

The figures for 2001 were projected from 1991 at slightly higher than decadal growth rate.

Exhibit 8: Structure of Production Department

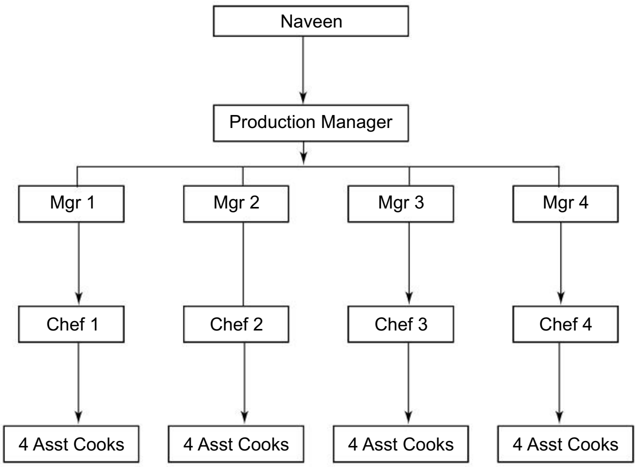


Exhibit 9: Structure of Customer Service Department

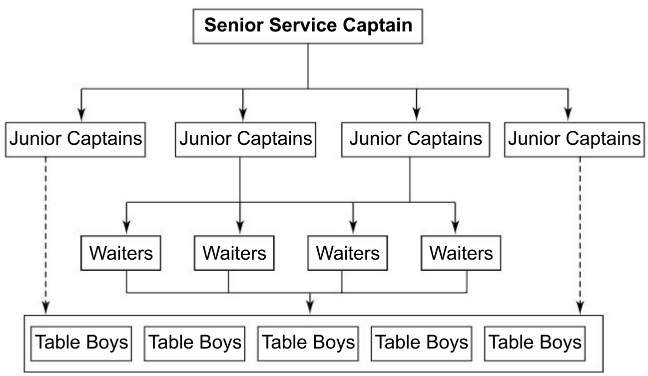


Exhibit 10: Travel Time between Restaurants and Hostels at SPJIMR

Restaurant	Travel Time in Minutes	Quality	Price
Shree Krishna	200 min	Medium	Medium
Gossip Bar and Restaurant	300 min	High	High
Arthi Hotel	300 min	Medium	Very high
Garden Court	400 min	High	Very high
New Gossip Restaurant	600 min	Low	Medium
Kalash	200 min	Medium	High
Gokul Restaurant	1000 min	High	Medium

Exhibit 11: Price Comparison of Fast-Moving Items across Different Restaurants in 2004

Dish	Gokul	Shree Krishna	Aarti	Arfa
Idli	13.00	13.00	13.00	-
Masala dosa	20.00	19.00	20.00	-
Pav bhaji	32.00	32.00	32.00	-
Veg. sandwich	14.00	15.00	13.00	-
Paneer palak	40.00	35.00	35.00	25.00
Nan	10.00	10.00	10.00	8.00
Veg. biryani	35.00	33.00	35.00	27.00
Sweet corn soup	28.00	-	25.00	22.00
Veg. noodles	45.00	45.00	40.00	32.00
Fruit salad	30.00	30.00	25.00	15.00

CASE 7

The Knowledge Company

Subramanian S.

It was a late Saturday afternoon in January 2002. Hyderabad was readying for another weekend filled with movies, and other entertainment. But the environment was serious at the office of The Knowledge Company (TKC) at Somajiguda in down town, Hyderabad. The top management of the company, Raju, CEO, Srinivas, President, Vijay Rao, COO, all directors—had to decide the future of their 10-year-old marketing research and content development company. Should they move into the newly identified knowledge process outsourcing industry or windup the operations?

KNOWLEDGE-PROCESSING INDUSTRY

Growing-global competition forced many businesses to look for every possible opportunity to increase value and avoid making investments in employees and infrastructure that did not have a high yield. One way was to focus on the core activities and outsource the non-core activities. It meant giving the non-core activities that were previously performed within the organization to external agents in developing countries.

Thus came up a new service industry in the mid 1990s—business process outsourcing (BPO). The companies outsourced their non-core activities that had standard procedures, routine processes and repetitive tasks. Typical examples were data entry activities, transaction processing and customer call centres. Many multinational companies in developed countries started outsourcing such standardized non-core activities to Indian BPO companies. India became a major BPO destination by the end of the 1990s well-established software companies like Wipro and Infosys.

By early 2000s, some companies moved up the BPO value chain, which was then called the high-end BPO. When companies moved up on the chain, they carried out knowledge processes that demanded advanced information searching, analytical interpretation and technical skills, and judgment and decision-making. Activities like data mining, database creation and a range of analytical services such as equity research, competitive intelligence, industry reports and financial modelling fell under this category.

The cost of these activities was very high in countries like the US. But the same activities, if outsourced to developing countries like India, incurred lower costs. This required talented manpower like MBAs, doctors, engineers, attorneys and chartered accountants. This new industry was called knowledge process outsourcing (KPO). The typical users of such KPO services were the market research and consulting firms, investment banks and financial services institutions, industry associations, media, publishing and database firms, and corporate planning departments of large Fortune 500 companies.

ORIGIN OF THE KNOWLEDGE COMPANY (TKC)

The company was started in 1987 as a marketing research company by three management graduates. Initially, the company focused on marketing research projects in India. Then it entered into secondary data research and database business. In 2000, two of the founders, quit their jobs and joined full time. Later the third promoter also joined full time.

Given the growth of the Internet and dotcom companies in the late 1990s, TKC increased its focus on secondary data and information analysis and started providing value-added content to Web portals along with the marketing research business. However, the dotcom burst in 2001 and the economic recession that followed affected TKC. Both the traditional marketing research business and the new content business were going through a bad phase. TKC was witnessing a negative growth with no signs of revival in the near future. TKC, being a small company, did not have deep pockets to await market revival. There was hardly any cash flow to meet the working capital requirements. This led to employee attrition. However, the core team of 15 remained intact. They were committed to the company. But there were very few projects.

THE ENTREPRENEURIAL MINDSET

The top management had limited options. They could change business focus, or wind up to start a new boutique consultancy firm, or move back to an executive career. They had enormous pressure from their families to switch to a regular income in keeping with their qualification and experience. But they felt that calling it quits would be an admission of defeat, particularly when they had quit their jobs not too long ago.

They believed that their efforts and ability to take the right steps would decide the future. But they wondered whether they could reshape their business in the changed environment. They viewed Infosys as a role model. The company was on the verge of closure in 1983, but it sprang back to its mega status today because of the strong conviction of its promoters. The trio wanted TKC to become the Infosys of the knowledge-processing industry.

STRATEGIC RESOURCE

Raju, Srinivas and Vijay brainstormed for three days. They realized that their biggest strength was the 10 years of experience that the company had in business information analysis and database creation. They had a small committed team of experienced employees. Further analysis pinpointed strengths in three areas:

1. Business information research skills spreading across almost all business domains, particularly in engineering, chemicals, and pharmaceuticals.
2. Preparation of abstracts and databases from primary and secondary information.
3. Collection, collation, analysis and presentation of data.

Typically, market research companies concentrated mainly on primary data-based projects. Hence, they lacked the expertise in organizing and analyzing secondary data. But TKC was proficient in content and database business along with market research. This provided the company substantial intellectual resource and experience in this area.

If they opted for boutique consultancy, they believed that they would have to abandon their rare and hard to copy resource. In boutique consultancy, there was no need for such intellectual team. All they required was to have a small team at the top with few people to do the clerical work. TKC did not want to waste this resource. However, they were not convinced whether it was a strategic resource that could be converted into a successful product or service?

The top management sought opportunities in India other than marketing research and content business to utilize their resource. They found no such opportunity in India for the following reasons:

- Indian consultancy and information market was very small at US$ 500 million compared to the global market of US$ 130 billion.
- The market had not grown enough to understand the value of information.
- The market was driven by a project-based structure. Collecting or buying business information was considered as a project rather than a regular process. It implied that the information service provider had to start from scratch to get an assignment.

Since the domestic market was found to be unsuitable, TKC's team analyzed the global market. They found that there was a new market for business information solutions. The international business information publishers and medium-size consultants were under tremendous pressure to cut costs and enhance overall operational efficiencies. They were looking for all possible avenues to do this. Outsourcing and off-shoring offered an attractive solution. Such companies sought to outsource jobs like data search, business information analysis, abstracting technical reports, database creation and database updating to the local markets. They knew that the same work could be done in a skill-rich country like India at a much cheaper cost. There was a caveat though; they were insistent that the executing company had the expertise and experience in handling and analyzing information, the same strength that TKC had.

OVERCOMING UNCERTAINTIES

The business opportunity identified by TKC, which later got the generic name Knowledge Process Outsourcing, was a totally new concept in early 2002. Even at that time, business publishers and medium-sized global consultants performed the task of analyzing information. But TKC could provide the same quality of service inexpensively. TKC's team realized that they would be entering into an emerging market by creating new value. But, there were uncertainties about the market and, clients, etc. "Should they go ahead?", they wondered.

After collecting information and analyzing the profile of the industry, the TKC team listed down the uncertainties of the new business.

The first uncertainty was the customer. The client companies were identified to be B2B (Business-to-Business) information intermediaries, business information publishers, and small- and medium-size global consultancy firms. Their needs and **behavioural** characteristics were not completely known. Means of targeting the customers was a challenge. One option was trial and error method to find out the customer requirement. TKC was financially not in a position to test various marketing strategies.

The second uncertainty was the structure of the new outsourcing industry. Most potential clients were unsure about outsourcing this kind of work, as there was hardly any precedent. The terms and conditions of such outsourcing contracts also required to be inked from scratch. Simply put, there were no "traditional ways of doing things", "rules of thumb", "standard operating procedures" or "usual and customary practices". TKC needed to prepare such basic rules acceptable to both customers and itself. It was a huge task, as in India intellectual property rights were not very strong, and hence, convincing the client would be very tough.

Still they decided to take the risk and target this market. They started approaching potential global clients through e-mails. They got a positive response from The Strathclyde Associates, Scotland, UK, which sold patent-related documents to research companies. The clients of The Strathclyde Associates, before purchasing the patent document, wished to understand the content of that particular patent. The clients, therefore, needed summaries of the documents, preparation of summaries which required experience, skill and knowledge about information analysis, which TKC had.

TKC got a pilot order from the The Strathclyde Associates for patent abstraction. However, it faced the procedural uncertainty of doing the job, as there were no established procedures. Besides, there was no one to train people on how to do the job. They realized also that if they started getting regular orders from the clients, they would have to strengthen the IT infrastructure. The clients would send confidential data requiring high security.

For creating infrastructure, TKC needed funding as it did not have enough cash reserves. They thought of approaching ventue capitalists. However, they were aware that getting funding from a venture capitalist was not easy. Also, very few of them actually invested in companies such as TKC that was trying to start all over again.

Another major challenge was to overcome the human resource uncertainty. Though TKC had a committed and experienced team, its mindset had to be changed. Typically, most of, the domestic marketing research assignments were projects. But in the outsourcing industry the assignments needed to be executed on a continuous basis during their contract period. So the core team needed to come out of their project-oriented mindset to one that had process orientation.

As and when the company started getting orders from the clients, it would need to increase its head count. Owing to the nascent nature of the industry, skills were not readily available in the market. Unlike BPO industry, where the procedures were repetitive and people could be trained, KPO required different skills and could not be imparted easily.

It became very clear that unless the TKC management prepared some strategies and plans to overcome uncertainties they would not succeed in this emerging knowledge process outsourcing industry. While they pondred over all these options, the thought of returning to jobs and the dream of starting all over again also flashed through their minds.

CASE 8

Emerging Trends in Outsourcing (eClerx)

Shivganesha Bhargava, Rupashree Baral, Abhishek Sharma and Ajay Krishnan

BPO INDUSTRY

After demonstrating its success in information technology, outsourcing began moving up the "knowledge continuum" to tasks involving expertise and judgment "as opposed to a routine that can be run off a computerized menu," said Ravi Aron, Assistant Professor of Operations and Information Management, at the Wharton School of Business.

India proved its worth as the chosen destination for technology outsourcing. Today, almost 200 of the Fortune 500 outsourced IT to one of the many world-class organizations in India. In recent years, with infrastructure and bandwidth costs decreasing and quality increasing, the outsourcing trend accelerated. As awareness and knowledge grew, processes outsourced were becoming increasingly more complex and domain expertise dependent.

Knowledge process outsourcing (KPO[1]) was the buzzword. According to a recent study by Evalueserve, the global KPO market was expected to grow at a cumulative annual growth rate (CAGR) of 46%, from $1.2 billion in 2003 to $17 billion in 2010. Compare this with the prediction for the low-end outsourcing services market. This was expected to have a CAGR of 26%, from $ 7.7 billion to $ 39.8 billion in the same period.

Evalueserve[2] said India provided $3.5 billion of BPO and KPO (but non-IT) services in 2003, and was expected to grow at a CAGR of 36% during 2004-2010. Hence, it was likely to earn $30 billion in 2010 by providing these services. Indian

[1] KPO is the outsourcing of knowledge-intensive work.

[2] EVS is a full-service business intelligence, market research and intellectual property services firm, supporting clients in North America, Europe and Asia.

KPO providers would hire 250,000 professionals by 2010, providing direct employment to 300,000 people. India was rapidly moving up the value chain in its portfolio of services. A break-up from a McKinskey—Nasscom survey was as given below:

Example Services	Example Users	Projected Size[1](2008–2010)
IT outsourcing Voice-based BPO (call centers, tech support etc.)	• 185 of Fortune 500 companies • GE Capital • British Airways • Dell • BT • Microsoft	$30 billion $30 billion
Data-based BPO (content management, finance and accounting, documentation support, e-mail help-desks, research etc.)	• American Express • GE Capital • 3Com • British Airways • Lucent • Deutsche Bank • Arthur Andersen • McKinsey & Company • GE Capital • Dell	$35 billion
Design-based services (engineering, industrial, furniture, fashion, architecture etc.)	• Bechtel • Hoechst • Dupont • Allied Signal	$5 billion

[1] Projections by CG-Nasscom, McKinsey–Nasscom

The diagram above highlighted the kind of work being outsourced by companies worldwide was becoming more knowledge-intensive. Content management, financial accounting, process improvements, research help-desks etc. were the areas falling in the KPO space. One would expect the KPO ambit to include claims processing, highly technical services and investigating fraud. This helped industry behemoths to be more nimble. eClerx fell in the KPO space with its line of services.

eClerx: Serious Contender in the KPO Continuum

A market leader in the high-end BPO space, with entrepreneurial origins, eClerx was adapted to the rapidly growing KPO sector. It was founded by Anjan Malik and P.D. Mundhra with base in Mumbai and offices in New York, Austin and London. By 2004, it grew to become the market leader in the high-end BPO space. It provided solutions, outstanding service and support to clientele who were primarily in the Fortune 500.

Founders

Mundhra, Director of eClerx, started his career as an entrepreneur when he was 18 years old. At that time, he negotiated a joint venture with Amco Veba of Italy for manufacturing and marketing mobile cranes in India. He did his graduation in commerce from St. Xavier's college in Calcutta. After the joint venture with Amco Veba, he established and managed Carter Hydraulic Power Private Limited, a manufacturer of material-handling equipment with an 80% national market share, and set up a consumer products manufacturing plant for Hindustan Lever Limited. He completed his MBA with Finance as his major subject from the Wharton School of Business in 1996. There he was awarded Palmers Scholar for his academic excellence. He brought to eClerx his investment banking experience that he acquired at Lehman Brothers in New York and Citibank in Mumbai.

The other founder of eClerx, Malik, graduated from the Imperial College of Science and Technology, London, with a first-class honors degree in Physics. Anjan earned his MBA with Finance as his major subject at the Wharton School of Business in 1996. At Wharton, he was awarded the prestigious Ford Scholarship. He was the person behind the Lehman-Wharton partnership that created the Wharton India Economic Forum—now a leading platform for Indian and US business leaders to create business opportunities in India. Malik worked with Accenture in Europe for five years where he managed multi-national, multi-functional and multi-company project teams to implement enterprise-scale information systems for Europe's largest financial services companies. After that, he worked for seven years at Lehman Brothers where he headed the European Fixed Income Credit trading team. Working in New York and London, he helped build an extremely successful globally structured credit business.

Mission

eClerx's mission was to become Fortune 500's partner of choice for offshore data services by understanding, anticipating and fulfilling client needs, by providing the highest quality solutions and by executing projects timely and within budget.

eClerx History

eClerx started with venturing into web-based development. A technology focus coupled with domain expertise directed the strategy to enter the Data Analytics space. Increasing experience in process engineering, seamless process implementation and new domain expertise through client exposure and internal development helped eClerx move into other spheres.

eClerx Domain of Operations

eClerx provided the following services to its Fortune 500 clients:

- ➢ Process consulting
- ➢ Data analytics

eClerx currently managed data and risk analysis projects for a number of leading investment banks, some of which involved reviewing large volumes of derivative confirmations to identify basic risk and potential trading opportunities. Its service portfolio spanned the range of data process and analytics services and included activities such as:

- ➢ Online catalog management
- ➢ Price benchmarking
- ➢ Contract analysis
- ➢ Data mining
- ➢ Financial/operational risk management

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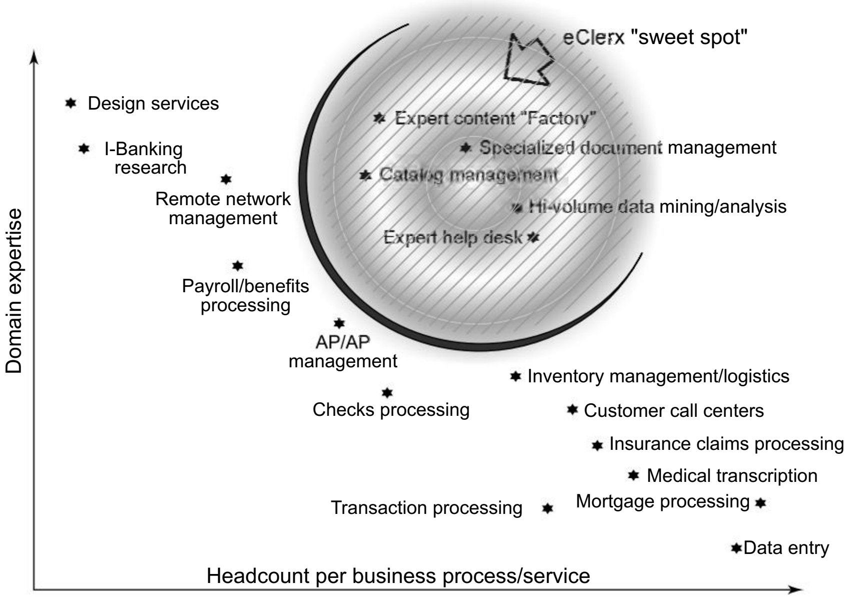
Its operations involved understanding client needs and solving their business problems by custom-designing data processes, assembling a delivery team comprising generalists and domain specialists, leveraging technology and developing customized software to integrate the eClerx process with client internal systems and processes. In the KPO sector, eClerx's operations were seen as below. The eClerx "Sweet Spot" of operation in a plot of headcount versus domain expertise was as given below.



Key Differentiators

A key differentiator for eClerx was its technology and software capability. A history of venturing into Web-based technology held them in good stead in terms of developing customized software tools in the customer and internal processes. This helped them minimize headcount, provide tremendous process control and systemize quality. Their skills helped them understand and ensure tighter integration with client systems, a key driver of client-usefulness and usability. More often than not, tools developed by eClerx were deployed on client extranets, thus, giving clients direct access to process results.

Clients

The verticals were organized according to the domain expertise. Data Analytics explored the realm of information extraction from the voluminous data that the company generated. Risk assessment and management, identification of opportunities, trends and pattern interpretation constituted its offerings. Process consulting involved process engineering, process improvement and execution. Cross-functional exposure and innovation orientation helped identify and implement process improvements. Technology and software competence aided in developing customized solutions for the Data Analytics and Process Consulting group. It opened up opportunities in the e-Business space for multi-million online catalogue and content management contracts among the top Fortune 500 companies. Its clientele included the largest computer manufacturer, the leader in e-commerce and other companies from the Fortune 500.

The eClerx four Pillars

eClerx took great pride in their four pillars:

1. People

People formed the key of the organization. The recruitment at eClerx was very stringent to bring out the best employees in terms of organizational fit, teamwork and talent. The objective was to develop cross-functional teams of general and domain specialists and software tool development teams. Tremendous opportunities for skill and personality development were key factors for retention of employees. There were customized training programmes for the management and non-management cadre. There were separate internal management development programmes in addition to domain expertise training. These competencies helped eClerx meet the scalability factors.

2. Software tools

The organization leveraged its technology and software competency to develop customized tools for the customer and for internal optimizations. This also improved productivity, met scalability expectations, provided process control and systematized quality towards quality assurance mode. The corresponding group was thus a major differentiator vis-à-vis other companies and provided key services to the data analytics and process-consulting group.

3. Process

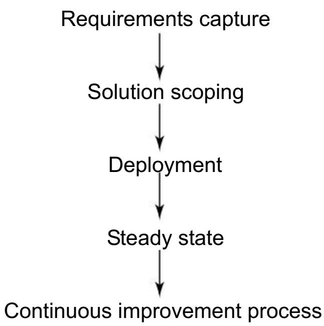
eClerx operated in the entire process management continuum. It helped set in place process workbenches for the business control model covering management, work and check processes. Experience in the continuous cycle of process inventory mapping, planning, definition, control, measurement and feedback helped improve the content of service offerings over the years. Technology integration provided the user-friendly view and advocated widespread usage. The processes that eClerx used for providing solutions to its clients were developed in-house after understanding their requirements. These were not a mere replication of the processes being used by the client.

4. Knowledge management

Tacit knowledge constituted close to 70% of the information of any organization. Knowledge management helped handle attrition, enabled faster innovation, added value to customer offerings and brought about fundamental shifts in the level of service. Service continuity, satisfying people aspirations, improved strategic advantages and developing and maintaining long-term relations necessitated the need for knowledge management. User-friendly portals to log in technical and process-oriented knowledge, integration of recording and use of logged-in knowledge as a way of life at eClerx resulted in improved goal mapping and improvization. Processes started from the very top and filtered down to the lower levels to record, group and reuse information.

Service Methodology

eClerx followed a well-structured methodology to implement processes. The different stages could be represented as:



Requirements capture: This stage encompassed the stages of working on pilot projects, proof of concept, RFPs and post-sales activities, wherein different techniques of work flow analysis, case studies etc. were used in understanding and capturing requirements. Subsequently, requirements were frozen and signed off. Processes, workflow and communication channels were finalized and communicated, and SLAs were defined.

Solution scoping: This stage involved the SDLC with corresponding test phases. The fluid state of requirements due to rapid change in real-life trends and time to market the mode of operation added to the uncertainty and risk management. This required subsequent redefinition of the SLAs or gave rise to new phases or projects.

Deployment: Implementation of solutions was followed by identification of cross-functional teams at the customer end, subsequent training in solution management, defining the hierarchy of support management and redefining SLAs if required.

Steady state: Benefit calculation, best practices identification, process benchmarking, tacit knowledge documentation against changing customer needs marked this state.

Continuous improvement process (CIP): As outlined in the capability maturity models, organizational excellence was achieved through continuous improvement. Integration of this concept in the organizational culture helped stay ahead of times and contributed to innovative method of functioning.

HR SYSTEM

Recruitment

A stringent recruiting process was in place to choose the best persons in the industry. On an average, around 0.5% of the applicants managed to be the employees of eClerx. It recruited from some of the best B-schools in India as well as from young managers having relevant work experience and international exposure. People at higher levels were chosen through a tie up with a global assessment evaluation vendor.

The streamlining of candidates was done as follows:

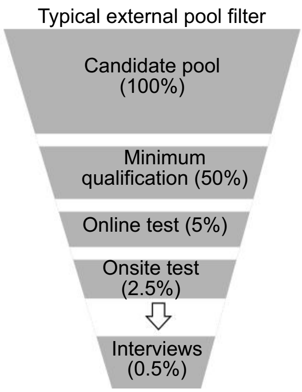
Stage 1: Short listing was based on CVs. Criterion such as minimum academic qualification, relevant work experience, employee referrals were followed with objective assessment of the employee skills, background and measurement of possible fit with the organization and its goals. This resulted in the screening of 50% of the applicants.

Stage 2: Online tests were conducted to verify the stated skills of the candidates on the technical and non-technical front. This screened around 5% of the applicants.

Stage 3: Onsite tests involved exposure to real-life cases and situations. Stress tests were also applied to view the performance of the candidates at close quarters. Through this process, 2.5% of the applicants were shortlisted.

Stage 4: Interviews were very exhaustive. There was a round of technical interviews,, followed by matching the candidate's profile with the organizational goals and objectives. Analysis of the background and subsequent check with past employers finally resulted in 0.5% of the candidates being chosen.

Given below is a diagram to show the selection process:



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Organizational Structure

eClerx had two main divisions or verticals: e-Business and investment banking. The existing workforce of the organization was close to 320 in India, Austin and other locations.

The hierarchical structure of eClerx was as shown in the following table.

Organizational Structure of eClerx

		Board of Directors					
		Firm Wide Titles	Process	Shared Services			Client
Management Team	Senior Management Team	Principal	Principal	Principal (Software)	Principal (RMG)	Principal (Networks)	Principal (Client Engage-ment)
Management Team	Senior Management Team	Associate Principal	Associate Principal	Associate Principal (Software)	Associate Principal (RMG)	Associate Principal (Networks+IS)	Associate Principal (Client Engage-ment)
Management Team	Senior Management Team	Program Manager	Program Manager	Program Manager (Software)	Program Manager	Program Manager (Networks + IS)	Account Executive
Management Team		Program Manager	Program Manager	Program Manager	Program Manager	Network Manager	Project Implemen-tation Coordinator
		Associate Process Manager	Associate Process Manager	Tech lead/ Business Analyst	Associate Process Manager	Associate Process Manager	NA
		Senior Analysts	Senior Analysts	Senior Developer/ Systems Analyst	Senior Analysts	Senior Network Engineer	NA

At the top were the principals, assisted by associate principals, followed by the programme managers, process managers and associate process managers. Senior analysts and analysts completed the hierarchy of eClerx.

eClerx was headed by its two directors, Anjan Malik (Director Business Development) and P.D. Mundhra (Director Business Operations). The principals, associate principals and programme managers were responsible for strategy formulation and client engagement. The involvement of the programme managers in the strategy formation process was on a case-to-case basis depending on their prior involvement with the account, their track record at handling similar clients, complexity and importance of the project. They set the direction for the organization and planned the strategy—both short run and long run. They also looked into the marketing function in addition to client engagement and other responsibilities. Expansion of business was through deepening the relationships with existing clients.

The strength of eClerx was in its technology capability. Despite different roles at different levels, all the employees at eClerx were experts in technology domain. This fact enabled eClerx to provide services that were high in the value chain to its clients.

Programme managers headed projects that came under core divisions of investment banking and e-Business. The overall responsibility for handling clients was with the programme manager. Size of the account, comfort level of customer, history of association with the customer, complexity of the project etc. determined the number of programme managers associated with the account. Considering the comfort level, an old project would involve lesser number of managerial hierarchies. The client interaction and operational responsibility of the project were with the associate process manager.

The organizational structure of eClerx allowed it to combine generalists and specialists in forming teams for projects. With its capability to easily deploy cross-functional teams, this structure resembled that of consultancies. This structure also provided the fluidity to quickly adapt to the changing external environment. This was also a differentiating factor vis-à-vis other service industries and companies.

Support Functions

The main support functions were technology, network support and resource management. These functions were common to all divisions. Divisions such as logistics and purchase, infrastructure support, maintenance support, computer support etc. interacted with all divisions on a need basis. Moves were being contemplated by the common functions to bill the projects (internal clients) based on their association with the project.

The Resource Management Group (RMG) handled resource management. Its main functions included knowledge management (KM) and HRM. Under KM, all initiatives were worked on through task forces/pilot teams. Initiatives included achieving a quality goal, implementing change in structure across the organization, implementation of knowledge management framework, working on improving domain expertise at a particular client's end etc. The KM group also gave rise to an innovation-oriented culture. HRM included the entire gamut of recruitment practices, employee development strategies, employee retention strategies, influencing employee-friendly initiatives and shaping the culture of the organization. The RMG was, thus, one of the nodal groups in the organization due to its strategic positioning.

Integration of Functions

In eClerx, marketing was integrated with the accounts or projects. Client engagements, obtaining new clients, expanding the scope of work at the client's business model etc. were tasks assigned to managerial cadre in varying proportions. The marketing function was highly integrated, as all the programme managers were responsible for satisfying the clients' requirements. This explained the absence of a separate marketing function. The philosophy of the company was in servicing the end-to-end needs of the customer. Their experience had been with the growth of their account with the same customer. The areas of expertise gradually permeated into different core areas at the customer level. eClerx depended on its existing client base and their continued patronage for its business needs. In a lot of cases, business was obtained when a satisfied client referred eClerx to other organizations. eClerx boasted 100% customer retention, as its customers were very satisfied with the high quality of work it provided. New clients were targeted by the upper management comprising the principal/associate principal/programme managers. If new opportunities in expanding business/new clients were identified at any level, this was then conveyed to the higher managers for following up based on its importance. HRM and Logistics divisions were common to all the other divisions; there was a high level of integration in the organization structure. This high level of integration also helped in imparting some cross-functional training to the employees.

Span of Control

The exact number of employees working under a manager at any level was not fixed and varied depending upon the requirements of the project/client. The number of process managers reporting to a single programme manager depended upon the division being handled by the programme manager and was generally between 2 and 7. The associate process manager was a level that was recently introduced to reduce the span of control of the process manager. Responsibilities of the associative process manager included planning, scheduling and execution of the day-to-day activities of the project. Each associate process manager managed 3–4 senior analysts who, in turn, managed 3-5 analysts.

Centralization and Decision-Making

The structure at eClerx was highly decentralized. Authority to make decisions on organizational resources was given to managers even at the associate process manager level. This helped in freeing the top management to focus their attention on strategic management. eClerx operated in a highly competitive and fast changing environment, where decisions were required to be made quickly. Decentralized decision-making increased the responsiveness of the organization to the environment by allowing lower-level managers to take on-the-spot decisions. People up to the process manager level handled most of the decisions related to existing clients.

Communication

eClerx was an informal organization with flexible channels of communication. Interaction with the customer was informal. Employees were encouraged to have healthy and friendly relations with the customer. Interaction between divisions was also very informal on a need basis. There was ample scope to create cross-functional teams as per requirement. The personnel followed an "open door" policy, wherein people with ideas/grievances could walk into the cabin of the superior or mail him at any point of time. There was no protocol to be followed. The emphasis that eClerx placed on free conversation was reflected in several measures like town hall meetings, team meetings, opinion surveys etc. as part of standard processes.

Performance Management and Compensation

To promote effective decision-making abilities among its managers and to improve employee performance, eClerx used a variable pay-based scheme for all its employees. Under this scheme, each employee's salary had a fixed component and a significant variable component. The "bonus eligibility policy" defined the conditions that must be met to qualify for the performance-related bonus. If a manager's decision benefits the organization, he was rewarded with a variable pay, which could go as high as 50% of the fixed component. The same was true for employees with good performance. Besides pay being related to annual performance, there was also a provision for spot rewards to motivate the employees.

Standardization and Formalization

There was minimal level of standardization and formalization. The organization had an open culture. Personnel in the managerial cadre had the option of flexible timings. They could also work from home because of factors such as the need to travel, work in foreign timings, involvement in multiple projects and ease of co-ordination. Technical staff involving analysts and senior analysts, however, had to stick to the timings mentioned. There was a high degree of informality in the organization. People were free to take coffee breaks and have extended lunches, provided the work is completed on time. Spacious cubicles and clean environment marked the work area. People were encouraged to strike a balance between work and personal life. However, there was no compromise on certain norms and rules. For example, people caught viewing pornography were terminated. There was a strong sexual harassment prevention policy which was documented. A committee comprising equal representation from both genders acted on complaints.

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Organizational Values and Ethics

eClerx believed in ethical leadership and stressed on ethical and value-oriented transactions. The values included making quality its religion, attracting and investing in the best people and developing a professional client-centric culture. These values helped it in achieving its mission of becoming Fortune 500's partner of choice for offshore data services.

Performance Appraisals

eClerx followed a system of 360° appraisal system.[3] The rules and regulations were documented and made transparent. The appraisals were done twice a year. The process started with a collection of the expectations and objectives of the appraisee for the period ahead. Comparison of the same with the organizational expectations and buffering for unplanned tasks would then be followed through approval in the online system. The appraisee was then analyzed based on his performance in the tasks. Periodic feedback was given to the employees so that they were aware of their relative performance vis-à-vis others and their contribution to the organization. The appraisee was also assessed based on the feedback from all stakeholders who had interacted with him—peers, subordinates, people in other departments or projects, the customer and vendors. This method helped eliminating bias and provided a more reliable overall assessment. Increments were associated with the appraisal. A percentage of the increment was associated with the performance of the team and the division. Employees were measured against a specific set of performance standards that include the SLAs, applicable to the entire team.

Organizational Learning

Development of domain expertise was key to effectiveness in the organization. The knowledge management process helped in this focus. Employees were encouraged to attend training sessions in other projects to increase their knowledge. They were also encouraged to attend courses outside the organization to supplement their skills. Periodic workshops were conducted to sharpen the soft skills of the employees. A formal system of training was setup wherein courses were offered on a regular basis. Employees with due interest in the course could sit through the classes.

All new employees went through an orientation course to familiarize themselves with the organization. Division-specific training followed subsequent induction into a division. Division-specific training included lectures on domain-specific subjects. "On the Job Training" complemented this. A cross-functional team was presently working on a pilot project to come up with a training mechanism in the face of plans for rapid expansion of the organization. This training could cover soft

[3] Performance of every employee was assessed based on feedback from all people interacted with (e.g. customers, superiors, vendors, subordinates etc.).

skills, technical training, managerial training etc. This was in the format wherein people could apply for the training programme on the basis of their availability.

Road Ahead

As per the external resource approach of organizational effectiveness, eClerx was improving its relations with its suppliers to increase the quality of the resources. It was offering lucrative pay packages and related benefits to attract skilled employees. Thus, it was taking care to continuously improve its relations with both the key factors on which its success depends. It had managed to gain a Fortune 500 clientele by providing world-class differentiated services with the help of its technological capabilities.

Exhibit 1: eClerx

Press Reports

News added on July 17, 2004

Knowledge Process Offshoring (KPO) Opportunity to be Worth USD 17 by 2010

According to business research firm Evalueserve, the revenue for the global KPO market was USD 1.29 bn in FY 2003 and this is expected to grow to USD 17 bn by FY 2010, a cumulative annual growth rate of 46%. In contrast, the revenue from plain vanilla BPO services will grow from USD 7.7 bn in FY 2003 to USD 39.8 bn in FY 2010, a cumulative annual growth rate of 26%. [PRWEB Jul 17, 2004] — PR Web[4] (Press Release).

Exhibit 2: eClerx

Knowledge Process Offshoring (KPO) Opportunity to be Worth USD 17 by 2010[5]

Gurgaon, India (PRWEB) July 17, 2004 — KPO involves business processes that require domain expertise and high-end talent such as MBAs, engineers, doctors, lawyers, accountants and other highly skilled professionals. "KPO requires moving away from simply executing standardized processes to carrying out processes that demand advanced analytical and technical skills as well as some decision-making", said Alok Aggarwal of Evalueserve. Some of the destinations from where KPO services are being provided are India, China, Russia, Canada, Israel and the Philippines.

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[4] http://business.updates.com/topic/07_17_2004_outsourcing.html

[5] http://www.prweb.com/releases/2004/7/prwebxml141793.php

Typical users of KPO services are market research and consulting firms, investment banks and financial services institutions, and corporate planning departments of large Fortune 500 companies. These services can also be easily used by small and medium sized enterprises due to project-based nature of the work.

Some examples of services in the KPO domain are intellectual property research, R&D in pharmaceuticals and biotechnology, data mining, and a range of analytical services such as equity research and financial modeling.

Writing patent applications in the US is expensive and a typical application costs between USD 10,000 to USD 15,000 for drafting and filing with United States Patent and Trademark Office (USPTO). In an offshore mode, an intellectual property specialist in an offshore location can produce a preliminary draft of a patent application, which is then reviewed and modified by a registered US patent attorney, who ultimately files it with the USPTO. This can result in cost savings of up to 50%.

In the R&D area, contract research organizations are being widely used by pharmaceutical companies. Destinations such as India offer significant cost advantages —often as much as 40% to 60%. Recently, companies such as AstraZeneca and Glaxo-Smith-Kline have set up drug discovery centers at low-cost destinations to offshore R&D.

In the area of data mining and analytics, destinations such as Russia and India are ideal because they provide a large pool of engineers and PhDs at substantially lower costs. The cost differential between a PhD in Sciences and Engineering in the US and India (or between US and Russia) can range between USD 60,000 and USD 80,000. "Demand and channel planning, manufacturing scheduling, and transport planning are examples of some supply-chain management solutions that require the use of mathematical programming, statistical analysis and computer-aided simulations", said Alok Aggarwal, who holds a PhD in mathematics and computing.

Given the large number of engineers, doctors, lawyers, chartered accountants, statisticians and scientists in India, Evalueserve believes that India can provide KPO services worth USD 12 bn by FY 2010 instead of USD 720 mn that it provided in FY 2003. This would represent a cumulative annual growth rate of approximately 50% and 250,000 such professionals would be hired by Indian KPO providers by FY 2010, which would therefore provide direct employment worth 300,000 people.

Benefits go beyond just cost savings. KPO users typically save on time and also have a greater access to various skills. In many cases, providers also offer multilingual research capabilities.

However, executing KPO projects is not easy and requires a professional services culture rather than a BPO culture. Processes executed within the KPO domain require higher quality standards because the stakes for the clients are high. Furthermore, the clients are likely to have apprehension about the quality of the services delivered (especially by low-cost destinations) and these may be difficult to alleviate. To manage these perceptions and ensure smooth delivery, vendors work in a "80-20" mode which involves providing leverage to senior professionals.

"Another key challenge in the management of a KPO is the identification of performance criteria—setting the right expectations with the end-client as well as its professionals, continuous assessment and monitoring, constructive feedback, appropriate coaching and mentoring and identification of right career paths for its professionals", said Marc Vollenweider of Evalueserve, a former partner with McKinsey.

However, these factors will not impede the growth of the KPO industry. In fact, the protectionist lobby and their anti-BPO drive in the USA and the UK have helped global offshoring and, in particular, global KPO by providing free publicity. Evalueserve estimates show that between June 1, 2002 and May 31, 2004, India Inc. alone received more than USD 89 million in free publicity from more than 1,980 distinct articles in newspapers and magazines and over 210,000 distinct references and "threads" in the U.S.A and U.K. Hence, many Americans and the British companies now feel that Indian companies can do almost anything, even Rocket Science!

Exhibit 3: eClerx

KPO: The Next Big Opportunity[6]

December 31, 2004

Knowledge process outsourcing is widely predicted to be the buzzword in the New Year; here's why.

According to a recent study by Evalueserve, the global KPO market is expected to grow at a cumulative annual growth rate (CAGR) of 46 per cent, from $1.2 billion in 2003 to $17 billion in 2010.

Compare this with the prediction for the low-end outsourcing services market. This is expected to have a CAGR of 26 per cent, from $ 7.7 billion to $39.8 billion in the same period.

Evalueserve says India provided $3.5 billion of BPO and KPO (but non-IT) services in 2003 and is expected to grow at a CAGR of 36 per cent during 2004 to 2010. Hence, it is likely to earn $30 billion in 2010 by providing these services.

The high-end KPO opportunities are immense for Indian firms. For instance, look at some of the figures pertaining to intellectual property research.

Drafting and filing of patent applications in the US is quite expensive. A typical application costs about $10,000 to $15,000 to draft and file with the United States Patent and Trademark Office.

Cost savings from offshoring even a portion of the patent drafting process can easily save up to 50 per cent of the cost for the end client, according to Alok Aggarwal, Chairman of Evalueserve.

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[6] http://www.computerweekly.com/Article122322.htm

Quite predictably, law firms (such as Patent Metrix, Cantor-Colburn and Schwegman, Lundberg, and Woessner & Kluth) have already set up offices in India, and quite a few others are joining hands with Indian companies to cash in on the emerging opportunity.

Offshoring R&D in pharmaceuticals and biotechnology is another area where there is enormous potential for KPO. Aggarwal says destinations such as India offer significant cost advantages (as much as 40 to 60 per cent) in the areas of contract research and clinical trials.

Companies such as AstraZeneca and GlaxoSmithKline have recently set up drug discovery centres at low-cost destinations to offshore R&D activities.

Chip design and embedded systems are another critical areas. A paper presented by Aggarwal says the reason why all major integrated design manufacturers such as Motorola, Intel, Analog Devices, National Semiconductor, IBM, Cisco, Cypress Semiconductor, Nokia and Philips have set up offshore design centres is simple.

The compensation for a chip design engineer with a master's degree and five years' experience is about $7,000 a month in the US.

An engineer with the same qualification and experience in India gets about $1,200 a month.

Naturally, the cost savings in KPO is enormous. For example, data-mining services companies can save as much as 60 to 70 per cent on analytics and inventory management costs by off-shoring them.

The cost differential between PhDs/engineers in the US and India is almost $60,000 to $80,000.

Companies like Evalueserve, GE Caps, MarketRx have set up centres at low-cost destinations to provide these services. And more are expected to follow soon.

A major reason why companies in India will have no option but to move up the value chain from BPO to KPO is quite simple. By 2010, India may have become too costly to provide low-end services at competitive costs.

For example, Evalueserve says Indian salaries have increased at an average of 14 per cent a year. If this trend continues, they are expected to increase 2.5 times the current salaries (in constant dollars) by FY 2010, thereby reducing the cost-arbitrage benefit from the present 40 to 25 per cent.

This, the low-end work, may move to relatively cheaper countries like Ukraine, the Czech Republic and Malaysia.

Moreover, commoditization of BPO services will further boost the transition of present low-end destinations to the higher end of the value chain. The better margins expected at the higher end of the value chain might act as a deterrent for companies in accepting low-end work.

The number of professionals working in the offshore industry is expected to increase as more and more companies decide to become involved in BPO and KPO.

This will further drive the trend towards the migration of low-end services to high-end services, especially as offshore service vendors (as well as professionals working in this sector) gain experience and capabilities to provide high-value services.

During 2000 to 2003, the US offshored 2,38,000 IT service jobs. Evalueserve predicts that this is likely to increase to 7,75,000 jobs by FY 2010.

Further, by the end of March 2004, the US had offshored about 1,36,000 BPO (non-IT) jobs, mostly in the call centre segment.

Forrester predicts that it is likely to offshore 1.314 million BPO (non-IT) jobs by FY 2010.

Exhibit 4: eClerx

Copy of Recruitment Ad[7]

eClerx virtual team

Advertised: 4-2-05 | Closing Date: 3-3-05.

eClerx Virtual Team provides data consulting and analytics services to its Fortune 500 Clients from its downtown Mumbai offices. We seek dynamic problem solvers for the role mentioned below.

For Managing our phenomenal growth we are looking for strong individuals with demonstrated excellence, deep analytical powers, and go getters' attitude, for all positions.

Software Developer/Senior Software Developer (Mumbai)

Requirements:

Candidate must possess at least a Bachelor of Engineering / Technology or Master of Computer Application / Computer Science or Master of Engineering/Technology in any field.

- ➢ Required skill(s): ASP.NET, VB.NET, Sql-Server2000.
- ➢ HTML, ASP, VB
- ➢ At least 1 year(s) of working experience in the related field is required for this position.
- ➢ Software development: experienced candidate need only apply.
- ➢ Experience of working on projects for international clients will be a definite plus.
- ➢ Only candidates residing in Mumbai can apply for this position.

[7] http://www.jobstreet.co.in/jobs/2005/2/default/20/343316.htm

Copy of Recruitment Ad for Business Development - Austin[8]

The Company – eClerx – Virtual Team

eClerx -Virtual Team is a fast-growing provider of offshore data management and analytics services to the Fortune 500. We specialize in providing online catalog management, pricing analytics and other web/data-related services to the online retail industry; our key customer in this area is the world's largest PC manufacturer.

The Position

We seek an Austin-based Business Development Manager to cross-sell our competencies in this area to the online retail industry, with a special focus on technology companies.This entrepreneurial role will require you to develop and execute a sales strategy targeting the Fortune 500. You will achieve this by fully understanding our suite of services and their applicability to the online retail industry. You will work with our off-shore team to identify potential clients, prepare presentations and design and execute pilot programs. You will be a key eClerx executive with the opportunity to direct our future growth in this area of work. As our contracts are typically multi-year, some degree of account management of new sales is a key requirement of the job. You will report to a US-based senior manager.You must have 2^{+} yrs experience in a consultancy environment within the online retail area (preferably in the technology space) and bring with you an established network of contacts in the industry. You should be keenly aware of industry trends, and understand e-commerce related technologies. Some experience of outsourcing initiatives is strongly preferred. Initiative, tenacity, diligence and excellent communication are all prerequisites. The role will involve travel within the US and to our Mumbai (India) offices.

Interview Process

During our two phase interview process candidates will be required to clearly demonstrate the following qualities, in addition to be considered for interview your resume and/or covering letter should clearly call out these qualities:

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[8] http://www.eclerx.com/careers.htm#

Quality	Essential	Desirable	Beneficial
Employment Experience			
2 Years Consultancy	x		
Fortune 500 exposure	x		
Fortune 100 exposure		x	
Identifying new business opportunities	x		
Excellent written and verbal communications skills	x		
Direct contact at Senior Management level experience	x		
Online Retailer experience	x		
Significant contacts within the Online Retail sector, most notably in the Fortune 500	x		
Personal Traits			
Austin based		x	
Problem Solver/Results oriented	x		
Entrepreneurial Spirit	x		
Desire to contribute to the team	x		
Willing and able to travel to India	x		
Willing to submit to drug testing and background checks	x		
Sales experience		x	
Education			
Relevant Bachelors Degree	x		
MBA			x

CASE 9

Nishotech Systems Private Limited

Satyajit Majumdar

Nilesh C. Badani and Sanjay C. Badani, Directors of Nishotech Systems Private Limited, were looking at the computer printout of the expected sales and financial figures of 2003–04. Nilesh picked up a pencil, started circling figures and scribbling numbers. Both were keen that the changes proposed in the organization would result in better performance. Sanjay left to make a phone call to one of the customers.

Nilesh stared out of the window thinking about the SBU (Strategic Business Unit) organization structure adopted from April 2003. He felt that operational independence of each unit would probably reduce the need for day-to-day coordination. The memories of one such unsuccessful attempt flashed back. He and his partners were, therefore, cautious of the new SBU model.

Shoeb A. Kurawadwala, another director, called up. He wanted to discuss about the new premises, which they proposed to take on lease for Christ Nishotech Private Limited, the joint venture to be launched by them in April 2004. Nilesh had a long conversation with him, also referring to the computer printout in front of him.

BACKGROUND

Nilesh graduated in Chemical Engineering from the Manipal Institute of Technology in 1985. He spent his early childhood in Ethiopia, where he had his primary education. His father ran a retail shop there. Later, the family migrated to Mumbai, where he pursued his secondary school education and junior college.

Since college days, Nilesh was keen to know about business, stock market and accounting. After a brief experience in Deepak Fertilizers, he joined Chemsworth Private Limited as application engineer. Chemsworth was the agent for Millipore in India. The company used to import membrane-based water filter system and install it in pharmaceutical plants in India. Nilesh said:

Millipore was known to be the world leader in membrane science. Since the complete system was imported the cost was high.

He found the work in Chemsworth interesting. He acknowledged that his real grooming took place during those four years. He learnt every detail about the industry, business and product.

Shoeb Kurawadwala studied Chemical Engineering at the Indian Institute of Technology, Mumbai. His father had a business which he subsequently discontinued and took up a job. Shoeb did not see his father in business, but he had business orientation in the family. Shoeb was working in Chemsworth with Nilesh.

Both shared their feelings and opinions about the business. They felt that Millipore could do much better. They travelled to USA for training and were exposed to the business at world scale. They understood the technology of water treatment and could see immense opportunities. Both shared their desire to work independently. Shoeb wanted to do something on which he felt confident without worrying too much about success or failure. In 1989, Nilesh and Shoeb left the jobs to become entrepreneurs.

MAKING ENTREPRENEURS

Nilesh and Shoeb thought that the filters supplied by Millipore were good and efficient, but the piping could be procured from Indian market. Combination of Indian piping and imported filter could substantially reduce the price of the total system. Nilesh said:

The pharmaceutical sector was growing during late 1980s and early 1990s, and reduced price of the water treatment system could be a big opportunity.

Shoeb was aware that many pharmaceutical companies were improving their R&D base, and they would need additional water treatment system for their pilot plants.

They propagated the concept among pharmaceutical companies. Being in business and having visited many customers as a part of their job, they developed good contacts. Many customers took them seriously and accepted their concept.

To start the business, they brought initial capital from their savings. They started two partnership ventures, Sanitech Engineers for piping related work at the sites and Membsep for membrane separation filters for processing streaming as well as water. They operated from a place owned by them in Vikhroli (a suburb of Mumbai).

Nilesh and Shoeb tried to balance their passion for creativity and value creation for the customers. They took support from none as both felt that they had adequate experience in that business. Shoeb said:

In initial years, it was a two-man show.

Nilesh recalled:

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> We did one job very well. We wanted to do good jobs all the time. We invested own hard earned money. Our families supported us all along. But we knew any small mistake would have created havoc.

Both agreed:

> In spite of all those risks, we were ready to take challenges.

They developed a vendor who did all machining work for them. As it was a dedicated unit, the vendor maintained design and data secrecy. They provided him the necessary financial support to upgrade his workshop. Working capital was not a problem for them as their customers paid advances. The arrangement worked well.

In 1992, Sanjay, younger brother of Nilesh, joined them. He was working as a broker in the Bombay Stock Exchange. He had some industry experience. Before joining Nishotech, he indirectly helped them through his contacts. He admitted that being Nilesh's brother he initially faced identity crisis in Nishotech. Sanjay said:

> But I knew my capabilities; it took about two years for me to understand the system. I looked after a few projects independently right from getting orders till execution and also managed the works independently including purchase and finance.

He underwent a short programme on materials management in 1995.

In 1993, the company was converted into a private limited one. That year they bought a large place in Bhandup (another suburb of Mumbai close to Vikhroli). The vendor felt insecure as he thought that the promoters were trying to establish their own manufacturing setup. He felt that this would adversely affect the subcontracting work coming to him. Hence, the vendor started finding business with the competitors. Nilesh, Shoeb and Sanjay decided to discontinue business relations with this vendor, and start their own workshop. Since they had ready cash, the workshop was developed within a record time. Sanjay and Shoeb managed the factory construction at Bhandup.

In 1998, they decided to focus more on membrane technology; Nilesh took up this responsibility. Shoeb looked after piping, and storage and distribution businesses. Sanjay managed the factory-related affairs.

In 2000, Nishotech started operating from a new site at Thane Belapur Road in Vashi, Navi Mumbai, about 40 km away from Mumbai. Navi Mumbai was developed as greater Mumbai with better infrastructure. It was a bigger place and the business volumes were expected to grow due to enhanced capacity. Hence, they availed working capital loan from a bank with stock hypothecation and bank guarantees.

WATER TREATMENT BUSINESS

Nishotech was in water treatment business in the pharmaceutical sector. Water available from natural source contained many impurities. The suspended impurities could be removed by simple filtration after allowing the suspended particles to settle down. The other dissolved impurities could be removed by boiling or ion exchange. The water used in manufacturing of drugs or food items was required to be free from bacteria or any harmful micro-organisms. The pharmaceutical plants used water for cleaning the processing vessels and pipes and to dissolve raw materials as a part of processing. They needed water in large quantities.

Water treatment process in such cases was different from the conventional drinking water treatment processes. The capacity of water treatment plant had to match the quantity of water required. Hence, rate of water treatment and storage capacity of treated water were some of the critical parameters which decided the technology and size of the treatment plant. Such water treatment systems not only killed the harmful micro–organisms, but the storage system also had to be designed such that they did not grow till the water reached the usage points.

Stainless steel vessels, transfer lines and attachments were used in water treatment system. The surfaces of these vessels, pipings etc. were subjected to smooth finish so as to clear the effects of any harmful micro-organisms. In sterile process piping, stainless steel water storage tanks and piping were fabricated to store and supply treated water to various points of use. Mechanical operations like cutting, welding and grinding were involved.

Vendor management, project planning and execution and finance management were the core of this business. In separation technology, various fluids were separated with the help of membrane and chromatography processes. The technology was used for recovery of product and water filtration. Being a green technology, as it did not involve any chemical treatment or waste disposal, this was one of the most preferred technologies for water treatment.

PHARMACEUTICAL SECTOR

To understand the business of Nishotech, pharmaceutical sector could be segmented as (1) formulations (which included injectibles, liquid and tablets), (2) activated pharmaceutical ingredients (API) which included bulk drugs and fine chemicals, and (3) biopharma (which included insulin, vaccine and protein).

Pharmaceutical Sector: Bulk Drug and API[1]

Indian pharmaceutical sector comprised both MNCs and Indian companies. Market share of MNCs declined from 75% (1971) to 35% (2000). To boost the domestic industry, the Government of India brought process patent through Indian Patent Act, 1970. The Indian companies developed expertise in process development and manufacturing. As a result, pharmaceutical sector in India grew many fold (Exhibit 1).

Since then, there had been a thrust by the major Indian companies to invest and to concentrate on R&D, targeting both New Drug Discovery Research as well as Novel Drug Delivery Systems (NDDS). They upgraded the manufacturing facility and adopted Good Manufacturing Practice (GMP) standard. Many of them started

[1] www.ciionline.org

preparing to get international regulatory approvals such as from United States Food and Drug Administration (USFDA). Approvals from these agencies facilitated export to developed countries. These companies were becoming global sourcing bases for supplying bulk drugs and intermediates to MNCs and take up contract manufacturing.

Indian companies were aware that with enactment of product patent in 2005 they would lose freedom to develop processes and manufacture drugs developed by others. As a medium-term strategy, they started concentrating on those products which were going off patent in the next 5-10 years. However, as a long-term strategy, they started strengthening their R&D efforts.

Large investments were planned by the pharmaceutical companies to meet the growth opportunities. According to OPPI, capital investment in this sector rose from Rs. 140 crore (1965–66) to Rs. 2,500 crore (1999–2000). During this period, R&D expenditure increased from Rs. 3 crore to Rs. 320 crore. R&D investment was estimated to be about Rs. 1,500 crore in 2005. The R&D budget was expected to touch 5% of the total industry turnover (Exhibit 1). Experts opined that R&D costs in India were much less than those in the developed world both in New Drug Discovery Research and NDDS. The investigational new drug stage, as estimated in the Mashelkar Committee Report, might cost \$100-150 million in developed countries whereas in India it might be Rs. (40–60) crore. The report added that clinical trials might cost Rs. 100 crore in India as against \$300-350 million abroad. Most Indian companies were entering into licensing deals and strategic alliances with international companies in utilizing their strengths in commercializing the products.

According to Nilesh, about 3% of total new investment made in modernization or expansion of plant and equipments in a pharmaceutical company was utilized in installation of water treatment plant, including pilot for their R&D to manufacture small quantities of products before taking them up to commercial scales (Exhibit 2).

Biotechnology Sector (With Reference to Biopharma)

Biotechnology was used from sewage treatment to food, drink and pharmaceutical manufacturing. These applications included (1) medical biotechnology, e.g. using micro-organisms such as bacteria or fungi to make antibiotics or vaccines, (2) industrial biotechnology, e.g. using micro-organisms to make enzymes to add to biological washing powders, or to produce beer or cheese or bread, to make vitamins or calorie-free sweeteners, and (3) environmental biotechnology, e.g. using micro-organisms or plants to clean up land or water polluted with sewage or toxic industrial waste (bioremediation).

According to the estimates of the government, healthcare products dominated the biotechnology product market and accounted for 40% of the market in 2010. In agricultural sector, the contribution was expected to rise to about 33.7% as against the estimated 29.8% for 2005.[2] Contributions in industrial products and others might go down during this period, although in monetary terms the absolute contributions might increase due to growth in total market size (Exhibit 3). Demand estimates of major products in this sector were made by the Department of Biotechnology, Government of India. The demand in this sector might also be addressed by some pharmaceutical companies due to their manufacturing competencies (Exhibit 4).

Biotechnology sector was growing at a rate of 39% in 2002–03 to Rs. 3,265 crore. Biopharma was leading this sector with 76% of the share.[3] Nilesh estimated that biopharma plants spent 3% of the total investment in water treatment plants.

OPPORTUNITIES IN AUTOMOBILE SECTOR

Automobile sector installed water treatment systems for paint recovery, coolant treatment in the machine shops, in electro deposition, post paint recovery and anode cells. Nishotech wanted to focus on paint recovery from the paint shop and to treat the coolant to reduce the suspended particles before discharging them to the effluent treatment plant. It felt that such applications could be found in any engineering sector company.

As per Nilesh's estimate, 7% of the new investment in this sector went into the paint shop, and out of that 5% was spent on water treatment. He said:

> Approximately 0.03% of the new investment in this sector is our market for water treatment. In case of old automobile plants, this is about 15% of the investment in expansion.

He was keen to explore this market. He planned to set a target of above Rs. 3 crore for 2005–06 (Exhibit 5).

Organizational Philosophy

Nishotech entrepreneurs shared some common beliefs. Individually, they wanted to work independently and apply their creative ideas. They wanted to be socially responsible and do business ethically. They worked on those technologies which did not degrade the environment. They wanted to strike a balance between professional and personal lives. They wanted a long-term relationship with customers, vendors, employees and among themselves. They all shared honouring commitments and knowledge creation. They wanted to plan their business under known constraints, create a profitable business and give adequate returns to the shareholders.

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[2] www.ciionline.org and www.agribiotech.com

[3] Biospectrum, Vol 2, Issue 8, August 2004.

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Organization Structure

According to Shoeb, Nishotech was in the niche pharma market. He said:

> Market was growing and we did not have many competitors during the initial years. Competition came from 1995. Around that time, the economy was also showing downturn. Till 2000, we lost our market leadership as we had limited offerings, realizing that we tried to organize internally. Also we were not aggressive in marketing.

But Nilesh felt that from 1993 to 1995, the market was growing and they could have taken advantage of the growth.

The year 2000 was a transition year for Nishotech. The directors decided to manage the company through a formal organization structure and to recruit skilled, experienced and qualified personnel. They consulted management experts. Realising the fact that southern India was going to be a major hub for pharmaceutical and biotechnology industries, one resident manager was appointed in Hyderabad.

The same year, three senior employees left; they were holding key responsibilities of production and sales. They decided to start their own venture. That was a crisis situation. They were forced to take over the major operational responsibilities. Nilesh recalled:

> At that point of time, although all of us were under shock and were disappointed, we tried to manage the business as it came. Actually we were executing the single-largest order then. This was the time when we also reaffirmed that project planning and implementation were the core of our business.

Formal structuring started with appointing Nilesh as the Managing Director from April 2001. Till now, the directors were sharing various responsibilities as per mutual consent and convenience. Now they decided to divide the company in three broad functional groups and share one major functional responsibility each. Nilesh was to look after Operation Group, Shoeb after Customer Relation Group, and Sanjay after the Resource Group. Each group was further subdivided (Exhibit 6).

Operations Group was divided into three subgroups:

The Process Subgroup was responsible for basic engineering, detailed engineering, and commissioning and validation. Commissioning and validation were done at the customer's premises after installation of the water treatment system.

Project Planning and Execution Subgroup was divided into two activities. One was "manufacturing in house" which comprised store, dispatch, in-house component manufacturing, contract manufacturing and fabrication/assembly of the water treatment system in the company premises. The other was "on site construction" comprising equipment installation, piping installation and measuring instrument fitment and testing—all were performed at the customer's premises. Installation of the system was normally performed by a sister organization of Nishotech. Quality assurance was responsible for quality check of purchased and subcontracted materials and components, supervision of inspection during manufacturing stages and testing of the assembled water treatment system before dispatch. The detailed inspections during manufacturing were done by the operators and their superiors.

Quality Assurance Subgroup was responsible for maintaining the detailed documentation on quality and handing over to the On Site Subgroup which, in turn, handed them over to the customer after successful commissioning of the system.

The Customer Relation Group involved three major subgroups. Sales and Marketing Subgroup was responsible for approaching customers. Customer Communication Subgroup communicated technical specifications and commercial matters with the customers and communicated the necessary information within the organization. Customer care extended post-sales support to the customers.

Resource Group was subdivided into three activities. Material Subgroup handled purchasing material and equipments and for managing suppliers. Finance Subgroup managed finance and maintained accounts. The HR Subgroup looked after the day-to-day administration, recruitment and training.

Business Profile

The water treatment system consisted of the following activity chain:

Water generation → Storage of treated water → Distribution to desired locations

Nilesh and Shoeb started their venture with fabrication of piping and distribution system and installiation at the customer's plants. They were replacing the expensive imported piping system with a cost-effective water "distribution" solution. The activities involved cutting of stainless steel pipes to required sizes, fixing various attachments to the piping and installing at the customer's location. This was a project type of business which involved material sourcing, fabricating and installing.

Later, Nishotech started offering integrated "storage and distribution" system. This involved designing of an integrated system for storage of treated water, and distribution to various usage locations within the pharmaceutical plants through piping. Gradually, the company progressed to work throughout the value chain of water treatment from "distribution" to "generation" stages by collaborating with world class water treatment solution manufacturers. They sourced technologies to make them suitable for specific requirements of the customers. In this way, Nishotech acquired competence in system design, integrating with the suitable and acceptable technology, and installing at customers' premises. The company started undertaking turn key projects which needed a combination of manufacturing and project management skills.

Nishotech used to receive enquiries from customers or consultants. Many pharmaceutical companies engaged consultants who specialized in water treatment systems. These consultants coordinated with organizations like Nishotech on behalf of their clients for all technical and commercial matters.The company also remained in contact with their past customers to know about their expansion plans. Basic information was obtained from them on the water treatment system desired.

A basic engineering outline was prepared which detailed broad parameters intended of the system, type of control to be provided in the system, and documents supplementation to be done. Negotiations were held with the customers to clarify the technical details and to arrive at a conclusion on system performance and on commercial terms. The commercial terms included payment of taxes, duties, octroi and payment terms. Final quotation was submitted to the customer.

After receiving a purchase order or letter of intent, detailed engineering used to start. Detailed engineering included a detailed layout drawing based on the space available to install the system at the customer's premises, equipment layout and piping drawing. Software was used to prepare drawings. Based on the drawing, "bill of quantity" (BOQ) was prepared. BOQ was a list of all materials and components with the respective quantities needed to fabricate the system. Specification of measuring devices such as water flow meter and pressure gauges were finalized and documented. The operation of such system was controlled by Programmable Logic Controllers, i.e. software-driven control device used for process automation. PLC specifications were also identified and documented. The Process Subgroup prepared an "Operation Manual" for the customer.

Drawings and other documents were provided to the concerned functions for references. The Resource Group initiated purchasing activities, especially which required long lead time. For standard materials, inventory was maintained at stores. But customized items such as water tank were ordered depending on the customer's order. Being in pharmaceutical sector, quality of the incoming supplies was a key focus. For example, the whole plant was made of stainless steel which did not corrode while remaining in contact with water for long. Also, smoothness of the metallic surfaces was important. Stringent surface-finish tolerances were to be adhered as any sharp edge would invite growth of micro-organisms and might affect the water quality.

Inventory of raw material (such as stainless steel bars), consumables (such as grinding wheel), and bought out specific items (such as pressure gauges) were maintained at the stores. The store was also responsible for storage of finished components and product waiting for assembly or dispatch.

The manufacturing unit of Nishotech worked like a supplier to the assembly. They manufactured small stainless steel components and supplied to the stores for inventory. The Assembly Subgroup was responsible to integrate all the components and bought out equipments. They carried out a critical study of the final assembled system; they suggested amendments in the drawing depending on the feasibility. They were expected to prepare a work plan and fabricate the basic stainless steel structure. Various components and equipments, including measuring devices such as pressure gauge and water flow meters, were fitted at appropriate locations. Trial of the assembled system was carried out with the help of Quality Assurance Subgroup.

After successful trial, the assembled system was dismantled. All parts were packed, loaded into trucks and sent to the customer's site. The site engineers coordinated this activity. They studied drawing in advance and prepared a check list of tools, equipments, consumables and manpower required. They were required to ensure availability of all of them at the site. They were also responsible for the day-to-day coordination of work with the customer's representative at the site. Erection of the system was carried out as per an agreed schedule with the customer. Various tests, such as x–ray of the welded parts and hydraulic leakage, were done at the site.

After erection, the commissioning engineer checked the system for suitability. The system was subjected to mechanical and electrical testing and checks. Passivation, neutralization and flushing were carried out. Control panel was tested before the trial run. At this stage, customer's representatives from operations and quality control also witnessed trial and testing of the output (i.e. treated water). After successful trial, the system was cleaned and handed over to the customer.

The last stage of commissioning was training of operators, supervisors and other concerned officials. These people were taken to the water treatment system and explained the operation. Operation Manual and other testing documents were handed over to them. The site activities ended with a party to celebrate the successful installation (Exhibit 7).

Business Analysis

After establishing a management system and the new structure, the performance of the company was reviewed. Although the company was growing in sales and profits, the potential could be to grow at a higher rate. Nilesh estimated the market size to be Rs. 75 crore, including pre-treatment plants, and have a market share of 30%. The entrepreneurs aspired to be one of the top three in the country.

SWOT analysis was carried out. Product-wise performance analysis was done, and the directors agreed they should gear up to take advantage of the growing market. Competitors, competitiveness and financial performance were reviewed (Exhibit 8).

The competences on which the directors rated their company high were application of process knowledge, pre-sales technical support and post-sales technical support. They rated themselves medium on project management skills and operations management, but were confident that these competences can be improved.

Strengths Experience, goodwill, knowledge, proactive, innovative approach, ethical, collaboration with customers and vendors, technology awareness and infrastructure	**Weaknesses** Marketing, market intelligence, communication and formal review system
Opportunities Growth in pharmaceutical, biotechnology, other sectors and global market, technology sensitivity and plan for modernization	**Threats** Stressed out people, cost pressures, competition and employee retention

The directors decided to establish a quality management system for business excellence. They also decided to identify some non-financial parameters to monitor and establish a business health check system. Financial parameters like profitability were already monitored.

The decisions were implemented in 2001–02. The business worked as per the designed structure. The operations were systematized. Employees took some time to adjust with the new structure and system. Some of them felt problems in changing themselves, but many of them adjusted. Since the organization was divided into three groups, many employees felt that there was another kind of departmentalization. Sales people started feeling that their efforts were not resulting into real businesses as the other groups were not appreciating the urgency to respond to the customers. Similar feelings were developed among almost all other groups. Consequently, the groups faced problems in coordination.

Being a small company, the problems were any how sorted out and the customers were not affected. But the directors and the employees paid high price. Shoeb said:

> We lost focus on the developmental works as we all were busy with resolving the daily routines. Although the results are good, we could have done much better.

Sanjay, the Director of the Resource Group, said, "During that time, working capital and cash flow management were becoming difficult".

New Growth Plan

Nilesh explained growth as "increase in sales, profit and assets." He said:

> The distinct ways of doing business and creating new businesses should be our growth strategy. Our backbones are technology and service to the customers.

> Shoeb also shared similar views:

> Technical superiority is our growth and customers should be our brand ambassadors. We do not have a sales force, we need that. But what we need the most is a service network. We are trying to get fresh and talented people and retain them.

Sanjay defined growth as "increase in turnover, profit, upgradation of people and knowledge, and better brand image." He said:

> A lot of things can be done if the business is profitable. People expect money, if the company does not make profit how can it pay well? If we make profit, we can invest in our growth. Banks also look into the balance sheets to see the creditworthiness.

Closed-door meetings were held among the directors to make a fresh growth plan. They introspected on their own skills and capabilities. They consulted old and trusted employees and sought their suggestions.

Nilesh, Shoeb and Sanjay concluded that some products were to be manufactured in large volumes without any major design change and some products needed very high customization. They all felt that the directors and people, in general, needed more freedom of operation and decided to redesign the organization.

For growth planning, the business was classified into three major business units:

(a) Sterile Process Piping

This was a high-volume repeat business. Although this was a low-value product, being the first product of Nishotech, it was known for quality. It had the potential to attract large number of customers. Hence, it demanded a large sales team. But Nilesh was aware that it was a highly competitive product; hence, the cost efficiency was the key issue. Mass production, efficient manufacturing and supply chain were identified as the key performance drivers.

(b) Pharma Water System

The product consisted of a water treatment system by application of separation technology, and storage system added to pipings. This was similar to the piping business. A number of standard designs were available, and the company could assemble various modules to customize the product. Installation and commissioning was also involved in this business. Fast response time, efficient supply chain, cost reduction and project management skills were identified as the key performance drivers. People who possessed competency to work on piping and water system could handle this market.

(c) Separation Technology

This was a high-tech business with low volume and high price. Marketing of this product demanded techno-commercial skills. Being a new technology, this was adopted ahead of time. The customers required business promotion education. Nishotech could import this product. It possessed the required competence to market the product. But it had to provide technical support to the customers.

The pharmaceutical industry segments and business classification relationship matrix prepared by the directors was as follows:

Business	Pharmaceutical Industry Segments		
	Formulation	API	Biopharma
Sterile process piping	High	High	High
Pharma water system	High	High	High
Separation technology	—	Moderate	High

They agreed to adopt a new structure from 2003—04. The proposed structure was similar to the earlier SBU concept. They created three independent units, each unit to be managed by one director. The existing factory, project execution and separation technology were taken by Nilesh, Sanjay took the storage and distribution system, and Shoeb the water system unit. The functions which were of service nature and common to all the businesses, such as administration, accounts and purchase, were controlled by one of them with the understanding to cater to the needs of all business units. Other decisions with regard to the specific unit were to be taken by the respective director, and the concerned executives/managers were to implement those decisions (Exhibit 9).

The division of business units was based on the belief that each business had potential to grow as an independent unit. The factory was also made an independent sub-unit to function as a profit centre and remain competitive. Nilesh said:

> These businesses were of different nature and need different treatment and focus. Common treatment to all of them was the root cause of our earlier attempt.

He added that all the three were equally important in profit, growth and revenue generation. Shoeb said:

> We have unshackled these businesses by removing them from a common basket and putting them in different environments.

The Hyderabad office was strengthened by transferring one process specialist.

The basic theme behind the change was to provide better value to the customers and remain competitive. Nilesh said:

> We want to provide customized solution to the customers. Each order from a customer is a project in spite of many commonalities. Take example piping. Suppose we have two types of enquiries, one is tender based from a consultant and the other is directly from the customer. Now we have learnt to define the scope of work—how to differentiate the one who wants only the product and the other may be looking for a solution.

Initial results were encouraging; many repeat orders were coming. In spite of increase in turnover, the company did not earn good profit in 2002–03. On export and overseas turnkey assignments, Nilesh mentioned:

> We did not focus exclusively. We took them as they came due to our networking. That was never our strategic focus. Probably we may think about it now.

Shoeb felt:

> Probably we as individual entrepreneurs wanted a total control, and that created some operational problems.

Sanjay stated:

> Due to problems in communication, the inventory was piling up and financial management became an issue.

People Management

"People retention is a problem for a small company and we are no exceptions," admitted Sanjay. He felt that everyone could not manage business and people together. He started recognizing those who contributed to the growth. He wanted to take care of those individuals who were with the company for a long time. He said:

> Gradually I allowed people to take decisions. That reduced my responsibilities and motivated them to work better. They worked hard; they worked on Sundays on their own. People are basically good.

The company took a major decision in giving performance-based pay rise. Nilesh attributed high attrition to non-clarity of job definition. He accepted that in the past many employees were not finding their working style comfortable. But he felt confident that the new structure would take care of this issue.

Shoeb, who took up the task of building up the joint venture, was in search of experienced people. He said:

> We can not let go things as they are. We need people who can take initiative, but being a small company people should also be ready to work under close supervision. I am starting with a clean slate. We can have great plans, but we need people to implement them. So hiring right type of people is the key.

Technology Driver

Nilesh and Shoeb used technology as the differentiator in their venture. They developed competence to adopt the technology from abroad. Environmental issue was also one of the key determinants in selecting technology. They travelled across the country and abroad to remain updated. Shoeb mentioned:

> On technology front we always remained ahead of time. I can say that was our passion. We bring latest knowledge and applications, collaborate with the world leaders and educate our customers. We support our customers on after-sales service to assure the system reliability.

Nilesh felt proud to state:

> We are the first to bring new technology in Indian market as we always valued technology-based growth. There are occasions when we could not take full advantage of the first mover in bringing new concepts or technology. In such cases some of our competitors made money on account of our initiatives. We have no regrets.

Sanjay mentioned:

> We created our bread and butter from projects. That helped us to hedge our risks of new market development on new technology based products.

The technological milestones and product offers of Nishotech were as follows:

- ➢ 1989: Electro-polished Pharma water systems/water filter distribution loop

- 1991: Adoption of sanitary ultra filtration technology
- 1995: Ceramic membrane (for downstream processing)
- 1996: Validatable systems (incorporating data logging and document support)
- 1998: Customized engineering filtration skids
- 2000: Membrane technology at industrial scale (replacing conventional RVF (Rotary vacuum filter))
- 2001: RO (reverse osmosis) + EDI (electro de-ionisation) for production of purified water
- 2003: Electrolytic ozone generator for disinfection of water systems

The collaborators were as follows:

a) For pure water systems: Joint venture with Christ (Switzerland)—Christ Nishotech Private Limited

b) For separation technologies: Tie up with Orelis, Applexion, and Novasep (all France), Dr M (Switzerland) and NCSRT (USA)

c) Sterile process piping system: Collaboration with Sandvik

The technologies mentioned above complied with the international and national regulatory norms.

Being the technology adopters, Nilesh, Shoeb, and Sanjay analyzsed the strengths and weaknesses of their collaborators and other outside business partners. While interacting with them on business opportunities in India, Nilesh created a condition in which they could collaborate among themselves for providing value-added products to serve larger and new markets. He believed that the growth of the collaborators would ultimately influence the growth of Nishotech as a group.

CHRIST NISHOTECH PRIVATE LIMITED

To expand into technology-based water treatment system business, Nishotech entered into an agreement with Christ, Switzerland, in 2003. "Christ is one of the world leaders in separation technology business," Shoeb said. Christ came in with 10% equity in the joint venture named Christ Nishotech Private Limited (CNPL). It licensed CNPL to manufacture water treatment system in India and sell under the brand name of Christ.

CNPL was to be located in a separate location in Navi Mumbai, close to Nishotech. Shoeb was to head the company. He declared:

> We would achieve sales target of US$ 2 million within four years. We are employing about 40 people in marketing, engineering, servicing and manufacturing. CNPL would offer water treatment plants, systems, components, including Osmotron, Septron Line, Bewades UV, Steritron Ozonator and Dynaflux.

The company planned to take up turnkey projects in the pharmaceutical, biotechnology, life sciences and health care product manufacturing plants in India and south east Asia. The products would comply with world standards like USFDA. Cost effectiveness and value-added services had been identified as the key drivers for CNPL to become the market leader in three years.

Nilesh said, "CNPL is going to be a knowledge based company where a climate for innovation and cohesiveness shall be fostered." The company aspired to maintain close relationship with customers, suppliers, environment and the community.

Nilesh, Shoeb and Sanjay wanted to take their business to new heights. They consulted with some management experts. Some experts suggested them to recruit professionals to manage the organization and withdraw from the executive responsibilities. But they decided to retain the command and prepare a team to support them. They were convinced that the existing business could be made more profitable. Nilesh said:

> We have succeeded in creating a difference in the climate considering the nature of our business, and the results are positive.

They all agreed that they had differences, but the differences were never on fundamentals, but on styles. Shoeb and Nilesh shared similar thoughts on partnership:

> Business partnership is like marriage, and once we agree to lead the lives together we should learn to share.

Sanjay mentioned:

> Now since we have triggered the growth agenda, we need a system so that we can work more efficiently. System brings better work efficiency and control.

Shoeb reiterated:

> The whole organization has to be entrepreneurial. Challenge is to sustain the competition, competition comes from anywhere. We need to be the best of the bests. Our youngsters should follow the heart, if they think something is possible and they should go and do that.

Nilesh, who had been practicing spirituality for the last few years, said:

> Simplicity and growth are the names of the game.

GLOSSARY

WATER TREATMENT

Water treatment, also referred to as water conditioning, consists of adding or removing chemicals to change the properties of water. In water softening, for example, sodium ions are substituted for metallic ions that cause "hardness" thus reducing the scale-forming tendencies of water. Water purification, on the other hand, always consists of removing undesirable impurities.

Biotechnology

(1) An industry that creates, develops and markets a variety of techniques that use living organisms, or substances from those organisms, to make or modify a product by microbial and biochemical processes. A common misconception is that biotechnology refers only to recombinant DNA or gene splicing work. Recombinant DNA is only one of the many techniques used to derive products for organisms, plants and parts of both for the biotechnology industry. A list of areas covered by the term biotechnology would more properly include: plant tissue culture, cell fusion techniques (especially for the production of monoclonal antibodies), enzyme systems, plant breeding, meristem culture, fermentation and others.

(2) A process of applying genetic engineering (recombinant DNA), hybrid (monoclonal antibody), hybridization (gene probes), bioelectric etc. to commercial applications in pharmaceutical, chemical, medical diagnostic device, food, animal and plant industries.

(3) Product's large molecules that are not manufactured by means of chemical synthesis but rather produced by means of fermentation and/or recovery, sourced from genetically engineered products.

(4) Biotechnology is the name that is given to a very wide range of agricultural, industrial and medical technologies that make use of living organisms (e.g. microbes, plants or animals) or parts of living organisms (e.g. isolated cells or proteins) to provide new products and services. Although the term biotechnology refers to a much older and broader technology than genetic engineering, the techniques of genetic engineering are of such importance that the two terms have become virtually synonymous.

Passivation, Neutralization and Flushing

A final chemical treatment/cleaning process removes exogenous iron or iron compounds from the surface of stainless steel piping and equipment by the use of a mild oxidant, such as a nitric acid solution, or by in-situ electro polishing. The purpose of passivation is to restore and/or enhance the spontaneous formation of the chemically inert surface or protective passive film. In neutralization, the remaining oxidant is neutralized with the help of an alkaline medium. In flushing, the liquid is flushed out.

Source: www.pharmaceutical-drug-manufacturers.com and Nishotech Systems Private Limited.

Exhibit 1: Growth of Pharmaceutical Sector (in Rs. Crores)

		1965–66	1980–81	1997–98	1998–99	1999–00
Capital investment		140	500	1,840	2,150	2,500
Production	Formulations	150	1,200	12,068	13,878	15,960
	Bulk drugs	18	240	2623	3,148	3,777
Import		8.20	112.54	2,868.00	3,128.00	3,441.00
Export		3.01	46.38	5,353.00	5,959.00	6,631.00
R&D expenditure		3	14.75	220.00	260.00	320.00

Source: OPPI

Exhibit 2: Investment in Pharmaceutical Sector (in Rs. Crores)

Year	1973	1977	1979	1982	1985	1988	1993	1994	1995	1996	1997	1998	1999
Investment	225	450	500	600	650	800	1,060	1,200	1,380	1,600	1,840	2,150	2,500

Source: Indian Drug Manufacturers Association

Exhibit 3: Past Consumption and Future Consumption Estimates of Biotech Products in India (in Rs. Crores)

Products	Consumption Estimate in 1997	Actual Consumption in 1999	Consumption Estimate in 2000	Consumption Estimate in 2005	Consumption Estimate in 2010
Human & animal healthcare products	26,370	322,400 (37.5 %)	353,200 (37.6 %)	57,480	935,400 (40.0 %)
Agricultural products (incl. seeds)	20,270	256,700 (29.8 %)	288,800 (30.7 %)	47,680	787,200 (33.7 %)
Industrial products	24,470	270,900 (31.5 %)	285,000 (30.3 %)	36,470	535,900 (22.9 %)
Other biotech products	430	10,400 (1.2 %)	13,000 (1.4 %)	3,970	79,400 (3.4%)
Total	71,540	860,400	940,000	145,600	2,337,900

Source: Department of Biotechnology, Government of India

Exhibit 4: Biotechnology Industry Revenues

Segment	Revenues (2002–03) (in Rs. Crore)	Revenues (2003–04) (in Rs. Crore)	Growth (%)
Biopharma	1,790 (76.33 %)	24,580 (75.96 %)	38.55
Bioindustrial	235 (10.02 %)	250 (7.66 %)	6.38
Bioservices	135 (5.76 %)	275 (8.42 %)	103.70
Bioagriculture	110 (4.69 %)	180 (5.51 %)	63.64
Bioinformatics	75 (3.20 %)	80 (2.45 %)	6.67
Total Industry Size	2,345	3,265	39.23

Source: *Biospectrum*, Vol. 2, Issue 8, August 2004

Exhibit 5: Investments in Automobile and Auto Component Industries (in Rs. Crore)

	1995–96	1996–97	1997–98	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04*
Automobile	—	—	1,813	1,850	2,000	2,300	2,300	2,645	3,100
Auto component	4,800	5,600	6,800	7,400	8,600	9,800	—	—	—

* Estimated

Source: www.acmainfo.com

Exhibit 6: Organization and Activity Structure, 2001

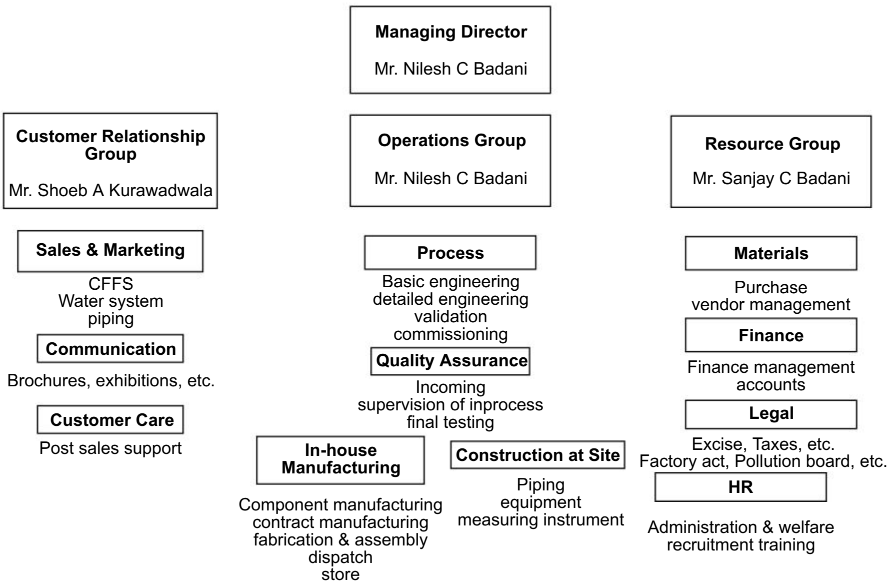

Exhibit 7: Flow Chart of Activities

a. Communication with customer[1]
b. Data collection on requirements[2]
c. Proposal
d. Discussion & Presentation
e. Negotiation
f. Order from customer
g. Basic Engineering[3]
h. Customer approval
i. Detailed engineering[4]
j. Customer approval
k. Procurement[5]
l. Assembly[6]
m. Testing
n. Dismantling & Dispatch
o. Site erection[7]
p. Site Testing & Documentation
q. Start up & Commissioning[8]
r. Operator training & handing over[9]

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[1] Personal visit, telephonic discussion, fax and/or e-mail

[2] Questionnaire, previous test and trial reports, recommendations with options

[3] Process parameters, equipment size, drawing, control system to be followed, list of documents to be supplied

[4] Detailed drawings, equipment specification, layout or equipment & piping, bill of quantity, instruments specification and installation drawing, process interlocks, control panel specification, list of equipments, instrument and valves, operation manual

[5] Based on BOQ and inventory available, classification—bought out, job work or manufacturing

[6] Based on drawing, work plan, testing

[7] Based on drawing, checklist for tools, equipments, support materials and manpower, site work, coordination with customer, testing

[8] Commissioning schedule, mechanical and electrical check up, flushing, passivation, neutralization, control panel checking, running, cleaning, handing over

[9] Procedure, handing over of documents, toolkit, party

Exhibit 8: Business Performance Data (in Rs. Crore)

	2002–03	2001–02	2000–01	1999–00	1998–99
Total sales turnover	5.19	4.17	4.14	3.79	2.11
Sterile process piping	2.60	2.30	2.48	3.50	2.00
Water system	1.56	1.46	1.14	—	—
Separation technology	1.03	0.41	0.52	0.29	0.11
Total commission on sales of imported products	0.31	0.29	0.02	0.15	0.01
Sterile process piping	—	—	—	—	—
Water system	0.19	—	—	—	—
Separation technology	0.12	0.29	—	—	—
Installation	0.61	0.62	0.47	0.09	0.05
Gross profit	1.58	1.95	1.65	0.99	0.81
Net profit	0.10	0.26	0.19	0.12	0.04
Profit after tax (PAT)	0.07	0.18	0.12	0.008	0.003
Fixed Assets (less depreciation)	0.85	0.90	0.70	0.63	0.19
Liabilities (loans + current liabilities + provision for tax)	3.38	2.72	3.68	2.05	0.82

Exhibit 9: Proposed Organization Structure, 2003

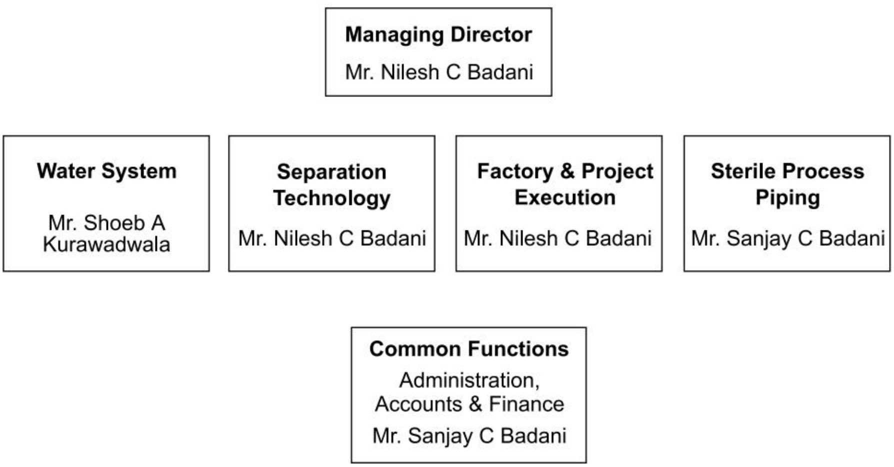
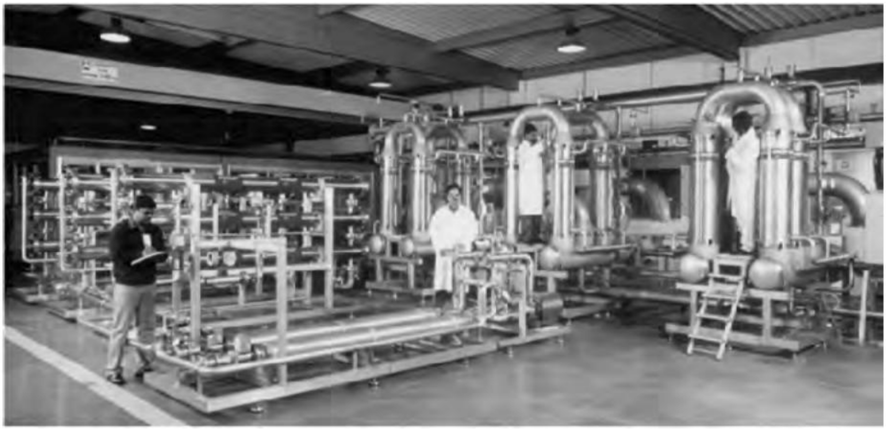


Exhibit 10: Water Treatment Plant (above), Storage Tank and Pipings (below)



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CASE 10

Fact-Tree Global Solutions

Vasudeva Varma, Vamsi, and Kirti Garg

In 1987, four aspiring entrepreneurs started their dream venture Fact-Tree Global Solutions,[1] a software services company. By 2004, it was a 20,000 strong multinational company listed on the New York Stock Exchange. It had its presence in 45 countries across six continents and had 18 development centres across the world. Chairman Pallav Murthy was a visionary who saw the increased role of software in everyday life. He witnessed the rapid growth of Fact-Tree from a small company to being one of the top IT players in the world with several business units and joint ventures and a great brand image.

THE JOURNEY

Fact-Tree Global Solutions was instituted as a private limited company with 15 developers and a few marketing experts. The core team consisted of Pallav Murthy, Irfan Mirza, Anu Joseph and Neil Sen who were classmates at the University of Texas, Austin, and McCombs School of Business Management. Irfan belonged to the first batch of the Information Systems Management programme, while the other three belonged to the master's programme in business administration at the School of Management.

Initial projects were acquired through personal contacts. The team used intuitive methods to work on projects, and everyone was coding one. What really mattered was the delivery of the software on time. This helped them acquire more clients owing to the goodwill created. Communication within this small group was simple and easy to manage.

Pallav firmly believed it was necessary to set goals, plan growth, streamline business processes and keep the customer focus for sustained growth. Proper principles were needed to handle clients, technical changes and the market as the

[1] All organization and people names have been changed.

The McGraw·Hill Companies

business grew. Though it was not yet documented, the customer focus or orientation was the core driving principle.

In mid 1980s, many U.S. companies started looking out for customized software solutions to meet their business needs, creating a great demand for software professionals. Those available demanded prohibitively high prices. Software development companies were looking out for new locations in search of qualified work force that would cost less. Outsourcing was still a concept and was looked at as an emerging trend of business. Convincing clients was not easy, especially when showcase success stories were missing.

Fact-Tree got a break in 1991 when they initiated their first offshore project. Offshore meant that the customer could be anywhere in the world and his work would be done at a different location. This was a whole new way of doing business. Tom Riddle & Co., a major software company that provided manufacturing and financial solutions and tools, was the first client. Though they initially had apprehensions about the model, these concerns soon melted away when Fact-Tree successfully simulated an offshore—onsite model.

Fact-Tree sent its team onsite, i.e., to the client's location. The customer location and the Fact-Tree premises were linked through a 64 kbps connection. Two teams were made. The first team at the client location, called as the onsite team, worked during the day, following the same working hours as the client. The second team at Fact-Tree, called as the offshore team, worked during the night. This was done to simulate the onsite-offshore model and to demonstrate that work got done round the clock due to the time difference, was in fact advantageous to the client. Fact-Tree successfully proved that the "onsite-offshore" model worked. This experiment was christened "Little India".

In 1992, Fact-Tree went public with initial public offering. The recent success with the offshore-onsite model helped them get many overseas projects. The visionaries of the company knew the needs, demands and the importance of moving up the value chain. They came up with the innovative idea of using a 64 kbps satellite link to do business. No one had ever thought of using a satellite link to improve information and communication with the clients. The top management commitment encouraged employees to adapt and accommodate the change. The business processes gyrated, and many changes came in. A nostalgic Pallav said:

> Business is like Formula One racing. Every year the technology changes, the skills improve. The car may look the same, but internally it undergoes transformation. Change is the reality, and being adaptable is the secret of surviving the competition.

Being fully equipped to face technical challenges, Fact-Tree headed towards joint ventures. The first breakthrough came in 1994 with B & D, the leading provider of global business information, tools and solutions. This strategic move fetched projects as well as clients like Caterpillar. There was a sudden increase in projects and employees.

An ever-growing client list, mushrooming business, changing technology, marketplace and increased competition called for discipline, quality certifications and strong HR policies. Vice President (HR) Anu said:

Finding the right people for the right job will always remain a challenge! Maintaining the right ratio of technical, business people and leaders is important, and this requires defining a way of doing it.

Pallav and his group so far focused on improvement of infrastructure and technical strength. But they felt that, as the company grew, it was not going to be easy to manage software development and even the day-to-day administration unless they came up with certain rules and procedures at each level in the company. These rules or procedures, technically called as "processes", were to act as the binding factor.

Phase I

"Processes" and "Quality Certifications" were the buzz words now. It was not just the Fact-Tree management that felt a strong need to get the organization certified, the prospective customers, especially the European ones, preferred firms that could flash a quality certification in relation to analysis, design, construction, testing, delivery, installation, maintenance and re-engineering of software.

Fact-Tree started planning for the ISO certification under the guidance of Irfan, the quality head, who firmly believed that the move would pay off in the long run. Irfan drove the initiative, but it wasn't an easy job. ISO 9000 certification required setting up systems that streamlined and systematized work in the organization through documentation. The initial stages involved documenting each and every relevant process of the company's operations as well as software development. This initial process was to enable the organization to work on a virtual "auto pilot" mode. This meant that once the processes were in place, newer projects would simply fit in the frame.

As all the work flow was being regulated by the set process and corresponding documentation, the employees were spending considerable time doing what they perceived as non-technical work. This documentation was a painful procedure, and it was a tough job to make people appreciate the long-term gains.

There were other concerns too. A number of surveillance audits were carried out to ensure that the procedures set up were being maintained and implemented. BVQI, the certifying authority, conducted these audits every six months to check if the organization was achieving the high standards it had set for itself. Meeting these criteria was essential for the certification.

To make people value and implement the process genuinely was an uphill task. The junior developers, who were not smitten by processes, saw these audits as a waste of valuable time. They were more interested in tweaking the code to make it work so that they could meet the "unreasonable deadlines and aggressive schedules". They just did not have enough "bandwidth", i.e., the time and resources to implement processes. Most often, they did the documentation overnight just before the audit teams came. Prakash Rao was one of the dedicated software engineers at Fact-Tree. He led a team working for an important U.S. client. His feedback, during one of the surveillance audits, reflected the then pervasive feeling (Exhibit 1).

The management was concerned that the process was being adopted for the sake of it without realizing the core values. For example, during the testing phase of projects, the focus was on fixing bugs at any cost rather than filling the documents. The employees were not inclined to make documentation worthwhile for later use. For example, while filling the time sheets, work hours were often misrepresented; consequently, this data failed to become the basis for a subsequent project to understand things like the productivity factor of the resources or estimating how long it would take to accomplish similar work. Even for development-related reviews, such as peer reviews of requirements or the source code, developers usually felt that it was more important to get things done in time rather than give time to these "petty" activities.

There was no end to these teething problems. Fact-Tree lacked a proper skill base to review the processes. The employees doing this job did not understand the importance of quality. They most often had only one or two years of experience or were put into quality department as they couldn't code properly. Quality and processes were not considered important enough to get trained or transfer knowledge to new entrants.

The development teams felt it was the job of the quality department to maintain quality, and it was the headache of the project manager to make sure there were no "Non-Conformance" reports from the quality section. The job of the quality department was felt to be *policing* rather than developing the system.

Irfan knew that there would always be resistance to any new process. He was determined to convince employees that the efforts involved in certification were trivial compared to the benefits it would bring to the business. He said that good quality was obtained from observing good processes. Time spent on processes or documentation was time saved but not wasted. Standard processes acted as a tool for communication among stakeholders and prevented rework. He explained that certifications added a lot of value to the image of the organization and to marketing strengths, though this value may not be tangible.

Irfan tried simple examples to put forth powerful messages, his favourite being comparing the processes to the iron frames that hold glass windows. If the whole structure was all glass and no frame, it would be too fragile to stay. If it were all panes and no glass, there would be no light. "Hence we need a right amount of processes to keep things in place," he explained.

When other measures failed, the management employed the "Stick & Pride" method. It was made clear to the employees that there was no choice but to make the certification happen as getting new business, particularly from European clients, was going to be difficult without it. The teams were told that Fact-Tree was only a 300-people company with nine customers, eight project managers and about 22 projects. Hence, the future of the company was not guaranteed unless it acquired the certification. The teams were warned that any project could be picked up randomly for audit by the surveillance teams (the stick). This pushed the employees to implement the ISO standards and processes as no one wanted to be the reason for not getting the certification (the pride).

The surveillance audits were now seen as check points to bring the process back on track. There were a variety of audits, like the configuration audit that verified the "code check-in-check-out process", whether the review comments have been closed, and whether proper versioning of baseline documents was being done or not. Pre-certification training programmes were given to help employees get familiar with the concept of quality, set up quality systems in place and to be prepared for certification.

Finally, Fact-Tree got ISO certified in 1995. Everybody could clearly see the benefits now. Software development was relaxed, and the focus was largely on developing business as day-to-day affairs were well organized now. ISO certification brought Fact-Tree several clients and their trust and satisfaction.

Irfan felt that training was as important as getting certified. He planned post-certification programmes to equip the employees internally and to keep the quality process going in the organization. He insisted that the quality should be inbuilt in the project and not seen as something that was added later. He felt that the certifications were merely an eye wash. Maintaining in-house quality was more important to create understandable and user-friendly documentation.

Phase II

Post-ISO was a period of heavy growth for Fact-Tree. Fresh graduates were recruited in large numbers. The attrition rate of fresh graduates was less. But recruitment was also posing challenges with respect to process implementation. The new entrants felt that there was so much "good work" to be done instead of "wasting" time on training and implementing processes. They felt that what really mattered was that the customer was happy with the code. The need was to provide the required functionality, and documentation was not required. It was clearly important for new recruits to be disciplined to align to the value system of the company.

The processes were in place, but the new challenge was to make sure that processes were followed consistently. Training systems were set up to train the new recruits. A mandatory Quality Management System (QMS) training programme was introduced. But this was not the end of all troubles. Due to the rapid growth, there was not enough settling time for both employees and the processes. Irfan brought in a new strategy that allowed about 20% of people to move on a faster track and the rest on a normal track. Later, those 20% who were on faster track earlier were allowed to slow down and get comfortable with the processes. This was termed as the 80–20 strategy.

In addition to "80-20" and QMS, there were other measures to promote the process orientation in the organization. "The processes should not be a burden but, on the contrary, ease the burden" was the new theme. To accommodate this culture, the company decided to go for semi-automated and automated systems, such as time sheets, semi-automated appraisal systems, swipe card systems etc.

These were moments of pride. Pallav felt that his dreams of creating a process-centric organization were shaping up.

Fact-Tree saw phenomenal growth in 1997 due to the impending Y2K problem. It was much ahead of competition processes and developed a methodology to solve the Y2K problem. This methodology was the first process to be audited post-ISO certification, and Fact-Tree received awards for its Y2K solutions. The year 1997 was very fruitful with lot of projects coming from fortune 500 companies and from organizations such as Blue Cross.

To handle these projects, Fact-Tree hired extensively while maintaining a mix of fresh graduates and experienced people (lateral hiring) and grew to 10,000 in number. In 1998, it launched the joint venture with GE. This meant not only profits and reputation but also new things such as policy for client information security and corresponding changes in the human resource management. For example, GE insisted that the employees working on its projects should not work on similar projects of its competitors.

With the sudden increase in business, process experts were hired to critically analyze the current processes, suggest new one, and alter old ones with changing time.

Fact-Tree's focus had been on technology, but now domain experts were needed. The customer wanted someone who could understand their pain points and knew the ins and outs of the domain. So, to gain the respect of the customer and the lion's share of the market, Fact-Tree had to get domain experts on board.

Another need was for people who could think like business people and were not restricted to technical issues. The leaders had to be grown internally as it was difficult to get the right leaders from the market. So, the entrepreneurs had to be from within the organization. The core team thought that the organization should be divided into self-governing profit centres to allow the organic growth. McKinsey, a reputed management consulting firm, was engaged. The experts supported the basic idea and developed a plan to implement the strategy. Organizational processes and the culture were about to witness a huge change.

This decentralization initiative attracted some opposition within the boardroom. One senior vice president commented, "With this division, we are heading towards self-destruction." His view was that by dividing the company into smaller organic units, each having its own goals, it would be difficult to achieve collaboration and cooperation; two units might end up competing with each other. However, the company decided to implement the horizontal and vertical business unit strategy.

In 1998, the company was split into several verticals. Each vertical was to address a business domain such as banking, insurance and health care. The verticals aimed at serving end-to-end solutions to high-value clients (at least US$ 2 million business). Vertical business units (VBUs) were profit centres and concentrated on the U.S. market. The regional units were started to spread the market to the rest of the world.

Later horizontal business units (HBUs) were created to build competency in various packages, platforms and processes.

The business and administration functions needed by all verticals and horizontals were now defined as strategic support units (SSUs). Thus, HR, accounts, network, security, auditing etc. were support units. The outcome of these units was the processes that impacted the whole organization. A non-hierarchical network organizational structure was followed in various relationships in each of these units to promote entrepreneurship. Every unit had the freedom to plan for its own growth.

This decentralization led to controlled growth of business units, with one CEO being responsible for the growth of each unit. Neil, the CEO of one such unit, for example, was dedicated to build oracle competency within the organization. He was extremely successful by making his business unit the single-largest unit of Fact-Tree with the strength of 2,500 by 1999.

Parameters were decided to measure leadership capability. Each individual was to be judged on a two-dimensional scale. The *Y*-axis belonged to the "hard factors", i.e., the results achieved by revenues and profits. The *X*-axis pertained to "soft factors", like the individual's attempts to delight the employees (colleagues and subordinates), investors and customers.

An online knowledge repository was set up to facilitate knowledge sharing across all projects and all levels. It contained success and failure stories, best practices, pitfalls, request for proposals (RFPs), project reports, quality reports, various other experiences and lessons learnt. All employees were free to access the repository and contribute to it. Process experts critiqued and brought out commonalities in projects to come up with the best practices. This later became a part of the knowledge management initiative at Fact-Tree.

In 1999, the quality handbook called "Quali-Tree" was made available online. This was a major step towards process automation. No hard copies were printed to avoid circulation of older copies and to have a centralized version control. Any changes to this central system were informed to the employees automatically via e-mail.

By now, quality certifications had become common, and most of the top Indian software service companies acquired ISO certification. Meanwhile, Fact-Tree's top competitors were going for Software Engineering Institute—Capability Maturity Model (SEI-CMM) certification, and Fact-Tree did not want to stay behind.

The early ISO models (ISO 9000) were neither internally driven nor focused on process maturity. CMM proposed few key process areas at various levels of maturity. By focusing on these areas, the processes within the company could be moved steadily towards their benchmarked goals and standards. There were different levels of maturity ranging from 1–5 for processes. Some processes were ingrained in the projects seamlessly, and others found it hard to make a mark. This most sought after process improvement framework appraised an organization's capability to perform with predictability. To identify the best practices in helping the company increase the maturity of its processes, CMM reduced the cost of performing appraisals and

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implementing improvements as it promoted enterprise-wide process improvement (Exhibit 2).

Fact-Tree management was convinced that the profits being promised to business by CMM were immense. Neil said, "CMM was the way to go." The process experts in the company started to plan for tailoring and adopting the CMM processes to suit the organizational needs. They focused on leveraging existing ISO model and integrating the CMM principles at all levels.

SEI-CMM level 5 assessments in 1999 brought Fact-Tree a lot of visibility, as it was one of the first few companies worldwide to get assessed. This transition from ISO to CMM wasn't painful for Fact-Tree, as ISO had already paved the foundation for process orientation within the organization.

Fact-Tree declared "Continuous Improvement" as its motto, and "Quality" as a "Continuous Process". It became one of the first organizations in the world to be assessed by Bureau Veritas Quality International (BVQI) under ISO 9001-2000 under the Tick IT scheme. ISO 9001-2000 was an improvement over ISO 9001. It also addressed the issues of process maturity that were missing in ISO 9001. The certification by BVQI was granted after an extensive 10-day audit of Fact-Tree's offices across the country. This was an added feather in its cap and improved its image in the market.

Phase III

Post Y2K Fact-Tree went into joint ventures with small and big enterprises like i2, Ariba, CCMB, CSC and Ford. It was equipped with the latest certifications for quality software development practices and bagged various awards at national and international levels, including the National Quality Trophy, Golden Peacock award for excellence in corporate governance, and national award for "Bright Ideas". Another beautiful colour in its palette was the certification under BS 7799 part 2:1999: International Information Security and Management Standard.

Though not many organizations had seen such growth and world recognition, it was not all that easy for Fact-Tree. Some initiatives failed. Several incidents were of concern for the strategic group.

The strategic group knew that moving up in the value chain by taking higher tasks like architecting and designing were important to grow in number and role. Thus, there was a need to switch from maintenance- to consultancy-based revenue model. But they knew that software maintenance projects contributed a lion's share of the total revenue.

Thus, a Global Competency Centre was proposed to groom domain specialists. This unit had different non-IT business people, who were domain experts and provided consultation to various business units. But sadly, this did not work because these specialists were the only ones to have an interface with customers, and when it came to technological issues, there were conflicting views about feasibility of implementation. They lacked people with sufficient domain knowledge. They needed technically strong people who would take up new and challenging projects and provide innovative solutions to the problems posed.

The knowledge management (KM) initiative set up in 1999 was also not quite successful. It did not achieve its intended goal of building communities and sharing knowledge across the organization. Many business units did not use the information available on the KM server, let alone contributing their own experiences.

Though the various quality certifications added a lot of business value externally by attracting new customers, they brought little improvement to the way work was done internally. The inner growth, if measured in quality work done by each employee, was not very significant.

To promote the internal quality, a metrics-driven model, christened as "The Five Circles", was designed. Every action related to software development was to be judged on the parameters or the value addition it brought in terms of *faster*, *better*, *cheaper*, *larger* (to facilitate scaling up of services) and *consistent services* (maintaining quality of service). These five parameters were easy to judge based on numeric values and gave a clear perspective of the individual's performance. This model emphasized internal quality, but at times it was difficult to measure how well the projects met these criteria.

The need to groom entrepreneurs and entrepreneurial spirit within the organization was felt very strongly. Mentoring was thought of as an effective way to groom new leaders. As Anu said:

> A true mentor makes himself redundant by grooming three others who can replace him so that he can move up the ladder.

However, the idea found resistance. Employees saw this as too trivial a task. Another aspect of mentoring was to do it selflessly. Mentoring was visible in some business units, but in other parts it was not encouraged. Anu said: "Mentoring needs to be brought up from the core, but currently we are in an unstructured mode" (Exhibit 3).

There were other pressing issues like the growing competition which commanded immediate attention.

Having entered the public domain, every quarterly evaluation at the stock exchange pushed the company to perform better. Investors and employees of Fact-Tree from across the world could participate in this evaluation and understand how it was performing.

After much brain storming, Fact-Tree came up with a *Maha Mantra* to carry out the budgeting exercises for three years for each domain. Out of the three years, for the immediate year they would come up with a detailed plan, and a brief plan for the next two years. With this 1+2 year planning, they could be prepared for the future. To leverage on the new markets and for a poised growth, Fact-Tree needed to have maturity in handling alliances and flexibility in relationships. A global delivery model was designed to address the competition. The strategy was to strengthen enterprise applications and move from simple "outsourcing" to the "right sourcing". This meant more of outsourcing of business processes. To manage this, the strategy team proposed a process to take care of delivery excellence, branding and managing resources.

With investors looking for improved profits and sustained growth, it was important that the company had enough leaders who treated their work as business, people who showed growth every quarter, and people who bustled with energy to brew up ideas. So Fact-Tree hired and encouraged employees who met these requirements. On a hiring drive, the simple principle was "to look for people with learning ability and skills because learning was a psychology and technology was incidental."

The employee strength surpassed 20,000 by the end of 2004. The employees hired were technically strong and willing to learn and explore. But the problem was how to align new entrants with the business and development processes. Many induction programmes were put in place to give new entrants a feel of processes at Fact-Tree. But Irfan lamented, "We can train them, but where is the time to settle? This change wave is riding us too fast."

The company started to strengthen the competitive and healthy work environment. Competency building, delighted employees, pursuit of excellence and corporate social responsibility were the new key words. A Performance Monitoring System (PMS) was put in place. This system was based on the delight parameters on three fronts: employee delight, investor delight, and customer delight. These parameters set the goals for the leaders and encouraged the individuals to take up leading steps. The parameters were further grouped according to hard and soft factors, covering technical, managerial and soft skills. Outcomes of the initiatives and performance appraisal decided the career paths, compensation, development of employee potentials and subsequently individual growth. Support and business units had different hard and soft parameters. A minimal growth was to be achieved by the individual to access growth opportunities and be eligible for compensations. Best performers were rewarded in several ways, hence setting the goal for others as well as encouraging merit.

Thinking and flawless execution were promoted as the corporate creed. The focus was on building relationships and employee empowerment. This model promoted leadership with the underlying theme of balancing interests of the stakeholders (Exhibit 4).

Plan for Future

Fact-Tree planned to open offices in South Africa, Hungary and Canada. Adding more verticals and horizontals was in the "to-do" list as well as the expansion of the SSU operations. The target was to grow to 30,000 employees by 2006, and be one of the top five services companies in the world and the number two player in the country. This was called as the "*Dhruv-Tara*" goal. In one of the board meetings, Pallav said, "That was the time to lay the foundation, now it's the time to build the strong castle that will serve the needs for coming *N* years, at least."

Finding technically strong workforce was not a problem. Fact-Tree had seen a similar transition in the past, when it moved from 15 to 10,000 and beyond CMM.

Converting this workforce into asset was what seemed to be a different and difficult task this time. Obstacles were numerous.

The perennial problem was that of employees not being too keen on the processes. New entrants still felt that documentation was a hell of work, and the tendency for last minute documentation was a common phenomenon.

A huge employee base, distributed development and decentralization brought in problems. Prominent were conflicts, cross-cultural issues and differences in values. Each VBU was a profit centre and self focused. Knowledge sharing between VBUs was minimal. Even the SSUs didn't work in tandem with other VBUs.

Pooling resources for any organization-wide initiative or for initiatives taken by support units were not well received by all. When a "Component Re-use" initiative was started, not many VBUs were ready to release resources that would work for a common goal. It was analogous to living in a big joint family with several nuclear families within it, each having its own kitchen and commitments to meet.

The creation of horizontals (started in 1999) was a healthy but contradicting situation. Working in collaboration was becoming a challenge. Fact-Tree had nearly 150 domains and technology offerings, and working across all of these was a mammoth task. Every business unit was a profit centre. It could grow rapidly in time frames as small as two years. But the same was not true for other units, especially the cost centres like Corporate Communication or Finance.

Strategy group now felt that it was time to revisit these horizontals to set different targets, so that they grew at their own pace and made sure that everything had a larger value to add.

Besides these internal challenges, the external competition became cut throat and global. Not just national software majors, but industry giants from across the globe, including IBM Global Solutions, Accenture, CSC and EDS, were all now the competitors of Fact-Tree. Most of these players, engaged only in consultancy five years ago, have now shifted to being complete business solutions providers. Fact-Tree realized the gap in the service offering and that they should move from maintenance services to domain-specific solutions and the end-to-end solutions, including Business Process Re-engineering.

Earlier, solutions provided by these foreign competitors were not cost effective. So very few, like those belonging to the Fortune 10, went in for them. The Fortune 500 companies and smaller organizations preferred solution providers like Fact-Tree. But with the advent of outsourcing to low-cost countries and attracting the resources by offering higher salaries, these giants stood in direct competition with companies like Fact-Tree. On the employee front, Fact-Tree had to retain talent by matching the stalwarts of the industry that pump in money to attract the talented. Now the major issues were high cost versus low cost, overseas opportunities for employees, and domain versus services. Whoever got to their goal faster got the major chunk of the market while others had to manage their empire with lesser revenues. This challenge stared Fact-Tree.

Most of the revenues for Fact-Tree came from the software sales; however, the growth rates diminished over time. Earlier it used to be as high as 50% per year, but now it was a struggle to maintain even 20-25% of growth rates (Exhibits 5 and 6).

With mounting expenses, increased competition and retreating growth rate, Fact-Tree was revisiting some of its decisions. It looked at the cost centres, i.e. the support units. How much support was actually needed? They had about 10% of the HR people to recruit 90% of developers. They wondered if that was excess, just right or scarce. This was an important question as fewer non-billable people simply meant soaring profits. Did we need the support, what were the alternatives, what processes could be needed if 70–80% of these people were not needed, should we create a virtual environment etc. Moving towards a virtual environment would be a different ball game altogether. As Pallav put forth his concerns:

> Customers prefer process-driven security environment than rely on companies that are not mature in their processes. Virtual operations are both a challenge and a great opportunity!

The quality department was on its prowl again. The plan was for a transition to new process frameworks like Six Sigma and Personal Software Process (PSP). This was a phase-wise transition with Insurance VBU being the first one to go for it. Training began in right earnest, and nearly 60% of the staff was on training rolls. The training process was going smoothly. When the feedback was taken from the employees, there was a mixed response. Many short responses like "PSP will help us to work in a disciplined manner" were pleasant to receive. However, a few, but lengthy responses were in sharp contrast. The key message was that "Processes are limiting our creativity and making us less productive."

The management wondered where all this emphasis on processes was leading the company to. The strategy team met to reassess the need for processes and felt:

> Process is like religion, one may not believe in it but it is bound to be there and if followed with the right spirit till the end, it can work wonders. Process by itself is not everything nor does it ensure the success of a project. But following processes definitely enhances the success rate multifold.

Over years, they had found the processes to be truly useful to manage the growth, and again Fact-Tree was relying on it. However, they felt that if mere compliance to the process was the objective, it may become burdensome. False information may be cooked up to meet the criteria, thus, defeating the true spirit of having processes. The team observed that processes made more sense in projects with longer durations than with short ones.

"This was an orange signal. Let us stop and think for a while". The strategic group decided to start the exercise once again, but in a guided manner. They came up with a guiding charter to plan the strategies and reach the projected growth. The charter was as follows:

- ➢ It was important to have simple but effective core values. Projects were not to be driven by procedures and rules, but by core principles.

- Managing organizational growth by change did not mean a mere change in roles and responsibilities and adding more workforce and physical assets.
- Processes needed to be planned, redefined and tailored to add value as per business demands.
- Numbers didn't lie and spoke more than words. We needed effective ways to come up with metrics that captured the true picture.

They had to weigh their options to deal with market conditions, competition, employees and process issues that the growth would bring along. The journey from 15,000 to 20,000 was some experience, but the road ahead was a different one. The rules of the game have changed. Fact-Tree was at a crossroad today. It needed to decide its plan of action to reach its target of 30,000 by 2006 and then 50,000 by 2007. This was not an easy task. In fact, it was as good as starting afresh with a good balance between caution and risk, like it did in its initial stages.

Exhibit 1: Interview with Prakash, Project Manager Fact-Tree

Q1. How was the transition period from ad-hoc processes to ISO?

A. It took us a lot of time to get adjusted and was very tedious. It was difficult to make people see the benefits of having processes. There were no immediate or tangible benefits, and most felt all the processes to be mere waste of time and the certificate as a marketing strategy. But today, processes are in place and what remains to be done hence is to learn to adapt.

Q2. Do software processes allow you to be innovative at work?

A. I don't think so. Processes leave very little space for creativity. Most of the things are bound and processes restrict your thought processes. Also, managing resources becomes more critical as you have the calendar planned for the entire project. And at times it is too constrained to have processes dictate how and what things have to be done and when, thus, stifling innovation.

Q3. What is the time break up for various activities during the execution of a typical project?

A. We primarily spend time in determining ownership of the project, scheduling, tracking resources and deliverables, and communicating with the customer. Typically we do:

a. requirements gathering for 40-50% of the time
b. 20-25% on developing the design framework

Rest of the time goes in:

c. Tracking and monitoring in small stages
d. Customer communication and
e. Change request management.

Q4. What about culture-related problems? Sometimes the way we consider a process may differ from how a client looks at it.

A. Generally, we share details of our processes and the client's processes at the beginning of the project. The managers decide which processes of the client can be adapted, tailored or rejected. For example: we had a client who was very happy with his processes. Those were not any standard compliant processes like the ISO. We found that their requirements document could be adapted but their design documents called for a change, so we used our integrated design document. Their test plan templates were not up to the mark, so we used our system templates and tailored it for their use. In cases like these, we give reference, stating which templates have been used.

Q5. What is the percentage of process that is actually followed in a process-oriented company? Why is it less and what can be done to increase it?

A. Frankly, though there is adherence to processes in process-oriented companies, the spirit is lacking so there seems to be no apparent advantage of following processes. It has become more of a marketing technique than a quality-conscious initiative. The degree to which processes are used depends on many factors like time, cost, resources, customer support and flexibility and specially the person's mindset.

Q6. Though there is general resistance to processes, project managers generally force team members to follow them. Why?

A. People often don't see the benefit of having processes initially. But, when a crisis strikes tracking the issues over a period of 4-5 months, reporting to the management or customer requires proper documentation explaining the turn of events which lead to such a situation. There is a need to quantify the knowledge base so that it is available for future projects as in larger teams where there are many project leaders, approval becomes a problem. Also, it is difficult to understand if the customer needs are being understood in a similar fashion. There is a clear need for processes but the price we seem to be paying to have standards in place seems to be too high in terms of cost, time, effort and even productivity is compensated due to additional documentation.

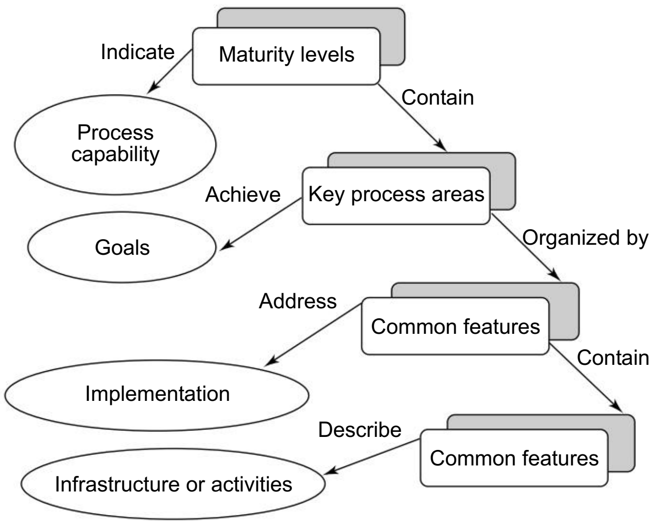
Exhibit 2: Capability Maturity Model

The CMM is a framework that describes the key elements of an effective software process. There are CMM certifications for non software processes too. Originally, it was invented to give military officers a quick way to assess and describe contractors' abilities to provide correct software on time. The CMM describes an evolutionary improvement path from an ad hoc, immature process to a mature, disciplined process. It is a common-sense application of software or business process management and quality improvement concepts to software development and maintenance and is a community-developed guide for evolving a model for organizational improvement. When followed, these key practices improve the ability of organizations to meet goals for cost, schedule, functionality, and product quality. The CMM establishes a yardstick against which it is possible to judge, in a repeatable way, the maturity of an organization's software process. The CMM can also be used by an organization to plan improvements to its software process.

The five maturity levels described by the CMM can be characterized as per their primary process changes made at each level:

1) *Initial*: The software process is characterized as ad hoc, and occasionally even chaotic. Few processes are defined, and success depends on individual effort and heroics.
2) *Repeatable*: Basic project management processes are established to track cost, schedule and functionality. The necessary process discipline is in place to repeat earlier successes on projects with similar applications.
3) *Defined*: The software process for both management and engineering activities is documented, standardized and integrated into a standard software process for the organization. All projects use an approved, tailored version of the organization's standard software process for developing and maintaining software.
4) *Managed*: Detailed measures of the software process and product quality are collected. Both the software process and products are quantitatively understood and controlled.
5) *Optimizing*: Continuous process improvement is enabled by quantitative feedback from the process and from piloting innovative ideas and technologies.

The structure of the CMM is as shown below:



The goals of CMM are:

- ⇨ Address software engineering and other disciplines that have an affect on software development and maintenance.
- ⇨ Provide integrated process improvement reference models.
- ⇨ Build broad community consensus.
- ⇨ Harmonize related standards.
- ⇨ Enable efficient improvement across disciplines relevant to software development and maintenance.

Exhibit 3: Excerpts from Anu Joseph's Interview on Mentoring

"… it is important not to burn people out. Time is money. People need to do top down thinking that is seeing how much business gets done in the time that just went by, keeping the big picture always in mind. So people need to realize that everybody has the same time and must use their bit wisely. Prioritizing and time management are simple aspects that people ignore. Everyone needs to have a holistic view and spend equal time (1/3) for self, family and office and not let any dimension suffer at the expense of other. A good mentor guides the employee keeping all these aspects in mind and gives a constructive feedback. It is important not to give negative feedback upfront as it could be a hurdle in setting up a proper understanding. Instant gratification is a good way to motivate people but delegate work that is not your own, do not to do it yourself. Mentoring must also be seen as a business and considering the constraints on time and resources to run it we must look for options to virtualize it. Structured mentoring can be aided by real time conferencing and other tools."

Exhibit 4: Excerpts from Corporate HR Policy

"The challenge is to drive people to give their best. Understanding the dynamics of people is important as retaining people is an issue. The employee turnover in this industry is as high as 17% per year. Every year almost 80% of the revenue is spent on employee salaries as a result the profitability goes down. There are several human issues that come up as a company grows. After the success of offshore model the issue is not just low cost or high cost countries. Almost 600 of our employees are of foreign origin today and 4000 of our employees live outside the country. 90% of our investors are global; in such a scenario we need strong processes to be in place for survival to manage the growth and changing cultural dimensions. There is a need for cultivating leaders in the organization. This will happen only if everybody takes pride in the work they do."

- ➢ *Informal culture*: There is no boss, and every one is a partner and has a stake. Everybody can lead, there are paths available in the company to grow, all one needs to do is to paint a vision creatively and establish a set of followers.

➢ *Three dimensions at work place*: Fact-Tree has identified three dimensions, namely *Thinking*, *Acting* and *Communicating*, and put them in their charter as we believe that good leaders should be able to appreciate all these dimensions. We feel that focusing on these issues becomes paramount when the company is growing tremendously by almost replicating itself in numbers in a short span of few years, with people and customers joining the company just anywhere in the world!

1) *Thinking* dimension requires leaders to spend quality time in thinking about things that are not of relevance today but will add value at the end of 90 days. It is important to think about the issues in advance so that the unwarranted tensions and pressures can be avoided. The leader must be able to visualize what he wants to achieve at the end of 90 days. This is required as the market conditions change almost every 3 months. Hence, the leader must do a short-term planning for 1–3 months down the line. This is the 30-60-90 day planning framework at Fact-Tree.

2) *Proactive and meaningful communication* with different communities is the second dimension. Communicating with colleagues, customers and investors for relationship building, understanding revenue generation, research or risk-prone areas is important. Hard factors like focusing on revenue and profit are important but at the same time the leader should have soft factors like relationship building and spending enough time to develop services and build assets to delight the various stakeholders.

3) *Acting*, the third dimension highlights a major issue that 95% of the time is spent in redoing. Time is mostly lost in determining what needs to be done and 80% of the time we end up doing other people's task. This is because we like to get down to handle lower level issues as we are able to solve them easily, and that gives us a feeling of accomplishment. So, Fact-Tree encourages all employees to prioritize and manage their work as "Time is Money."

Exhibit 5: Financial Performance Indicators of Fact-Tree in the Recent Past

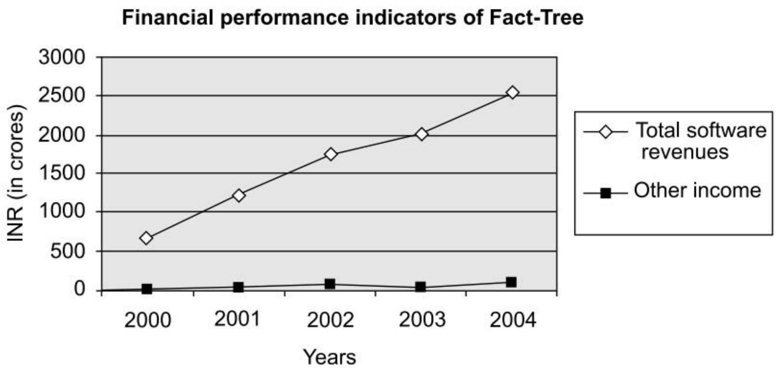


Exhibit 6: Revenue Analysis of Fact-Tree in the Recent Past

Break up of revenue between offshore and onsite (%)

Location	FY 2002	FY 2003	FY 2004
Offshore	53	46	43.7
Onsite	47	54	56.3
Total	**100**	**100**	**100**

Revenue by region (%)

Region			
North America	76	76	75
Japan	4	4	2
Europe	10	12	13
Rest of World	10	8	10
Total	**100**	**100**	**100**

Revenue by service offerings (%)

Technology			
Software design and development	52	49	46
Software maintenance	30	28	25
Packaged software implementation	14	21	26
Engineering design services	4	2	3
Total	**100**	**100**	**100**

Revenue by line of business (%)

Lines of Business			
Banking & finance	25	22	20
Insurance	15	14	13
Manufacturing	37	34	33
TIMES	10	12	13
Healthcare	2	3	6
Retail			1
Transportation	1	1	2
Others	10	14	12
Total	**100**	**100**	**100**

Existing business and repeat business (%)

Particulars			
Existing business	86	85	91
New business	14	15	9
Total	100	100	100

Other information

Particulars			
New customers added	103	99	109
Number of active customers	262	287	324
Receivable days	81	86	83

CASE 11

Parivaar: A Family for Destitute Children

Sougata Ray and Munish Kumar

The documentary on tsunami-affected children in news channel of BBC was nearing end. The commentator was concluding with an appeal to the viewers. Thousands of miles away, one bright young man was immersed in thought.

What could Vinayak Lohani—founder of Parivaar: A Family for Destitute Children—do for *tsunami*-affected children? He was aware of the multi-faceted challenges facing Parivaar. He wondered how to dovetail his urge to do something for the tsunami-affected children with the initiatives of Parivaar.

PARIVAAR

On December 2001, two o'clock in the morning in a hostel room in the Joka Campus of Indian Institute of Management, Calcutta (IIMC), Vinayak Lohani, a first-year post graduate programme student, was seriously discussing with Rajiv Prasad, a first-year doctoral student. The topics included philosophy, Bhagavad-Gita, Vivekananda, lack of development and leadership in India. After some time, both agreed that discussions would not help to build a healthy society with strong values and vision.

Rajiv proposed, "Why don't we, the students, do something about it?" Vinayak agreed. They talked to their immediate friends. The response was good. Young minds were full of enthusiasm, zeal and desire. Over the next few days, meetings were held in different rooms. Finally, it was decided that a student club called Parivaar be formed at IIMC to undertake social initiatives in and around the campus.

Later in 2004, after Vinayak completed studies at IIMC, Parivaar moved away from the campus and was registered as a society under the West Bengal Society's Act

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with the twin objectives of 1) providing familial atmosphere to the destitute children and 2) equipping them with right and useful education that would help them navigate the social world successfully later in life. The board of governors included Vinayak, some professors from IIMC and a few experienced socially concerned eminent citizens. The first centre of Parivaar was located in *Bonogram*, a village in the south suburb of Kolkata.

Starting with seven children, in less than a year, Parivaar embraced 75 children from various vulnerable sections of the society—street children, children from crisis families, platform children and children of prostitutes. (Exhibit 1 gives numbers of children, Exhibit 2 organizations from where children were taken and Exhibit 3 a typical profile of a destitute child.) The children comprised of 40 girls and 35 boys; 40 of them were school going while 35 were in the preschool stage.

The school going children were sent to the best schools in the vicinity. Preschool children were prepared by teachers of Parivaar at the centre for admission to schools next year. The school-going children were provided after school assistance. In early 2005, preschool children were moved to new premises at Bakrahaat Road, 12 km from Bonogram. Twenty personnel, comprising teachers, matrons, and office staff, were recruited to run the centre.

The Man Leading the Mission

Vinayak Lohani, son of an IAS officer and former Chief Election Commissioner of Madhya Pradesh, was brought up in Bhopal. He was the youngest among all the children in the family with three elder sisters. Vinayak had his education from the best city school, Campion. One of his school friends remembered:

> Vinayak was a very bright student in the school. When he was in 6th standard, he used to solve the mathematical problems of 8th and 9th standard. His memory was very sharp. He remembered all the districts in Madhya Pradesh and almost all in India. At a very young age, he read about Swami Vivekananda—his role model. His friends and family were impressed by his extraordinary abilities. They called him a prodigy.

Vinayak recalled how the image of his being a good student was spoiled:

> Anyway, when I was in 11th and 12th standards, I did not study hard as I was almost in bad company. Its effect was that I could not manage a good rank in the Joint Entrance Examination for Indian Institute of Technology. I had to settle for mining engineering at IIT, Kharagpur, to pursue Bachelor of Technology.

Vinayak's mother was simple and religious. His sisters were always appreciative of him and held his abilities in awe. His father was a strong disciplinarian. He instilled values of hard work, honesty, sacrifice and frugal life in him. Vinayak had immense admiration for him.

> My father always instilled a lot of values in me. He never talked to me in a soft manner. There was some distance between him and me. He appeared to think

> that I was a worthless son. The communication between him and me were limited. Our communications took place through the mediation of my mother. He was unhappy with my performance in the school and in Joint Entrance Examination. He gave me the impression that I had not worked hard. Afterwards, I tried to prove my capabilities to him. All my efforts subsequently have been a sort of reaction to his authoritarian personality. I appeared for CAT because I wanted to prove to him that I could do it.

When Vinayak joined IIT, Kharagpur, he wanted to make it big like any other student at IIT. He dreamt of having girlfriends, dining in best hotels, moving in best cars, enjoying with friends and having fun. A batchmate from IIT, Kharagpur, recalled:

> Initially, Vinayak was like any other student. He used to mix with other guys and have fun like rest of us. However, slowly and steadily we could see his orientation change. He shifted towards reading a lot of literature on values, religious scriptures, philosophy, etc. By the time he was in the third year he was mostly talking about philosophy, leadership and change when other people were talking about career and jobs. Classrooms never really interested him much. He used to talk about creating change at a bigger level.

Vinayak graduated from IIT in 2000. He wanted to do something for the downtrodden. But he got overwhelmed by peer pressure. It was the Information Technology (IT) boom period. He applied for a job through the placement cell at IIT, Kharagpur, and was picked up by Infosys. Though he had no background in IT, Infosys selected him for a programming job. Vinayak said:

> When I got the job I was very happy. But when I joined Infosys, the job did not interest me. I hardly had any competence in the job. Computer sciences and software were never really my domain. I was shifted to other departments, but even there I could not find interesting things. My interest in philosophy, guru and yoga was on the increase. I met certain spiritual gurus and wanted to join them. Some of them were highly impressed by my thought process given my young age. They thought that I had the capability to rise to a great height in spirituality. My father still thought that I was wasting my time. Somehow to prove to my father I decided to sit for CAT (Common Admission Test) for entrance to IIMs. Contrary to the expectation of my father, I got admission in Indian Institute of Management, Calcutta. But I wanted to leave all this and become a sanyasi (a hermit). My family wanted that I should become a high flier manager.

Somehow, Vinayak decided to join IIM, Calcutta. Initially for two or three months, he tried adjusting to the new environment, behaved like other students and was interested in studies. But after the first term, he started to find studies uninteresting. He hardly used to attend classes. The indifference to studies rose to the extent that he even missed one exam for which he had to reappear later. He sought the company of students who were interested in philosophy, religion, social activities, inspiration, leadership, spirituality etc. He interacted with like-minded students about life, God, Vivekananda, Bhagwad-Gita, Gandhi, Ramakrishna, Marx etc. He sought the company of research students on campus who were studying these personalities. He spent nights discussing philosophy, spirituality and life with Rajiv Prasad. Rajiv once said:

> There is a student in the first year, named Vinayak. He has a very sharp mind. He is a well-read person, and his understanding of scriptures like Gita for his age is amazing. He has clarity of thought and expression. I think he has capability to go further if he is properly guided. I keep on guiding and stimulating him in right direction, and I think I can show him the path. He has written an essay, which has won a prize, and it's a beautiful piece of writing. You must read the essay.

Another research student, who stayed in Vinayak's hostel, remembered:

> Essay competition is a prestigious event for students at IIM. Vinayak, when he won it, became famous among students, and a lot of people started to know him, a low profile guy till then.

Vinayak visited Switzerland after he finished the first year as prize for the competition. When he joined the second year after summer break, Vinayak was very quiet. He hardly interacted with neighbours and friends in the hostel. One hostel mate said:

> I never saw him out of his room. He started to interact with his neighbours after three or four months when he was on the verge of establishing Parivaar inside IIM Calcutta.

After two or three months, in consultation with Rajiv, he decided to start the Parivaar Club, as a social initiative bringing together students at IIM Calcutta. Students involved in the initiative decided that Parivaar would focus on teaching illiterate workers in IIMC and children of mess workers and hold personality development classes for children at Kendriya Vidyalaya on the campus. They would also teach students of Kendriya Vidyalaya basic computer skills. Fifty students volunteered for this work. All students chipped in with donation either in cash or kind.

Within one month, Parivaar organized a health club inside IIM Calcutta campus. The whole campus was abuzz with activities with students sticking posters, procuring and transporting medicines, getting people from surrounding areas, putting up tents and coordinating different activities. The health camp was a big success. Many students donated blood. Soon after, Parivaar, in collaboration with pharmaceutical companies, organized a health camp in a suburb of North Kolkata on a larger scale with great success.

Soon, there were differences on what future course of action Parivaar should take. These differences, however, were soon sorted out though not to everyone's satisfaction. One or two students withdrew from the club but rejoined later.

Vinayak was very happy with the support and progress of Parivaar Club's activities. He continued his discussions and consultation with other students, especially Rajiv, as to what shape Parivaar should take. By the time it was December 2002, Vinayak decided that he would withdraw from the placement process at the institute.

He decided that he would become a social worker. He felt that he would not fit into the corporate world, which he had already experienced while working for Infosys. Though he decided that he would do something in the social sector, he was not sure what it would be. His friends and professors were in favour of his working for sometime, gain experience and then start. Vinayak was confident of making an immediate beginning, as he had already been successful in managing the Parivaar Club. The success of Parivaar Club had given him the identity and recognition in IIM. Everybody had started expecting that Vinayak would do something different. He said:

> I do not identify myself with these high-flyer executives who move around in big cars, meet in five star hotels, and indulge in unnecessary intellectual discussions. I want to work at the grassroot level. These people are not aware about the reality at the lowest level. By God's grace, I have successfully managed Parivaar Club. If god wishes I would be able to do something in future as well.

The two-year stint at IIM was over, and he was jobless. His classmates left IIM; he was still there on the campus, contemplating the future. He had handed over the reigns of Parivaar Club to his juniors and decided not to interfere in its activities.

When the news of Vinayak leaving the placement process to become a social worker reached the media, it was taken with surprise and curiosity. A number of dailies interviewed Vinayak as to why he had taken such a step and what his plans for future were. The coverage in media came as a positive reinforcement to Vinayak and boosted his morale. But it was also difficult for him to backtrack as he had already made his decision public.

He found no ideas. He had a strong desire but hardly any experience of the social sector. Vivekananda and Gandhi were strong influences on him. Drawing inspiration from them, Vinayak decided to follow their ways of exploring India. He decided to travel to various parts in the country to know ground realities and lives of ordinary Indians.

He visited Midnapore, where he was impressed by social activities of an IIT Kharagpur Professor's (Dr. Swapna Banerjee) organization called *Sharda Kalyan Bhanda* in educating rural children. At Chitrakoot in Eastern Madhya Pradesh, one of his father's friends wanted him to work for a charitable trust. But he rejected the offer as he felt that his father might have influenced the offer. At Lucknow, he met Sandeep Pandey, a Magasasay award winner, stayed with him for some time and interacted with him during a dharna in Varanasi.

He soon realized that there was no point moving around. Even after visiting many places he was clueless about what to start. He felt he had to do something concrete, otherwise he would break down.

Vinayak was also involved in freelance writing. He wrote articles and short stories, which appeared in dailies and magazines like *Sulekha*, *The Times of India* and *Mid Day*. Soon he gave up writing as it did not satisfy him. He concentrated on making a mark in the social sector.

In May 2003, Vinayak completed his postgraduate programme. After visiting many places and meeting different people, his confusion grew. He came back and hired a room to stay in south Kolkata. He came in touch with an alumnus of IIM Calcutta, Kapoor, who headed the Rotary Club of Chowringhee in Kolkata (Exhibit 4 gives institutional donors and Exhibit 5 individual donors). With his help, he chose a school for girls in south Kolkata and provided merit-cum-means scholarship to needy girls. The funds for scholarship were provided by the Rotary Club. The Parivaar Club at IIM and a local person, John Das, helped Vinayak in this initiative, as Vinayak lacked the knowledge of local culture, language and tastes. This was a one-time activity and did not involve much work. Yet it kept him optimistic.

The Idea-Generation Phase

After the school scholarship initiative, Vinayak did not know what to do. He was frantically looking for ideas and opportunities. He wondered whether he had taken the right decision to opt out of placement. After discussing his ideas with friends and some NGOs, he did not find them feasible. He had no income to support himself. He was at his wit's end. However, he made up his mind to devote life to the downtrodden.

During these times, he met many social entrepreneurs. He visited various NGOs like CINI-Asha, Vikramshila, Sanlaap, Tomorrow's Foundation and Sharda Kalyan Bhandar. The interactions gave significant insights in functioning of social enterprises and their problems. He read their reports and literature. This was a productive period. It made him think all the time of the problems and their possible solutions. After visiting these organizations, he used to have discussions with Rajiv and other friends from IIM and people from NGO sector.

One night, at 9 o'clock, Vinayak came to IIM to discuss the idea of starting a residential school for the most vulnerable sections of society. He reported his observations and analysis to his friends.

He said that in 2003, 40,000 children died everyday in developing countries. Out of these, 10,000 were from India; most of these deaths were of destitute children. They came from three broad categories: a) orphans, b) street children and c) children of prostitutes. In 2004, there were 44 million destitute children in India, out of which 14 million were orphans, 6–8 million children of prostitutes and 10 million street children.

The government in 1974, Vinayak continued, promulgated numerous legislations to provide for equal opportunities for development of all children during growing years. Legal mechanisms protected children against exploitation, cruelty and neglect. The government established the Children Board in 1975. However, the promises remained unfulfilled. Thirty years after, the plight of these sections remained appalling. They were neglected of rightful childhood and education which would help them become part of the mainstream society.

Kolkata, Vinayak continued, remained one of the worst affected among the big cities of India in the number of children from these categories. The city had the highest number of street children in India. With regard to the number of children from sex workers, the city was next only to Mumbai. There was no official statistic about the number of orphans. This number was likely to be significant as most of street children were orphaned as well. Plight of these children was worsened by the fact that their guardians forced them into anti-social activities because of non-availability of good economic opportunities. Migration from rural areas, neighbouring states, across borders and rampant urbanization had further complicated the problem.

West Bengal State Resource Group for education of urban deprived children, Vinayak pointed out, initiated the City Level Programme of Action (CLPOA) to address the educational needs of these children. Other programmes to rehabilitate these children were also taken up by both government and NGOs, but with limited success. The condition of these children did not improve much. The problem with most of these programmes was that they did not take the children out of their environment to implement change. The other and probably bigger problem was that programmes were remedial in nature, meant to create functional literacy or skills, which were of no practical significance. The programmes were not geared at developing children.

Vinayak's friends were enthusiastic. He met people in the field and sought their advice. He met some professors at IIMC who were very supportive to his idea and advised him to prepare a plan as to what and how it would be undertaken. A core committee of 8–10 research students was formed to discuss how the idea could be implemented and prepare a concrete proposal. Some students looked into fund raising, some how to organise administration, some took care of educational inputs and some others deliberated about mental health of children. A preliminary proposal was developed for advocacy and fund raising.

Starting the Venture

To get continuous intellectual support and inputs, Vinayak decided that Parivaar should have a strong academic backup. Therefore, he included professors from IIM Calcutta in Parivaar's Board of Governors. Initially, Professor Sunita Singh Sen Gupta was appointed as the President of Parivaar. Other board members included Professor Sougata Ray, Professor Kalyan Sankar Mandal, Professor Vidyanand Jha and Professor Madhu Mishra. Others from non-government organizations were included to give first-hand experiences from the real world.

Help of Parivaar Club at IIMC was sought to reach out to corporate bodies for funds, but it did not fructify. IIM Calcutta alumni meet was used to appeal for contributions. However, the effort could not be coordinated; as a consequence, the response was poor.

All these activities involved significant expenditure like preparing reports, paying salary to John who had been employed to assist travelling and meeting people. Vinayak, therefore, took up a part time job of coaching classes for IIM aspirants. The owner of the coaching centre was very helpful in giving extra work and advance payment.

Vinayak and John visited a few homes for destitute children in and around Kolkata to understand their functioning, condition of inmates and see what was lacking. Vinayak consulted trustees of these homes to find out legal requirements and administrative problems in running these centres.

With all these inputs, a plan was worked out. The centre was called Parivaar—the same name as that of the Parivaar Club at IIM Calcutta. It would house children who would be educated by teachers trained by students and faculty from IIMC. Parivaar was to be located near IIM.

There was a big debate among the core committee members on: (a) what sort of education is to be given to the students, b) how to make them part of the mainstream society, and (c) how to make Parivaar different.

First, it was decided that all students would be given best possible education.

Second, if Parivaar were to run an in-house school, interaction of students with the outside world would be limited. Therefore, it was decided that children would stay in Parivaar and go to local schools so that they could intermingle with other children. Parivaar teachers would provide them with supplementary teaching aid after they come back from school. Parivaar would recruit these teachers.

Third, the core committee felt that most such organizations treated these children as if they were incapable of higher learning. This was visible from the kind of programmes these organizations had for these children. The programmes included basic education and later vocational education so that these students can earn their livelihood. Parivaar wanted these children to be the best. The only issue was to show them the right direction. One core committee member felt:

> Parivaar is not merely a social initiative. It's a cause to prove that children from vulnerable sections are as good as other children, given the right opportunity and support.

The committee decided that Parivaar would start no vocational educational plans till all children finished their schooling. Only those children who had problems in learning during school days would be encouraged to go for vocational education after completing their secondary education. Children doing well in studies would be sent to higher education, including professional education, and Parivaar would bear the expenditure.

Vinayak articulated this philosophy:

> Interventions in response to the problems of marginalized groups are generally aimed at altering a specific aspect of the concerned person's life. Some interventions focus on health, others on education, a few on socio-legal issues, and others on livelihood concerns. More important than this is that most of these interventions assume that marginalized sections are incapable of equal achievements in education, sports, health, livelihood, etc., because of their birth. As a result most interventions are sympathetic response to marginalized section rather than a developmental response. Very rarely any effort is made to see the concerned person in totality and respond holistically. The guiding

philosophy of Parivaar is to address every aspect of such marginalized children. The effort is to understand the individual, physical, psychological, educational and social requirements of those living in slum communities, street children or children of sex workers and evolve strategies tailored to meet their needs holistically. Parivaar has come into existence not to convert these children into second class citizens but make them capable so they can compete effectively with the rest to lead a useful, respectable and responsible life. In fact, this is the mission with which we have conceived Parivaar.

In October 2003, Parivaar was registered under the West Bengal Societies Act. Vinayak's friends helped in spreading the word around through mail. One friend, who worked in Mumbai, launched Parivaar's website.

Meanwhile, Rajiv got married. Differences started emerging between Rajiv and Vinayak as to what Vinayak should do and what role Rajiv should play in Parivaar. Rajiv decided that he did not want to be a part of Parivaar any more. This was a sad moment for both Rajiv and Vinayak. However, the initiative reached such a crucial phase that Vinayak had to immerse himself completely keeping everything aside.

THE FIRST PARIVAAR CENTRE

Vinayak chose John Baptiste Das, who was a local and knew the local conditions well, as the first employee of Parivaar. John used to run the night canteen at IIM. John was very helpful in dealing with local people and conditions.

Vinayak and John soon started scouting for land. However, lack of money and non-availability of land forced them to give up the idea. They decided that Parivaar would be better off renting a premise. In October 2003, they finalized on a building that could house 50 children at Bonogram, a suburb in South Kolkata, 5 km from IIM Calcutta. Advance payment of Rs. 50,000 and contract for three years of possession was signed. This was a great risk as the only source of revenue was the salary that Vinayak drew from his part-time job. The building was renovated and modified to provide adequate facilities to children.

Vinayak announced that he would soon start Parivaar. He and John visited streets, red light areas, railway station, NGOs (who handled such children) and suburban areas to look into the possibility of getting children to get Parivaar started. One day, on a visit to Amtala, a suburban area in Kolkata, Vinayak and John decided to take three orphaned children. This was January 1, 2004. Within a month, there were 30 children. Employees were hurriedly recruited.

After the building was hired, focus shifted to obtain finance to get Parivaar going. Vinayak's salary from his part-time job was not sufficient to meet the ever-increasing expenditures. Initial fund-raising initiative had been a dampener as there was hardly any response from the corporate world. Vinayak decided to change his fund-raising tactics. Instead of approaching corporate bodies for sponsoring land or building, which entailed significant money, he decided to ask corporates and individuals to support a child for one year. The cost of supporting one child was calculated, and the new scheme of "support a child" was launched. Alumni of IIM Calcutta were first targeted for this cause. Their names, addresses and e-mails were taken from IIM Calcutta alumni directory. Vinayak sent a separate appeal to his batchmates at IIM Calcutta. Venkat Krishna and one of the case writers, both alumni of IIM Ahmedabad, also helped by making an appeal to the IIM Ahmedabad alumni. Later, alumni of other IIMs and IITs were also targeted through contacts (Exhibit 6 gives Vinayak's appeal to his batchmates). "As many as 23 of our batchmates have contributed to the project. Many of them supported the total direct expenses of one child, Rs.12,300 for a year," remembered Vinayak.

This tactic of focusing on individual donor was a big success. Forty individuals, including 23 classmates of Vinayak, replied. The donors were very happy to contribute to the cause. It gave them satisfaction that one among them had undertaken this task. Vinayak could forget all financial worries for a while. He quit his part-time job and concentrated on running Parivaar.

Running the Centre

Vinayak's focus shifted to get the systems and processes in place. The strength of children rose to 68. A separate building was hired for housing girls. The monetary support from businessmen in their personal capacities also started coming. Twenty personnel, including teachers, matrons, office staff etc. were recruited.

Local vendors were chosen for daily supplies. Furniture, mattresses and utensils were bought. The local community leaders were consulted for their active support and inputs. Right schools were found where children could be sent for education. Teachers were also recruited for after-school education. Arrangements for taking children to school were made with vehicle owners. John's experience and familiarity with local conditions and language were very helpful. John and Vinayak looked after children's records and their activities. Arrangements with local hospital were made to cater to their health needs. John took care of the day-to-day operational activities. Most of Vinayak's time was consumed in interacting with donors, handling communications, meeting stakeholders and taking important decisions. Vinayak left his rented accommodation and stayed at Bonogram.

It was decided that children would be given holistic and value-based education. After they got up in the morning at 6, they prayed to the Almighty. They were served breakfast at 8.30 a.m. Then, school-going children headed towards their schools, while others studied at Parivaar itself under the guidance of teachers. Lunch was served after another prayer. Evening was play time. After that, Parivaar teachers gave after-school coaching. Dinner was served between 8 p.m. and 9 p.m. At least one employee of Parivaar slept in the room along with children at night.

All employees, including teachers, administrative staff, matrons, cooks and assistants (Exhibit 7 gives the category of employees) were to maintain discipline and behave according to rules and regulations. The development of employees was a priority with Parivaar. They were sent to other organizations to pick up requisite skills and competences in their respective roles.

Two good schools near the location were selected. Arrangements were made for taking children to school by van. Parivaar needed another building to house all the children. Vinayak, in consonance with the board, decided to keep boys and girls in separate buildings. A building adjacent to the existing one was hired for girls. This arrangement was only for sharing of rooms and sleeping. Otherwise, girls and boys intermingled.

Parivaar gained considerable media coverage (Exhibit 8 lists media houses giving coverage). Parivaar and Vinayak received full-page coverage in *Outlook* magazine (Exhibit 9). The publicity helped in reaching out to new set of people. The inclusion of professors in the board of governors boosted Parivaar's credibility.

Slowly, some prominent businessmen of Kolkata, like Chamaria, contributed significantly in both cash and kind. Vinayak's interaction with other social entrepreneurs also increased. A person worth mentioning was Venkat Krishnan, an alumnus of IIM, Ahmedabad, who headed the Give Foundation. The *Outlook* article brought Vinayak in touch with a network of philanthropists led by Ramesh Kacholia of Mumbai who introduced him to *Samparc*, an organization in Pune, working for the education and care-taking of destitute children. Kacholia promised help in operational and financial matters and sent one of his employees Arindam to serve permanently at Parivaar. Arindam's experience was of immense help in running and taking Parivaar ahead.

Vinayak developed contacts with important like-minded locals. They were helpful in managing local environment like dealing with government, providing medical facilities, taking personal care of children, and above all providing moral support to Vinayak during times of trouble.

Over time, Vinayak's interest in spiritual and religious activities increased. His relationship with his father had improved and was very comfortable. So did his relationship with Rajiv. He took *Diksha* at the Ram Krishna Mission to formally announce that he would lead the life of an ascetic. He started to believe that without religious-spiritual education, development of children would be incomplete. Hence, he wanted to give Parivaar a pronounced spiritual look by tying up with spiritual-minded persons and including spiritual education as inputs to children. Vinayak felt:

> Parivaar has come up with the grace of God. Like-minded spiritual individuals joined me as I progressed. These individuals influenced others around them. And Parivaar evolved.

Vinayak did not believe in promotion to collect money for Parivaar. After his initial success with corporate organizations, he stopped asking for money. Most people, who had the same spiritual outlook as Vinayak, donated money in their individual capacity.

The Growth Stage

A year passed since the start of the centre. Corporate sponsorship increased. Collaboration with like-minded bodies, including NGOs, clubs and individuals, progressed. The interaction with business houses, concerned individuals and organizations and enthusiasm of donors gave Vinayak a lot of ideas, experiences and confidence to go ahead with his future plans. He was confident of growing beyond Bonogram. The continuous flow of money ensured that he could focus on the functioning of Parivaar.

Hired housing was a temporary arrangement. The next priority was to construct a building of its own to provide residential and administrative location for Parivaar. Vinayak realized that Parivaar should have enough space for healthy physical and mental development of the children. Vinayak started looking for land preferably in the vicinity of current premises. He approached Chamaria, a construction businessman in Kolkata and chief institutional benefactor of Parivaar. He promised to donate half the price of land. Vinayak was enthusiastic about the support.

Six *bighas* of land (90,000 square feet) was bought at Bakrahaat, 12 km from Bonogram, for Rs. 2.2 million. The campus was named as "Ashram" to give it a feel of a spiritual learning centre. The Ashram had a soothing and serene ambience with a lot of greenery around. It was located in the outskirts of a village. Parivaar wanted to construct eight Bal Sadans for housing children inside Ashram. The Bal Sadans were designed by a professional architect The construction work was already on for four of the Bal Sadans. The rest would be constructed as and when Parivaar got funds.

The non-school-going children were moved to the Ashram at Bakrahaat Road. School-going children were still in the old building as it was closer to their schools. Those who were at school were doing well in their classes; some of them were rank holders. The popularity of Parivaar was on the increase. There were increasing requests to increase the intake. But Parivaar had resource constraints.

Buoyed by the success of Parivaar, Vinayak planned similar centres in other locations. He went to Madhya Pradesh to study the possibility of extending the current Parivaar model to the inaccessible areas in the state. He wanted to capture the ground realities so that educational programmes could be designed which were embedded in the local context but keeping in view the global realities.

In West Bengal, Vinayak identified Raichak and Kharagpur as potential locations for extending Parivaar. He was already on a look out for people to collaborate at these places. He also planned to convert a stretch of 10 km from Thakurpukur to Bakraahaat (suburbs in Kolkata) "illiteracy free". Vinayak was interacting with the members from local community and government to create the model stretch.

Amongst all these plans, south east Asia was struck by Tsunami. Vinayak wanted to go to the worst-affected areas in India and Andaman to help the tsunami-affected children. This was the place where rehabilitation would be the most difficult because of distance from mainland, non-availability of essential facilities, lack of relief and rehabilitation work, and difficult terrain. He started planning his Andaman venture. He had plans of collecting separate funds for tsunami victims in Andaman. He wanted to visit various parts of the country to collect resources to start the rehabilitation work in Andaman.

Vinayak met the president and other members of the board. Some members felt that Parivaar's growth had been good. However, they felt that future growth was envisaged at a very high rate. The fast growth could lead to a situation where quality was lost at the cost of quantity. They also felt that emphasis should be given on strengthening the existing systems and delivering the promises.

Vinayak got the support of the president. Reacting to Vinayak's idea of going to Andaman, he suggested that it would be better if Parivaar could get tsunami-affected children to its centre than going all the way to Andaman. Going there, the president pointed out, would not only be highly costly but also will spread the scarce resources too thin. Also, Parivaar, being a relatively new organization, the president said, did not have the managerial capabilities to enter altogether new territories.

Vinayak found arguments both in favour and against. First, getting children to Kolkata would require getting the government's permission for transfer of children from one state to another, which the government might not be very keen on. Second, enculturation of children in a new environment could be a problem. Vinayak said:

> I'm confused. What should Parivaar do regarding tsunami-affected children? High costs and scarce resources deterred Parivaar from venturing out too soon. But Andaman is the worst hit and the most underdeveloped area. Cost should not be a consideration because then no organization would like to go to Andaman and change will not take place there.

The president's suggestion gave Vinayak some ideas on how his duty towards the tragedy-struck helpless children could be dovetailed with the future of Parivaar. Should Parivaar go to Andaman or bring the children to Parivaar?

Exhibit 1: Number of Children, Age and Sex (As on 10 February 2005)

Age of Children	Males	Females	Total
3–5	8	8	16
5–7	13	16	29
7–9	7	13	20
9–11	7	3	10
Total	35	40	75

Exhibit 2: Organizations from Where Children were Taken (As on 10 February 2005)

Name of Organization	Number of Children
Tomorrow's Foundation	19
Parivaar-Independent	23
Sanlaap	12
CINI-Asha	14
Samaritan Help Mission	7
Total	75

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Exhibit 3

Sabina Khatoon was a girl of 8 years. Her mother's name was Sabrunisa. There was no identification of her father. Her childhood was spent on the footpath of Tikiapara, along with her three siblings (Sahiba, Raja and Gulab Khatoon), a suburb of Kolkata about 4 km from Howrah.

Due to extreme poverty, their mother was involved in begging and flesh trade. The four siblings used to beg near Howrah station and sometimes on various trains starting from Howrah station. Their mother was murdered brutally by an unknown person, not traced till date, just near a dilapidated building where small community education initiative called Samaritan Help Mission (SHM) existed.

After their mother's body was found near SHM, Mamoon Akhtar, a librarian in a primary school in the area and also a social worker involved with SHM, brought the four children to SHM's dilapidated building where they lived for one year and took some elementary lessons. There was no one to look after them. Mamoon Bhai and other Samaritan members who themselves were slum-dwellers and extremely poor people acted as guardians of these four children.

On Sunday, 12 September 2004, these four children were admitted into Parivaar for permanent rehabilitation. They now got a home and a family (Parivaar) of 75 other children who had similar backgrounds.

Exhibit 4: Institutional Donors (As on 10 February 2005) Total Donations: Rs. 5 lacs

Organizations
Rotary Club of Kolkata, Chowringhee
Asha For Education, Zurich
Bagaria Charitable Trust
Bengali Society of Florida

Exhibit 5: Individual Donors–Rs lacs (As on 10 February 2005)

Donors	IIMC	Other IIMs
Individual—Regular (SAC)	103	145
Individual—One-time and marginal (SAC)	215	185
Non-SAC individual donors	15	40

Exhibit 6: A Letter to Batchmates by Vinayak (September 2003)

Hi Batchmates,

I fervently hope this finds you amidst best and all of you are enjoying.

I am thankful to those amongst you who have always encouraged me in my endeavors.

I am glad to tell you that Parivaar (www.parivaar.org), NGO founded by me, is working towards starting a Residential School for children of sex workers, orphans and street children. US based Asha for Education is supporting the venture. We hope that many corporate groups would also help. The background report that covers the concept, objective and working strategy of the initiative are pasted below the main text of the mail.

I request you to get associated with the initiative. You can do following things:

1. Direct Contribution: Mail me the amount you would like to contribute to it.
2. Mail the proposal to your company colleagues, other e-groups you are part of and to friends.

Please find whether your company has a philanthropy policy that is a stated commitment towards social sector.

Also find if your company has a matching donations policy. If it has then every Rs. X contributed by you would be matched by another x by your company, thus doubling the sum.

All contributions would be tax-deductible under Act 80(G)

Keenly awaiting your reply. Suggestions would be welcome, criticisms most flattering.

Reply of each one of you would count.........so plzzzzzzzz.

Regards,

Vinayak Lohani
Social Worker
www.parivaar.org

Exhibit 7: Categories of Employees (As on 10 February 2005)

Category of Employee	Males	Females
Teachers	3	2
Administration	4	0
Matrons		2
Cooks	1	1
Cleaners/helpers	2	2
Maid servants	0	3
Others	1	0

Exhibit 8: Media Coverage (As on 10 February 2005)

Media house
Hindustan Times
Times of India
Outlook
Tehelka
Deccan Chronicle
NDTV

Exhibit 9: Vinayak with Children at Parivaar

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CASE 12

Subhiksha Retail Chain

Sriya Narayanan, Swati Ashok Garodia and Mini Mathur

In 2004, R. Subramanian, Managing Director of Subhiksha, a discount retail chain, addressed a group of management students who wanted to learn from his miracle grocery-pharmaceuticals store that changed the face of discount retailing in south India. Growing from a single outlet in Thiruvanmyur, Chennai, to the largest chain of supermarkets and pharmacies with a turnover of Rs. 235 crore and 164 outlets had not been an easy task—given the controversy about MRP and consumer prejudices against discount stores and not to mention the onslaught of big real estate businesses getting into retail.

The branding strategy for this retail store was low cost and no frills, i.e. a reliable and trustworthy store that has the lowest prices. The image of the store as communicated through various media was that of one who cared for its customers and ensured the best deals and savings. However, there was more to Subhiksha's strategy than low prices. It focused on building long-term relationships with its customers by giving them a lifetime of value and savings. The ability to do this stemmed from its relentless focus on value delivery rather than transactional relationships.

RETAILING IN INDIA

Retail was one of the few industries in India that had seen enough action in mere last five years. The others were IT, IT enabled and BPO industries. But the surprising thing was that retailing was even today striving for an industry status. The early players in the retail industry, for example, Raymonds, Indian Coffee House, Akbarally's and Bata, were limited to a few locations and regarded retailing as an *activity* than an *industry*. Today, retail was an industry, with players talking of ROI, employee management and IPOs.

In India, the retail sector was the second largest employer after agriculture. The retailing sector in India was highly fragmented and predominantly consisted of small, independent, owner-managed shops. The total retail trade in India was Rs. 11 lakh crore or $240 billion. Of this, organized retailing accounted for Rs. 14,000 crore, which was poised to grow at 35% per annum in the next five years. Food and grocery retailing accounted for 55% of all retail activity.

There had been a boom in retail trade in India owing to a gradual increase in the disposable incomes of the middle class households. More and more players were coming into retail business to introduce new formats like malls, supermarkets, discount stores, department stores and traditional looks of bookstores, chemist shops, and furnishing stores.

Retailers were adding new stores on a regular basis. There were over 13 million retail outlets in this country. Indian retailing industry was estimated to be $286 billion in 2004, and only about 1.6% share of this market was as organized sector (ICICI property services retail report, 2004). The organized sector was expected to grow to almost Rs. 30,000 crore by 2005 representing 6% of total retail market, and top six cities will account for 66% of the total organized retailing (KSA Technopak, 2000). Based on GDP growth rate of 6–7% per annum, the retail industry expected to be $300 billion by the year 2010 (CII-McKinsey Report). In comparison with other Asian economies, India was far behind in the organized retailing sector. In Thailand, more than 40% of all consumer goods were sold through an organized format. Similar phenomenon was seen in other Asian countries (Exhibits 1 and 2).

Organized retailing got a boost during 2004 with the opening of new format stores, rapid growth of existing players, start of new-generation shopping malls, the government's intention of allowing a certain level of foreign direct investment in retail and the formation of a retailers' association. With consumer sentiment being positive during most of 2004, it led to substantial spending across a number of categories such as consumer durables, clothing and lifestyle, automobiles and telecom products.

According to Subramanian, 2004 had been a good year not so much in what happened for retail but more for the visibility and profile that it achieved, and also in setting the expectations of fast growth. Also, the automobile boom was welcome, because the ability and willingness of people to travel was what made retail boom in many countries.

However, on the flip side, practically no progress was achieved in getting an industry status for retail. Contrary to some expectations, availability of additional, quality retail space did not improve; the rentals actually hardened. This could act as somewhat of a dampener in the growth of organized retailing. Also, it was expected that the real estate supply would exceed demand in 2004. Therefore, the retailers expected retail spaces at good prices, but this did not happen as only 20 malls became operational in 2004, and costs did not fall a great deal. Also, retailing was seen to have a long gestation of 2-3 years, especially with the high real estate costs and big malls. Hence, it was an investment heavy industry.

However, 1998 was a year of inception of organized retailing in India with Shopper's Stop opening its first outlet in Mumbai. But it was 2004 when retail began to scale up and got its fair share of attention. With the economy growing and with some of the metros growing at a decent clip, one could expect more growth in the near future.

In conclusion, India Incorporated had some advantages. It had a fast growing Indian middle class with more than ever disposable income. There was a positive economic outlook, and foreign exchange reserves were at an all time high. India was positioned as service provider in IT/ITES sector. These factors could be of help in taking the Indian retail scene forward.

Competition

Bata India Limited was one of the largest retailers, with 1,600 footwear stores across the country, and a retail turnover of Rs. 6 billion in 2001. With almost a monopolistic presence in the organized footwear market until the 1980s, Bata was synonymous with footwear in middle-class India. The stores retailed mainly Bata products, with a marketing arrangement with Lotto and Nike as well.

Spencer & Company Limited was another large retail group in the country with supermarkets, music stores, and the beauty and health chain—Health & Glow. Food world was operated by Food World Supermarkets Limited, while Health & Glow by the RPG Group.

K. Raheja's department store chain, Shoppers Stop, was the second largest retailer in the country and became an Indian success story in retailing operation. It also acquired the Crossword chain of bookstores.

Kishore Biyani of Pantaloons launched his new-format shopping mall called Central Trent and opened the first Star India Bazaar.

New generation shopping malls, such as InOrbit in Mumbai and Forum in Bangalore, opened their doors.

The year also saw a rapid scaling up of operations by players such as Pantaloon, Big Bazaar, Shoppers Stop, Lifestyle, Westside and RPG's Spencers.

Subhiksha Supermarkets

Subhiksha was immensely popular in the South, particularly in Chennai, where it sold groceries and pharmaceutical products below the MRP. It expected to earn a total turnover of Rs 1,200 crore in 2008–09 as it planned to expand outside Tamil Nadu and Pondicherry. It planned to have 550 stores in the next five years.

Started in 1997, Subhiksha Trading Services (meaning prosperous in Sanskrit) was a supermarket and pharmacy chain, the brainchild of R. Subramanian, a graduate from IIT and IIM, Ahmedabad. Beginning its journey at Thiruvanmyur, this retail chain now had 49 branches across different parts of Chennai. Subhiksha was supported by an asset management company called Venture Capital Partnership Fund, which belonged to the Vishwapriya Group, specialists in financial services.

Subhiksha sold all its products all the time below MRP. It eliminated the margins in the traditional supply chain consisting of the manufacturer-wholesaler/dealer-retailer network. Bulk purchases directly from manufacturers or stockists qualified for deep discounts. Quick inventory turns also improved the cash flow and reduced operating costs. Subhiksha made spot payments against delivery to get cash discounts. The supplier helped in inventory control and in return got an improved cash flow.

Subhiksha helped consumers make informed buying decisions. Smaller packs of products of established brands were usually less economical. However, promotional offers by leading brands usually priced smaller packs at lower prices to induce buying greater quantities. For example, the oil brand Idhayam was priced at Rs. 14 for a 200 ml pack which worked out at Rs. 70 per litre while the 500 ml was priced at Rs. 36 which worked out at Rs. 72 per litre. Here, Subhiksha informed the buyers to purchase multiple packs of smaller quantities to save money. On products like tea, which had no tax on small packs and an 8% tax on larger packs, the customers were encouraged to buy multiple units of smaller packs to save money.

Subramanian said:

> Everyone is looking to get a better quality of life, so the consumer is spending less on daily necessities and more on products or services. And the money for the durables and mobile phones will have to come from somewhere—and it is coming from the budgets for everyday products. So it would all come down to how the consumer chooses to prioritize her/his spend. Today, the consumer doesn't think twice about spending Rs. 200 on a movie ticket in a multiplex, but will search for rice that is cheaper by Rs. 10/kg. To the consumer, soap or toothpaste is not seen as providing much value or a better quality of life, while a movie or a mobile phone is seen as doing that.

Subhiksha had a centralized purchasing system to eliminate multiplicity of billings, which would occur if the stores were to make independent purchases. It bought directly from distributors who sold at only a small margin above the mill prices and from around 150 manufacturing companies.

Subhiksha had three separate godowns for stocking pharmacy products, unbranded groceries and branded FMCGs. It had 10 tempos to supply its stores once a day. As the discount format required holding costs to the minimum, all the stores were connected via Intranet to facilitate inventory planning.

Subhiksha's retailing format was the outcome of a survey which revealed:

- Customers generally looked for accessibility of the store, availability and quality of groceries, and price of branded groceries.
- Customers did not like to travel beyond 5 km for purchasing groceries.
- Customers did not place any premium on shopping in posh air-conditioner setups.

Chennai and its Shoppers

Tamil Nadu constituted the south-eastern extremity of the Indian peninsula. Chennai, the capital of the state, had a population of 4,212,618. The district city was one of the metropolises of India and served as the gateway of the culture of south India.

The Chennai buyer had been exposed to the most varied and modern retail experiences. Chennai had discount stores, lifestyle stores, Food World-type stores, Saravana Bhavan restaurant chains etc. This raised the buyers' expectations and contributed to their differentiating ability. The traditional image of the Chennai buyer that they were very conservative and they took time to change was debunked. Across income segments, all customers looked for a value proposition and were willing to try anything that met their requirement.

SUBHIKSHA'S BRANDS VERSUS THEIR COMPETITORS

Private labels and home-grown brands in the organized grocery and FMCG retailing segment were beginning to pose a major threat to the brands of established players like HLL, Nestle and Tata tea. Private labels now had a more level playing field in distribution. The margins of these private brands were believed to be higher because manufacturing of these products was outsourced.

Subhiksha had a very clear strategy regarding private labels and competitors. While 35% of the company's sales came from parent labels of rice, dal etc., Subramanian felt that private labels made sense only when the rate of customer acquisition slowed down or when there were no established brands in a category.

The company had its own brands, but only in staples and other agri-commodities where there were no national brands. For instance, Subhiksha had withdrawn its *atta* and *basmati* rice brands once national brands were launched in this category. "It's not that we are philosophically against private labels. It's just that they don't fit into the scheme of things at present, but may come in at a future date", said Subramanian.

Merchandise Mix

Subhiksha had a wide range of products in its store—rice, dal, sugar, oil, butter, toiletries (like Lifebuoy, Tide, Surf, Colgate etc.), jam, sauce, tea, coffee and cosmetics (like Ponds Dream Flower) (Exhibit 3).

Buying Procedure

The customer chose products from the display on the PC and paid at the cash counter against a composite bill, which did not contain item details. The stocking department processed the order, keyed in the details, and a shop assistant collected the items and delivered it at the delivery counter. The detailed bill was printed only if the data entered by the stocking department matched the composite bill. The bill also showed the market rates and the savings made.

Subhiksha's strategy did not allow the customers the pleasure of feeling the goods before purchasing as in supermarkets. But Subramanian argued that Subhiksha did not sell fashion, it sold food and grocery items which did not require touch and feel by the customer. The closest that the store got to touch-and-feel was a store in Tambaram, where there were wall-to-wall displays of samples of the products sold in the store.

BRAND ANALYSIS

Brand Image and Identity

The brand image that Subhiksha aimed to portray was of a trustworthy, reliable store that cared for the customer and ensured the best deals or lowest prices for them. It aimed at being perceived as a trusted source of household needs, easily accessible and one that offered great prices and savings.

Brand Positioning

Discount retail chains like Subhiksha needed to position themselves against the neighbourhood stores, which were their major competition. The latter offered personalized service and had small-scale operations. However, they were not technology savvy and did not have economies of scale. They were seen as profiteers rather than relationship builders. The unique position of Subhiksha stemmed from the relentless focus on value delivery.

Brand Strategy

By opting for smaller outlets, Subhiksha increased its presence. The aim was that no one should be further than 2 km away from a Subhiksha outlet. The target obviously was the masses. To succeed, the discount chain needed to integrate backwards into the supply chain, cut out middlemen and offer better prices to consumers. Organized discount retailing was still relatively unexploited in India, and Subhiksha was cashing in on this opportunity.

Subhiksha worked on the premise that it would carry out business with the customer for the next 30-40 years. Therefore, the focus was on building a lifetime relationship with the customer than merely a transactional one. In this respect, the company attempted to know the customers—where they lived and what exactly their needs were.

Branding through Advertising

Subhiksha had initially used only print advertisements and mailers to promote its services. It began advertising on television before the Diwali firecracker sale, and also to position itself as a retail store brand which gave a value offering to customers that contributed to better savings and, hence, an improved lifestyle. The creative head of the Subhiksha TVC pointed out:

> In Tamil Nadu, the reach of Tamil TV channels is phenomenal. And the response is immediate. Stories are told of how a TV commercial today translates into queues of customers the next morning. This turned out to be the case with Subhiksha as well. A promotion for their firecrackers during Diwali resulted in such crowds that they ran out of stocks well before the day. This success made them bring out a commercial on their grocery store as well.

Colour coding was used in the TVC. The housewife's clothes reflected the brand colours, and the brand logo was shown prominently. As regards the branding strategy of the commercial, the brand promised "Subhikshamana vazhvukku", which meant a prosperous life. The problem the agency faced with the brand image was that Subhiksha was viewed as just a discount store. This in turn meant that it was regarded as not really "up there" with the big stores. People could dismiss it as a place where you saved just a few paise. The strategy was to convert these savings into something much more. The route taken was to talk about how small amounts saved today could mean a better life tomorrow. All the Rs.10 savings taken together would enable the housewife to indulge her husband with a new watch, her father-in-law with his *supari*, her son with a computer! This value addition made the discount concept more palatable, transforming it into a quest for a better life.

Brand Perception

One hundred respondents from Chennai were administered a questionnaire that tested their perception of Subhiksha, their preferences during supermarket shopping, their priorities regarding ambience, savings and so on. The results of the survey could help determine the strategy that Subhiksha could follow to remain the undisputed leader of retailing.

The results showed that there was a perception among over 50% of the customers that the quality of the stock at Subhiksha was not up to the mark. Two-thirds of the respondents considered price to be an important choice driver for retail stores (Exhibits 4a and 4b).

Over one-third did not have a favourable opinion of quality of Subhiksha. It was perceived as a down-market store (Exhibit 4c). This was a phenomenon particularly in higher income groups.

Other observations were that customers found the lack of product display a disadvantage but they were willing to travel 10 min to reach a Subhiksha store. People who visited Subhiksha also visit corner stores and Food World. Basic expectations like quality and availability figured high in the list of priorities. Little or no importance was given to peripherals like friendly assistants and ambience. They found the communication that the idea of saving hard-earned money was relevant.

WHAT'S IN STORE FOR SUBHIKSHA?

Chennai was rightly called the incubator of retail development in the country. In these competition days, pricing below the MRP was an essential tactic. Discount stores were an essential element of organized retailing. They offered price, assortment and quality besides building scale quickly and passing on benefits. Value retailing became the new mantra.

Retailers no longer needed to focus on packaging, air conditioning and music. They now needed to offer competitive prices that attracted customers. Michael Fernandes, McKinsey's Associate Principal, put it: "Discount retailing has the potential to be a really big category, since Indians are price sensitive customers."

Subhiksha was talking to venture capital funds and also looking for private equity participation. "This will be our second round of funding, and we are talking to several VC funds and also our existing investor—ICICI Ventures. We will be looking at Rs. 55 crore of equity being raised, Rs. 55 crore of debt and Rs.30 crore of working capital," Subramanian said.

Subhiksha, which had got almost 150 retail outlets in Tamil Nadu and Pondicherry would open its first store outside the state in Delhi and Bangalore in April 2004. Subramanian said:

> We are looking at a hub and model wherein retail stores will be set up around the distribution centres. So there will be a distribution centre in each of the four cities. The company also plans to increase the number of its warehouses from the present 2 in Tamil Nadu to 15 across all the states where the outlets will be opened. Subhiksha is also increasing its focus on milk and bulk packaged water while considering entry into the fruits and vegetables segment.

The supermarket concept was fast catching up in the country. Each was trying its best to provide much more of ambience or discounts. Tough times were ahead for the neighbourhood kirana shop.

Subhiksha, which gave customers a discount up to 17% on MRP, had a good reason to be upbeat. A recent study by ORG indicated that retail branding was going to be increasingly popular in the South in the years to come because of ambience, good stock and efficient billing systems.

The supermarkets that were coming up in India needed to compete with each other and offer better and cheaper services. Subhiksha, by the sheer size of its purchases, managed to get good terms from the manufacturers which it then passed on to its customers.

Subhiksha's aggressive marketing strategy caught everyone by surprise. It was like a typical Indian grocery shop. The goods were all behind counters, but an exhaustive menu was offered to enable the buyer to make their pick.

Even though its outlets had facilities for direct purchase, the shop was pushing its tele-ordering network heavily. The customers got bills with calculations on how much they have saved by shopping at Subhiksha. With the supermarket revolution

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in India kicking in, one thing was for sure—Subhiksha, a brand with an unbeatable value offering for the customer, would certainly not be left behind.

Exhibit 1: From CII–Mckinsey Report on Retailing in India

Year 2004	
Description	US$ (in Bn)
Total Retail	286
Organized retail	3.31

Year 2004	
Description	US$ (in Bn)
Total retail market	453
Organized retail	11.5

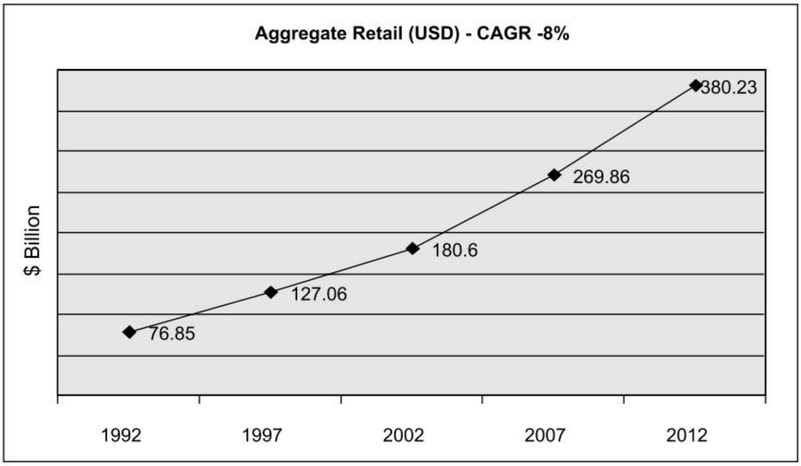


Exhibit 2: Indian Retailing Comes of Age, Mckinsey Quarterly, 2000, Number 4 Asia

Country	Total Market (in $Bn.)	% of Organized Sector
Taiwan	40	81
Malaysia	20	45
Thailand	32	40
Indonesia	5	30
China	325	15
India	180	2

EXHIBIT 3: Comparative Price Chart

Product	Subhiksha (Rs)	MRP (Rs)
5 kg Ponni rice (I quality)	102	119.50
5 kg Ponni rice (II)	90	100
Toor dal 1 kg	36.95	42.50
Urad dal 1 kg	27.85	32.25
Sugar 1 kg	15.15	17
Moong dal 1 kg	32.50	37.50
Surf Excel Blue 1.5 kg	91.65	135.00
Tide 1 kg	43	46
Aavin butter 500 g	61	65
Amul table butter 100 g	12.50	13
Ponds Dreamflower 100 g	25.50	28
Lifebuoy Gold 100 g	11.75	12.50
Whisper Maxi 10s	54.95	60
Colgate dental cream 200 g	58.95	65
Kissan mixed fruit jam 200g	24.50	26
Kissan tomato sauce 200 g	23.50	25
Horlicks 500 g	91.30	99
Three Roses dust tea 500 g	90	100
Goldwinner 1 litre	55	64
Idhayam Gingelly oil 1 kg	97.50	101
Green Label coffee 500 g	65.95	69
Britannia Marie Gold 400 g	20.95	24
Britannia Orange cream 100 g	9.95	11
Five Star chocolate 120 g	36.10	38
Dairy milk 43 g	15.20	16
Top Ramen noodles 400 g	32.95	36

This is merely a representative sample. Several other brands in each category are available. There is a column at the end of the bill saying: "Your savings" which gives the total difference between Subhiksha prices and the MRP on purchases that day.

Exhibit 4a: Importance Given to Low Prices

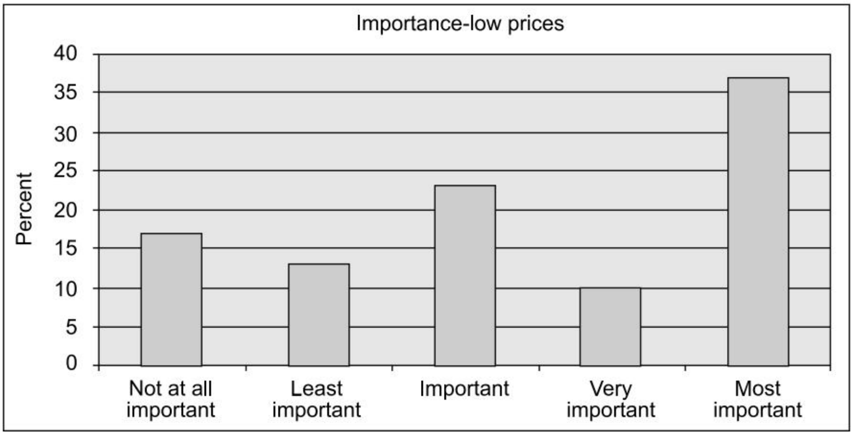
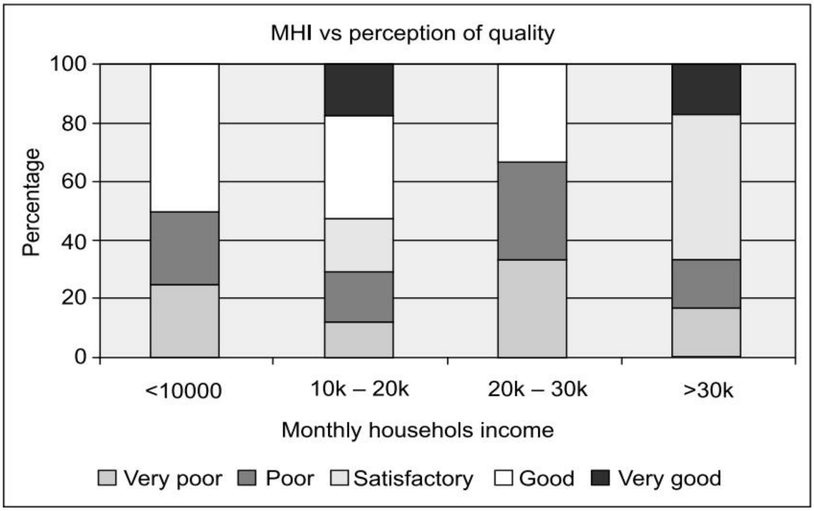


Exhibit 4b: Perception of Stock Quality at Subhiksha

Exhibit 4c: MHIi and Perception of Quality of Stock



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CASE 13

From Stabiliser to Theme Park

K.J. Paulose and Ranjan Varghese

THE MIGHTY MAN BEHIND V GUARD INDUSTRIES

If a man is known by his words and deeds, Mr. Kochouseph Chitilapally, founder promoter and Managing Director of V Guard Industries (P) Ltd, Cochin, embodies just that. Focused, innovative, simple, techno-savvy, soft spoken, concerned about fellowmen and highly ethical are some of the traits to describe the calm-looking personality of Kochouseph (herein referred as Chitilapally) by anyone who knows him closely. The list of awards (given in Annexure 4) including the Best Tax Payer award from Income Tax circle, Kerala testifies Chitilapally's superior core values. At the first instance of meeting Chitilapally, one will feel very close to him. Such is the expression of hospitality and friendliness Chitilapally radiates while receiving people at the simple looking office of his 150 crore V Guard Industries, the company having very high reputation and whose products uphold very high brand image in south India. It was conceived, nourished and cherished by Chitilapally, and well supported by a handful of committed, prudent and loyal managers and last but not the least, his wife and lately his sons.

If one believes that a highly technical minded person often sidelines human relationship, Chitilapally is an exception. He is relaxed and restful while ruling his empire and driving it to steady growth and tracking newer opportunities. But he reminisces:

> The whole venture started in a shed making stabilizers with the help of two assistants after quitting my research assistant job from an electronic manufacturing firm in 1977. The delivery was done by myself in a scooter, a hard earned vehicle in those days.

So, he is emphatic when he says, "I find pleasure in result obtained by hard effort than receiving rewards in a golden platter." The success story of Chitilapally and his team is not without rough and bumpy roads, even while implementing V Guard's latest project, a first class theme park in Bangalore. The following account reveals the fact.

THE GENESIS OF V GUARD

In 1976, Chitilapally, who belonged to a predominantly agricultural family, was desperately seeking a job after completion of his M.Sc. in Physics. He finally clinched a job in a small firm manufacturing electronic items. His father was not happy to know that he got a job with a meagre salary. So the father got a bank job, widely sought after in those days, arranged for Chitilapally through influence. But Chitilapally was determined not to do a job that is not his cup of tea. He was focused and strongly inclined to technically oriented work. Chitilapally remembers, "If I accepted the bank offer I would have ended my career life as a bank manager." There was always a persuasion from within to do something on his own, as he got more and more skilled in assembling and repairing electrical items. This persuasion paved his exit from being a salaried employee to the path of an entrepreneur. In 1977, he quit his job as research assistant in an assembly unit in Trivandrum and started his first assembly unit in Cochin.

The beginning was in a small shed hired out to assemble stabilizers mainly to support the safety of fridges. Chitilapally's mental business model gave him confidence that selling 2-3 stabilizers a day would fetch him profits that will more than compensate for the salary he earned. The stabilizer technology was familiar to Chitilapally, and he was particular to choose a product in which he was technically sound. The market for stabilizers was growing at a slow pace in the 1970s in proportion with the demand for fridges. In those days, the fridge was a luxury, hardly affordable by middle-income segment. On an average, an executive used to get Rs. 900–1,000 as salary per month and the price of a fridge was around Rs. 6000. In those days, a fridge delivered an ornamental appeal in addition to its utility value. Chitilapally took advantage of this hidden value delivery of a fridge and conceived a stabilizer well differentiated from the then nationally well-known brands such as NELCO from the house of TATA and KELTRON, a well-established public sector unit in Kerala. The outer covering of these brands were metal boxes designed in rectangular shape with sharp ridges and the painting appeared very crude. The highly-quality conscious and innovative mindset of Chitilapally created a stabilizer with added features of 'cut off' and 'time delay' which was very much necessary for the widely common problem of low voltage and fluctuating electric current in south India, especially Kerala. This device reinforced the protective value of Chitilapally's stabilizer by preventing sudden drop in voltage and power failure from causing damage to a costly fridge. Assume the power fails or the voltage drops instantly and the very next second the power returns or voltage rises — the fridge would stop and restart rapidly. This is damaging to the compressor. He also gave a wonderful looking round shape to the metal cover with auto finish paint. Chitilapally was determined to take risk. He was strongly bent upon keeping the price of his product higher by Rs. 5 than that of NELCO and KELTRON. This strong conviction of a superior offer for a higher price laid the foundation for a strategy from which he has never gone back till now. The price of the competitor was Rs. 490.

Chitilapally prepared a project report and presented the same to one bank for a loan of Rs. 25,000, as he had no capital of his own. The bank refused to grant the loan as they assessed that it was not possible for an unknown brand to compete with national brands and secure a market for the product. Challenged by the discouraging reaction of the bankers, he approached his father for a loan of Rs. 50,000. Although the fund was given, his father had all apprehensions as a Keralite always wanted his children to become a doctor, engineer, or government official and never an entrepreneur. Blessed by his father, Chitilapally started his small assembling setup in Cochin with the seed capital of Rs. 50,000. Later on, he borrowed another Rs. 50,000 from his father to meet the initial investment required. He took two helpers on a temporary basis for assisting him in the assembly. All the critical jobs such as soldering and testing were done by Chitilapally himself. The parts were procured from Coimbatore and Chennai and rigorous quality check. Thus, came the launch of Chitilapally's stabilizer in a humble way, today commanding the leading position in south Indian market (see annexure 5).

THE DEVELOPMENTAL PATH OF V GUARD

In the beginning, Chitilapally's stabilizer unit operated under the name and style of "Prompt India". In 1989, it was christened "V Guard". Although there was no pomp and show in the earlier period, Chitilapally had the vision of building a brand, which was a cut above others. The techno-savvy entrepreneur meant V for voltage. But, the consumer might have given a number of interpretations such as V for victory or V for "We" guard etc. Chitilapally left no stone unturned to ensure sales of V Guard stabilizers through the leading distributors of electrical and home appliances in Kerala from the beginning itself. These showrooms had a reliability and brand image of their own. Even the showroom appeal was very good as these dealers were selling electrical and home appliances. The after-sales service provided by V Guard was very efficient to replace or repair the defective products, although happening very rarely, with no questions asked. So the customers and dealers were extremely satisfied. V Guard could ill afford print media ads in 1970s, and TV media was nonexistent. However, Chitilapally created visibility through wall writings. The message of quality and after-sales service was conveyed to the staff by a circumspect Chitilapally who used to spell out minute details of quality control.

The 1970s and 1980s witnessed the gulf boom in Kerala, which opened a breakthrough opportunity for V Guard. The sale of fridge multiplied enormously causing boost in sales of V Guard in geometric proportions. Doordarshan came into existence and TV sales also started picking up. Sales of V Guard stabilizers continued to move upward. The banks welcomed Chitilapally to avail loans, as V Guard by then had established a superior image.

Chitilapally resorted to bank loans for funding the fixed asset acquisition and meeting the working capital needs. Chitilapally believed that widening the ownership network would cause loss of control and take away his sleep, which was very dear to him. Chitilapally was never swayed by offers of subsidy from Government. He knew that it would cost him to dilute many ethical practices he followed and the self-esteem he possessed.

Early Challenges and Breakthroughs

The period 1984–86 was a testing time for Chitilapally. V Guard was still running as a single product firm. The staff strength was a shade above 100. The fridge market was steadily growing. The TV market was also picking up at a faster pace with the increasing use of VCR for film viewing and the launch of Doordarshan in southern states on a wider scale. The market expansion in Kerala, Tamil Nadu and Karnataka led to the growth of dealership network leading to substantial increase in annual sales. The Gulf boom added much to the sales. But the workers started giving trouble. They resisted professionalism and modernization. The union provoked workers even to assault the supervisors. Many firms who surrendered to these pressures had to buy peace, causing these tactics come to stay as worker's culture. Chitilapally knew that yielding to this pressure would ruin his organization. So he decided to take the bull by the horns. He hit upon the idea of outsourcing—off-loading the manufacturing to outside units. Certain small-scale units with charitable interests were identified for this purpose, and they were engaged for assembling the V Guard's products. Few such units were hired out for this service in 1986-87. V Guard's own production facility was shut down leading to strikes in front of V Guard's manufacturing facility. The benefit of the outsourcing was mutual; V Guard got finished products at a lesser cost than producing from its own facility and many got employment and livelihood. The investment in the owned facility was not very significant by virtue of the fact that the assembly was highly labour intensive.

The people working in the outsourced units were given adequate instructions by V Guard supervisors on skills required to assemble the product. Stringent quality control measures were put into place. Because of Chitilapally's long-standing association with the suppliers mostly from Tamil Nadu, he could get few days credit for the raw materials supplied. These raw materials were supplied to the outsourced units who assembled the products. It was only the labour component that was outsourced. Ten such units were outsourced in the beginning, all located around Cochin. 100% of the stabilizers, as on the closing of 2004, were outsourced. The negative campaigns organized by the striking workers were countered by a flurry of advertisements, which enabled sales ticking upwards. Although V Guard workers organized a lot of personally threatening and agonizing activities directed towards the management, Chitilapally stood firm and the workers lost their employment in a matter of few months.

Market Expansion and Diversification

The market for V Guard stabilizer was steadily expanding in Kerala, Tamil Nadu, Andhra Pradesh and Karnataka. More and more distribution stockists and dealership outlets were established. In late1980s, the number of outlets which sold V Guard were around 2,000. There was no dilution in after-sales service. Dealership meets were organized and the main intention was to build good relationships. Shops selling home appliances and electrical and plumbing items were the types of distribution outlets used by V Guard. As of January 2005, V Guard has approximately 6,000 outlets mostly spread over south Indian states and Goa, Maharashtra and the metros (see annexure 5).

The well-established distribution network was something to be exploited — thought Chitilapally and his team. In the late 1980s, the quartz clock was launched. The product was differentiated from existing brands by using rosewood as a frame. The product was thus looking different from existing brands, which were made mostly by the unorganized sector. There was an increasing demand for clocks, as it was almost a necessity and a decorative piece. A more influencing reason for the launch of clock was the scope for outsourcing the assembly of clock. The existing distributors were used to selling the product. It was also priced more than the existing leading brands. The sales volume achieved was not worth the effort, remembers Chitilapally. There was increasing competition from the unorganized sector. The margin was also low. Good quality rosewood also became scarce. The product was withdrawn from the market.

Entry into Pump Sets

Chitilapally always pursued new opportunities in his urge to create new things. The thought process for new products and ventures revolved around those products, which could be distributed through the present channel members and infrastructure. In this process of venturing into new opportunities, the existing products were not neglected. The present day digital V Guard stabilizer, which is the result of incremental transformations from time to time, testifies that. In the pursuit for new products, Chitilapally hit upon the idea of launching pump sets, the assembly of which is also outsourcable. This was thought to be more in line with the flagship product, the stabilizer. This would be leveraging the brand image and existing distribution infrastructure of V Guard more than a clock and hence a better opportunity, thought Chitilapally. An incremental innovation with power-saving technology was incorporated in this product. V Guard's team exploited an emerging market opportunity in such households that needed pump sets to suck water stored in the ground tank and deliver it to the overhead tank. A pump became an indispensable item for this purpose because the less frequently available water has to be stored and delivered to the overhead tank. Chitilapally insisted on quality from the beginning to the outsourced units and V Guard's own technical personnel are attached to each outsourced unit. This product is a success till today. From the beginning, the price has been at par with the known brands. At present, V Guard's ½ h.p pump set costs Rs 2,300, which is the same as that of Mahindra pump set. The existing distribution stockists were engaged to channelize the product to the relevant dealers in pump sets. A good part of such dealers were already selling the V Guard stabilizers. Initially, pump sets for domestic consumption were launched. Later on, the line was extended to agricultural pump sets. Chitilapally always believed that a happy customer would be a brand ambassador for the company's products. So the strength of goodwill that V Guard commanded for the stabilizer as a brand with superior quality and after-sales service was naturally extended to the pump sets also. At present, this product also has its leading position in Kerala as in the case of stabilizer. Currently, it enjoys a good market share in Tamil Nadu, Karnataka and Andhra Pradesh. The information regarding sales and market share and other details are available in annexure 5. An electronic motor starter was also introduced as a separate product to protect the pump sets against voltage fluctuations.

Entry into UPS

Chitilapally was all determined to set his foot in other related product lines by leveraging the image of V Guard. In the mid 1990s, PC started making its inroad into business offices and homes. PC invariably required uninterrupted power supply for safety. Chitilapally clinched the opportunity and entered the sunrise UPS market. V Guard's UPS also had some incremental innovation with high-voltage protection and off mode battery charging. R&D was revitalized for producing more accuracy and precision. Kerala with its increasing sales in computer again became the mother market for V Guard's UPS. The district-based distributors of V Guard in the southern states were appointed stockists for UPS also, who in turn distributed the product to all relevant end dealers. In early 1990s, V Guard launched stabilisers for air conditioners keeping in view the increasing demand for air conditioners in Kerala and other southern states. In the current market environment, when the volume growth for fridge and TV stabiliser is flattening, there is increasing demand for stabilisers for air conditioners arising out of derived demand. The sales obviously increase during summer.

Entry into Solar Water Heaters and Insulated Electric Cables

Driven by the success of these products, Chitilapally then launched another innovative product—electronic water level controllers with electronic starters. These products could also be sold through the existing channels. Continued launch of new products was witnessed in 1990s. Electric water heater was next in queue. As this product has a greater demand in northern and southern states, the metro markets were targeted through the existing distributor stockists located there. A unit in Himachal Pradesh was outsourced for manufacturing water heaters. These products could be supplied to the stockists in metros from this outsourced unit. This unit, which was shifted from New Delhi to Himachal Pradesh, enjoyed lot of excise duty concessions and hence passed on such benefits to V Guard.

Then, Chitilapally laboured with the idea of a solar water heater, something that was of personal interest to him. He bought one for his own home and tested the efficacy and energy saving of the product. It had substantial benefits with respect to these two attributes. On a thorough search for the most relevant technology, Chitilapally identified that it was the vacuum glass tube technology of solar water heater that was the most competent in giving best results. He also found out that the system could run with mere four hours exposure to sunlight per day. The heat generated was found to be sufficient for a number of bathrooms. Thus, his new brain child with innovative design and technology was born. The vacuum tube was imported from China for making the solar water heater. Today, the 100 Lpd model is priced at

Rs.15,000 plus. It is also distributed and sold through the existing channels. However, this was produced at V Guard's own plant near Coimbatore. The product is gradually finding market among higher segment households. This solar water heater project required an investment only a little more than Rs. 1 crore. Since this unit is presently located in the premises of the cable unit, there has been much saving on the cost of land. Even a part of the overhead cost is shared with the cable unit thereby enhancing cost competitiveness. Sixty workers are engaged for the production process.

The solar water heater, at present, has increasing market share in Karnataka as it offers a relatively more mature market in south India. Some houses and apartments in Bangalore and other cities make provision for setting up solar water heater system while constructing the building. The V Guard management believes that this practice will begin in other states also. One barrier to acceptance of this product is the apprehension that solar water heater will not function during many days in a year. But V Guard management has tested and proved that the heater cannot produce hot water only for 22 days on an average in a year. Thus, the management is hopeful of dispelling such doubts in the minds of potential consumers. Moreover, in the present uncertain scenario of rising shortage for power and cost, the solar water heater is expected to become a sure bread winner for V Guard.

The 2004–05 sales of solar water heater has touched Rs. 2.51 crore. This is an indicator of the growth prospects of this unit.

By now, the well-empowered and committed team of managers were willing to take up new challenges and opportunities. Why not cables? Chitilapally posed this question and there came an emphatic yes from the dynamic management team. The cable unit, which was set up in 1999, was a venture almost completely planned and implemented by a delegated team of senior managers carved out from the existing professionals. This product, the insulated cable wire, is made of electrolytic grade bright-annealed copper insulated with fire retardant high-insulation PVC. The cable manufacturing was not to be outsourced, as it is a process industry. Nevertheless, before the completion of the plant in late 1999, the cable was outsourced for one year. From 2000 onwards, it was produced at a completely company-owned plant located near Coimbatore in Tamil Nadu. The reason for locating the plant in Tamil Nadu was not due to fear of labour problem in Kerala but easy access to raw material supply. Started with an investment of Rs.18 crores, the cable could flow through the existing channels to reach the end user. The existing distribution stockists were appointed to distribute the product to the final outlets. A good chunk of the existing 6,000 final outlets are used to sell these wiring cables. Ever since the commencement of production in 2000, the cable sale has been steadily increasing, mainly due to cost competitiveness. The sales position of cables is as follows.

Year	1999	2000	2001	2002	2003	2004	2005
Sales (in crores)	3.26	7.06	14.3	14.68	20	26	30.65

(This sales revenue is included in the P&L account of V Guard as given in Annexure 1).

Seventy-five workers are engaged in the cable unit. The present operating expense of this unit is hovering around 70% of sales turnover.

Entry into Garments

Chitilapally's empowerment of trusted people to implement projects and run them independently has been a management practice, which was stretched to his wife Sheela. A garment unit was started and Sheela was fully delegated to run the business. It was a bold decision to enter a diversified business activity. Chitilapally was confident that his wife with her skills in managing home, and interest and involvement in social projects, could manage this garment unit. "It was her own idea", Chitilapally remembers with confidence. Chitilapally was confident that it was a business suited to her frame of mind. The confidence is reinforced by the fact that this sector is growing upwardly with much scope for exports. However, Chitilapally wanted the brand name to be delinked from V Guard. Therefore, the garment products were branded as "V Star". At present, the unit sells ladies garments and has a turnover of approximately Rs. 10.5 crores (2003–04). The garment was also outsourced as the management team had become experienced in running business with complete out sourcing. At present, the unit faces much competition from unorganized sector, which is virtually exempt from tax burdens. However V Star's products are targeted towards the brand conscious upsegment consumers enabling the price to be higher than the unbranded garments. V Star products are sold through selected outlets where choosy and finicky women flock in.

It can be seen from the profit and loss account of V Star in annexure 1a that the financial performance of V Star has been unstable over the last four years negatively affecting its bottom line. It returned loss in 2004. There has been much repayment of the secured loan during 2002 and 2003 helping the firm to lessen its interest burden. But there has been fresh borrowal in 2004, which is likely to cause increasing pressure on cash flow in the current period. In spite of this, Chitilapally and his team is determined to face the market battle with the confidence that its lifestyle products will win an increasing mindspace of consumers. No wonder the management has spent more than 15% of sales revenue on sales and promotion in 2004 hoping that a market turnaround will take place.

Realisation of a Great Dream: The Theme Park

Chitilapally continuously exercised delegation to his trusted senior management team consisting of Mr. Vijayan, the GM, Mr. Antony Sebastian, the DGM and Mr. Jayaraj, the AGM, and others. A major intention was to set apart his time for creative conceptualization of new projects. Moreover, it enabled him to get out of the monotony in mundane and routine operations for which his management team is more thorough than Chitilapally himself. It was his desire to do something unconventional and different from his main stream of business activity. He used to spend his leisure time in going to amusement parks than going for shopping. A visit with his family to many such amusement parks in India and abroad created so much passion for starting an amusement park in Cochin. He said a man to his desire not because of the 18 acres of beautiful land he possessed at Kakanad, the suburb of Cochin, but because he wanted to be truly creative and unconventional in his new endeavours. Moreover, he was confident that an amusement park of this kind would generate rich cash inflow due to its attractiveness to a vast majority of fun-loving Keralites. A market research by V Guard team showed that more than 50% of the visitors to parks located in neighbouring Tamil Nadu are Keralites. Chitilapally's confidence was strengthened by the belief that this project with its comparatively lesser portion of variable expense and at current level of fixed cost can generate higher sales revenue and profit with reasonably higher margin. Without a second thought, he conveyed his new idea to his management team and separated a set of creative-minded subordinates for exploring and exploiting this opportunity. Eighteen acres of land was added to the existing property to convert the land into a beautiful landscape. The team was sent to different amusement parks in India and abroad and they were energized to go into action.

It took two years of meticulous planning and action for Chitilapally's team to open the floodgates of V Guard amusement park to the public in 2000. While selecting human resources for Veegaland, Chitilapally was particular not to pick up anyone having previous experience in water theme parks, nor did he choose an architect who had experience in designing theme parks. This was because he was apprehensive of stereotyping and imitation, which would hamper the creative and innovative culture that V Guard team possessed. "A seasoned architect wouldn't accept my ideas", Chitilapally says. Therefore, a young and dynamic architect was chosen for this Herculean task. Yet Chitilapally confesses that some premature ideas were implemented in the initial stage which had to be rectified later.

The visit to leading theme parks in India and abroad by the selected empowered team and their experiential learning put tremendous confidence in the team. Chitilapally was only coordinating their visit and action plans. It is amazing to note that even the food and beverage team intended to run the restaurants and eat-outs in Veegaland were from V Guard itself. Attention to every detail and precision and the hard labour of the team made a highly cherished dream a reality. In 2005, Veegaland is completing its fifth year of operation. People visit Veegaland just like they go for religious pilgrimage. The beautiful and clean ambience of Veegaland is a unique experience for the visitors. No wonder many members of the maintenance staff are engaged in painting and repainting the inside of the theme park to upkeep the fresh outlook. Although school children constitute the major segment, Gulf malayalees are a niche segment and brand ambassadors of Veegaland. These NRIs give good word of mouth publicity for the theme park. V Guard's strong dealer network help much in promoting Veegaland in distant parts of Kerala and outside. A theme park like this is affordable and matching with the life style of Keralites.

The investment in the park is comparably so high that the facilities, design, service and amusement level are unmatchable. Hence, the investment has caused entry barriers for other ambitious business groups to try their fortune in a theme park. The scale and magnitude of visitors is very encouraging according to the management team of Veegaland. In the peak months of March, April and May, the number of visitors rise to as high as 5,000 per day. This unexpected boom in the number of visitors necessitated major modification and expansion involving doubling of the capital investment. With an entry fee of Rs. 350 on weekend days and Rs. 280 on other days, and 2/3rd of that for children, it is good money that the business brings. Even with a low figure of 500 visitors per day during lean season, Veegaland was able to achieve a turnover of Rs.18.5 crores and a net profit of around Rs. 5 crores in 2004. Even with a daily cost of Rs. 30,000 for electricity and nearly 200 permanent staff, the management makes it a point not to shut the doors for public even on day of leanest traffic. The strong bottom line of this unit is clear from the financial data of Veegaland given in annexure 1b & 2 b.

Encouraged by the positive outcome and personal satisfaction, Chitilapally enjoys from this venture. Chitilapally's vision stretched to Bangalore—making a jewel in Bangalore, a water amusement park which is expected to be much more attractive than the Vrindavan gardens. The project is underway at the outskirts of Banagalore. As in the past, a team is cut out from V Guard, and Veegaland now headed by Chitilapally's own Australian-educated engineer son and his wife. The park is to be spread over a large span of 80 acres when it becomes fully operational. It is comparable to the world-class theme parks. The investment cost is Rs. 65 crores. Seventy-five percent of the financing is through loan.

THE ORGANIZATIONAL EVOLUTION AND RESTRUCTURING AT V GUARD

V Guard was transformed into its present form (as of January 2005) by journeying through

Partnership in 1977 to 1982 → Proprietary firm from 1982 to 1996 → Pvt Ltd company from 2001 onwards

Veegaland and V Star creations are separate entities registered as private limited companies. It was for professionalisation and leveraging the legal and financial benefits that V Guard was converted into a private limited company. There was major structural transformation in three phases from its birth till today. These are given in annexure 3. V Guard underwent restructuring to cope with the external and internal environment. Due to the increasing competition in different product categories, V Guard had to be more product and market focused. Hence, it was transformed into a product structure bringing each product under an assistant manager to be responsible for the marketing of each product. These assistant managers report to the marketing manager, by and large. However, cable and solar water heaters were placed under a separate assistant general manager who is the operational head for these products. There are branches of the company under a Branch Manager in each state of south India and metro cities. There is a branch set up in the Union Territory of Pondichery also. These branch managers were responsible for the sales and distribution of the company's various products in their

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respective geographical areas. Each branch has technical and account staff. The technical supervisor is responsible for servicing the technical and after-sales requirements of the distributors and dealers in the branch's command area. It is exceptionally noticeable from the Annexure 3 on organization structure that Chitilapally has placed an AGM in charge of new projects to exploit, coordinate commission and institutionalize new projects.

Establishment of an Efficient and Competitive Supply Chain System

Over the years, the company could establish a very efficient supply chain system. This is the backbone of V Guard. This was inevitable for a company like V Guard because of a number of reasons. Company's products except cable and solar water heaters are outsourced. This operational system has put in place 60 outsourced units mostly concentrated in Kerala and Tamil Nadu, but the network is extended to even Himachal Pradesh. This unit in Himachal Pradesh was selected as a supplier because the unit enjoys tax benefits, which are passed on to V Guard. These outsourced units are the sources of supply of the finished goods to each of the branch warehouse depending upon their locational proximity with the branch. There is a warehouse attached to the corporate office in Cochin. A technical personnel of V Guard is posted in each of these outsourced units to jointly manage quality, production and supply. This ensures adequate supply of finished goods on time to the warehouses. The company has to ensure timely and adequate supply of finished goods to the 65 distributors who in turn supply the products to nearly 6,000 dealers reaching out to the final consumers. Each and every taluk in south India is covered by the distribution system under the management of respective branches in the state or metro. Sales in north and eastern states are concentrated in metros and major cities, which are serviced through the branches in metros. Moreover, quality checking, replacing and attending to complaints (although only to the extent of 1–2% mainly due to damages during transportation and installation problems) and servicing the large number of dealers demanded a grass root level flow of the goods and service support. The integration of these activities is given in the sales and distribution chart in Annexure 5. The distributors perform the sales to the dealers in a cycle time of 10 days. This activity is well supported by the technical and sales staff operating at branch level. The nearly 6,000 dealers selling company's products consisted of shops dealing in home appliances, electric and plumbing items.

Marketing and Promotion

The reason for focusing the market segments in south India, Goa and metros (and with a strong network in Mumbai) is not proximity and convenience of operations. The General Manager has some valid reasons for the selective marketing operations. The company's major products such as stabilizer, pump set, UPS, solar and electric water heaters, and cable have a direct connection with lifestyle pattern of consumers. These products cater to support consumers' enhanced quality of lifestyle. A good percentage of households in south India especially Kerala possess fridge, water storage facilities for running water, superior electric circuit for supporting many electrically operated home appliances. The level of demand for products supporting this lifestyle is very low in regions not covered by V Guard's sales and distribution operation. A number of promotional measures are in action to maintain an upward trend in sales of the company's products. Sales turnover of 5-6% is earmarked for advertising the products to relevant segments. Both print and TV media are used for brand communication. Local and English dailies and weeklies are used for advertisements. Stabilizer, pump set and solar and electric water heater advertisements find their place in women magazines also. V Star, the separate garment division advertises mainly in women magazines and TV media. The company believes that its dealers and distributors are the best brand ambassadors. Therefore, a number of dealer incentive schemes are in force to keep the dealers' momentum upward. Dealer's meet is held in every two years with the main intention of imparting relevant sales skills and motivation and rejuvenating the social bond with them. The company's distributors are exclusive stockists for its products and as such the terms of appointment stipulates that only V Guard's goods would be stocked and supplied by the distributor.

Financing Pattern in V Guard

More than 70% of the investment for V Guard's new projects is borrowed from banks. It can be seen from the balance sheet (in Annexure 2) that Chitilapally has meticulously crafted increasing reserves and surplus, which is continuously ploughed back into the company, by and large, for new projects. Chitilapally strongly believes that "having peace to pursue the creativity and be contented with what is added in peace is more enjoyable than giving up peace for chasing huge wealth thereby killing creativity." Most of V Guard's projects require small to medium investment. This is evident from the following.

Projects	Investment
Cable	18 crores
Theme Park (Cochin)	22 crores (first stage)
	18 crores (second stage)
Theme Park (Bangalore)	65 crores
Solar water heater	1 crore

According to Chitilapally, one major reason for pursuing projects with small to medium investment at present is that projects with large investments will certainly require equity participation by outsiders, to which he is opposed. He also perceives that launching an IPO and going public is more risky than borrowing from banks and financial institutions. Chitilapally quotes his own experience in this regard. Some capital for the Veegaland project was borrowed from a financial institution forcing Chitilapally to admit one of its representatives in director's board. It became a pain in the neck for peace-loving and creative-minded Chitilapally due to undesirable interference. This was felt to be a hindrance to implementing the innovative strategies formulated by Chitilapally. Red signal was conveyed to the financial institution leading to withdrawal of that representative. Such was Chitilapally's apprehension of opening the doors for outsider participation. He holds the old adage true "The cat that fell into hot water will fear jumping into cold water." So he depended more on borrowed funds and reserves rather than equity participation to meet the capital requirements. Chitilapally is convinced that his projects and investments will give returns much above the cost of capital. Moreover, his habit of strict adherence to repayment schedule combined with high ethical standards attracted banks to finance V Guard's projects. It must be remembered that Chitilapally was awarded the "Best Tax Payer" by the Income tax circle, Kerala. According to Chitilapally, the perceived pressure to satisfy the high expectations of shareholders, in the event of public equity participation, is only a last and least preferred option for his highly responsible and self-esteemed nature. Chitilapally is, at present, very keen to maintain the entrepreneurial spirit in V Guard and therefore going public and becoming a corporate is perceived as a hindrance to the spirit of individual achievement and satisfaction. The financial data of V Guard, V Star and Veegaland are separately given in the following annexures.

Annexure 1	V Guard P&L
Annexure 2	V Guard Balance Sheet
Annexure 1A	V Star P&L
Annexure 1B	V Star Balance Sheet
Annexure 2A	Veegaland P&L
Annexure 2B	Veegaland Balance Sheet

Chitilapally's Management Style

It is no exaggeration to say that Chitilapally has molded entrepreneurs in V Guard and placed them as heads of various business units. Mr. Vijayan, the GM of V Guard industries, Mr. Jayaraj, AGM in charge of Veegaland, Chitilapally's wife Sheela, who is looking after the operations of V Star garments, and their elder son who is heading Bangalore Veegaland project are examples of that. Vijayan is now a Director of the company's board. His style of initial hand holding, nurturing and giving autonomy facilitate the process of grooming such entrepreneurs. Managing by exception is his mantra. He never wanted to create two classes of employees having conflicting goals and values. One step to ensure this was to avoid inducting any relative of his into the V Guard group. He strongly believed that favouritism and partiality would inject poison into the positive attitude of his loyal employees. This is very well known to his empowered subordinates who select and induct new employees into the group, so that they go by merit and not by favouritism. One outcome of the outsourcing strategy was that V Guard has only just 50 workers out of the 450 permanent employees. The remaining 400 are managerial and supervisory staff. V Guard's compensation scheme is benchmarked with that of a scheduled bank. A graduate fresher gets Rs. 5,000 plus. A senior manager gets around Rs. 30,000.

A number of MBAs are serving the organization in various positions. The GM, Mr. Vijayan, has no second thoughts in saying that Chitilapally has created a family of trusted men in V Guard. The company management plays a significant role in meeting the personal needs of its employees. Fifty to sixty percent of V Guard's employees are deployed in the field organizing and integrating critically important supply chain processes. Chitilapally wants the V Guard employees to be highly competent. No wonder, in January 2005, the account staff who are placed in branch offices and head office were given training in the VAT system of taxation of goods to cope with the requirements of new tax regime proactively.

Innovation at V Guard

It is interesting and encouraging to note that Chitilapally continues to be an innovator. This is much reflected in the cost control measures adopted by V Guard without diluting the quality of the products. At V Guard's cable unit in Coimbatore, two windmills were erected at the cost of Rs. 1.8 crore to generate the power required for cable production. The entire power need is met by this project leading to a saving of Rs. 40-50 lakh per year. It has surplus power which the management plans to sell to the state government. Another measure that reflects V Guard's continued innovation is in the design of its stabilizer for air conditioners. The R&D efforts could improve the product design so much that there was a saving of Rs. 600, which was suddenly passed on to consumers. This has been effectively communicated to consumers through media in March 2005.

Looking Behind and Looking Ahead

It is a fact that V Guard's main product offers slow growth opportunities. The volume growth of "the Stabilizer" for fridge and TV has flattened. This is because of the improved quality of power distribution leading to lesser need for stabilizers. It must be noted that more than 40% of the sales turnover of V Guard is contributed by stabilizers. In V Guard Industries, there is increasing pressure on margins causing a fall in ROI owing to heavy competition and reason mentioned above. There is heavy build up of inventory (annexure 1a giving different financial ratios) mainly due to a wide network of outsourced units (annexure 6) and expanding product lines. There is an increasing need for coordinating these units so as to streamline the logistics/materials function. The cable unit has not started returning profit and Vijayan, the GM, feels that this capital-intensive unit will need few more years to give returns which will compensate for its fairly high investment cost. In contrast to the outsourced units, the cable unit can, with the present level of fixed cost, generate higher sales volume. Hence, operating margin is expected to increase at higher rates for increased sales. The cable market is a high growth sector (unlike stabilizer) although it is operating in a highly competitive market. Hence, the management believes that this unit will become a rising star in the future contributing much to V Guard's kitty. Veegaland is now a profit-generating venture giving much light at the end of the tunnel for Chitilapally. This is well revealed in its financial performance

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and position (see annexure 2A and 2B). The solar water heater unit is one which offers much hope for V Guard as it operates in a growth-oriented sector. It must be noted that its investment level is low as mentioned elsewhere. But the major cause of concern is V Star, the garments unit as its performance at present is not very encouraging. The 2005 sales is further down at Rs 9.6 crores, less than last year. But a confident Chitilapally and his team is fighting it out to create a brand recall and image for these lifestyle products in the up-segment market.

According to the management team, the firm's business mix is well balanced to sustain the future. The stabilizer market is stagnant. But the air conditioner stabilizer offers much growth because of increasing demand for the principal product. The cable unit is operating in high growth sector. During winter when the demand for air conditioner stabilizer slows down, there will be more sales for solar and other water heaters. In summer, there is increasing sales for pump sets due to water shortage. The sales for PC's UPS will move upward deriving its demand from higher computer sales. Veegaland will continue to remain as the major tourist spot for the ever-increasing visitors. This trend is hoped to be repeated in Bangalore "Wonderla" project of V Guard when commissioned in late 2005. Both these projects are expected to be stars for V Guard.

For an ever confident Chitilapally, who is hassle and tension free, V Guard is not "Paradise lost and paradise regained" but paradise gained by focused and meticulous effort, labour and pain. The above account sums up this. He has been so far religiously following the principle "slow and steady wins the race". Has your outsourcing stategy become a major stumbling block, burden and threat to your main stream of business? Have you tapped all the opportunities by leveraging on personal and corporate image you command? Will Theme Park and V Star garments take away the focus from mainstream of electrical and electronic household goods business you are in? Couldn't you become a Narayana Moorthy or an Azeem Premji by now? Has your wisdom of dependence on borrowed funds and reserves affected choice of the projects and will it continue to pose a stumbling block for future diversification and growth strategies? What about making switches, fans, fridges, washing machines, microwave oven, mixies, thus making VGuard a national brand dearer to the housewife? These are some of the questions a management thinker or student may like to ask Chitilapally.

Annexure 1: V Guard Industries Pvt. Limited

Financial Results

(Rs. Lacs)

Particulars	Year Ended MARCH														
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Consolidated															
a) Sales	686.09	1083.28	1481.42	1736.06	2615.18	3730.69	5282.64	6003.02	7533.06	8829.19	10026.46	9795.07	10340.54	11909.35	13535.00
b) Other income	1.39	1.89	3.53	4.62	9.34	17.17	11.98	16.09	28.81	36.35	49.88	46.74	36.17	56.79	52.11
c) Total income	**687.48**	**1085.17**	**1484.95**	**1741.18**	**2624.52**	**3747.86**	**5294.62**	**6019.11**	**7558.87**	**8865.54**	**10076.34**	**9841.81**	**10376.71**	**11966.14**	**13587.11**
d) Expense (excl) interest and depreciation	636.87	990.49	1363.39	1609.74	2396.84	3503.93	4957.29	5647.95	6803.38	8052.76	9141.03	9146.77	9337.01	10890.01	12671.69
Less: Incr in fin. stock	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	114.27	127.43	–46.03	10.52	142.82
	636.87	990.49	1363.39	1609.74	2396.84	3503.93	4957.29	5647.95	6803.38	8052.76	9026.76	9019.34	9383.04	10879.49	12528.87
e) Operating profit (c-d)	**50.61**	**94.68**	**121.56**	**131.44**	**227.68**	**243.93**	**337.33**	**371.16**	**755.49**	**812.78**	**1049.58**	**822.47**	**993.67**	**1086.65**	**1058.24**
f) Financial charges	6.01	9.68	14.44	18.49	19.86	18.05	49.98	88.13	41.04	76.55	195.58	295.10	211.80	200.62	219.86
g) Profit before dep.	44.6	85.00	107.12	112.95	207.82	225.88	287.35	283.03	714.45	736.23	854.00	527.37	781.87	886.03	838.38
h) Depreciation	9.05	10.48	8.34	11.00	11.17	14.1	17.62	49.73	36.54	46.53	84.22	100.15	93.53	102.42	143.22
i) Net profit before tax	**35.55**	**74.52**	**98.78**	**101.95**	**196.65**	**211.78**	**269.73**	**233.3**	**677.91**	**689.70**	**769.78**	**427.22**	**688.34**	**783.61**	**695.16**
j) Provision for taxation	17.77	37.26	49.39	40.78	78.66	84.71	107.89	107.00	244.00	222.00	216.52	89.16	210.22	290.72	253.22
k) Profit after tax	**17.78**	**37.26**	**49.39**	**61.17**	**117.99**	**127.07**	**161.84**	**126.30**	**433.91**	**467.70**	**553.26**	**338.06**	**478.12**	**492.89**	**441.94**

Annexure 2: V-Guard Industries Pvt. Limited

Financial Position

(Rs. Lacs)

Particulars	Year Ended MARCH														
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Funds															
Share Capital	5.00	20.00	20.00	20.00	20.00	20.00	20.00	232.07	232.07	232.07	232.07	232.07	232.07	232.07	300.00
Reserves and Surplus	43.38	43.07	81.08	103.56	218.46	182.73	162.53	88.01	470.87	809.77	1234.24	1413.34	1712.44	1631.47	1834.99
Net Worth	48.38	63.07	101.08	123.56	238.46	202.73	182.53	320.08	702.94	1041.84	1466.31	1645.41	1944.51	1963.54	2134.99
Borrowings	34.31	44.10	43.40	80.59	71.73	138.67	317.46	347.87	530.96	1538.6	1760.16	1636.14	1490.21	1566.11	2057.53
Security Deposits from															
Distributors	0.28	0.60	0.67	8.77	15.00	38.00	71.00	88.00	102.50	115.50	144.00	148.00	154.50	180.00	225.50
Total Long Term Funds	82.97	107.77	145.15	212.92	325.19	379.40	570.99	755.95	1336.4	2695.94	3370.47	3429.55	3589.22	3709.65	4418.02
Investments															
Fixed Assets(Net)	19.16	21.91	28.16	33.93	41.95	62.96	70.50	188.38	459.95	1552.18	1653.54	1690.96	1722.44	1923.51	2415.78
Current Assets															
Inventories	39.53	42.97	66.52	169.54	158.89	320.60	475.30	596.10	514.76	656.92	881.15	1037.60	780.13	915.86	1706.22
Receivables	32.57	36.17	35.52	54.91	81.22	112.59	248.98	340.58	857.30	945.71	1429.2	730.53	1081.99	1090.35	967.44
Other Assets	49.41	62.42	79.89	73.05	166.87	80.76	23.69	41.14	71.59	364.6	229.191	74.25	168.02	216.75	227.72
Sub Total	121.51	141.56	181.93	297.50	406.98	513.95	747.97	977.82	1443.65	1967.23	2539.54	1942.44	2030.14	2222.96	2901.38
Less: Current Liabilities	57.70	55.70	64.94	118.51	123.74	197.51	247.48	411.41	568.23	884.37	1033.38	508.09	456.57	719.01	1280.30
Net Current Assets	63.81	85.86	116.99	178.99	283.24	316.44	500.49	566.41	875.42	1082.86	1506.16	1434.35	1573.57	1503.95	1621.08
Total Assets	82.97	107.77	145.15	212.92	325.19	379.40	570.99	754.79	1335.37	2695.04	3369.7	3385.31	3556.01	3687.46	4406.86
Total Investments	82.97	107.77	145.15	212.92	325.19	379.40	570.99	755.95	1336.40	2695.94	3370.47	3429.55	3589.22	3709.65	4418.02

Annexure 1A: V-star Creations Pvt. Ltd.
Profit & Loss Account for The Year Ended 31st March

Particulars	2001	2002	2003	2004
Income				
Sales	93,983,258	105,393,670	99,396,400	106,600,020
Other Incomes	1,167,508	1,194,161	1,716,879	1,141,565
Total - (A)	**95,150,766**	**106,587,831**	**101,113,279**	**107,741,585**
Expenses				
Cost of Goods Sold	68,629,622	80,997,249	72,593,699	76,664,196
Administrative Expenses	7,385,183	9,053,359	9,710,825	9,610,545
Establishment Expenses				4,287,049
Selling Expenses	12,354,305	13,870,026	13,054,286	16,638,297
Interest & Bank Charges	2,536,575	2,114,348	1,136,672	3,591,976
Description	888,213	1,802,944	1,260,830	1,093,574
Total - (B)	**91,793,900**	**107,837,928**	**97,756,315**	**111,885,637**

Profit Before Tax - (A-B)	**3,356,866**	**1,250,096**	**3,356,964**	**4,144,052**
Provision for Taxation			563,480	444,091
Profit After Tax		**1,250,096**	**2,793,484**	
Net Profit Transferred to Partners' Current A/C				
Mrs. Shiela Kochouseph	1,678,433	(625,048)	1,396,742	
Mr. Arun K. Chittilapally	1,342,746	(500,038)	1,117,393	
Mr. Kochouseph Chittilapally	335,686	(125,009)	279,348	
	3,356,866	**1,250,096**	**2,793,484**	

Notes on Accounts

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Annexure 1B: V-STAR Creations Pvt. Limited
Balance Sheet As At 31st March

Particulars	2001	2002	2003	2004
SOURCE OF FUNDS				
Capital Account	7,019,001	7,019,001	7,019,001	12,019
Secured Loans	13,603,898	2,207,568	1,106,040	13,229,372
Unsecured Loans	2,640,000	21,755,000	23,855,000	10,516,960
Total	**23,262,899**	**30,981,569**	**31,980,041**	**35,765,332**
APPLICATION OF FUNDS				
Fixed Assets				
Gross Block	5,441,729	8,056,199	8,535,416	9,389,133
Less Depreciation	2,817,643	4,620,588	5,881,418	1,384,559
Net Block	**2,624,086**	**3,435,611**	**2,653,997**	**8,004,574**
Current Assets, Loans & Advances			37,772,105	
Inventories	18,408,995	18,511,990		17,935,848
Cash & Bank balances	185,431	127,497		535,297
Investments (NSC)	26,076	27,923	30,944	23,253
Sundry Debtors	10,333,521	9,344,095		12,279,570
Loans & Advances	977,504	1,314,803		1,707,630
	29,931,527	29,326,310		32,481,598
Less: Current Liabilities & Provisions	11,017,129	4,956,476	8,958,527	9,335,695
Net Current Assets	**18,914,398**	**24,369,833**	**28,813,577**	**23,145,903**
Debit Balance in Partners' Current A/c.	1,724,414	3,176,124	481,520	
Miscellaneous Expenditure				
(to the extent not written off or adjusted)				26,712
Profit and Loss account				4,588,143
Total	**23,262,899**	**30,981,569**	**31,980,041**	**35,765,332**

Notes on Accounts

Annexure 2A: Veegaland
Profit & Loss Account for The Period Ended 31st March

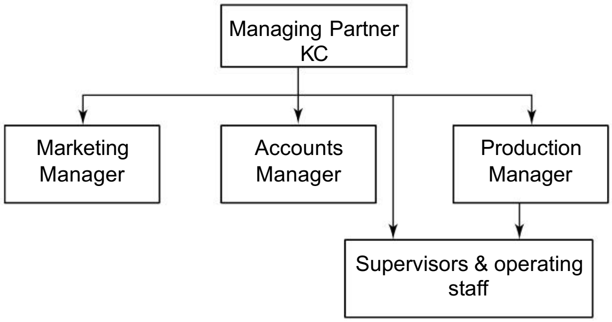
Particulars	2001	2002	2003	2004
INCOME				
Operating Income	91,446,763	123,526,729	144,198,578	175,856,629
Other Incomes	1,960,766	2,205,580	1,050,574	1,159,243
Sales	4,916,953	7,400,163	10,258,556	11,432,456
Total - (A)	**98,324,482**	**133,132,472**	**155,507,708**	**188,448,328**
EXPENDITURE				
Park Operating Expenses	31,101,559	27,871,536	33,072,802	34,576,249
Cost of Goods Sold	3,679,390	5,296,814	7,540,516	8,140,694
Personnel Expenses	9,275,282	10,295,022	15,123,154	18,163,684
Establishment & Other Expenses	19,071,968	21,760,806	31,497,925	35,769,602
Interest & Financial Charges	19,229,214	16,847,054	15,804,411	16,641,498
Depreciation	18,778,910	18,611,048	20,108,347	25,538,333
Total - (B)	**101,136,323**	**100,682,280**	**123,147,155**	**138,830,060**
NET PROFIT / (LOSS) FOR THE YEAR	2,811,841	32,450,192	32,360,553	49,618,168
Provision for Taxation – Current		2,347,000	2,550,000	12,920,000
Provision for Taxation— Deferred (Net)			10,208,200	5,006,350
PROFIT AFTER TAX	2,811,841	30,103,192	19,602,353	31,691,918
Profit / Loss Carried from the Previous Periods	3,673,622	6,485,463	23,617,729	33,703,882
Less: Provision for Deferred Taxation– Earlier Years			9,516,200	
Profit / Loss Carried from the Previous Year	**6,485,463**	**23,617,729**	**33,703,882**	**65,395,800**

Annexure 2 B: Veegaland
Balance Sheet As At 31st March

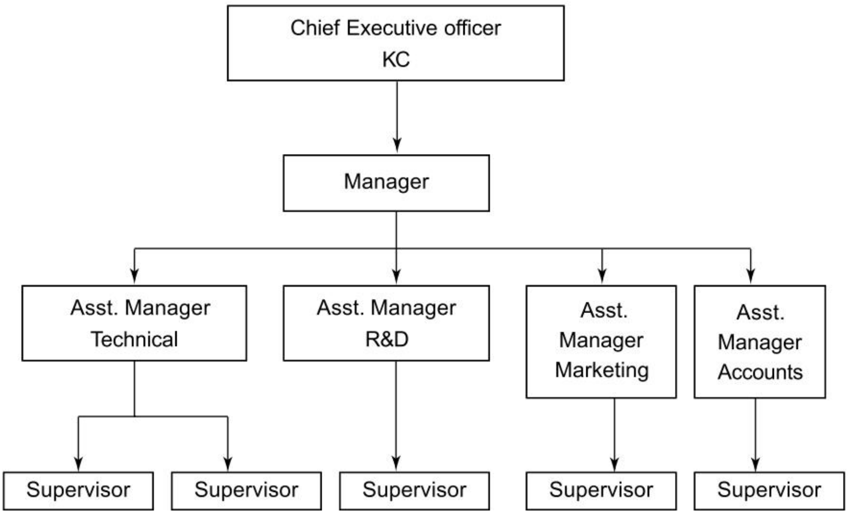
Particulars	2001	2002	2003	2004
SOURCE OF FUNDS				
Shareholders' Funds				
Share Capital	80,000,000	80,000,000	80,000,000	80,000,000
Reserves & Surplus		23,617,729	34,703,882	66,395,800
			1,14,703,882	146,395,800
Loan Funds				
Secured Loans	93,574,525	83,390,395	101,491,728	123,376,947
Unsecured Loans	33,418,858	41,202,769	27,864,484	19,074,070
	206,993,383	124,593,164	129,356,212	142,451,017
Deferred Tax Liability			19,724,400	24,730,750
Total		228,210,893	263,784,494	313,577,567
APPLICATION OF FUNDS				
Fixed Assets				
Gross Block	234,331,247	262,193,925	294,816,545	382,152,743
Less: Depreciation	20,327,485	38,821,580	58,463,278	83,839,249
Net Block	214,003,762	223,372,345	236,353,267	298,313,494
Capital Work in Progress	367,131	11,726,675	34,931,174	19,001,786
	214,370,893	235,099,020	271,284,441	317,315,280
Investments				
Current Assets,	3,115,713	1,892,609		
Loans & Advances:		5,409,564		
		7,302,173		
Inventory			1,204,840	2,334,251
Sundry Debtors			123,488	423,118
Cash & Bank balances			838,801	554,643
Loans & Advances			8,766,439	21,591,967
			10,933,568	24,903,979
Less: Current Liabilities & Provisions	17,078,110	14,190,300		
Current Liabilities		6,888,127	13,536,515	20,324,692
Provisions			4,897,000	17,817,000
			18,433,515	38,141,692
Net Current Assets/(Liabilities)	13,962,397		7,499,947	13,237,713
Miscellaneous Expenditure	99,424			
Profit & Loss Account	6,485,463			
Total	206,993,383	228,210,893	263,784,494	313,577,567

Significant Accounting Policies &
Notes on Accounts

Annexure 3A:
Organisation Structure in 1980s



Organisation Structure in 90s



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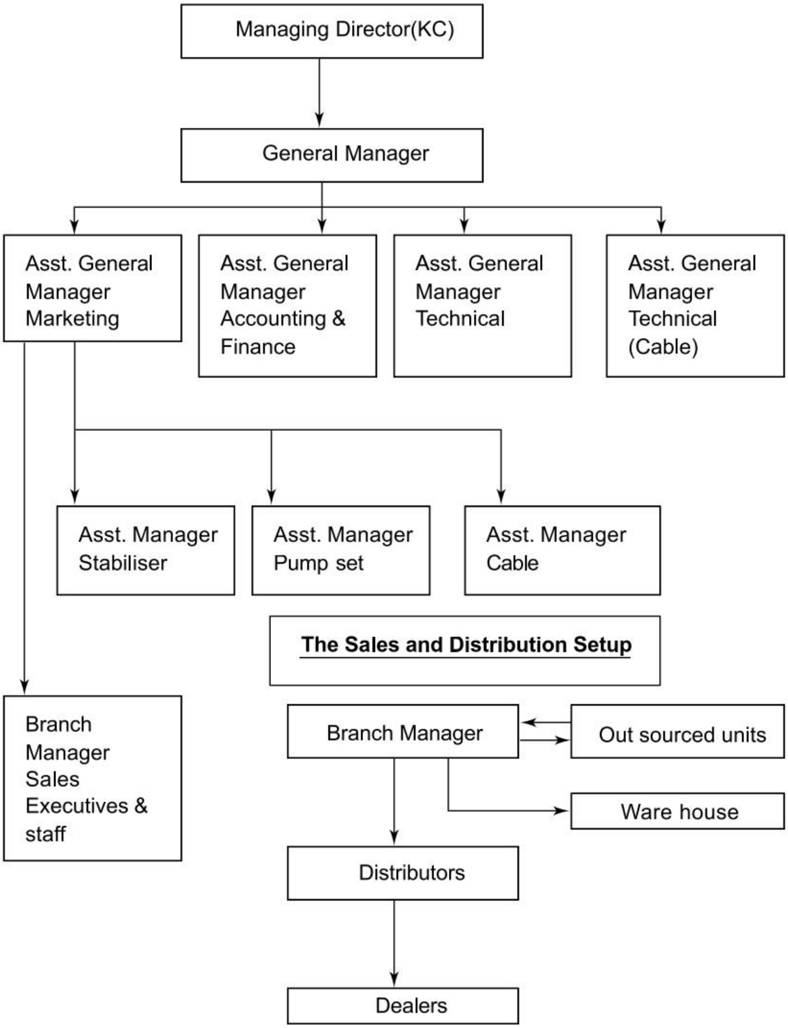
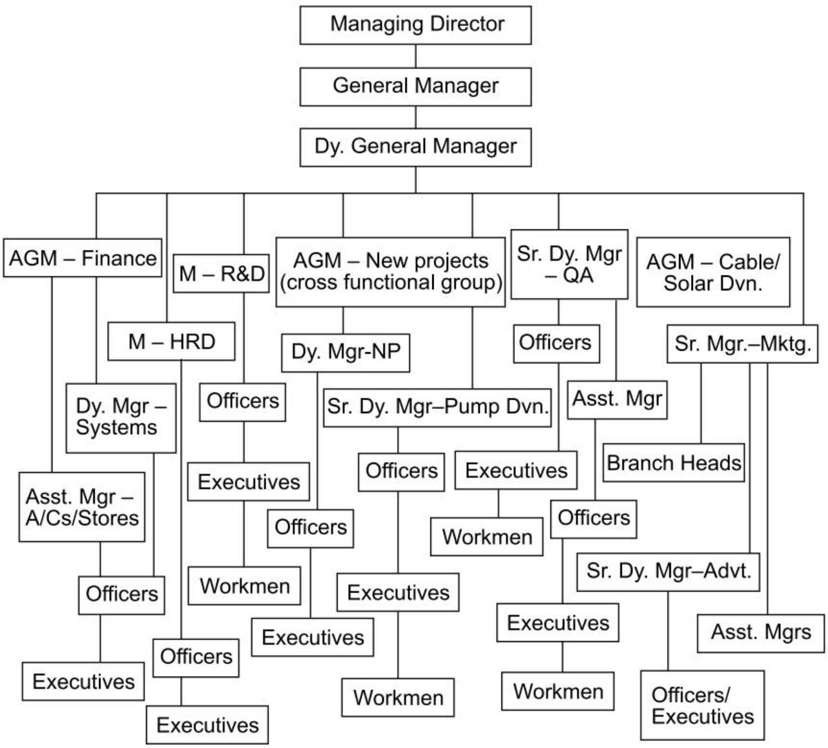
Annexure 3B:
Organisation Structure in 2001 (after company formation)



Annexure 4

Organization Structure of V Guard as in January 2005

Organisation Chart – V Guard



Annexure 5

Some Facts and Figures of V Guard

Distribution Set Up

States/Union Territories/ Metros	No. of Exclusive Distribution Stockist	Dealers
Kerala	20	
Tamil Nadu	13	
Karnataka	12	
Andhra	10	6000 (approx)
Pondichery	1	
Goa	1	
Maharashtra	4	
New Delhi	1	
Port Blair	1	
Bhubaneswar	1	
Indore	1	

Approximate Market Share

State	Product			
	Stabilizer	Pump set	Cable	UPS
Kerala	50 to 60%	50 to 60%	30 to 35%	30 to 40%
Other S.Indian States & Goa	40 to 50%	20 to 25%	20 to 25%	Not known

Note: 40 to 45% of the total sales turnover of the company is from Kerala.

Annexure 6

Outsourcing Statistics of the Company

Product	Nature of production	
	Produced by company	Outsourced
Stabilizer	Nil	100%
Pump set	10%	90%
UPS	Nil	100%
Water heater	Nil	100%
Solar water heater	100%	Nil
Cable	100%	Nil

Number of Units Outsourced

Product	No. of units
Stabilizer	50
Pump set	6
Water heater	2
UPS	2

Sales Revenue Breakup for 2004

Product	Revenue (in cores)
Stabilizer	63
Pump set	27
Cable	30
Water heater (Includes S W heater)	8
UPS	7

Note: The profit margin is around 6%. The stabilizer, being the flagship brand returns around 8%.

LIST OF AWARDS WON

1989 - 90 * Productivity award instituted by Kerala State Productivity Council.

1990-91 * Productivity award instituted by Kerala State Productivity Council.

1993 * The Best Entrepreneur award from Alumni Association of Overseas Trainees in Japan.

1994 - 95 * Productivity award instituted by Kerala State Productivity Council.

1994-99 * Samman Pathra award for top income tax payer from Hon'ble Union Minister of State for Finance, Mr.Dhananjay Kumar.

1995 * The Young Businessman of the Year Award from Rashtra Deepika Limited.

* The Best Advertiser of the Year among business concerns in Kerala.

1997-98 * Productivity award instituted by Kerala State Productivity Council.

1998-99 * Productivity award (Second best) instituted by Kerala State Productivity Council.

➢ Industry Excellence award by Institution of Engineers.

2000 * Business Man of the Millennium 2000 from Rashtra Deepika Limited.

➢ Tourism Man of the Year from "Destination Kerala".

➢ Pollution free environment award for Veegaland.

MILESTONES ON THE ROAD TO SUCCESS

1977 Mr. Kochouseph Chitilapally begins Premier Electronics with an investment of Rs. 1 lakh.

He had just two employees. Two Refrigerator Stabilizers were manufactured each day.

1980 Launched AC Stabilizers

1982 Started another unit called Universal Electronics

1983 Started Supreme Electronics

1985 Started Electro Controls

1986 Started Prompt India. Opening of Tamil Nadu branch, followed by a branch in Karnataka. Prompt India started marketing Stabilizers in the brand name of V Guard.

1987 Launched Servo-Controlled Stabilizers

1989 Prompt India converted into V Guard Industries

1990 Launched Quartz Clocks

1991 Next branch office in Andhra Pradesh

1992 Launched V Guard Pumps

1995 V-Star Churidars unveiled

1996 Launched V Guard Water Heaters and Wiring Cables

1997 Launched Aquatron, an Electronic Water Level Controller for overhead water tanks

1998 Launched UPS (Online & Offline)

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1999 Launched Digital Stabilizer, V Guard Cable manufacturing unit inaugurated at Coimbatore.

2000 Veegaland, South India's major amusement park is opened at Cochin. Launched V Guard PVC Pipes.

2001 The turnover of V Guard group reached Rs.1 17 crores. Started branch in Dubai.

2003 Work of Theme Park 'Wonderla", in Bangalore commenced. (Schedule to be commenced in 2005).

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CASE 14

Foster Foods

Philip Sabu and A. Sukumaran

Like many of his friends, Boban moved to Abu-Dhabi in 1974 as a shipping clerk in a British construction company. By 1978, he became a purchase officer. Later, to prove a point during an agitated social discussion, he decided to set up his own business. Boban recalled, "I had no clear idea what to begin, where to begin, or how to go about." He knew something about biscuit business through Xavier, his younger brother, who was a distribution agent for a biscuit company. The brothers visited some biscuit factories and studied the biscuit market in Kerala.

CHOICE OF INDUSTRY

Azad, a regional brand, and *Britannia*, a national brand, dominated the biscuit market in Kerala. *Mangaram* from Pune also had a small presence. Branded biscuits had an unmet demand. Most local manufacturers produced exclusively glucose biscuits. *Arrowroot* biscuits with a market share of 30% dominated, followed by *Britannia* and *Priya* (a local brand). The large supply gap of branded biscuits and the presence of only one local producer of *arrowroot* biscuits offered Boban an entry point. He entered the market when 13 out of 18 biscuit factories were closed down in the state.

Initially, Boban thought of starting the business on his own. But, better business sense of his close friend Mehaboob prevailed. Eleven friends from the Middle East joined the venture with contribution of Rs. 4 lakh each. Boban gave up his idea of managing the company from Abu Dhabi when the Reserve Bank of India refused registration of the company unless the managing director was a resident Indian and the bank accounts were converted into Indian resident accounts. He completed initial formalities and machinery selection from Abu Dhabi in spite of unfriendly and hostile bureaucracy in the state.

In 1987, Foster Foods (Pvt) Limited was started. Inputs required for the business plan were collected from several biscuit producers, particularly Ramdas, his close friend and Director of Cookies (India) Limited, Thrissur, the owners of *Craze* biscuits.

TEETHING TROUBLES

Foster Foods was located near an 11-KV electric line to save the expenditure of laying an electric line. The next move was to obtain a provisional SSI registration from the General Manager of the District Industries Centre, Thrissur, who directed Boban to approach the Industries Development Officer at the Block Office, who in turn advised against setting up business in Kerala.

Meanwhile, an application for electricity connection was submitted to the electricity department. Normally, electricity connection was given only after issuing the power allocation certificate. Two days after the submission of the application, an assistant engineer of the electricity department met Boban and impressed upon him that he could prepare a report on "line capacity" for Boban for Rs. 1,500 to quicken the process. The engineer collected the money but never turned up. Boban continued to send reminders from Abu Dhabi to the department. Later, he learnt that his application was yet to be processed.

Meanwhile, the DIC informed that the cyclostyled registration form was out of stock and the registration would be granted when the form became available. Boban wrote a sarcastic letter to the Industries Minister enclosing Rs. 100 for cyclostyling the form; the letter had the desired effect. Within 20 days, the registration certificate reached Foster Foods. In 1988, Boban resigned his job and returned home.

FINANCING OF THE PROJECT

Boban decided to borrow Rs. 40 lakh from the Kerala Financial Corporation, but his application elicited no response. Armed with a letter that the Managing Director of KFC had written to him inviting the NRIs to meet him for project funding, Boban met him. Boban enlarged the original business plan and appended a market survey report as per the MD's direction. The loan was sanctioned instantaneously without any collateral.

KFC delayed loan disbursement as the lending rate had gone up to 18–20%, but the sanctioned loan was for 12%. The delay in getting the loan had its toll on the project. The initial working capital requirement was met from the directors' contribution to the capital. But that amount was quite insufficient. UCO Bank, which had promised the working capital loan, backed out. SBI, which stepped in, also dilly-dallied for more than six months before sanctioning the loan. Boban admitted, "I had to pay a heavy price for not correctly estimating the working capital needs and arranging for finance."

ENCOUNTER WITH THE ELECTRICITY BOARD

The civil works for the factory were carried out on a war footing. However, the electricity connection was still elusive. The application for connection had been pending with the department for more than a year. Boban was running out of patience. He sent a sarcastic telegram to the Industries Minister on its operating efficiency and then met him. After listening to Boban, the Minister ordered for laying of electric line to the factory. Thus, all formalities for electric connection were completed.

By March 1992, the factory building was completed, the machinery was installed, and electricity 1 poles were erected. However, the electricity board asked Foster Foods to purchase the transformer and meter when the application for electric connection was filed. The Board maintained that connection could be given only if the company purchased the CTPT unit and the meter, as the Board had run out of them. The Board was to supply these equipment as per the Minimum Guarantee Agreement with the company. Both the Minister of Electricity and the Chief Engineer, when approached, washed off their hands in this case. Finally, when the CTPT unit and the meter were bought spending Rs. 60,000, the Board raised the next objection—the company should get the equipment tested and sealed by the TMR section at Shornur. After a week, the section tested the equipment. The factory commenced commercial production on June 5, 1992.

The Electricity Board continued to haunt Foster Foods. As part of rationing power supply, the state government allotted fixed number of units to each firm. If the consumption in a month exceeded the limit, the next month's allocation would be reduced by twice the excess units consumed in the previous month. If the actual consumption exceeded the permitted quota in two consecutive months, the electricity would be disconnected.

Foster Foods was allocated 36,000 units a month. In the first month, the actual consumption was only 35,600 units. In the second month also, the same units were consumed. However, the electricity bill showed the consumption as 36,668 units, an excess of 1,068 units over the quota. Accordingly, the company was to reduce its consumption by 2,136 units in the second month. In the third month, the Board severed the connection. The anomaly was on account of two different figures shown in the meter reading and the electricity bill. The consumption was recorded higher in the electricity bill as the connection was treated as LT in the bill when in fact it was HT. There was a provision to charge 3% extra in the bill if the connection was LT. When this anomaly was brought to the notice of the Deputy Chief Engineer, he remarked arrogantly that electricity was disconnected to teach the party that they had the authority to do so. The connection was reinstated only when the excess charge with fine was remitted at the Board office in the state capital and the receipt was produced at the Thrissur office.

SATYAGRAHA BY THE FACTORY OWNER AND WORKERS

As the power cut and load shedding were lifted, the connected load of the factory was raised from 225 KV to 275 KV. The factory started using the enhanced connected load. At this time, the anti-theft section of the Board conducted an inspection in the factory. They were not able to detect any irregularity. However, the communication enhancing the load had not reached the appropriate department of the Board. Boban took it lightly as a feud between two government offices. Later, the Board intimated the company that the connection would be severed if the letter from the Electrical Inspectorate did not reach them within 24 hours. When the notice was served, Boban was out of station. The next day, he returned to Thrissur and held talks with the Board and the Inspectorate to resolve the issue. But both stuck to their stands. It was certain that the Board would disconnect the electricity supply.

There were certain hurdles in obtaining a court order to abstain the authorities from disconnecting the supply. The next day was Monte Thursday and subsequent days were holidays. When the officers came to take away the fuse, Boban said:

> "I will not come to your office for this. You will be made to reconnect the fuse without my approaching you. I am going to fast before the electricity office from tomorrow morning."

The Assistant Engineer took it as a joke and disconnected the fuse. Boban called a meeting of the staff and workers. He announced his intention to sit on a hunger strike before the electricity office from next day. The staff and workers advised him to go for such an extreme step only after the Easter holidays as no action would be possible on the next day being Monte Thursday. But he stuck to his decision. The workers also decided to join him. This news was communicated to the media. All the morning dailies carried the news that the Foster Foods MD was on a hunger strike from that day. The Executive Engineer and the Assistant Engineer were already there ahead of Boban.

The strike aroused much public excitement as majority of the strikers were women. By 11 a.m., the local MLA came and held talks with the officers of the Board and demanded immediate settlement of the issue. But the officers pleaded helplessness. The evening dailies made the satyagraha a headline. The MLA also announced his decision to join the satyagraha. The Electricity Board was in deep trouble. They were in constant touch with the head office at Trivandrum. At last, the MLA contacted the Electricity Minister and his secretary. On their direction, the officers agreed to reinstate the connection immediately. The strike was called off at 8 p.m.

MARKETING AND PRODUCT INNOVATION

The factory had facilities to produce both sheet and dye of biscuits from the very beginning. Producers of other states marketing biscuits in Kerala had sole distributorship for one or more districts. Boban found this policy very restrictive and appointed more than one distributor in each district. Foster Foods' products reached every nook and corner of Kerala within a short span of time. Thirty-two varieties of Foster Foods (Exhibit 1) were marketed through 68 distributors and 27,600 retailers.

Boban wanted to launch novel biscuits, but his production and marketing teams were strongly against any experiments as the cost of any misadventure would be fatal for an infant company. Boban was undeterred. He introduced honey biscuits. A market survey showed that children preferred biscuits in the shape of vehicles than of birds and animals. Soon, Foster Foods launched *Sierra* (meaning vehicle in Arabic) brand biscuits, followed by a series of successful launches. Boban introduced sugar-free biscuits based on a technology bought from the Central Food Technological Research Institute (CFTRI).

Life Time, as it was called, was in different sizes and packets and was positioned for the upper middle-income class of the middle aged. The biscuits were available in packets of 300 grams and 75 grams priced at Rs. 25 and Rs. 7, respectively. Its advertisement was a graphic presentation without any models. First, it was advertised in Asianet TV Channel on 7 p.m. news. Later, it was advertised in Surya and Asianet on other prime times. It was sold through bakeries and medical shops. Foster Foods bagged the best technology user award of CFTRI for this innovative product. It was a success when similar products from competitors failed.

Later, Boban launched a "*Chickee Bickee* High Protein Biscuit" developed by the Defence Food Research Laboratory, Mysore. It was of 200 grams priced at Rs. 30 and was promoted through an innovative TV advertisement. It was positioned as a close substitute for fresh egg as it contained almost all the salient properties of egg. The advertisement highlighted the importance of protein for the physical and mental growth of children.

Two years after the successful launches of *Life Time* and *Chickee Bickee*, Foster Foods successfully introduced a totally vegetable-based biscuit called *Carumuru* (light munch) using CFTRI technology. It tasted like "dal vada" and was made with onion, ginger, green chilly, coriander leaf and curry leaves. It was rated as the thinnest biscuit in India and was packed in hexagonal packets.

Foster Foods, with technology from CFTRI, introduced *Fibrich* that was richer in roughage (by 10%) than normal biscuits. It was the time when doctors recommended more fibre-rich food in the diet. However, it failed in the market. Though the product was relaunched as *Diet* in a different packet with a different flavour, it again failed miserably.

EXPANSION AND DIVERSIFICATION

The company grew more than 30% in sales (Exhibit 2) every year till 1996. The length of the oven was expanded from 80 to 100 feet. However, in 1996, the state government withdrew all the protections given to the industry. The incentives for modernization of the existing plants were discontinued. The company lost 15% of capital subsidy and sales tax exemption of 25% of additional investment.

When the Central Government enhanced the capital investment limit of SSIs from Rs. 75 lakh to Rs. 3 crore, Boban assumed that the excise duty limit would also be raised above Rs. 3 crore (SSIs were exempted from excise duty on sales up to Rs. 1 crore if the total sales were Rs. 3 crore or less.). Accordingly, the company increased the sales to Rs. 5 crore. The excise duty limit was not raised; on the contrary, the excise duty was increased from 8 to 16%. It was a rude shock to the company. The company nose-dived into a huge loss. Boban faced severe criticism from other directors for this miscalculation.

FORAY INTO CONFECTIONARIES

When the biscuit industry was placed in the negative list by the government, the Board of Directors decided against any further investment in the sector. They decided to diversify into confectionaries. A new company called Foster Foods Marketing (Pvt) Limited was registered. Boban prepared the business plan and submitted it to the SBI, SIDBI and KFC for financing. The company purchased 1.5 acres of land at a nearby place, Velur, for the factory, but soon they got a plot of land with a factory building for Rs. 15 lakh. Foster Foods had a cold welcome from the KFC. Boban found traces of expectation of bribe. KFC also demanded the company to remit three installments of the first loan in a lumpsum as the company made good profits. Boban rejected the demand as advance cheques were already given to KFC in respect of the installments. The MD of KFC was antagonized by Boban's tough stand.

SIDBI expressed keen interest in the project and sent the manager and technical officers to the factory at Athani. After a few weeks, SIDBI also expressed inability to finance the project. Later, Boban came to know that the MD of KFC was also a member of the advisory committee of SIDBI. Later, there was a change of government and the MD of KFC. Under the changed circumstances, he went to Trivandrum to meet the Finance Secretary, but he returned without meeting him as he was preoccupied. The next day, the Finance Secretary himself rang up Boban and told him to meet the MD of KFC regarding the loan. In the meeting that followed, the MD directed the Manager of Thrissur branch to sanction Rs. 40 lakh to Foster Foods Marketing. The loan was sanctioned without any collateral. The working capital for this project was provided by SBI without any collateral. The confectionary factory started production in 1998. K.V. Viswambharan, Technical Director of Foster Foods, was made the Managing Director of the company.

NEW FACTORY, NEW MARKETING COMPANY AND PRINTING UNIT

In 1998, Boban promoted another factory as his private venture on the premises of Foster Foods for manufacturing wafer biscuits and ice-cream cone under the brand name *Yanni*. Nobody was manufacturing these products in Kerala as the market share of these products was very small. State Bank of Travancore financed the factory. Other directors of Foster Foods had no share in this enterprise, and they did not relish the decision. As a solution, the distribution right of the products was granted to Foster Foods.

Later, Pravasi Marketing and Sales (Pvt) Limited was formed for marketing the various products of the group companies. Jeeroy George, one of the directors who returned home after 25 years in Abu Dhabi, was made the MD of the company. The company was supposed to reduce the marketing cost and lend a cutting edge to the marketing function. Losing Rs. 25 lakh, the company turned out to be a drag.

Packing material formed 30% of the production cost, of which the lion's share was accounted for printing. In Kerala, there were facilities for printing only three or four coloured packing materials. It was impossible to compete with the big wigs without six coloured printed packing materials. To cash in on this opportunity, Foster Foods put up the roto gravure printing unit as a separate business. All the directors of Foster Foods were also directors of the new company. Its customers included Hindustan Lever (Amalgam Food Products) and Choice Group.

FOSTER HOT BREAD (PVT) LIMITED

Branded bread and cakes were getting popular in Kerala, but not in the north. Foster Foods set up a new company in north Kerala at a cost of Rs. 1.75 crore. There were 20 directors in the company, each contributing Rs. 3.5 lakh to the capital. The plant had a capacity to produce 36,000 loaves of bread, one ton of cake and one ton cookies. Boban became the MD of this ambitious project. But for his ill health, the plant would have been commissioned in 2004. The factory commenced production in June 2005.

ORGANIZATION AND PERSONNEL

Foster Foods started with 10 executives and 125 workers. Boban hijacked six key personnel from *Priya* biscuits by offering better pay package. Mohammed Ali, Production Manager, was highly skeptical about the innovative products and creative marketing concepts. Boban overcame this obstacle by hiring Santhanam, Production Management Consultant, for five days a month. In 1998, Mohammed Ali was moved over to Foster Foods Marketing (Pvt) Limited as Production Manager.

Mohanan, a supervisor in Cookies India, was appointed as the first Marketing Manager. He left the company in 1999 when a better qualified person was appointed as his boss. Sharad, the new manager, wanted to spread Foster Foods at the national level. But Boban was not convinced of his plans. In 2001, Sharad left the company, and an academic turned manager filled his post.

Bindu, Production Manager, had joined the company as a management trainee in 1995. She had joined in Quality Control and then became Assistant Manager (Personnel and Administration). She became Production Manager when Mohammed Ali quit. She was very able, saved the company substantially by improving operations, got ISI certification for the products, and played a key role in developing systems for obtaining ISO 9002 (Exhibit 3).

The number of office staff and workers was reduced to 8 and 91 respectively, when Boban stepped down from the MD's office. Fourteen sales personnel were transferred to Pravasi Marketing. The employee strength was reduced to overcome labour laws that mandated prior permission of the government to lay off if the total number of employees was 100 or more.

FORMATION OF THE TRADE UNION

The company had no trade union till 1999. The workers were given 10–15% hike in salary every year. Boban's office was always accessible to the workers. Boban kept the workers informed about the financial performance of the company. But as time passed, the workers felt that they would get a better deal if they bargained through a union. Both CITU and INTUC were inclined to organize their unions. They were not interested in disturbing the healthy industrial relations in the company. In 1999, CITU succeeded in forming their union. When Boban heard about the formation of the union, he, instead of opposing the move, warned the workers against the danger of being divided under different unions. Because of his generous approach, problems were resolved through talks and not a single man day was lost due to strike.

Boban maintained good relations with the union. But he was cautious about their ulterior motives. He hired a factory (Crystal Biscuits) at Perinthalmanna for the production of Foster Foods biscuits.

The first Onam bonus discussion since the formation of the union went off without any hitch. But the honeymoon was short lived. The union came up with a long charter of demands in the wake of the annual wage revision talks in March. The union demanded 30% increase in wages. All the demands, except wage revision, were settled through talks. Finally, the talk revolved around the quantum of wage revision. The management was ready for the wage hike proposed by the union provided it was for five years. The union opposed any move beyond one year. However, the management succeeded in shifting the focus of talks from the quantum of wage revision to the wage agreement period. The talks broke down, and the union served notice for a strike.

STRIKE AVERTED

The strike was to begin on 4 April, and salary for the previous month was to be paid on 8 April. The union expected the management to deny the workers their salary for March and planned to turn the ill feelings of workers against the management. However, Boban went a step ahead. He printed a notice and distributed it among the workers. The notice stated:

> The workers have the right to go on strike. Hence, the management is not interested to interfere in it. Even if you are on strike, you can collect the salary from the office on 7 April. It is your wage for the last month.

The employees took this notice to their homes. The management's offer to disburse salary disarmed the union. On the eve of the strike, Boban called a meeting of all the workers and made arrangements for a poll. They were offered five options:

1. A moderate wage hike and some improvements in the working conditions.
2. A hike of 15% in basic pay.
3. Close down the factory till an amicable solution is obtained.
4. Allow the willing workers to work.
5. Continue the status quo till a new managing director took over.

Boban made it clear that he would continue in office only if he enjoyed the full support and co-operation of the workers. The workers were asked to vote for the best option according to their conscience. Even the union leaders had doubts about the success of the strike, as the wage hike demanded by them was unjustified by the industry standards. The benevolent attitude of the management also persuaded the workers to have a second thought about their decision to go on strike. The poll results stunned the union. Around 86% of the workers voted for Boban to continue as the Managing Director and for a moderate wage hike. The union had no other option but to call off the strike. Boban was really moved by the faith the workers reposed in him. He, however, didn't want to create a feeling among the workers that they were defeated by the management. He was aware of its adverse impact on the morale of the workers and ultimately on their productivity. Finally, he inked a three-year wage agreement for 30% hike.

EMERGING SCENARIO FOR FOSTER FOODS

The biscuit market in Kerala grew at the rate of 10% annually in the 1990s, and reached a total size of Rs. 140 crore in 2003. Britannia was the market leader with a market share of 45% followed by Parle (15%), ITC (10%), Cookies India (10%), and Foster Foods (8%).

Of the total demand, 81% was for popular varieties such as Glucose, Milk, Arrowroot and Marie.

In the 1990s, Kerala had 19 small-scale biscuit manufacturing units. However, all of them, except Cookies India, Foster Foods and Cryptons, had closed down over the years due to unfavourable government policies and increasing costs. The main inputs (maida, sugar and vanaspati) had to be imported from other states; the prices in Kerala were higher by 15–20%. Overall, the smaller firms faced stiff competition from the larger firms in the market.

Foster Foods also came under pressure. The turnover declined to Rs. 3.5 crore in 2003-04. Only two-thirds of the installed production capacity was used.

There were, however, a few silver linings in the horizon for Foster Foods. The sales of *Life Time* rose every month. The four variants of *Life Time* alone accounted for 35% of the total sales of the company. The growing incidence of diabetes in the state and the country, as well as the rising health consciousness had created a new demand for health-care products. *Carumuru* was also doing well. The company was exploring the prospects of launching these two brands nationally. Boban retired following a heart surgery. Which course would the new managing director chart out for Foster Foods was for everyone to guess.

Exhibit 1: Foster Foods (Pvt) Ltd.: Product Portfolio

Sl. No.	Product
1	Arrow Root (3)
2	Butter Cookies Tin
3	Carumuru
4	Chikee Bickee
5	Coconut Cookies (2)
6	Elachi Cream (4)
7	Glucose (4)
8	Keramilk
9	Life Time
10	Marie
11	Orange Cream (4)
12	Pineapple Cream (4)
13	Milk (2)
14	Gift Box
15	Rings
16	Coconut Biscuits Tin

Note: Figures in bracket indicate number of variants in each group.

Exhibit 2: Foster Foods (Pvt) Ltd.: Sales Turnover

Year	Rs. (in lakh)
1992–93	44.36
1993–94	124.79
1994–95	173.44
1995–96	229.00
1996–97	294.00
1997–98	316.21
1998–99	422.00
1999–2000	447.00

Source: Annual reports of the company.

Exhibit 3: Recognitions that the Foster Foods Won

- First biscuit factory in south India to obtain the ISI and ISO-9002 certifications.
- The M.K.K. Nair Productivity Award of SSI sector instituted by the Kerala State Productivity Council for 1999–2000.
- Kerala State Award for Energy Conservation and Management for Small Scale Sector instituted by Management Centre, Government of Kerala, for 2000–01.
- Top Duty Payer Award for being the top central excise duty payer (small-scale sector) for 2000–01.
- Boban was conferred the Best Entrepreneur of Kerala Award instituted by the Ministry of Industries, Government of Kerala, for 1998–99.
- National Award for Outstanding Small Scale Entrepreneur for 1999–2000 by Government of India.

CASE 15

Navnirmiti

T. Prasad

To popularize science, Navnirmiti was started in 1996. It focused on two target groups—general public and elementary school children. It was dedicated to acquire, develop, innovate, produce and disseminate high-quality "Low Cost, No Cost" (LCNC) learning methods, tools and systems to bring about universalization of elementary mathematics and science skills and competencies.

Just as high-yield seeds brought about a green revolution in agriculture, Navnirmiti believed that high-yield methods and systems in education could universalize the learning of science and mathematics. Many of the methods were of low cost, and even of no cost. Uniqueness of Navnirmiti was that it was a non-profit and self-reliant organization.

PROBLEM AND OPPORTUNITY

One of the founding members of Navnirmiti, Dr. Vivek C Monteiro was an Astro-Physicist by training. He saw a clear lapse in the existing system of teaching mathematics and science education in the elementary schools. He attributed the large-scale aversion and fear of people towards these subjects to the ineffective teaching methods used in the elementary schools. He says:

> If mathematics and science subjects are taught the way the mother tongue is taught to the kids in early stages, people will not have any sort of fear for mathematics as a subject. At the same time, if mother tongue is taught like the way mathematics at present is taught, I am sure no body will learn their mother tongue, let alone many other languages.

Dr. Monteiro pointed out three reasons for "aversion and fear" among students and masses for science and mathematics:

- Passive teaching methods—not involving the students.

- ➢ Absence of LCNC educational aids for teaching and learning science and mathematics.
- ➢ Inconsistency in translating things, symbols, and languages used in teaching mathematics in primary schools. The language of mathematics needs to be systematized.

Dr. Monteiro invented Activity Based Comprehensive Discovery (ABCD) method which did not cost money but was very effective. Dr. Monteiro and his team invented a range of science and mathematics teaching aids to spread the pedagogy through Navnirmiti. The methods which Dr. Monteiro invented for the slum school children were embraced by prestigious public schools in the country. He proudly reasoned: "When world's best education is offered at the least cost who will not like to embrace the idea?" Reforming science and mathematics teaching in India became Dr. Monteiro's mission.

GENESIS OF NAVNIRMITI

In the early years, Dr. Monteiro took science and mathematics classes for neighbouring slum school children as a hobby. He observed that many slum children in their initial years of study dropped out of school for one single reason—they could not do well in mathematics and science. He, therefore, developed many alternate ways of teaching mathematics and science which made use of ubiquitous materials like broomsticks, doormats and window panes to teach difficult concepts in mathematics and science.

Further, as part of "science movement", Dr. Monteiro and his friends conceived of low cost and safe solar filter to popularize science about Sun during "Solar Eclipse 1997".

Few of his colleagues joined him to make five lakh solar filters priced as low as Rs. 3 per piece. They marketed the solar filters without much of difficulty. The masses received the "Science in Sun" with great enthusiasm. The solar filters project was the first success Navnirmiti team had in popularizing science.

Navnirmiti's low cost, safe solar filters used by the young scientists

NAVNIRMITI

After the success of solar filters, the group felt the need to float a sustainable organization for popularizing science among the masses. In October 1996, Navnirmiti was registered under the Society Registration Act, 1860, with members from all walks of life including scientists, IT professionals, film industry personnel, academicians, medical doctors, business managers and trade unionists. In one word, the founding members of society were the soul of Navnirmiti. Besides the founding members, many sympathizers and well-wishers, like the faculty and students of IIT, Mumbai, faculty and students of NITIE, Mumbai, and the science fraternity of Nehru Planetarium and BARC, contributed in a big way for the cause of Navnirmiti (Exhibit 1).

Vision, Mission and Core Values

Vision	Popularization of science for masses by providing the world's best science and mathematics education to all those who could otherwise not afford it or access it.
Mission	➢ Conduct science, astronomy and mathematics workshops. ➢ Develop and integrate the alternate science and mathematics teaching methods in collaboration with the existing science and mathematics teaching modes. ➢ Conduct workshops and training programmes for science and mathematics teachers to enhance skills and to motivate to adopt effective teaching methods. ➢ Develop and make available Low Cost, No Cost (LCNC) teaching methods, equipments and educational aids. ➢ Network with organizations related to science movement in the country for the popularization of science.
Core Values	➢ Quality education for equality. ➢ Knowledge should be free and accessible to all. ➢ Science for all. ➢ Scientific thinking—logical and systematic approach—to life. ➢ Learning by doing and discovering. ➢ Mass-oriented New World of Science and Mathematics is possible. ➢ Self-reliant not for profit organization.
We believe in	➢ Social change and development through popularization of science and mathematics. ➢ Scientific education is a must at the primary school level. ➢ Mathematics is the language of science. ➢ Low Cost, No Cost (LCNC) educational aids are possible. ➢ Activity-based learning is the fun way. ➢ Not for profit orientation. Charity destroys, and work builds.
Programmes we conduct	➢ Popularization of science programmes: Sky Watch workshops, Transit of Venus Experiment (TVE) 2004, Sunderstanding, Surya Sandesh—greeting cards with scientific orientation. ➢ Science and mathematics teaching workshops for primary school teachers. ➢ Promoting the use of mathematics lab, math kit, LCNC methods of teaching. ➢ Innovative educational aids—Jodo kit, science kit, bug viewer, student telescope making. ➢ Puzzles: Tangram, pyramid, navrang, ring puzzles, Hanoi tower, rangometry. ➢ Poster teaching methods. ➢ Educational materials for school kids.

ORGANIZATION STRUCTURE

Navnirmiti had 50 employees—25 permanent employees (5 supervisory and 20 non-supervisory employees) and 25 temporary and project-based employees. Most of the employees at Navnirmiti were women belonging to socially deprived classes. Creating employment opportunities to downtrodden and underprivileged was one of the core values of Navnirmiti. Most of the employees were literate.

The Managing Director was responsible for the overall results and the day-to-day working. He directly reported to the core committee. Operational plans were devised in consultation with the core committee.

Navnirmiti was divided into the following eight sections. Each section was looked after by one supervisory staff reporting to the MD.

- Science popularization
- Mathematics
- Science poster teaching as a method
- Production and marketing of educational aids
- R&D
- Astronomy
- Film materials development
- Creative learning and language teaching

Apart from these sections, need-based task forces were created for specific requirements.

This core committee was the highest policy making and implementation review body. It consisted of nine members, of whom three were from the founding members and three were independent outsiders who devoted considerable time and resources for furtherance of the objectives. Further, three more members—MD and two others—formed part of the core committee. The committee met once in two months to review the working of the organization.

Navnirmiti had a sales outlet near IIT, Mumbai, for client group interaction. The outlet housed the local office, merchandize and programme materials. Sales and services were arranged from this office.

Operational Strategy

Reaching to Low-end and High-end Markets Simultaneously

Navnirmiti catered its products and services to both low-end and high-end clientele. It cross subsidized the costs of catering to the low-end schools with high-end schools. Navnirmiti strongly believed the concept of self-reliant organization. It tried to raise most of the resources from projects, not from donations.

Collaborative Networking

Achieving the objective of "social change through popularization of science" would not be possible by Navnirmiti working alone. It, therefore, developed strong networking relationships with other organizations like:

- SMATE at the University of Port Elisabeth, South Africa
- UNICEF—PEEP PROJECT
- All India People's Science Network
- Industrial Design Centre, IIT, Mumbai
- Sarva Shiksha Samithi
- Comet India
- Jodo Gyan, Delhi
- Paschim Bengal Vidya Munch
- Kerala Sasthra Sahitya Parishad (KSSP)
- Nehru Science Centre, Mumbai
- Homibaba Centre for Scientific Education
- Arya Vidya Mandir Schools, Mumbai
- Eklavya, Madhya Pradesh

5S Culture: Simple ... Steady ... Slow ... Smart ... Surprise ...

Navnirmiti consciously adopted 5 S culture. It was an outcome of the founders' beliefs, experiences and preferences. Employees were acclimatized to it.

Existing Delivery Systems

Navnirmiti consciously adopted a strategy of working in consonance with the existing system of delivery of science and mathematics education in the country, although it disagreed and dissatisfied with the existing practice. It believed that over a period of time, the effective methods and systems that were being popularized by Navnirmiti would become part of the mainstream pedagogy in the schools in the country.

Programmes, Products and Services

Navnirmiti developed a variety of programmes, products and services—spreading of knowledge pertaining to the subjects of science and mathematics, spreading of the mathematics and science teaching as well as learning methods, production and distribution of equipment, tools and educational aids which could enhance the learning ability of the mathematics and science. (A complete profile of the programmes, products and services is presented in Exhibit 2.)

OPERATING PERFORMANCE

The performance of Navnirmiti was as follows.: (Exhibits 3, 4, and 5 give Navnirmiti's working.)

A. Universal Active Mathematics (UAM) programmes

Navnirmiti ran UAM programmes in 130 schools across India. Navnirmiti also established Mathematics Laboratories in 10 schools. Full-fledged Math Teaching Learning Material (TLM), including math kit, math lab kit, teacher's manual and worksheet were made available to various schools.

B. Popularization of Science

Navnirmiti could touch the lives of common man through the occasional celestial events like solar eclipse in 1995, 1999, 2001 and 2002 and Transit of Venus (TOV) 2004 in a big way. The complete impact of the popularization of science could be understood with the following activities in the last five years:

- Number of mass campaigns conducted on specific themes.
- Distribution of information leaflets on the subject in all Indian languages.
- Production and distribution of 25 lakh low-cost solar filters in India and other countries.
- More than 25 workshops across the country conducted on TOV.
- Development of low-cost telescope.
- Development of low-cost solar observatory.
- Development of Web page on TOV in collaboration with IDC, IIT, Mumbai.
- 2,000 students from various schools in Mumbai benefited from the sky observation programme.
- For learning science through activity-based approach, Navnirmiti developed an interactive science classroom kit for class V.

C. Mathematics and Science Teachers Training

Navnirmiti focused on enhancing the teachers' skills to effectively use the methods that were being supplied. So far, Navnirmiti conducted:

- More than 500 (one day) teacher training workshops were conducted in the past five years on maths.
- More than 25,000 teachers went through the training.
- More than 20,000 children directly benefited from the UAM teaching and learning.
- More than 10,000 math kits, worth Rs.1,550 each, were sold in schools in India and abroad.

Telescope made by the school-going scientists

D. Other Products and Creative Toys

In the last five years, Navnirmiti developed more than 100 different types of educational toys, games, puzzles, science kits and math kits to introduce the activity-based learning in schools. It sold out more than 1,00,000 units of one of its products, "Jodo".

E. UNICEF-Sponsored Project in Maharashtra

To develop scholastic achievement of students in mathematics, UNICEF sponsored a UAM project in four backward districts (Chandrapur, Rajwa, Ballarpur and Varora) of Maharashtra. Under this project, teachers were trained for the alternate mathematics teaching methods, and the teaching materials were supplied for the classrooms.

- Ninety-two municipal schools and rural schools were covered in four backward districts of Maharashtra.
- 250 hours of mathematics teacher training was conducted for teachers.
- At 8 maths kits for each classroom (strength of 40 students), a total of 8,000 kits were supplied.
- The project was going on at present. UNICEF, on the basis of the projects results, asserted that the universalization norm could be attained in all rural and urban disadvantaged schools with the UAM programme.

F. Ashram Schools

Navnirmiti spent considerable resources to cater to the scholastic achievement of the downtrodden in various schools. Four ashram schools in Nasik were provided with mathematics teaching materials free of cost. Similarly, 250 students of Bala Kamgar Seva Kendra, Pune, were provided with mathematics and science teaching kits free of cost. In tribal schools in village Nandu Baugh, 180 students were provided with the learning materials free of cost.

G. Financial Performance

Navnirmiti being a trust, had limitations in availing bank loans for business activities. All major expenditures, including investment in R&D, product development, tooling and working capital, were met from internal funds. Navnirmiti could generate considerable surpluses in its operations. It created a reserve fund of Rs.10 lakh so far.

	Year 2002–03 (Rs.)	Year 2003–04 (Rs.)
Closing stock	3,50,000	11,39,000
Sales	52,52,000	45,00,000
Surplus in a year	18,60,000	2,10,000

H. Competencies

Navnirmiti developed competencies in the following areas:

- Clear understanding of the potential for mathematics and science spread in the society.
- Designing and executing specific plans.
- Motivated and committed staff.

The Future

The educational aids industry was an old industry, mainly targeting schools and colleges. There were also a large number of toy-makers who manufactured and marketed educational aids with potential for learning science and mathematics. In recent years, international companies (e.g., Scholastic) entered the market with children's books. Few competitors marketed educational literature and workbooks for mathematics.

Quality and high prices were important problems. Most products were of low quality. High-quality and high-priced books and materials flooded the market. However, foreign players suffered from alien and unfamiliar context.

Navnirmiti had no competition in its areas of operation.

1. Many companies marketed mathematics education, mostly in CD and workbooks, without the activity focus. Some promoted speed calculation with aids like the abacus. These methods helped the exceptionally bright but not the average child which was Navnirmiti's focus. The UAM approach, which was based on learning by understanding and by working with things in "do and discover" mode, was unique. There was huge potential for Navnirmiti to work in this area.
2. A product like Jodo had no competition. The nearest comparable products were far less versatile than Jodo and were expensive. International products like the Zome were available. But they were priced much higher and were not as flexible as the Jodo kit.
3. No other solar filter was of comparable quality in Indian or international market at a comparable price.
4. Navnirmiti catered to the "not affordable segments of the society, the best products, and the services at the least/no cost with a social cause". Therefore, it was difficult to find competitors in the area. During the next two years, Navnirmiti would use this advantage to build a goodwill and brand repute.

5. Another advantage was in manufacturing. Navnirmiti adopted a strategy based on:
   - Low investment;
   - Low energy consumption; and
   - High-precision inputs with collective handwork in an optimal manner.

   This gave (a) flexibility to scale up or down and (b) switch on and off manufacturing between different products without difficulty. So far, the manufacturing and marketing teams handled large orders and delivered successfully in time-bound situations and had also gained the confidence to upscale several fold as and when necessary.
6. Motivated and hardworking personnel were another competitive edge for Navnirmiti. This edge could be sharpened considerably with better training, quantitative skills and systems.

FUTURE PLANS

Navnirmiti had set a target of doubling its operations every two years:

- Developing a cadre of thirty "Master Trainers" to spearhead the vision of Navnirmiti.
- Branding, upgradation and integrated packaging of products.
- International certification of various products.
- Reaching to the people through free advertising and extensive media coverage in articles and TV programmes.
- Improving the technical and managerial skills of the employees.

Future Issues

There was need to expand the impact in the days to come, need to take stock of the progress, and need to plan for the future.

A. Vision

How to realize the vision? Any change required in the vision?

B. Issues of Scaling Up

How big was the area of operation? How much to grow? Which areas to grow in? What else to be taken up? How to manage the future growth?

C. Core Values

Was there a need to change the existing values and incorporate new core values that corroborate and help to march forward? What are those values? How to reinterpret the "core values"?

D. Management

How to bring in the professional management ethos?

E. Global Reach

Should Navnirmiti go global? If so, how to go about?

F. Networking with Other Organizations

How to go about it? What else needs to be done?

Exhibit 1: Navnirmiti: Founding Members

S. No	Name	Designation	Occupation
1.	Dr. Amod Karkhanis	Chairperson	Service, IT services
2.	Ms. Sugandhi Francis	Secretary	Social worker
3.	Ms. Vimal Bhor	Member	Social worker
4.	Dr. K P Jayashankar	Member	Service, TISS, Mumbai
5.	Ms. Chandra Mukherjee	Member	Film maker
6.	Dr. Ragini Sen	Member	Marketing consultant
7.	Mr. Gurunath J. Pednekar	Member	Science activist
8.	Mr. Purushottam Tripathi	Treasurer	Vermiculture consultant
9.	Dr. Vivek Monteiro	Advisor	Scientist and trade unionist
10.	Dr. Nandakumar Jadhav	Advisor	Consulting dentist
11.	Ms. Jyothi Francis	Managing Director	Navnirmiti

Exhibit 2: Navnirmiti: Profile of Programmes, Products and Services

I. Mathematics: UAM

- **Mathematics programme:** This programme was uniquely developed. Teachers were trained for the alternate mathematics teaching methods and how to use the math teaching learning materials of Navnirmiti.
- **Mathematics laboratories:** Full-fledged mathematics laboratories targeting primary and secondary school students were developed. The same labortory could be used for higher level of students too.
- **Math TLM**: Math kit, math lab kit, teachers manual, worksheets etc. were developed. The materials could help the students to understand the concepts easily.

- **Teacher training workshops:** One- or two-day workshops for the teachers were organized on an activity-based approach.

II. Science Popularization

a. Solar Eclipse in 1995, 1999, 2001 and 2002

- Mass campaigns on special events like solar eclipse to popularize the science behind those events and to dispel the dogmas attached to them were conducted.
- Manufacturing and distribution of low-cost, safe and high-quality solar filters in India and other countries was undertaken.
- Information leaflets in different Indian languages were produced.

b. Sun Understanding through Sun Spots in 2002

- Mass campaigns regarding the sun.
- Information leaflets on the subject in all Indian languages.
- Supplying materials and workbooks for low-cost telescopes that could be made by the school-going young scientists.
- Development of low-cost solar observatory.

c. Transit of Venus (TOV) in 2004

- Conducting workshops across the country on the subject of TOV.
- Developed Web page (www.sunderstanding.net) in collaboration with IDC and IIT, Mumbai.
- Published a booklet with rare and valuable information on TOV and experiments.

III. Science Teaching and Learning through Activity-Based Approach

Developed and arranged an Interactive Science Classroom Kit for Class V. Forty posters covering various concepts of Class V curriculum were developed.

IV. Sky Watch

- School Astronomy programme: The programme was targeted for the school kids. Parents and adults could also participate in the programme along with their kids to know more about the sky.
- Make your own telescope workshop for school students: To develop scientific thinking, interest in science and the universe around, workshops for school-going kids to prepare them to make their own telescopes within affordable budgets were conducted.

V. Marketing and Sales

- Exhibition and sale of Navnirmiti products in school premises.
- Discover It Centre: An outlet which housed day-to-day sales and marketing of Navnirmiti products and services.
- Through field sales campaigns Mandi, NITIE, Mumbai, MBA students every year engaged themselves in field sales campaign of Navnirmiti products to learn the management lessons.

VI. Products

- At least 100 products were developed for teaching of mathematics and science in schools in the country.
- Around 500 titles from various publications, such as Eklavya, Tulika, CBT, NBT and Katha, were sold through the "Discover It" outlet.
- Priced at Rs.10 onwards, a wide range of topics, viz., stories, grammar, science, mathematics, astronomy, quiz and activity books, were available.
- More than 100 different types of educational toys, games, puzzles, science kits and math kits were selected to enhance the activity-based learning.
- Apart from creations by Navnirmiti, the toys were sourced from organizations like Jodo Gyan, Samavesh and Ettikopakka. The price of the toys ranged between Rs.5 and 250.

Exhibit 3: Navnirmiti: Maths Kits Add up to a New World for Young Children

Priyanka Kakodkar

If there's ever a bunch of kids who may never know that awful blankness that grips so many of us when suddenly called upon to split a tab sixways—that desperate, almost paralytic fear of numbers which goes by the name of maths anxiety—it's the first-graders we so gathered around the Mathemat.

> "I love maths because it's easy. You know, counting and doing sums", says six-year-old Ashna Mahajan with a conviction which would away the most crusty math-phobe. "We get to play with beads", chips in classmate Krishan Chawla, more inclined to get to the heart of the matter. Bent over perforated foam boards, this lively class in Bandra's Arya Vidya Mandir school is plugging the holes with beads to make the number "nine". Some groups come up with three neat rows of three beads. Others lay out lines of five and four. Another group comes up with two rows of four and a solitary bead. Unwittingly, they are figuring out the concept of addition: that different combinations of beads can add up to nine.

"The mathemat has brought maths alive for them. The kids learn by doing and discovering, not by rote", says class teacher Meeta Tongaonkar. More importantly, they don't feel stressed. "Parents have been telling us their six-year-old can add in their heads. And because concepts in the first grade are so clear, the children are even picking up second grade maths much faster", says she of the year-old programme.

The mathemat is just one of the tools in a maths kit brought out by Navnirmiti, an educational trust that aims to universalize primary school maths and make the subject more fun for kids. Also in the kit are bright cubes and blocks, digit cards, shapes cut out of foam, the Navrang cube puzzle and the Jodo kit, with straws to build three dimensional figures. The kit can be used till the fifth grade and helps explain concepts as basic as place value to decimals and fractions and even algebra and geometry.

"Maths is the stumbling block for many children. Since it's language of science, those who don't understand it are cut off from the other sciences too. We want to help every primary school child understand maths and approach it with confidence", says Vivek Monteiro, kit iNavnirmitiovator and the person behind Navnirmiti. A theoretical physicist who quit the Tata Institute of Fundamental Research (TIFR) to become a full-time trade unionist in 1977, Monteiro's experience in helping children with their homework in the slums where he lives brought home the need for iNavnirmitiovation. The kit came out in 1998 after many years working with children and figuring out problem areas.

"Children pick up languages very easily but the alpha-numeric one in which maths is traditionally taught is alien to them. They are more attracted to the pictorial language. What we've done is come up with a systematic sequence of activities where kids learn concepts by making shapes, patterns. It's the language of things and doing," says Monteiro. "Once the child masters the concept in 'thing language', he is better able to make the transition to alphanumeric language". The teaching method's importance was emphasized by a Delhi University study which found that 12-year-old newspaper vendors who had never been to school were better at common sense calculations than school kids who had been "taught" maths.

The kit works on the assumption that kids learn more by reasoning things for themselves, instead of having it dinned into their heads. "The best thing is they don't realise they are learning. They think they are playing", says Tongaonkar. A team of activists coordinate Navnirmiti's efforts and the kits are assembled by a women's cooperative in a Mumbai slum. It's currently used by four Arya Vidya Mandir schools in Mumbai, a handful of ashram shalas in Nasik and is being introduced in municipal schools in the Chandrapur and Yavatmal districts.

While some tools are patented, most are not. "We believe in borrowing and sharing. Originality isn't as important as the objective—popularising maths", says Monteiro. Geeta Mahashabde, from the Pune-based Pratimaan, has contributed a great deal to 'the kit' as has feedback from the teachers.

For more details, contact: Navnirmiti, 'Discover It', Near Powai Municipal School, Opp Powai Main Gate, Powai, Mumbai 400076. Ph: 022-5792628; e-mail: navnirmiti@yahoo.com.

Source: *Outlook*, Making a Difference, 9 September 2002, p. 10.

Exhibit 4: Navnirmiti: That's My Star

"I am so excited, I am going to make my own telescope", said an excited Freia Lobo, a student of standard four from Powai. This was the science at Navnirmiti this week, where school-going children were invited to learn to make their own telescope.

The children knew more than just the fact that telescopes are used to observe planets. They knew very well that a telescope is made of two magnifying glasses, objective lenses and eye lenses and that there are two kinds of telescope, refractor and reflector. Geeta Ladi, their instructor for the day, was quite surprised and motivated with the answers of the children. Stationery and all the required lenses were provided to students to make their telescope from their own little hands with instructions from Geeta.

The main purpose of organizing such an event was to familiarise the students with astronomy. "Since astronomy is not included in the syllabus of the schools we wish to give the children exposure in this subject as we think everybody should know which solar system we are staying in and which is our neighbouring planet".

The children who participated in the workshop had seen some of the stars by themselves earlier. Akshay Subramanian said, "I have seen the pole star from a very powerful telescope, it was pretty big. When we go nearer it will appear as if it is very big", he observed.

When asked who their favourite astronaut is, all the children replied, in chorus, "Kalpana Chawla". In spite of their deep interest in astronomy, one of the children would want to make their career in astronomy. Yet the thought of meeting aliens excited every one of the children at the workshop. Apollo 13 and Extra Terrestrial being their favourite all time movie, it is not difficult to understand where their interest stems from.

The workshop also included informing the children about moon craters. Moon craters are formed when meteors, which freely move around the solar system, class with the moon. Thus craters are formed.

I took not more than an hour for the children to make their own telescopes. The telescopes were made with items like mount board and a pair of lenses (100 mm focal length of objective lens and 33 mm of eye piece). Geeta specifically warned the students not to see the sun at any point of time during the day. One of the participants at the workshop was quite confused about the situation. Innocently she asked her instructor, "Teacher, can I see sun with this telescope in the night?" Well surely, Geeta had no answer for that.

So what were the children planning to see with their handmade telescopes? "I will catch up with all the shootings that take place in Hiranandani, through my window", said Akshay. Another student, Tanay Parikhji, said, "I will show this telescope to my parents and all friends. I will also ask my school teacher if I can take my telescope to the school." Others from the workshop were a tad bit more ambitious, Mayuri Yadav, a standard seven student, said "I will teach my friends how to make one of these for themselves."

The children were a happy lot, after making their own telescope, and so was the instructor Geeta who believes kids always bring a positive energy to such events with their full enthusiasm.

Source: Times of India, Mumbai, 27 November 2004, p. 3.

Exhibit 5: Navnirmiti: Learning the Fun Way

Here is a math trick for you: Write down the first five odd digits, 1, 3, 5, 7 and 9. Add the first two digits (1 + 3) and not the number. Add the third odd digit (5) to the number that you get by adding the first two odd digits, that is (4 + 5). Continue till you have added each digit and remember to note each addition separately. The numbers that you get at the end will be 4, 9, 16, 25 and 36. Each is the square of the numbers from 2 to 6. The same discovery with colorful building blocks means even more fun and interaction for children.

This fun way of discovering maths and science is the basis of Navnirmiti, an NGO, that aims to universalize elementary mathematics and science skills. "When your children are able to learn up to three languages, Hindi, Marathi and their mother tongue, by age three, why should they fail in maths and science?" asks Vivek Monteiro, the brain behind Navnirmiti. To answer the question, Monteiro and his team have designed a number of low-cost/no-cost scientific toys, educational games, puzzles and a mathematics kit. The kit and the games help the children "discover" subjects like maths and science through "thing language". Thing language involves a language made of symbols, which help children discover ideas.

Currently, this unique programme, which uses activity based comprehension and discovery methods to explain the basics of maths and science to children, is being applied in five schools in the city. The organization has also conducted introductory sessions and a series of workshops for teachers of various institutions so as to involve the faculty in the process. The main focus of the organization is towards children from rural, tribal and municipal schools in urban areas. "Our aim is to make quality education accessible to all children, instead of it being a prerogative of only a privileged few," says Monteiro.

Monteiro and other likeminded people set up Navnirmiti in 1995. "During the 1995 and 1999 solar eclipses, we developed low cost and good quality solar filters. These are still very popular and whenever there is a solar eclipse in the world we are flooded with orders", says Jyoti Francis, member of Navnirmiti. With the solar eclipse in South Africa in 2001, the organization exported the filters to the country. The relation with the country is strong even today and the South African sister organization is developing interactive methods of teaching science to children. Navnirmiti has a sister association working in Delhi as well.

The McGraw·Hill Companies

In the process of educating children, Navnirmiti has been able to provide a sustainable employment to the under-privileged. A women's cooperative in Bhandup and artisans from rural India have been roped in to make the educational kits. Further, the organization also intends to provide jobs to unemployed youth. "We are planning to organize our marketing efforts so that our products reach out to more people. This will provide work for the unemployed youth too," says Francis.

As far as funds are concerned, the organization believes in self reliance and does not encourage foreign funds. However, it welcomes external funding support to further other projects.

Source: Times of India, Mumbai, 16 April 2004, p. 3.

Case 16

WIMI Long Duration Executive Education

Ranjan Das, Raveendra Chittoor and Sougata Ray

Stuck in traffic, as he waited impatiently in his car, Ganapathy Subramanyam reflected on his experiences as a faculty at the Well-known Institute of Management (WIMI) in India. He spent over 20 years in the corporate world. He joined academics 10 years back. He initiated an executive education—WIMI Long Duration Executive Education (LDEE). He adopted innovative ways to implement his idea in a government-controlled, systems-driven, inward-looking and bureaucratic academic institution like WIMI. He succeeded in developing new programmes and identifying new target segments. Other management institutes were now copying WIMI. The experience was gratifying.

BACKGROUND

Management Education in India

Management education in India had a fairly long history. The first "modern" management education was probably launched by Indian Institute of Social Science in 1948 immediately after India's independence (Gupta, Gollakota, and Sreekumar, 2003). In 1949, Xavier Labour Relations Institute (XLRI) was promoted by the catholic community in Jamshedpur. Later, the Indian Government set up the Indian Institutes of Management (IIMs). Over the years, IIMs grew to six. Privately owned business schools also proliferated offering graduate and post-graduate programmes. By 2000, India produced about 75,000 MBAs every year from over 700 business schools—the highest number of MBAs produced outside the U.S. (Sinha, 2004).

The mission of all the government-funded management institutes, including WIMI, was to professionalize Indian management through teaching, research, training, institution building and consulting. They also had a mandate to professionalize vital sectors of the economy, particularly agriculture, education, health, transportation, population control, energy and public administration.

All these institutes offered two core academic programmes: (a) Post-Graduate Diploma in Management (equivalent to MBA) and (b) Fellow Programme in Management (equivalent to Ph.D.). Some of them offered additional variations of the post-graduate programme, with specialization in agri-business management and information technology. They also did research and consulting, faculty development programmes and short-term executive education programmes.

Over the years, the post-graduate programmes of IIMs gained eminence as amongst the best in Asia. They were even comparable to the best MBA programmes in the world. *The Economist* ranked one of the IIMs as the number one in the world in competitiveness in admission.

Till early 1990s, all IIMs, including WIMI, received generous annual support from the government. Compared to many other government-funded institutions, the IIMs enjoyed superior infrastructure. Grants from the government were available not only for the creation of additional facilities, such as classrooms, hostel/residential accommodation, computers and library books, but also to bridge any gap in income and expenses for day-to-day activities. Their fixed assets were financed almost wholly from the Government of India grants.

Shifting Priorities

The economic liberalization initiated by the government in the early 1990s brought substantial changes in IIMs. The order of 23 May, 1994 ushered in a paradigm shift. The government required IIMs to become financially independent by building up a corpus, the interest out of which would replace the government's grants. Most of the IIMs responded to this challenge. All IIMs, including WIMI, sought new sources of revenues apart from fees from students to generate a surplus over and above their expenses. Executive education was identified as the most important revenue stream.

Executive Education

The size of the global market for executive education at the end of the 1990s was estimated variously at \$(12-15) billion (Vicere and Fulmer, 1998; Bradshaw, 1999). The providers of executive education ranged from business schools to training and consulting companies as well as in-house training and development centres established by large corporations. The share of business schools was estimated to be one-third, and their market was estimated to be growing at 20%-25% per year (Vicere and Fulmer, 1998; Bradshaw, 1999).

The mounting pressure on the bottom lines of corporations due to increasing global competition and rapid changes in the industry and technology were driving the market for executive education. Executive education was perceived to be fundamental to acquiring state-of-the-art knowledge and skills, generating and disseminating innovative ideas, developing managerial networks, and delivering superior business results.

The rapid growth in the number and variety of providers led to a huge increase in the range of programmes on offer. Programmes were traditionally offered in different *functional areas* and different *levels of management*. Later, there offered an enormous choice in programmes in a wide array of subjects with innovative delivery mechanisms such as distance learning via satellite and Internet. There was also an increasing trend towards custom-designed programmes where clients could exercise greater control on the design, structure, content and delivery of the programme, as against the traditional standard programmes.

Executive Education in India

While there were no statistics on executive education market in India, industry sources put the size at Rs. 1,000 million, estimated to be growing at 15%-20% annually. The dominant players in the field were management institutes such as IIMs and XLRI as well as some specialist executive education organizations such as Administrative Staff College of India (ASCI) and Management Development Institute.

ASCI, established in 1956, was one of the oldest institutions set up exclusively for executive education in India. It claimed to be the only institution in India to cover its annual operating expenditure solely from its training, consultancy and research without grants or assistance from either the Central or State Governments in India (ASCI official website). It trained, since inception, over 75,000 participants from over 300 organizations in industry, government and non-government sectors.

All IIMs offered management development programmes (MDPs). ASCI and IIMs established for MDPs exclusive facilities of separate classrooms, well-appointed rooms for executive stay, computer laboratories, and recreational facilities as well as a well-equipped common library.

Executive development programmes of IIMs and ASCI ranged from programmes with function focus (Economics, Finance, Human Resources, Organization Behaviour, Information Technology, Marketing, Operations etc.), sector focus (Banking, Education, Energy, Environment and Technology, Health Management, Transport) and other programmes on general and strategic management.

The programmes were differentiated to suit executives at different levels of management such as senior, middle and junior. These were calendar-based programmes known as "open" programmes. In addition, there were corporate programmes of short to medium duration for corporate clients and customized programmes to meet the individual needs of organizations. Most of the executive education programmes were of short duration ranging from three days to two weeks. A select few programmes went up to three months and were aimed at managers who had either moved or were likely to move into general management positions.

By 1998-99, IIMs, including WIMI and some specialized institutions such as ASCI, built up sizeable annual revenues from executive education. While the annual executive education revenues for ASCI were estimated to be about Rs. 60 million, they ranged around Rs. 40 million for some of the larger IIMs. During this period, some of the IIMs established a lead over WIMI in earning revenues from executive education. Since then, WIMI had been making a strong bid to regain market share through some innovative executive education programmes under the umbrella brand of "WIMI Long Duration Executive Education".

Executive Education at WIMI

WIMI was one of the older IIMs. Its programmes could be broadly categorized into diploma granting and non-diploma granting (certificate) programmes. The diploma programmes were of high academic rigour accompanied by high standards of screening and evaluation. Participants who successfully completed the programme were issued a diploma. The non-diploma granting programmes were training programmes. There were no standard screening or evaluation, and participants were issued a certificate of participation.

WIMI conducted four diploma programmes: (1) two-year full-time programme called Post Graduate Diploma in Management (equivalent to MBA), (2) two-year full-time programme called Post Graduate Diploma in Computer Aided Management (equivalent to MBA), (3) full-time doctoral programme called Fellow Programme in Management and Related Disciplines (equivalent to PhD), and (4) three-year part-time evening programme. In addition, it conducted short and medium duration (up to 3–4 week duration) management development programmes for executives ranging from open programmes to custom-made in-company programmes. Most of the executive education programmes were conducted within the campus in a dedicated facility equipped with well-furnished rooms, conference rooms and a computer laboratory.

Like other IIMs, since inception, WIMI received annual grants from the Government of India to fund capital expenditures as well as any gap between expenses and revenues. The government order on 23 May, 1994, terminated the deficit financing regime and introduced the block grant scheme by which grants were frozen and delinked from revenues and expenditures.

Even with substantial increase in fees, WIMI could only partially recover the expenses from the students. The net deficit per student went up from Rs. 36,000 in 1996-97 to Rs. 1,08,000 by 1997-98. Some cost-cutting initiatives were attempted such as reduction in library expenditure and limiting the institute-funded international travel of faculty for attending conferences. Some revenue-generating initiatives were attempted such as increasing the batch size of the PGPs.

However, the faculty saw these as regressive steps and resented strongly. The widening revenue-expenditure gap year after year forced the management to cut down the expenditure on infrastructure at a time when other institutes were augmenting the infrastructure and newer institutes were being set up with world class facilities. This move had a telling effect on the ranking of the institute carried out by various business magazines. Realizing that only focusing on cost cutting would not take the institute forward, the management started encouraging the faculty to identify and pursue new sources of revenues.

LDEE: THE GENESIS

Around this time, Professor Subramanyam came up with the concept of LDEE. The idea appealed to the then Director. With tacit and active support of the successive directors, Professor Subramanyam designed and launched a number of LDEE programmes, initially alone and subsequently with the help of a small team of young professors as the Joint Programme Directors (JPDs). He assumed the overall leadership of all the LDEE programmes as Programme Director.

The Person

Ganapathy Subramanyam joined WIMI in October 1994 as a Visiting Professor. After FPM from one of the leading IIMs in 1978, he spent over 20 years in the corporate world in various managerial roles. He started in corporate planning and had stints in various domestic as well as multinational companies as an executive in finance and marketing, as a profit centre head, and finally as a managing director. His last stint before joining academics was as managing director of a quasi-government corporation setting up a Greenfield project that included activities such as buying land in a rural area, setting up a plant, raising resources from financial institutions and an initial public offer (IPO) and so on. On being asked why he joined academics so late in his career, he said:

> Although I acquired a doctoral degree due to an interest in a teaching career, I felt that one needed to practice management before he could preach. For me, the right sequencing to become a professional in the field of management was through undergoing a formal education in management followed by practicing, teaching, training, consulting and research.

By December 1996, Professor Subramanyam became a tenured professor of Strategic and International Management at WIMI. Apart from offering courses to PGP students, he trained by then over 500 executives through 15 short-duration MDPs and a number of in-company programmes. In spite of joining full-time academics, he never severed his ties with the industry. In fact, he always believed industry was his primary constituency, and he zealously maintained a strong linkage with the industry. He served as the Chairman, Marketing Committee, Eastern Region, Confederation of Indian Industry (CII, an industry association) and carried out consulting assignments with companies.

Spotting the Opportunity

Professor Subramanyam observed that the prevailing short duration MDPs only served two key purposes: building a perspective on a topic/subject and promoting networking among executives. They lacked rigour, and the knowledge dissemination on a subject was woefully inadequate. The fees for almost all the participants were paid by their employers as part of their executive development initiative. Few participants were willing to attend a programme on their own. In fact, many of them viewed the MDPs as "paid holidays". Professor Subramanyam not only had dim views about the growth potential of such short-duration programmes, but also had serious doubts on their sustainability, as he did not consider them value for money.

The industry environment in India was undergoing turbulent changes. Economic liberalization and reforms initiated by the government since 1991 were opening up unprecedented competitive forces. Simultaneously, rapid development in information and communication technologies was giving rise to emergence of a knowledge economy. Management education suddenly caught the imagination of corporate India.

Meanwhile, there was a rapid increase in the brand equity of IIMs fueled by the reports in popular press of skyrocketing salaries of management graduates. These reports also generated curiosity and interest about educational experiences at IIMs among mid-career professionals. Some were aspiring to be part of the MBA bandwagon. Many executives without formal management education started feeling insecure. There was another distinct segment of ambitious executives who, facing mid-career stagnation due to lack of a professional management qualification, were looking to have quality management education from reputed institutes.

The options for these executives were limited. Short-duration MDPs were of no avail in either acquiring knowledge or qualification. Some of the management institutes (including WIMI) were conducting a three-year post graduate programme with evening classes. But only residents of the city in which the institute was located or nearby areas could attend. Classes in the evening were inconvenient to both students and the faculty, and did not attract quality faculty. Executives were not interested in programmes conducted by other not-so-well-known institutes located in their own city, as they were not only looking for knowledge acquisition but also for qualification with brand equity. Also, three years required long commitment.

At the longer end of the spectrum of short-duration programmes lay select programmes such as 12-week Management Education Programme conducted by one of the IIMs. Most other programmes, such as Advanced Management Programme offered by WIMI and ASCI, were targeted at senior and top management executives who wished to refresh their knowledge and skills by getting trained in the contemporary issues and state-of-the-art in management. They were priced steeply. Junior and middle level managers could neither afford nor could they obtain three-month continuous break from their work. Employer sponsorship was crucial to attend such programmes, and one executive put it:

> I am a small fry in my company. By the time my turn comes, I will probably be ready to retire!

Breaking the Paradigm

Professor Subramanyam felt that there was a lot of promise in breaking the prevailing paradigm of segmenting the market by levels of management (junior, middle and senior) or by function (finance, marketing, strategy, general management etc.). He felt there was an opportunity to segment the market by a new variable—*duration*. He asked:

> Why should executive education consist of only short duration programmes? Why not increase the duration so that the rigour and the seriousness that was lacking so far in executive education could be incorporated into the programme?

The long-duration segment seemed completely vacant, save for a few semi-long duration programmes offered by one of the IIMs and ASCI to senior and top management. In the segmentation map, half the space was vacant.

Value Proposition

Professor Subramanyam, therefore, envisaged that there was a market opportunity for a *long duration* executive education product that offered the following:

- ➢ Content: World class content valued by the executives with a rigour that was in between a short term programme and an MBA, though much below an MBA.
- ➢ Convenience: Flexible design that suited the needs of junior, middle and senior executives who could not obtain long leave in one stretch.
- ➢ Affordability: Affordable by junior, middle and senior executives; they could pay for it without employer's sponsorship.
- ➢ Flexibility: Given the growing pressures and demands on executives, some flexibility in structure such as the provision to continue in the subsequent year if the executive misses a term for some unforeseen circumstances.
- ➢ Aspiration: Caters to the aspirations of executives to be associated with an institution of high reputation such as WIMI for a mini-MBA campus experience.

The potential target segment was ambitious executives who were keen on (1) seeking new knowledge, skills and attitudes, (2) overcoming any current disadvantages in academic and professional background as well as institutional identity, (3) accelerating career development, and (4) taking charge of their own future.

On the supply side, Professor Subramanyam felt that WIMI had the right resources to exploit such a market opportunity. He believed that the core competence of the Institute was not only "PGP curriculum development and delivery" but also curriculum development and delivery of any "management educational programme". Basic teaching was considered the *forte* of WIMI faculty. In his view, the institute had under-utilized resources such as classrooms, hostels and faculty.

MAKING IT HAPPEN

There was no way to verify whether such a market opportunity existed in reality. It was not possible to conduct any market research and analysis in a setup such as WIMI. Cost of testing being low, Professor Subramanyam felt that the proof of the pudding was in the eating and, hence, decided that the best way to test the potential would be by launching a programme. His confidence stemmed from his strategic management background, past industry experience and his strong belief that a firm could be profitable even in an unfavourable environment as long as it positioned itself astutely.

Choosing the First Programme

Professor Subramanyam viewed the market in six dimensions: (1) scope, (2) duration, (3) management level, (4) organization type, (5) programme nature—open or company-specific, and (6) mode of delivery. Given his background in general management and expertise in strategic management and international management, he focused on related products. He said:

> I wanted to work within my "circle of competence". As I was not sure whether I would obtain the required commitment from faculty for a long duration programme, I thought that focusing on my areas of expertise would be safer. I felt that I should be able to handle any course by myself, if the need arose.

Though the programme was to be general management in character, he felt the word "general management" was overused in MDPs and held no appeal. Hence, he named the first long-duration programme as one-year Total Management Programme (TMP). It was targeted at non-MBA professionals (CAs, engineers, doctors etc.). It was believed that a significant proportion of this target audience felt that they missed something significant by not having a management qualification and, hence, aspired to make up for that loss obtaining a year-long education in a highly reputed institute.

Implementing the Idea

Professor Subramanyam found that convincing others in the institute to share his enthusiasm was very tough. The majority faculty's view was that they were performing a service to society, and the Institute's primary task was to impart world class management education. Having received generous support from the government for over 30 years, generating revenue was never a worthwhile objective, leave alone a priority. Teaching was considered the core activity, and new ideas on pedagogy or curriculum were discussed and debated more enthusiastically than ideas on revenue generation. Money making was not considered a virtue; consulting and training were looked down upon. Majority of the faculty historically pursued theoretical rather than applied research, stressing quantitative techniques.

Administrative Context

IIMs, including WIMI, had been constituted as registered societies. These societies had members and in turn formed a Board of Governors. The Board of Governors enjoyed nearly all powers in the management of IIMs, and some of these powers for day-to-day management of the institute were delegated to the Directors, who were like Chief Executive Officers. Board of Governors was the executive body of the Institute. The Chairman of the Board and the Society, one and the same person, was appointed by the Central Government, in some cases in consultation with the concerned State Governments and in the remaining cases without consultation. In addition to the director, two senior faculty members from the institute were nominated on the Board.

For academic administration, the Senate was the highest authority for policy formulation on academic matters and for ratifying results. The Senate consisted of all the permanent faculty of the institute, the librarian and the systems manager and was chaired by the Director. In practice, most of the policy decisions, such as number of students to be admitted, admission criteria, fees to be charged, introduction of new programmes or new strategic initiatives, were taken by the Senate and ratified by the Board.

The Senate focused on key policy decisions. It normally met not more than four times a year. Hence, a smaller committee, namely Policy Committee, consisting of nominated members, was delegated with the powers to decide on most of the academic issues. The Director chaired both the Senate and the Policy Committee.

For day-to-day issues and straightforward policy issues, the Policy Committee constituted committees, one for each of the key academic activities, called Activity Area Committees. Some examples of such Activity Area Committees were MBA Committee, Ph.D. Committee, Admissions Committee, Placement Committee, and Executive Education Committee. Besides, each management and related disciplines taught at the Institute, such as Behavioural Sciences, Economics, Finance and Control, and Marketing, was organized as an Area. Areas were at the heart of the administrative structure of the institute, each having nominated representatives in all important committees. Each Area had a Coordinator who was nominated by the faculty of the Area. The Area Coordinator and other members of the Area nominated to different administrative committees played an important role such as selection of new faculty and evaluation of individual faculty members. Exhibit 1 illustrates the overall structure of the academic administration at WIMI.

One difference of these committees from their corporate counterparts was their decision-making style. The decisions were usually taken by consensus. The dissenting voices, even if in minority, were to be heard, heeded, debated and convinced before a decision was taken. Each committee, such as MBA Committee, Ph.D. Committee or EE Committee, operated within a broad set of guidelines decided by the Senate. These guidelines were not well documented. Decisions were taken based on “precedents”. Any decision without precedent took a long time to deliberate and decide.

The Institute bore the financial responsibility for all short duration MDPs that were of "open" type and floated by the Institute. With respect to in-house programmes that were custom-made for the organizations as well as consulting activities, 40% of gross revenues needed to be paid to the institute, and all expenses were to be met out of the balance 60%.

The faculty enjoyed substantial autonomy to undertake any new activities in consulting or MDPs save the applicable approvals and financial terms. Apart from the prevailing programmes offered by the institute, any faculty was free to design and float a new MDP after taking the necessary approvals.

For an open programme, the institute bore all the expenses for floating the programme, and any profit or loss made from the programme was borne by the institute. Even though the faculty member who floated such a new programme would need to take the major responsibility of marketing and administering the programme, he/she did not run any financial risk if the necessary number of participants were not mustered; only his/her reputation was at risk. However, with respect to in-house programmes and consulting activity, the risk-reward ratio was skewed towards the faculty. The institute needed to be straightaway paid 40% of gross revenues as clear profit, and all expenses, such as marketing, travel, boarding and lodging, and secretarial help, needed to be covered out of the remaining 60%. If any of the institute's facilities, such as conference rooms, class rooms, executive hostel, were used for the programme, they would be charged at rates fixed by the Institute from time to time.

Faculty got credit in evaluation for promotion if they floated new MDPs or taught in MDPs. Though the written down policy gave equal weight to teaching, training, research and administration, the over-riding criterion was research and publications, followed by PGP teaching, academic administration and MDP/ training activity, in that order. Even though there was motivation for floating new MDPs (financial incentive in in-company programmes; credit for promotion in all MDPs), very few in the faculty were interested in floating new programmes. According to a senior faculty member:

> The most frustrating stumbling block was the lack of administrative support from the Institute. Programme design, structuring, teaching etc. were fine intellectually, but who would like to do the donkey's job of hustling up participants, getting copies of the course material made, distributed, looking after the participants stay and so on. This was a major disincentive.

Administrative Approval

Consulting and MDPs came under the purview of the EE Committee. Before launching a new MDP, EE Committee needed to approve it. Policy Committee as well had to approve a new category of programmes that might have policy implications. Approval from Policy Committee was time consuming as it met only once in 3-4 months. As Professor Subramanyam was offering just one new programme, an approval from EE Committee would have been sufficient and could be obtained faster.

However, Professor Subramanyam chose to approach the Policy Committee as well for various reasons:

- He was not interested in offering "just another" programme. He dreamt of creating a new category called LDEE that the overall market failed to spot and that would be possible only if a portfolio of programmes were offered.
- Unlike short duration MDPs, the long duration ones required a year-long teaching commitment from faculty. The Policy Committee approval would also help obtain a buy-in from the faculty, informing all potential teachers of the programme, and obtaining legitimacy for the category.
- He wanted the same financial incentive of 40:60 that was applicable for in-company and consulting programmes to be applied for LDEE. He felt that the effort involved in designing, marketing, administering and delivery of LDEE would be no less, if not more, than the custom-designed programmes.

Professor Subramanyam realized that two major environment factors were in his favour. One factor was the severe need to augment revenue. There was a feeling that WIMI was lagging behind the other comparable IIMs in generating a surplus. The second factor was the availability of idle resources like classrooms, housing facilities and faculty time.

Before going to the Policy Committee, Professor Subramanyam met many members of the Policy Committee individually and understood their concerns. Commenting on the process, he said:

> One positive aspect of the WIMI system was that anything that did not fit in with an established procedure or did not have a precedent was likely to be examined with an open mind as long as the person suggesting the idea enjoyed basic credibility. It was easier as people were willing to look at it rationally.

The first long-duration executive education programme *TMP* was approved by the Policy Committee and the EE Committee and was launched in April 1997, almost two and a half years after the idea was conceived.

Product Design

Structure

There were four semesters, each of three-month duration. Each semester had two courses. Each semester had 10 days of formal classroom teaching on the Institute campus. During these 10 days, two courses were covered in each semester. The courses were named similar to those offered in the PGP, such as Managerial Economics, Behavioral Sciences, and Human Resource Management, and were taught by the faculty who taught PGP courses.

Given that a typical executive got about 30 days of privilege leave and 10 days of casual leave (besides the accumulated leave over the years), 40 days of classroom teaching was arrived at as optimal.

The McGraw·Hill Companies

At the end of 10-day classes, each participant was assigned two projects under two faculty guides which they would have to complete before they joined the next semester. These projects were graded. Evaluation and grading were introduced for the first time in an executive education programme. They provided the rigour and the seriousness in learning. Later, an examination for the two courses on the 10th day was added.

Eligibility

Eligibility criterion was a minimum of six years work experience.

Fees

Lump sum course fee was payable in one installment at enrollment. Additional charges for housing and food were to be paid per semester.

The programme needed to be affordable as well as to be able to invite trial. Hence, cost-based pricing was employed. The price covered fixed and variable expenses and the institute's share of revenues.

Hostel

For the first few programmes, hostel stay was kept optional as it added to the cost of the programme. But it was realized later that the hostel stay added significant value in better preparation and emotional bonding among the students. Hence, it was made compulsory.

Certificate

The guiding principle was to give inputs and provide an *experience as close to an MBA as possible* because it was believed that the participants were aspiring for a "mini MBA". However, extreme care was taken to emphasize that it was not a diploma programme. No degree or diploma would be given. Only a certificate of completion would be given.

GROWTH

Learning by Doing

The first TMP was offered in 1997–98. It attracted 28 participants. It generated gross fee revenues of about Rs.1.8 million, exclusive of other charges earned by hostel, class rooms etc. Even though Professor Subramanyam was impatient by nature and was in the habit of doing things quickly, it was two years before he decided to add a second long-duration programme. Soon after the successful completion of the first programme, he realized that he was right about the market opportunity. But he also realized that there was a lot of learning and administrative preparation needed to handle such a programme satisfactorily. The institute's infrastructure and administration was insufficient in many aspects.

More importantly, a core team of faculty was needed. Professor Subramanyam offered "per hour" remuneration that was much higher than the prevailing rate for short-duration MDPs. Initially, he tried out as many as 5-6 faculty members for a 10-day course. Participants were unhappy with some faculty and frequent stylistic differences. Gradually, a core team emerged.

Another important task was marketing of the programme. Except for one solitary advertisement released once a year, there was no advertising and promotion. With the voluntary help of the students managing the institute Website, programme details were made available at the WIMI homepage. Professor Subramanyam's network of contacts, thanks to his long experience in the corporate world and active participation in industry associations such as CII, helped in getting participants. All possible non-traditional media, such as MDPs, in-company programmes, conferences, CII/FICCI platforms, TV channels, social gatherings etc. were used. Remembering that period, Professor Subramanyam said:

> I was making cold calls to sell the programme. I still do. I would ask one of the local vendors to take photocopies of course materials, which he would dump on my desk and I would make sets for the participants. I was a one-man organization. People said this was all a donkey's work. But somebody needs to do all this and needs to do it well.

He emphasized:

> Problems will always be there and a manager's job is to manage them. An entrepreneur is not just an idea generator. He needs to make it happen, and for that he needs to be a doer and a manager.

Significant learning took place in pedagogy, curriculum, administration and marketing. Wherever the institute's infrastructure was found wanting, Professor Subramanyam outsourced the activity. Attending to calls from potential and present clients was one such problem. He outsourced it to a call centre. His managerial background and working style and the high personal commitment of some of the young faculty of the core team made a significant difference in continuous learning.

Here was an example of learning in administration. All the participants of the first programme who needed hostel accommodation were accommodated in the PGP hostels. But the participants, who were of middle and senior management level, were uncomfortable. The MDP hostel, which housed short-duration programmes participants, was very expensive. Then an idea struck. The campus had surplus unoccupied staff apartments for many years. Professor Subramanyam took the necessary approvals and got these apartments renovated with minimal luxuries, such as air conditioners, and used them for LDEE participants. Later, this hostel, which promoted networking and close bonding among the participants, became a key differentiator of the programme.

Rapid Ramping Up

Two years later in 1999, a second programme was added called "Global Business Programme (GBP)" for providing general and strategic management inputs with a global perspective. In the next two years, one new programme was added each year. In the financial year 2002-03, a total of seven long-duration programmes were conducted. These programmes complemented one another and occupied different positions in the vacant space of the segmentation map of executive education. Exhibit 2 gives the key objectives, design and other salient features of each of these programmes.

Table 1 gives the year-wise growth since inception in the number of long-duration programmes, number of participants and gross revenues.

Table 1: Growth in the Long-Duration Programmes at WIMI, No. of Participants and Gross Fee Revenues

(Revenues in Rs. million)

	1997 – 98		1998 – 99		1999 – 00		2000 – 01		2001 – 02		2002 – 03	
Name of programme#	No.	Fee* Rev.	No.	Fee* Rev.	No.	Fee* Rev.	No.	Fee* Rev.	No.	Fee* Rev.	No.	Fee* Rev.
TMP	28	1.68	33	2.48	35	2.90	35	3.2	68	6.63	73	7.67
GBP					30	2.70	33	3.2	36	3.78	41	4.61
YMP									36	1.35	41	1.73
PMP							17	0.5	18	0.54	32	1.34
MP											34	5.61
OPM											120	12.6
PS											67	3.21
Total	28	1.68	33	2.48	65	5.60	85	6.9	158	12.3	408	36.8

* These are approximate gross fee revenues and exclude additional revenues earned through hostel charges.
# Full name of programmes are in Exhibit 2.

Professor Subramanyam cited the following reasons for expanding the portfolio:

➢ Exploit further niches in the LDEE space within the circle of competence of general management, strategic management and international management.

➢ Offer a wide range of programmes to clients so that the probability of selecting at least one programme was high and the probability of cross-selling was also higher.

➢ Leverage fixed costs such as administration and advertising.

➢ Get legitimacy and visibility within the institute.

Exhibit 3 highlights the key events with dates of LDEE. Exhibit 4 reproduces important areas of differentiation as planned by Professor Subramanyam and his vision to build an umbrella brand namely *WIMI Long Duration Executive Education—Powered by Knowledge, For the Ambitious.*

A portfolio of programmes helped in cross-selling. For example, a participant wanted to pull out just before the programme started. Professor Subramanyam talked to him and found that it was because of some critical restructuring happening in his company. Professor Subramanyam offered him the flexibility to join another programme that was starting one month later and was found to be much more suited to the participant's new role after restructuring. The participant was so satisfied with the incident that he talked about it to his CEO, who in turn talked and developed a relationship with Professor Subramanyam. Finally, this relationship led to the CEO himself signing up for a top management leadership programme.

Programme Delivery Organization

As the programmes increased, Professor Subramanyam found it difficult to manage. He attempted to create an organization. Associated with each programme's content and delivery, he felt that there were four primary tasks: (1) marketing and promotion, (2) admission, (3) academic delivery and (4) administration. While he remained as the Programme Director (PD) for all LDEE programmes, he inducted for each programme a faculty member as a JPD.

PD assumed primary responsibility for tasks 1, 2 and 4 and secondary responsibility for task 3. JPDs assumed primary responsibility for task 3. Professor Subramanyam's criterion for selection of a JPD was "fresh mind and strong legs" The typical profile of a JPD was a young faculty, who was not yet a full professor, with less than 5-6 years experience in WIMI. JPDs received a sum equivalent to 5-6 days of consulting income as honorarium in addition to the payment for teaching. They carried out all the planning for content and delivery, such as course mix, faculty, pedagogy, course material etc. PD oversaw all the activities and was responsible for financial management and bringing in participants. Over time, JPDs were expected to take up the programme directorship of their respective programmes.

There was a significant gap between plan and practice. For administrative tasks, a Programme Secretary was to be assigned for each programme. But one person acted as Programme Secretary for multiple programmes for lack of staff. The quality of secretarial support was also poor. As a result, most JPDs ended up doing both planning and administrative tasks.

Stock taking was done every year, and attempts were made to introduce innovations keeping the core positioning in tact. Exhibit 5 contains the excerpts from a mail sent by Professor Subramanyam to a JPD that characterized the emphasis given to continuous learning and improvement; it reflected his personal managerial style. Commenting on Professor Subramanyam's working style and personality, one JPD said:

> He belongs to the rare breed of a manager and academician combined into one. He was so achievement oriented that he would never take a "no" for an answer. I will give an example of his task-oriented nature. I had been just inducted as a JPD when he attended my wedding reception. Throughout the reception his conversation with me centered on the LDEE programme.

> I managed nothing else! Some times I wonder what drives him. While he believes money is important as the only objective and widely recognized measure of success, he is not at all interested in the pleasures that money can bring. He still lives in his old 800 sq. ft flat and drives all around the city (no chauffeur!) in his run-down Santro.

To what extent did the LDEE programmes serve their purpose? Exhibit 6 reproduces a mail from one of the earlier participants of an LDEE programme, GBP, to a potential participant. Exhibit 7 reproduces some of the mails from past participants explaining how the programmes served their career objectives.

EMERGING ISSUES

According to Professor Subramanyam, the performance of LDEE programmes over the last six years demonstrated beyond doubt that it was a distinct and promising category, and that the Institute had the strengths to sustain its leadership position in it. He finalized plans for three more programmes in the coming year 2003–04 (details in Exhibit 2) taking the total to 10 and total estimated gross revenues (from fees alone) to Rs. 75 million. However, this growth of LDEE brought in its wake a number of issues and concerns.

The mounting administrative load adversely impacted on the motivation of JPDs and on the quality of programme delivery. One young JPD said:

> LDEE is an excellent idea, and I value the experience. However, lack of administrative support is extremely taxing, and due to this, LDEE activity is eating into my research time. At the end of the day, I would be judged by my research and publications, and that needs to be my priority.

Two JPDs had already expressed their intention to discontinue their services from 2003–04.

The opinions of faculty on the performance and role of LDEE programmes were mixed. Some felt that it was a step in the right direction. Some raised issues: Whether LDEE was an appropriate product for WIMI, and whether could it be institutionalized and sustained? A senior faculty member said:

> LDEE is a low end, low value programme. It is not sustainable because it was catering to a pepped-up demand. Given its design, it won't enhance the employment potential or marketability of the participants, and when market discovers this, the demand would fall. However, it can be used as a short term strategy by the Institute. It should be nurtured and institutionalized so that it can be upgraded at a later date to attract sponsored candidates from corporates.
>
> On institutionalizing of LDEE, he observed:
>
> There should be a separate office for handling long duration programmes, and they should be offered under the supervision of a separate committee similar to the MBA Committee. Surplus staff of the institute may be relocated

for this office and a manager may be inducted from outside on a contract basis. Accounts of the long duration programmes should be maintained separately.

According to some faculty, LDEE was a one-man show, and hence its sustainability was a question mark. Some faculty expressed concern that ramping up LDEE to such a large scale would eat into the brand equity of the core product—the PGP.

A former director of the institute, during whose tenure the initial programmes were introduced, commented:

> What started off as an experiment has turned out to be a distinct segment, and we are now offering second generation of LDEE programmes. I always felt that post-experience offerings could be of two types—training and education. Short term programmes come under the former category and the three-year evening programme and the LDEE come under the second category. In my view, the strength of this institute has been in education programmes more than training, and LDEE fits in with our strength.

On being a one-man show, he said:

> There were no restrictions on anybody taking initiatives, and it just happened that one person took the initiative.

One senior faculty, who served the institute for many years and had a vast experience on the functioning of EE Committee, had his reservations on LDEE. He said:

> It is a promising segment, no doubt, and we should nurture it. But everything should follow rules and procedures. I can understand Professor Subramanyam's concern on reducing lead times, but still certain guidelines needed to be followed. On the structure and design, I feel that there should be some screening such as GMAT or an admission test to ensure the quality of student in-take as WIMI brand name is involved. Also the courses should be named differently from PGP courses so that there is no misconception in the market. The quality of evaluation and grading being done is questionable. EE Committee should be fully informed on all aspects and should have a say on who should teach in the programmes and all other programme delivery aspects.

Professor Subramanyam responded to various comments:

> We have clearly positioned it as a non-diploma programme as we are giving only a completion certificate like any other MDP and no degree or diploma. The Institute has been running an evening diploma programme for over a decade with a quality of student intake quite different from PGP and that did not impact the WIMI brand name. This practice of running a portfolio of programmes is standard across the world, and many Ivy League schools also have been doing it. Doesn't a Unilever have toilet soaps such as Lifebuoy as well as Dove?

He agreed on the importance of screening and planned to introduce an online aptitude test for the programmes to be offered next year. Reflecting on some of his colleagues' comments, he said:

> In this set up, as you grow in salience, the need for legitimacy is repeated again and again. Paradoxically, I find the first three years of my initiative to be smoother than the next three years.

But he agreed that a new programme administration structure was the critical need and proposed the following brand management structure.

Proposed Brand Management Team

While he had already put in place an academic management structure with JPDs for each programme, Professor Subramanyam felt that it was high time for a dedicated programme administration. The LDEE umbrella had grown much beyond the provisional structure that he had created, and he felt the acute need for experienced people especially in accounting and documentation.

As all the LDEE programmes came under a single brand, he conceived of a Brand Management Team (Fig. 1). Two brand associates would be taking care of admission and communication with potential and present participants and partner institutions such as Direcway. Two brand associates would be in-charge of timely preparation and delivery of course materials, other academic delivery issues, MIS as well as relationship management with present and past LDEE participants. Another brand associate would take care of all book-keeping, preparation of periodic accounts statements and other necessary documentation. There would be a WIMI Long Duration Research Team to provide online interface and interaction with existing and past participants regarding academic inputs.

The five brand associates and the research team would be under the supervision of a Brand Manager who, in addition to his overall responsibility for the above activities, would strategize on the LDEE brand by monitoring competitive trends, identifying new niches, reviewing periodically the positioning and differentiation strategies and so on.

The necessary approval process was in motion, and some potential candidates were identified. Professor Subramanyam hoped that a bulk of the LDEE agenda for 2003–04 would be carried out by the new team, and he would be rendered redundant before the 2004–05 programmes kicked in. He proposed to limit his role by 2004–05 to programme directorships of satellite-based programmes, teaching for a few programmes and providing periodic strategic inputs and acting as the overall "brand ambassador". The key challenge in making the above structure work, according to him, was imparting legitimacy as well as transferring his marketing skills to the Brand Manager.

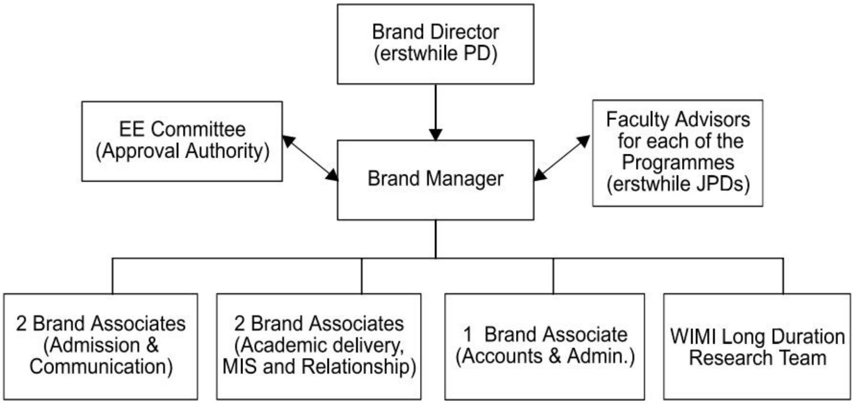

Figure 1: Proposed Programme Management Team

On institutionalization, he said:

> My idea of institutionalization is creating a "management" structure so that the initiative can be sustained and grown. The programme management structure that I am putting in place is towards that goal. An effort such as LDEE requires passion and what kind of passion would exist in a committee structure where the chairman is rotated every two years?

On the question of "after Subramanyam, who?" he said:

> Already the JPD structure that I have created has been working well. JPDs are managing all academic aspects of programme content and delivery. The routine administration too can be handled well by the brand management team. What probably is difficult to replace is my market sense, personal network of contacts and more importantly, my nature of embracing uncertainty willingly. Maybe I need to be involved as a mentor for some more time.

For sustainability, Professor Subramanyam feared that the real challenge lay in the market forces. Competition was coming up fast from satellite-based programmes started by many institutes, including some leading IIMs. WIMI's success would attract more institutes to enter the marketplace. The one-year post-graduate programme offered by some leading business schools would also eat into the LDEE market to some extent. Students now had other alternative offerings to compare. He was getting feedback that the comparative performance of some WIMI faculty was disappointing. He said:

> It's a fast changing, highly competitive world out there. Faculty need to continuously upgrade their skills and reinvent themselves in tune with the changing needs in the marketplace. The old PGP mindset would not do. We need to constantly upgrade our programmes as well as add/delete programmes to the portfolio. The faculty has to deliver, again and again and again; and that is the bottom line for sustainability.

Similar views were expressed by a senior faculty who was always supportive of LDDE:

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> Sustainability depends solely on quality. We should pitch it at a level that is academically demanding. Only a quality programme is sustainable.

However, some faculty believed that the real challenge for sustaining LDDE was something else. In fact, in one of the internal mails debating the institutionalization of LDEE, a senior faculty captured this challenge: "How the knowledge and the core competence of Professor Subramanyam be institutionalized?"

Exhibit 1: Structure of Academic Administration at WIMI

Board of Governors

Board of Governors is primarily responsible for formulating a strategic vision for the institute and undertaking periodic reviews of the Institute's functioning to ensure that it is in tune with long-term objectives. The Memorandum of Association of the Institute also gives the Board of Governors certain statutory powers and certain powers to delegate, approve and ratify.

Director

The Director is the CEO of the Institute, responsible for all facets of its smooth functioning. He is also responsible for financial approvals as per the rules of the Institute. He is the Chairperson of the Senate, Policy Committee, Standing Committee of the Policy Committee, and Faculty Recruitment and Promotion Committee (FRPC).

The Senate

The Senate consists of the Director (Chairperson), all regular faculty members, Librarian and Systems Manager. The Senate is the highest academic authority providing guidelines for policy formulation on academic matters and ratifying results. It normally meets not more than four times a year.

Policy Committee

The Policy Committee consists of Director (Chairperson), nominees of all Areas (11), Faculty members on the Board (2), Deans (2), Chairpersons of all Activity Area Committees (9), a faculty member representing all centres, Chief Administrative Officer (CAO), and Finance and Accounts Officer (F&AO). Policy Committee is the principal coordinating, policy formulating and decision-making authority within the Institute and is responsible for the maintenance and further development of academic standards and activities in the Institute.

Areas

Each of the management and related disciplines taught at the Institute is organized as an Area. The currents areas are Behavioral Sciences, Economics, Environment, Finance & Control, Management Information Systems, Marketing, Operations Management, Human Resources, Regional Development, Sociology, and Strategic Management.

Activity Area Committees

Activity Area Committees are responsible for the maintenance and further development of academic standards and activities concerning them. The Activity Chairpersons are the spokespersons of their committees and are responsible for all matters relating to the committees' smooth conduct and follow up actions. They have the appropriate executive and financial authority for this purpose. They are accountable for their executive functions to the Director.

WIMI academic administration structure can be schematically represented as follows.

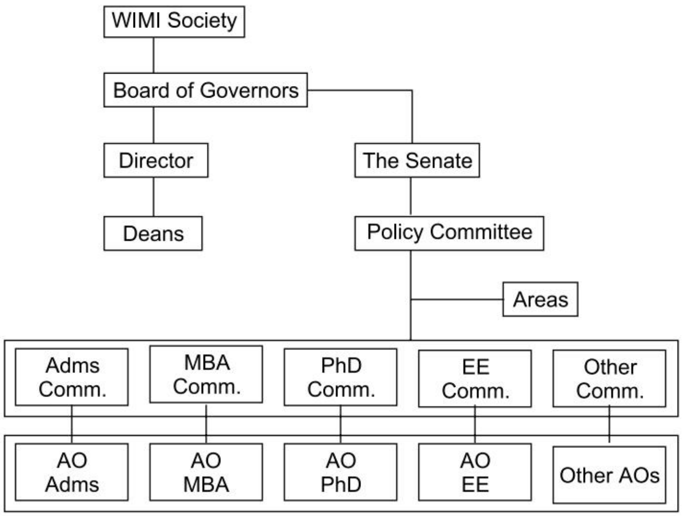

Exhibit 2: Portfolio of LDEE Programmes Offered by WIMI

For Top and Senior Level Management

1. One year WIMI Masters Programme (MP—introduced in 2002–03)

Course Objective: Facilitate acquisition of strategic and people related skills. Provide inputs on strategic leadership and perspective. Make the participants aware about inputs required for transition from functional to general management positions.

Programme Design: There are four semesters each of 3 months duration, of which the one semester is held outside India. In total there are 24 days of classes (6 days every 3 months) to complete 12 courses. Participants need to complete eight projects, two in each semester under the guidance of WIMI faculty.

2. One year WIMI International Managers Programme (IMP—to be introduced in 2003–04)

Course Objective: To provide concepts and framework for doing business in international context; to specially identify and understand the opportunities and constraints as experienced while operating in emerging markets; to make available a blueprint for rolling out an execution plan for doing business in international context with special emphasis on emerging markets.

Programme Design: The programme consists of five semesters. Each semester will have of 5 days of class work and industry interaction and 85 days of project work on specific assignment; the project work will be done at the place of work of the concerned participant under the guidance of the WIMI faculty. The first semester will be held in WIMI campus for 5 days. The remaining four semesters will be held in four different cities of the world, which are known to be leading business centres among emerging markets across the world.

3. One year Programme on Leadership (PL—to be introduced in 2003–04)

Course Objective: To provide a framework for leading and managing large organizations; to provide inputs on latest concepts and frameworks that are available in management literature and also those discussed or spoken by leading management thinkers of the world, the aim being to ensure that participants, most of whom are expected to be extremely busy (and hence do not always get time to update themselves regularly through reading relevant materials), remain up-to-date on the subject under reference so far as the latest thinking and frameworks are concerned; to provide opportunities to the participants to talk about their thoughts as well as experiences and interact with faculty on the subject of leading and managing and also share the same with other participants.

Programme Design: There will be a total of nine modules covering the entire programme eight modules, each of 3 half days and 1 module of 4 half days. Sessions will be spread over 28 equivalent half days, divided into 20 half days plus 4 full days, to be delivered live at home or office of the participants using the Education to Home (ETH) platform of DiRECWAY(owned by the company HECL). The sessions will be held on alternate Sundays (1st and 3rd Sundays of the month) between 6 p.m. and 9 p.m.

For Entrepreneurs and Managers Turned Entrepreneurs

4. One year Programme for Entrepreneurs (PE—to be introduced in 2003–04)

Course Objective: To provide a deep insight on how entrepreneurs think about new opportunities and their associated risk-return considerations; to understand how minds and motivation of entrepreneurs work; to help the participants understand the core business skills required to create wealth and their execution issues in the context of an entrepreneurial firm; to encourage managers turned entrepreneurs to take risks and build and own their enterprises by leveraging their entrepreneurial orientation and skills.

Programme Design: Consists of seven modules spread over 14 months with 84 sessions (21 days) partly on WIMI campus and partly satellite based.

For Senior and Middle Level Management

5. One year Programme on Strategy (PS—introduced in 2002–03)

Course Objective: To provide a broad overview of the field of strategic management; to impart strategic skills required to take strategic decisions and implement the same; to develop a threshold level of strategic orientation required for rapid executive career development.

Programme Design: There will be four distinct parts (1) attend formal classes at WIMI campus for 5 days right at the beginning of the programme (Month 1), (2) attend 10 one day sessions, once a month, to be conducted by WIMI faculty and delivered over the communication network of HECL, and available in 36 centres all over India (Month 2–11), (3) submit four projects, based on inputs received during the 10 sessions referred above and reading materials provided, within 21 days of attending each such session (Month 3–12), (4) subject to attendance in minimum 80% of the sessions referred under Part 2 and submission of all project reports referred in Part 3, the participants will attend 5 days of classes on strategic management in WIMI campus (Month 12).

6. One year Total Management Programme (TMP—introduced in 1997–98)

Course Objective: To provide functional, general management and strategic management inputs required by a manager for running a modern corporation; to help the participants develop an understanding of the role of managers and what make them successful; to get a glimpse of what all are needed to work as performing managers in middle and senior management level of a firm.

Programme Design: There will be four semesters, each of 3 months duration. In each semester, two courses will be offered. There will be 10 days of formal classroom teaching in each semester. During these 10 days, two courses will be covered. There will be an examination for each of these two courses on the 10th day, which will be graded by the WIMI faculty. At the end of 10 days of class, each participant will be assigned two projects under two faculty guides which they will have to complete before they join the next semester two and half months later.

7. One year Global Business Programme (GBP—introduced in 1999–2000)

Course Objective: To expose the participants to the basic principles of management and their applicability; to provide a perspective on international business environment and how principles of management and application that are applicable in domestic context need to be fine tuned for effectiveness in international context; to provide inputs as required for development of business and functional policies and strategies for operating successfully in global environment; and to help participants develop management and leadership skills for operating successfully as global managers in present day business environment.

Programme Design: There will be four semesters, each of 3 months duration. In each semester, two courses will be offered. There will be 10 days of formal class room teaching in each semester. Out of the four semesters, three semesters will be held in the WIMI campus. One of the four semesters will be held outside India. At the end of 10 days of class, each participant will be assigned two projects under two faculty guides which they will have to complete before they join the next semester two and half months later.

8. Six Month Programme for Management Perspective (PMP—existed since 2000–01 though under a different name for the first two years)

Course Objective: To provide a total business and management exposure to the participants who possess specialization in one or more basic discipline areas but still needs an exposure to the field of general management for greater exploitation of their potential.

Programme Design: There will be two semesters each of 3 months duration. In each semester, there will be 10 days of formal sessions to be held at the WIMI campus. During the remaining 80 days of each semester, the participants will return to their work place and complete one project to be guided by one WIMI faculty.

For Young Managers

9. One year Online Programme in Management (OPM—introduced in 2002–03)

Course Objective: The Executive Programme in Business Management is designed to provide managers and professionals with a broad overview of the key concepts, tools and techniques needed to successfully meet the challenges of today's global business environment.

Programme Design: There will be a remote component consisting of 14 modules. Faculty from WIMI will take these modules through approximately 240 instructional hours. The in-campus component is held at the end of the one-year programme covering 3 days (24 hours).

10. Six Month Young Managers' Programme (YMP—introduced in 2001–02)

Course Objective: To expose the participants to the dynamics of business environment and develop an appreciation about how to identify and interpret trends and turning points of relevance to their respective functions and organizations; to help the participants understand "self" and make them aware how personal and interpersonal styles affect individual and organizational performance; to develop an appreciation of how an organization work and systems and processes that facilitate the same; to provide a perspective on core business functions and make the participants understand how such functions and employees working directly or indirectly with the same create value for customers and shareholders; and to help the participants acquire critical managerial skills (including planning, execution, negotiation, and communication and presentation skills) necessary to perform successfully in their work place.

Programme Design: There will be two semesters, each of 3 months duration. In each semester, spread over 2 weeks, there will be 10 days of formal classes in WIMI campus. At the end of these 10 days of formal sessions, each participant will take up a project, to be decided by the Institute, which will need to be completed during a maximum period of 3 months.

Exhibit 3: Key Highlights and Important Dates

- Approval of the Policy Committee obtained to offer WIMI LDEE programmes on "in-company programme" principle during 1996-97.
- First programme, TMP, launched in April 1997 with 28 participants.
- Second programme, GBP with one semester to be held outside India, launched in May 1999. Third programme, later renamed as PMP, also launched in 1999.
- Fourth programme, YMP, launched in May 2001.
- Introduction of an outsourced service to respond to queries by prospective participants—a first in WIMI history.
- Fifth, sixth and seventh programmes, viz., MP, PS and OPM launched during 2002.
- Number of participants reached over 400+ levels during 2002–03.
- Overseas modules organized for two long duration programmes during 2002–03, in Shanghai and Shenzhen with 40 and 33 participants respectively.
- Launching of two satellite-based executive education programmes, using HECL's infrastructure; PS in May 2002 and OPM in November 2002. HECL was the sole provider of virtual classroom technology in India.
- Proposed to launch three more new long-duration programmes in 2003–04.
- Introduction of an on-line test (including essay writing) for admission to TMP, GBP and YMP and aptitude test for all the 10 proposed programmes in 2003–04 on an experimental basis.

Exhibit 4: Blueprint for Creation of WIMI Long Duration Executive Education Umbrella Brand

Areas of Differentiation of LDEE Programmes

- Distinct target segment of ambitious individuals looking for quality knowledge from reputed institutes and are willing even to self finance in case no organizational sponsorship was forthcoming.
- Delivery mechanism for most programmes consisting of both in-campus and off-campus modules—with in campus module accounting for 10–12% of total number of days for which such programmes are designed.

- In-campus module was rich on concepts and suitably blended with cases as required; off-campus module focused primarily on project work on participants' companies around specific themes.
- Performance evaluation by WIMI faculty through examination and project work.
- Compulsory stay in the campus, thereby facilitating opportunities for greater inter-participant learning and future networking.
- Affordable charges, given the value being delivered (as communicated through content, delivery mechanism, WIMI brand name and credibility of faculty members involved with various LDEE products).

Umbrella Brand

A distinct identity was sought to be created for the umbrella brand called *WIMI Long Duration Executive Education—Powered by Knowledge*, *For the Ambitious*.

- **Brand's Functional Attributes**

  Abridged courses in various subjects sufficient to provide a broad perspective on critical skills proposed to be covered under concerned product (but nowhere close to two-year PGP whether in terms of content or rigour), blend of in-campus and off-campus learning, concept and case-based teaching and formal evaluation by WIMI faculty in cases of select programmes.

- **Brand Personality (reflecting the personality of the target)**

  Optimistic, self confident and ambitious, but aware of current disadvantages vis-à-vis peer group members; had difficulties in undergoing full time management education to overcome such perceived disadvantages but were willing to commit own money (or convince the employer to get the same) and time behind suitable rigorous management education programmes specially designed by leading B schools that could be done without resigning from current job (in case of working people) and which could at least partly meet the perceived need for institutional identity.

- **Relationship of the Target with the Brand**

  Confidence and trust that the brand would help achieve the career objective of the target.

- **Brand Culture (reflecting source from where the brand has originated)**

  Based on WIMI's image, developed and cultivated over the years and known for its conceptually sound and systematic approach to imparting management education.

- **Reflection (what the target could be by using the brand)**

  Alumnus of a premier business school and an identity of a professionally qualified individual.

➢ **Self-Image (proving to one self)**

"It's never late and I can do it too."

Exhibit 5: Mail from Professor Subramanyam to a JPD

Dear Anil,

Within a month from now, we have to announce the next .... on WIMI website and within the next three months we have to formally advertise about the same in the newspaper. This being so, we have to start thinking right from now as to how we will like to change both content and delivery mechanisms of the programme to be offered during 2002-03, based on experiences gained till date. Even though performance of the programme till date is fairly satisfactory, I am still suggesting that we compel ourselves to do such a formal review as we need to accept that GBP is not beyond failure and any competing organization interested to deposition WIMI in this area can do so very easily unless we raise the bar on our own. Hence my request.

I shall request you to kindly think of at least three innovative changes in content which will keep us ahead of rest of the pack. So far as delivery mechanisms are concerned, we also need to introduce at least three innovations. Here, you may consider taking some ideas from WIMI faculty who play a major role in determining how effective we are in our ability to give the grades on time as well as maintain contact with the participants during the period the latter are away from the campus (both are important metrics that measure the quality of our programme). We need to also talk to those WIMI staff as well as contract service providers who are directly involved in providing programme support in such areas as programme administration, telephone, dispatch, hostel, class room management, photocopying, library etc. As a matter of fact, we need to take a close look at all the "touch points" where WIMI's front and back offices and the participants of the programme are coming in contact directly or indirectly. By involving everybody concerned in developing innovative ideas, we will not only be tapping their intellect but will also be enhancing their commitment to execute all our new ideas. Needless to say, it will also improve internal buy-ins.

As you think about innovations in both content and delivery mechanisms, kindly keep in view the underlying core value proposition of WIMI's various LONG DURATION programmes viz. "Rethinking Executive Education: Powered by knowledge, for the ambitious". The changes that we propose to introduce should further strengthen and also communicate to our target groups this distinct positioning of WIMI in long duration executive education market. Please remember, at any time we are only two years from failure; as anybody can copy us.

From my side, I have started thinking about the next changes we should introduce. During the week beginning 22nd, subject to your availability and convenience, we can meet and discuss face to face the various ideas we collectively have.

Regards

Subramanyam

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Exhibit 6: Mail from an Earlier Participant of LDEE Programme to a Potential Participant

—— Original Message ——

From: Pavan Gupta <pavangupta@yahoo.com>

To: WIMI_GBP4@yahoo.com, WIMI-GBP-2@yahoogroups.com

Subject: Fwd: [WIMI-GBP-2] Does GBP add any weightage to your resume ?

Date: Mon, 12 Jul 2002 12:55:30 -0700 (PDT)

Sunil,

These were the very questions that I had on mind when I joined the course, not necessarily in the same order though.

I am answering your questions from my perspective. I am not generalizing on behalf of my class.

1. Have you found yourself being compared or treated at par with the IIM graduates?

No. The employer/prospective employer and the institute do not treat the GBP on par with the regular course. It is not their objective as well.

The course attempts to teach you a few skills from the international perspective. It does not teach you the knowledge that a regular course provides. The course attempts to develop key skills among middle level managers to provide a fillip to their career. Period.

2. Has the GBP opened any doors for you, I wonder if it helped anyone change their field of operations after the programme?

GBP helped a lot of my classmates including myself in understanding and pursuing new career opportunities within the same company, seek employment in newer/ larger enterprises with greater remuneration.

Apart from these tangible benefits, GBP changes your perspective towards your career. It makes you think. You begin to realize your capabilities and push self towards challenging roles.

3. How can GBP from WIMI be positioned on my resume?

GBP from my understanding is not a substitute to college education. It is a development programme. Hence, you may even want to position the course under training programmes attended, if there were to be such a head in your resume.

There are growing number of organizations that are appreciating working professionals going back to school to learn specific skills. I am certain that once you are called for an interview, your explaining and presenting the course as it were, it would be greatly appreciated.

Like I mentioned in question #1, do not try to position this course alongside a regular post graduate programme.

Hope this helps. These are my personal observations and comments.

Regards

Exhibit 7: Mails from Some Participants on How GBP Helped Them

—— Original Message ——

From: “SANTOSH NAIR” <santnair@yahoo.com>

To: Subramanyam@WIMI.ac.in>

Sent: Thursday, July 15, 2002 4:35 PM

Subject: Moved Jobs - GBP III Student

Dear Prof. Subramanyam/ Prof. Sunil,

Would like to share with you that I have joined Infosys in their Business Consulting Division as an Associate, and shall be attached to their High Tech and Discrete Manufacturing Practice, which does business primarily in North America.

Amongst other things, the … at WIMI was definitely an asset in helping me land this assignment. I thank you for the same.

Finally, I am glad that I could beat Prof. Subramanyam’s 6 month deadline for changing jobs!!

Best Regards,

Santosh Nair

—— Original Message ——

From: “Shankar Menon “ <shankarm@yahoo.com>

To: <sunil@WIMI.ac.in>

Sent: Tuesday, December 17, 2000 9:14 AM

Subject: Real life experience on “GuanXi”

Dear Prof Sunil,

I am a student of …….

During the third semester that we recently completed, you had taught us the concept of “GuanXi”. I have a real life experience on this now—I was in discussions for sometime with a large business house in US for offshore IT Services opportunities (A prospect). The head of their IT initiative was a Chinese. After the learning at WIMI, I was speaking with this Chinese guy about “GuanXi”. All this time, I was on last name terms with him. Suddenly he had become very friendly and insisted that I address him by his first name, said there is no need for too many formalities; And this Chinese is a very senior person in the organization hierarchy.

I was so excited that I thought I should share this with you.

Regards

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Professor Ramachandran has been teaching entrepreneurship, family business and strategy at the Indian School of Business, Hyderabad since its inception in 2001 and is currently the Thomas Schmidheiny Fellow of Family Business and Wealth Management. Prior to this, he was a professor at the Indian Institute of Management, Ahmedabad for fifteen years. He obtained a Ph.D. from Cranfield School of Management, UK, and has done research on entrepreneurship, family business and strategy. He has been a consultant to a number of Indian and international organizations. He took initiative in the setting-up of the Society of Entrepreneurship Educators (2003) and the ISB Knowledge Hub (2004)—a business incubator. He is also the Associate Dean (Academic Programmes) at the ISB.