**JAIPURIA INSTITUTE OF MANAGEMENT, INDORE**

**PGDM**

**THIRD TRIMESTER (Batch 2020-22)**

**END TERM EXAMINATION, MAY-2021**

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| Course Name | **Strategic Management** | Course Code | **GM 301** |
| Max. Time | **2 hours** | Max. Marks | **40** |

**Answer all questions.**

**Q Read the case “Of Growth Pangs and Plans” and answer the following questions:**

A. **Analyze the case by answering the following questions as a guideline:** **(10 Marks)**

i. What is the case about?

ii. Who are the actors and players? (Supported by Porter’s 5-Forces model)

iii. What is the event?

iv. What are the symptoms, problems, and issues?

v. What actions have been taken, what actions need to be taken?

B. **Among the two options for diversification being discussed in Chennur Tea Company would you support related diversification within the tea industry or entering ready-to-eat food business? Justify your choice**.

**(15 Marks)**

C. **Riaz recommended restructuring Chennur tea Co. while diversifying to new products. Discuss the pros and cons of this new organization structure**. **(15 Marks)**

**Of Growth Pangs And Plans**

**Should Chennur Tea look at an entirely new business for growth and move away from its tea business? And if it does, should it set up a new company.**

PREM Warrier sat up with a start. He was listening to his wife who had just returned from visiting their son in Chicago, even as he was preoccupied with a decision that faced him at work. She said: "The only thing I didn't like was his apartment; he calls-it a studio. He cooks, sleeps, eats and even studies in that room. How can you get focus? His books, clothes, soup packets and CDs all co-exist! I wonder if he will get his doctorate in the midst of a whirring washing machine, stale dishes.

"Prem felt a familiar confusion return. Everything was somehow linked to his company’s new business plans, even the appurtenant his son lived in. From Chicago to Chennai, it was a long chain of chaos, he rued. Chennur Tea, the Rs 300-crore Chennai-based tea company where he was the head of corporate strategy, was contemplating change. And after last weeks’ meeting with his management consultant, Riaz Latif, the change seemed much bigger than he had anticipated. For not only was Riaz suggesting moving away from the tea business — something Chennur was reluctant to do but he was even redefining the business model.

Chennur had been looking at growth avenues, but couldn't decide between improving its existing tea business with packaging innovations and convenience, or investing in ready-to-eat foods like microwavable dals, curries and vegetables. Growing tea business found immediate favour with most, while managing director Deepak Rai was determined to enter new business.

"The question is what kind of growth are we seeking asked 'Prem. "We can innovate forever since tea drinking will not go out of fashion. But how much will we grow? And where will we growth come? New users? New markets? Will that be enough?

“Let's understand one thing, we are in the beverages business,” said Anup Tandon, the marketing head. "The entry of lifestyle brands has led some loss of market-share. Lifestyle aspirations are now more critical to the consumer and we need to address that. Growth will come from staying close to the consumer and engineering innovations that will improve the value delivery to the consumer. That's the only way we can align our investments with consumer needs.”

As the debate warmed up, it became apparent that-the argument was not in favour of entering the ready-to-eat foods segment. Anup suggested that they innovate on tea and take it beyond current blends — iced tea, flavoured tea, and convenience packaging that would hone their skills. "What competencies do we have in foods anyway?” he said. “Haven’t we seen enough companies that tried to enter foods and are laughing?

"Besides, said Sumeet Panday, the chief financial officer, "how are you going to justify investments in areas where consumer needs don't even exist? Enough and more is going into competitive warfare and fine-tuning the present blends."

But Prem who had warmed up to the new idea said: "I feel we must leapfrog into areas that address next generation needs."

"Tell me, how many people eat out of foil packets?" asked Anup. "Let's not forget Indian food habits. Which housewife would want to restrict cooking to a mere snip of the scissors and pressing a button?"

"As long as you continue fulfilling (he needs of your existing consumer set, you won't be able to pull Chennur out of the low performance trap that it is in," said Rai.

It was at this stage that Riaz cast his ballot in favour of an innovative shift. "Attempts at packaging innovation, etc. will, at best, help you gain some market-share and, perhaps add to your sales,” he said, "but not a quantum leap. If we want to take the company up many rungs, you must try and think of innovation in the broader area of foods. No doubt you will fine-tune your strategy in tea, innovate on packaging and project a demand that Will be up 15 times in five years. But what next?

"Yes, you can keep on nibbling at the competition, converting users — which you have been doing anyway. And each time sales goes up by a few percentage points, it will give you an aura of long-term success. But you have to start looking at real growth, and that, feel, lies in anticipating future trends and slotting yourself into the expected or anticipated future needs or lifestyle of your consumer set."

Prem was willing to play along for the time being, but he said: "Whatever future trends you may talk of, it must have some bearing on what the market has revealed," he said. "Therefore, it may be okay to venture into areas like cereals and even pasta or soup, which have been fairly successful with consumers. These are days of intermediates, ready-to-cook or ready-to-use. But where is the market for ready-to-eat foods apart from potato chips and *namkeen*?"

"But where was the market for potato chips when Lehar launched its brand?" asked Riaz. "Even then, the market said why fear. I agree the concept will appeal to few initially and that saes will be limited. Was there a market for garlic paste when Dabur launched it? It is possible that even today the consumer does not rate its performance attributes highly, but in many cases, we have seen that the product does improve at a rapid rate and even replaces existing habits or perceptions of a category."

Staying close to the consumers’ current needs could blinker a marketer from innovating, felt Riaz. "But once a player decides to look at the future, he sets in motion change, by which time it is too late for existing players to retain their markets," he said. "Take automobile industry. In an era of least competition, it thought it had created sufficient entry barriers and new players wouldn’t come in. It didn't even believe that a change was worth the effort But, it paid the price by allowing Maruti to shape the emerging market. And Maruti offered a better product at a lower price."

Riaz felt there would always be scope for improving the current needs of consumers, but to see that as an investment for growth is where he disagreed. "The past is always a reassurance of worked well then," he said.

“So, you could continue tweeking your packaging, and offering multiple blends. But look at the bigger picture: there is a discernible shift in lifestyle and aspirations. Decode that correctly and anticipate the shade of things to come. So, why not ready-to-eat foods?"

"But there has to be a market and a felt demand," said Anup. "We have to fit ourselves to consumer needs; that is the best way I to have a winning product. The felt need and demand is for intermediates — salt, atta, gravies, soups, etc. There is a market, albeit small, but it is possible to estimate a demand, target market potential and revenue streams. But something whose need has not been felt, doesn’t even exist – how do we justify an investment on that? How do we even know if these cost can be recovered?”

“Of course,” said Riaz, “a maverick new category which is futuristic will not proffer attractive financial yields. And yes, costs will be huge. But there is the price you will have to commit to for real growth.”

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"Of course," said Riaz, "a maverick new category which is futuristic will not proffer attractive financial yields. And yes, costs will be huge. But that is the price you have to commit to for real growth.”

" To my mind, Reebok developed the data by actually putting its shoes on the shelves, believing in the compatibility of its value delivery with the aspirations and trends in consumer lifestyles and thinking that whatever be the product, consumers were aspiring to improve the way they lived.

"And that is how it sought to give shape and contours to a non-existing market and focussed on the few variables that were available, albeit without any profile," said Riaz. "But it was one laborious move after another. But in that phase, Reebok learnt what consumers wanted. Uniquely, it was the consumer who came back and said that he did not want price. But he said something finally: 'Give us good-looking shoes like these that are affordable.' A point of communication was reached. And when the consumer starts talking to you, you know you have a place in the market."

"But tell me," continued Riaz, “what is the kind of information about the market did Reebok have when it entered India? Was there a market for technically-engineered shoes to begin with? Who knew? But there was aspiration, there was an interest in fitness. But was it enough to justify an investment of Rs X million which Reebok put in? What, if at all, was available was the size of the total footwear market, which included the market for Hawaii chappals!”

“If Reebok had stayed close to the existing consumer need of functional shoes at a cheap price, there wouldn't have been a market for its technically-engineered shoes! Conventional market research is of no use in such a situation. So, Reebok had to 'develop' market information such as: 'Who could be the potential consumer? What did such a consumer look for in terms of value or performance? What were his aspirations and where in that hierarchy could a need gap be identified and filled in with a pair of Reeboks?'

"It was then the-second phase began," continued Riaz, "when it redesigned its shoes, did some spectacular value engineering

and adapted its product to the evolving mindset of consumers of India. That naturally brought down costs and, hence, the that point, I think, Reebok started setting targets and budgets. Not before it entered the market."

"Kellogg’s graph is almost identical," said Riaz. "It went ahead to a market that gave no clues on its size. But put the cereal on the shelves, threw in trial incentives, watched consumption and buying habits, improvised, watched, and created data, which it then set to improve. Now tell me, how could Kellogg's, or Reebok, believe there would be no market simply because there was no market? If consumers were buying age-defiant creams, how was a packet of cereal any different? If you were eating paranthas for breakfast, you were also using *chandan* to-preserve your skin. The fundamental truth was that the consumer aspired for improvement. "

The following two days, Prem and Atul were involved in the intense debate. Yes, they felt, the market lay in anticipating future needs. The idea of entering ready-to-eat foods seemed less daunting now, they felt the typical anxiety that preceded a vital move. Many new entrants had blazed the trail of new categories, but as Prem said: "I wouldn't go by their examples alone. After all, some were seeking new markets. But yes, we can find encouragement in what Dabur, Lehar and RCI did. These are firms like ours which to grow beyond their existing businesses. And, if both Reebok and Kellogg’s succeeded in breaking the myths, behind their expected failure, I'd think it was also because they were multinationals with deep pockets."

"Wrong," said Riaz, when Atul repeated that argument. "Because they were both start-ups and not divisions of an existing company." Atul was surprised, even as Riaz said: "And that is the other aspect of a new business. If you have decided to enter ready-to-eat foods, understand that success will depend on the business model too. Because a new product category, one that is path-breaking or different from the mainstream product category of an existing company, needs an environment where there are no benchmarks, no history, where small wins create energy and don’t invite ridicule, and provide focus and drive."

"That might explain why Cadbury failed in ice-creams, why Marico's fabric-care business may be slow. So if you decide to enter the ready-to-eat foods business set-up, let it be a separate firm and don't run it through a division of Chennur," said Riaz. And that led to a fresh round of agitation and anxiety in Prem's mind. "Where is the need for that?" he asked. "As it is entering a new category, it’s going to strain our bottom-line; we hardly need additional costs to render the idea unviable. I am not sure, I agree with you," he said.

Riaz said: "It is difficult for established firms to undertake new ventures and sit patiently through the start-up stages. Mind you, the new business is not going to reap revenues in Year One or Two or Three. It is going to be a slow process of trial, error and repairs. The tea division not sit back and watch quietly. There will be and pull of resource allocation and you will unwittingly same financial performance standards from your new business which apply to the more successful tea business. What will happen in the process is that you will set tough targets for the harass its every move and curb its independence." '

“Maybe," said Prem. "But pre-warned is forearmed. We can bear this in mind and ensure complete independence for the new business. But setting up a separate company doesn't make sense. Firstly, we do not even know if the new business is going to pay for its upkeep. If it is a division, it can readily use our market research and financial services facilities, the administration and even the sales team. Those are huge costs: it does not make sense to duplicate these services and costs. Once the new business 'tarts to reap revenues, it can decide…”

" I agree," said Anup. "After all, isn’t Hindustan Lever (HLL) running five distinctive businesses as divisions? It’s a question of good company practices and ensuring focus. In fact, that's the reason Walls ice-cream is able to hold out. If it had been a separate company, it would have folded up by now. As a division, the support costs are borne by a common pool."

But Riaz wouldn't agree. "It is risky," he said. "Besides you are not Hindustan Lever. That company has evolved and grown so many businesses that it has covered a better part of the learning curve. But it has had its share of stumbling too. For example, consider why Lipton did not succeed in its various forays into foods like pasta and fruit-based beverages. So, it is not just start-ups — oven existing companies planning a different business need the environ of a separate organisation. An established business thinks and behaves differently from a new business"

Thus, when it entered ice-creams, Cadbury may have belied it was dealing with an established market. There may have been a market for ice-creams, but to go out there and create a fever for your brand, even create a parlour habit, was something new. That attitude of the mainstream business has a rub-off effect on the new division and I suspect that the Dollops team, too, thought it was there to enhance corporate growth, when, in fact, it there to explore a completely new product category. When are on support, you can't feel only for your division, you harbour feelings of anxiety for the support the mainstream business giving you."

The advantage of starting alone, felt Riaz, was the ability to develop a distinctive vision for the new business without the tedium of constant referrals to the mainstream business' success. "A division 'divides vision' and splintered visions don't guarantee success,” he said. "Your new business will have lower profit margins than your mainstream business, a different consumer set to cater to, maybe a different distribution strategy. Left alone, it will develop the initiative to look at the market from a zero-base. Combined with the tea business and an access to a common resource pool, it will willy-nilly focus on cost benefits, resource optimisation and the path of least resistance."

Ready-to-eat foods was a completely different business with different consumer needs, felt Riaz, which demanded a separate organisation. "Examples abound, but it is for you to learn from their experiences," said Riaz. "Even when there is a market for the new category, you still need to set up a separate organisation. Why did Glaxo exit its foods business? Foods was a division of this large pharmaceuticals company, which was geared for ethical selling and not consumer selling. Reckitt, on the other hand, has set up its pharmaceuticals business as a separate firm — Reckitt Piramal. It knows there is a market for over-the-counter products, yet it has chosen to set up a separate company. It will work since the visions are independent, " said Riaz.

Does that mean that each time we want to enter a new business we have to float separate companies?" asked Prem

"Well, I suppose as long as they are strategically different from the mainstream business," suggested Anup

"But also think-that once they have grown, they should be merged with the mother firm. Because, by then, their independent costs will get to be economically unviable and, in fact, an advantage is to be had in the economies of scale that merger will proffer.”

Riaz grew thoughtful. "That I am not sure of," he said. "It will depend on the nature of the business. But essentially, the same reasons in their separation will also operate in their merger. Those reasons don’t disappear. If sharing resources is the theme, you will be back in the argument room over budgets, share of resources and rationalising of product lists.”

Prem disagreed. "HLL has merged its foods and skincare firms into its mainstream soaps and detergents firm. Surely, you aren't suggesting that will be sub-optimal?" he asked.

Riaz dodged that one. It was difficult to answer that, even as he knew that for a multi-product multi-business firm with such a fine-tuned business model, this was unlikely.

Instead, he said: "Every business has its own vision and lifespan, its own strengths and weaknesses. Within that, there will always be a re-arrangement of business focus. What is mainstream today may become secondary tomorrow. What if your ready-to-eat foods business out grows your tea business?" he asked.

This was one big move; the choice of business was no more an issue with Atul; what worried him was Riaz’s suggestion that if it was a business clearly distinctive from the core business, it should be handled out of a separate organisation.