# 8

# CASE STUDIES

**Case Study - 1**

*DD is the India's premier public service broadcaster with more than 1,000 transmitters covering 90% of the country's population across an estimated 70 million homes. It has more than 20,000 employees managing its metro and regional channels. Recent years have seen growing competition from many private channels numbering more than 65, and the cable and satellite operators (C & S). The C & S network reaches nearly 30 million homes and is growing at a very fast rate.*

*DD's business model is based on selling half-hour slots of commercial time to the programme producers and charging them a minimum guarantee. For instance, the present tariff for the first 20 episodes of a programme is Rs. 30 lakhs plus the cost of production of the programme. In exchange the producers get 780 seconds of commercial time that he can sell to advertisers and can generate revenue. Break-even point for producers, at the present rates, thus is Rs. 75,000 for a 10 second advertising spot. Beyond 20 episodes, the minimum guarantee is Rs. 65 lakhs for which the producer has to charge Rs. 1,15,000 for a 10 second spot in order to break-even. It is at this point the advertisers face a problem – the competitive rates for a 10 second spot is Rs. 50,000. Producers are possessive about buying commercial time on DD. As a result the DD's projected growth of revenue is only 6-10% as against 50-60% for the private sector channels. Software suppliers, advertisers and audiences are deserting DD owing to its unrealistic pricing policy.*

*DD has three options before it. First, it should privatise, second, it should remain purely public service broadcaster and third, a middle path.*

*The challenge seems to be to exploit DD's immense potential and emerge as a formidable player in the mass media.* *(May, 2007)*

**Questions**

*(i) What is the best option, in your view, for DD?*

*(ii) Analyse the SWOT factors the DD has.*

*(iii) Why to you think that the proposed alternative is the best?* *(20 Marks)*

**Answer**

**(i)** For several years Doordarshan was the only broadcaster of television programmes in India. After the opening of the sector to the private entrepreneur (cable and satellite channels), the market has witnessed major changes. The number of channels have increased and also the quality of programmes, backed by technology, has improved. In terms of quality of programmers, opportunity to advertise, outreach activities, the broadcasting has become a popular business. Broadcasters too have realised the great business potential in the market. But for this, policies need to be rationalised and be opened to the scope of innovativeness not only in term of quality of programmes. This would not come by simply going to more areas or by allowing bureaucratic set up to continue in the organisation.

Strategically the DD needs to undergo a policy overhaul. DD, out of three options, namely privatisation, public service broadcaster or a middle path, can choose the third one, i.e. a combination of both. The whole privatisation is not possible under the diversified political scenario. Nor it would be desirable to hand over the broadcasting emotively in the private hand as it proves to be a great means of communication of many socially oriented public programmers. The government could also think in term of creating a corporation (as it did by creating Prasar Bharti) and provide reasonable autonomy to DD. So far as its advertisement tariff is concerned that can be made fairly competitive. However, at the same time cost of advertising is to be compared with the reach enjoyed by the doordarshan. The number of viewers may be far more to justify higher tariffs.

**(ii)** The SWOT analyses involves study of strengths, weaknesses, opportunities and threats of an organisation. SWOT factors that are evidently available to the Doordarshan are as follows:

**S – Strength**

- More than 1000 transmitters.
- Covering 90% of population across 70 million homes against only 30 million home by C & S.
- More than 20,000 employees.

**W – Weakness**

- Rigid pricing strategy.
- Low credibility with certain sections of society.
- Quality of program's is not as good as compared to C & S network

**O – Opportunities**

- Infrastructure can be leased out to cable and satellite channel.
- Digital terrestrial transmission.
- Regional focused channels.
- Allotment of time, slots to other broadcasters.

**T – Threats**

- Desertion of advertisers and producers may result in loss of revenues.
- Due to quality of program the reach of C & S network is continuously expanding.

- As the C & S network need the trained staff, some employees of DD may switchover and take new jobs.
- Best of the market-technology is being used by the private channels.

**(iii)** It is suggested that the DD should adopt a middle path. It should have a mix of both the options. It should economise on its operational aspects and ensure more productivity in term of revenue generation and optimisation of use of its infrastructure.

Wherever, the capacities are underutilised, these may be leased out to the private operations. At the same time quality and viewership of programmes should be improved.

Bureaucracy may reduce new strategic initiatives or make the organisation less transparent. Complete privatisation can fetch a good sum and may solve many of the managerial and operational problems. However, complete public monopoly is not advisable because that denies the government to fully exploit the avenue for social and public use. The government will also lose out as it will not be able to take advantage of rising potential of the market.

**Case Study - 2**

*Read the following case and answer the questions at the end:*

*Dr. Sukumar inherited his father's Dey's Lab in Delhi in 1995. Till 2002, he owned 4 labs in the National Capital Region (NCR). His ambition was to turn it into a National chain. The number increased to 7 in 2003 across the country, including the acquisition of Platinum lab in Mumbai. The number is likely to go to 50 within 2-3 years from 21 at present. Infusion of Rs. 28 crores for a 26% stake by Pharma Capital has its growth strategy.*

*The lab with a revenue of Rs. 75 crores is among top three Pathological labs in India with Atlantic (Rs. 77 crores) and Pacific (Rs. 55 crores). Yet its market share is only 2% of Rs. 3,500 crores market. The top 3 firms command only 6% as against 40-45% by their counterparts in the USA.*

*There are about 20,000 to 1,00,000 stand alone labs engaged in routine pathological business in India, with no system of mandatory licensing and registration. That is why Dr. Sukumar has not gone for acquisition or joint ventures. He does not find many existing laboratories meeting quality standards. His six labs have been accredited nationally whereon many large hospitals have not thought of accreditation; The College of American pathologists accreditation of Dey's lab would help it to reach clients outside India.*

*In Dey's Lab, the bio-chemistry and blood testing equipments are sanitised every day. The bar coding and automated registration of patients do not allow any identity mix-ups. Even routine tests are conducted with highly sophisticated systems. Technical expertise enables them to carry out 1650 variety of tests. Same day reports are available for samples reaching by 3 p.m. and by 7 a.m. next day for samples from 500 collection centres located across the country. Their technicians work round the clock, unlike competitors. Home services for collection and reporting is also available.*

*There is a huge unutilised capacity. Now it is trying to top other segments. 20% of its total business comes through its main laboratory which acts as a reference lab for many leading hospitals. New mega labs are being built to encash preclinical and multi-centre clinical trials within India and provide postgraduate training to the pathologists.* *(Nov., 2007)*

**Questions**

*(i) What do you understand by the term Vision? What is the difference between 'Vision' and 'Mission'? What vision Dr. Sukumar had at the time of inheritance of Dey's Lab? Has it been achieved?* *(2 + 2 + 2 + 2 = 8 Marks)*

*(ii) For growth what business strategy has been adopted by Dr. Sukumar?* *(2 Marks)*

*(iii) What is the marketing strategy of Dr. Sukumar to overtake its competitors?* *(6 Marks)*

*(iii) In your opinion what could be the biggest weakness in Dr. Sukumar's business strategy?* *(4 Marks)*

**Answer**

**(i)** A Strategic vision is a road map of a company's future – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create. A strategic vision thus points an organisation in a particular direction, charts a strategic path for it to follow in preparing for the future, and moulds organisational identity.

A company's Mission statement is typically focused on its present business scope – "who we are and what we do". Mission statements broadly describe an organisation's present capabilities, customer focus, activities, and business makeup. Mission is also an expression of the vision of the corporation. To make the vision come alive and become relevant, it needs to be spelt out. It is through the mission that the firm spells out its vision.

Dr. Sukumar's vision at the initial stage was to turn his one pathological laboratory firm into a national chain of pathological laboratories.

He is in the process of achieving the vision as a number of Labs have been opened and others are in pipeline. However, at the same time the market share is low when compared with the external benchmark from US market.

**(ii)** To a large extent Dr. Dey's Lab has opted the business strategy of internal growth rather than going in for acquisitions or joint ventures. The reason for such a strategy is that Dr. Sukumar does not find many existing laboratories meeting the quality standards. To fund its growth and raise funds it has also given a 26% stake to Pharma Capital.

**(iii)** Dr. Sukumar's marketing strategy is superior to its competitors. Over a period of time it is able to evolve itself as reference lab for many leading hospitals. This is a testimony of the level of confidence it enjoys among the medical professionals. It provides a high level of customer services because of the following:

- **Product mix:** It possesses technical expertise to conduct 1650 variety of tests.
- **Quality:** The laboratories use modern methods to conduct tests. Even routine tests are conducted with highly sophisticated procedures. Technology such as bar coding and automated registration of patients is also used. Thus there are no mistakes in the identity of samples. There is also daily sanitisation and validation of lab equipments.
- **Speed:** Laboratories are working round-the-clock. Further, using modern systems the company is able to deliver test results faster.
- **Convenience:** There are 500 collection centres for the laboratory, thereby the reach is more. Additionally, system of collection of samples from home also provide convenience to the patients and others.

**(iv)** A weakness is an inherent limitation or constraint of the organisation which creates strategic disadvantage to it. In the case it is given that Dr Sukumar has not gone for mergers and acquisition as he does not find many prospective laboratories meeting the quality standards. Thus its biggest weakness is its inability to capitalise the opportunities through mergers and acquisitions. Acquisitions and partnerships can help in leveraging the existing goodwill.

Many of these labs must be enjoying a lot of goodwill in their region. In fact, a business in the medical field such as a pathological laboratory, trust and faith are important. On account of its size and available resources Dey's Lab could have easily acquired some of these labs and built upon their names. With resources it should be feasible to modernise them to make them compatible with the business ideology and quality systems of the Dey's Lab. However, it appears that the company lacked capability to modernize an existing laboratory.

**Case Study – 3**

*Read the following case and answer the question given at the end:*

*In 2006-07 PTC Food division decided to enter the fast growing (20-30% annually) snacks segment, an altogether new to it. It had only one national competitor- Trepsico's Trito. After a year its wafer snack brand – Ringo, fetched 20% market share across the country. Ringo's introduction was coincided with the cricket world Cup. The wafer snacks market is estimated to be around Rs. 250 crores.*

*The company could take the advantage of its existing distributing network and also source potatoes from farmers easily. Before the PTC could enter the market a cross- functional team made a customer survey through a marketing research group in 14 cities of the country to know about the snacks of eating habits of people. The result showed that the customers within the age-group 15-24 years were the most promising for the product as they were quite enthusiastic about experimenting new snack taste. The company reported to its chefs and the chefs came out with 16 flavours with varying tastes suiting to the targeted age-group.*

*The company decided to target the youngsters as primary target on the assumption that once they are lured in, it was easier to reach the whole family.*

*Advertising in this category was extremely crowded. Every week two-three local products in new names were launched, sometimes with similar names. To break through this clutter the company decided to bank upon humour appeal.*

*The Industry sources reveal that PTC spent about Rs. 50 crores on advertisement and used all possible media – print and electronic, both including the creation of its own website, Ringoringoyoungo.com with offers of online games, contest etc. Mobile phone tone downloading was also planned which proved very effective among teenagers. The site was advertised on all dotcom networks. Em TV, Shine TV, Bee TV and other important channels were also used for its advertisement alongwith FM radio channels in about 60 cities with large hoardings at strategic places.*

*Analysts believe that Ringo's success story owes a lot to PTC's widespread distribution channels and aggressive advertisements. Humour appeal was a big success. The 'Ringo' was made visible by painting the Railways bogies passing across the States. It has also been successful to induce Lovely Brothers' Future Group to replace Trito in their Big- Bazaar and chain of food Bazaars. PTC is paying 4% higher margin than Trepsico to Future group and other retailers.*

*Ringo to giving Trepsico a run for its money. Trito's share has already been reduced considerably. Retail tie-ups, regional flavours, regional humour appeals have helped PTC. But PTC still wants a bigger share in the market and in foreign markets also, if possible.*

*(May, 2008)*

**Questions**

*(a) What is SWOT Analysis? (4 Marks)*

*(b) What are the strength of PTC? (4 Marks)*

*(c) What are the weaknesses of PTC for entering into the branded snacks market? (4 Marks)*

*(d) What kind of marketing strategy was formulated and implemented for Ringo? What else need to be done by Ringo so as to enlarge its market? (8 Marks)*

**Answer**

**(a)** SWOT analysis is a tool used by organizations for evolving strategic options for the future. The term SWOT refers to the analysis of strength, weaknesses, opportunities and threats facing a company. Strengths and weaknesses are identified in the internal environment, whereas opportunities and threats are located in the external environment.

**Strength:** Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitor.

**Weakness:** A weakness is an inherent limitation or constraint of the organisation which creates strategic disadvantage to it.

**Opportunity:** An opportunity is a favourable condition in the external environment which enables it to strengthen its position.

**Threat:** An unfavourable condition in the external environment which causes a risk for, or damage to the organisation's position.

**(b)** The strengths of PTC are:

(a) PTC has an existing distribution network that is used to its advantage.

(b) The company has strengths in the area of procurement of potato, raw material to make the wafers.

(c) Financially the company is very strong as they are spending 50 crores on advertising in a market worth 250 crores.

(d) The company has diverse flavours of wafers in its portfolio that are according to the different tastes of the target group.

(e) PTC has done good bargaining deals with food bazaars and food chains.

(f) The cross-functional team of PTC made a virtuous marketing research.

**(c)** Weaknesses are inherent limiting factors of an organization. They are internal by nature to the working of the organization. The case study does not clearly mention the points that can conclusively be weaknesses of the company. However, a deeper analysis will bring out that the company is totally new to the snacks business and is highly aggressive in its approach.

The experience in the food business may not result in the required competencies in the business of chips. Seemingly, the company has also gone overboard in its advertisement expenditure. It may be that the margins justify expenditure of 20% in value of the total market size of Rs. 250 Crores. Otherwise, the company may come into financial difficulties. Creating market may also be difficult as already there are many players who are trying to get attention of existing and new customers.

The business is already cluttered with regional and national players and is highly competitive. Further, the company is overly relying on young segment of the population. This segment can be highly receptive to the new products and the company may lose them easily to the competitors.

**(d)** Formulation and Implementation of marketing strategy was as under:

**The Product:** To launch its snack product, an easy to remember brand name RINGO was decided upon. To understand the snacking habits of Indian customer a large survey was undertaken. Chefs on the basis of the market survey came out with sixteen flavours. The target group was identified as youngsters of 15 – 24 years.

**The Promotion:** The company spent about Rs.50 crore on marketing communication. Different Media including print, electronic and outdoor advertising were put to use. Appeal used was that of humour. A huge visibility through point-of-sale was also arranged. Promotion policy was very aggressive considering that 50 crores were spent in a market of 250 crores.

**The Place:** Getting Trito replaced by Ringo in Big-Bazaar and food Bazaar chain of stores was a great success for PTC. To motivate a higher margin than the Trepsico was provided for. PTC even otherwise has extensive distribution network.

A perfect blend of marketing mix has made it possible to go so far and so early. Since the marketing strategy has remained successful, they need to carry it forward. However, they also need to keep a restrain on promotion as spending huge amount of money on marketing for a share in the market of 250 crores seems to be too high. Such an expensive campaign is only suitable if the company is able to increase the market size itself and not merely its own in the existing market share. To achieve this it requires competencies. Otherwise, it might be difficult to sustain high expenditure over a very long period of time.

## Case Study - 4

*Read the following case and answer the questions given at the end:*

*Sahni Auto Industries is a manufacturer and exporter of Auto parts with an annual turnover of Rupees one thousand crores. It employs about 2,000 persons in its factory in Punjab and its other offices in India and abroad.*

*The Personnel Administration and Human Resources Department of the company is headed by Mr. Amit Kapoor--the Chief Personnel Manager. Mr. Amit Kapoor, an Automobile Engineer joined the company 5 years ago as Product Development Manager. After a successful stint of 4 years as Product Development Manager, he was transferred to Personnel Administration and Human Resources Department as the Chief Personnel Manager as a part of Career development plan. Mr. Vikas, MBA in Human Resources from a renowned Business school, joined the company as Personnel Manager only 3 months back. He reports to Mr. Amit Kapoor--the Chief Personnel Manager. He handles all routine personnel and industrial relations matters.*

*One day, during informal discussion with Mr. Amit Kapoor, Mr. Vikas suggested him of linking Human Resources Management with Company's strategic goals and objectives to further improve business performance and also to develop Organisational culture that fosters more innovative ideas. He also advocated creating abundant 'Social Capital' on the ground that people tend to be more productive in an environment which has trust and goodwill embedded in it rather than which is highly hierarchical and formal. Mr. Amit Kapoor disagreed with Mr. Vikas and told him that the role of Human Resources Department was only peripheral to the business and all his suggestions about its strategic role were beyond the purview of Personnel Administration and Human Resources Department. After this, Mr. Vikas started having number of arguments with Mr. Amit Kapoor in several issues relating to personnel and industrial relations since he felt that a person with a degree in Human Resources Management was in a far better position to run Personnel Administration and Human Resources Department. Mr. Amit Kapoor – the Chief Personnel Manager had often shown his displeasure on Mr. Vikas's argumentative. tendency and had made it known to the General Manager.*

*The General Manager called Mr. Amit Kapoor in his office to inform him that he has been elected for an overseas assignment. He further told him to find a suitable person as his successor; he even suggested Mr. Vikas as a possible candidate. Mr. Amit Kapoor, however, selected Mr. Balram, who was working as Training Manager in a Multinational Company for the last 5 years.*

*Mr. Vikas, soon started having arguments with Mr. Balram also over number of issues relating to industrial relations since he felt that he had no experience in handling industrial relations matters. Mr. Balram now realised that Mr. Vikas was trying to make things difficult for him. After a series of meetings with the General Manager, Mr. Balram eventually succeeded in convincing him to transfer Mr. Vikas to an office outside Punjab. On learning about his impending transfer, Mr. Vikas wrote a letter to the General Manager joining details of various instances, when Mr. Balram had shown his incompetence in handling problematic situations. When asked for explanation by the General Manager, Mr. Balram had refuted almost all the allegations. The General Manager accepted his explanation and informed Mr. Vikas that most of his allegations against Mr. Balram were unwarranted and baseless. He further advised him to avoid confrontation with Mr. Balram. Mr. Vikas then wrote a letter to the Chairman repeating all the allegations against Mr. Balram. On investigation, the Chairman found most of the allegations were true. He then called all the three-the General Manager, the Chief Personnel Manager and the Personnel Manager in his office and implored them to forget the past and henceforth to work in coordination with each other in an environment of Trust and Goodwill.*

*(Nov., 2008)*

**Questions**

*(a) Indentify and discuss the major issues raised in the case. (6 Marks)*

*(b) Comment on the recruitment of the two Chief Personnel Managers. (4 Marks)*

*(c) Would you justify Mr. Vikas's argumentative tendency with the Chief Personnel Managers? Give reasons for your answer. (4 Marks)*

*(d) Do you agree with suggestion offered by Mr. Vikas to link* Human Resources Management with the company's strategic goals? If yes, suggest prominent areas where Human Resources Department can play role in this regard. (6 Marks)*

**Answer**

**(a)** The first major issue raised in the case pertains to failure of the administration to realize the significant role Personnel Administrative and Human Resources Department can play in corporate strategy. This is evident from the remarks made by Mr. Amit Kapoor – the Chief Personnel Manager that the role of his department was only peripheral to company business and the strategic role playing was beyond its purview. He advised his Personnel Manager Mr. Vikas to confine his functions to routine personnel and industrial relation matters.

* In question paper it is printed as "like".

The company has also failed to follow the principle of matching an appropriate candidate to the job requirements when it comes to appointment of Chief Personnel Manger. The company decided to send Mr. Amit Kapoor an automobile engineer from manufacturing department to Personnel Administration and Human Resources Department as head without realizing that latter job needed a person with qualification and experience in management of human resources. The company had almost adopted a similar attitude when it appointed Mr. Balram as replacement of Mr. Amit Kapoor.

Even there seems to be lack of clarity in the career development plans of the company as Mr. Amit Kapoor a qualified automobile engineer is transferred to the personnel department. The whole idea behind career development plans is to develop a person's skills to match with his present job with the job he would be expected perform in future.

The company has also failed to pay attention in developing organization culture in which superior–subordinate relationship, team work are strengthened to contribute to professional well-being, motivation and pride of employees. This become clear when the Personnel Manager's frequent arguments with the Chief Personnel Manager are not taken seriously and Mr. Vikas is just let off free without any strictures or warning for his behaviour by the higher authorities.

There is also need for a system to encourage social networking amongst different employees in the organization which can help to create "Social Capital" as was made clear by Mr. Vikas when he suggested Mr. Amit Kapoor to take necessary measure in building 'Social Capital'.

Even the transfer policies of the company need improvement. Mr. Amit Kapoor is transferred to Personnel Administration and Human Resources Department, and later to different assignment at company's overseas office. Even the General Manager had agreed to transfer Mr. Vikas to another office of company outside Punjab simply at the insistence of Mr. Balram, the Chief Personnel Manger.

**(b)** On the matter of appointment of Chief Personnel Manager and in particular of Mr. Amit Kapoor the company ignored to match the qualification, experience and merit of the candidate with the job description and profile. The company should have recruited a person with degree in human resource management with adequate work experience to the position of the Chief Personnel Manager. Practically, the same mistake was committed in the appointment of Mr. Balram who had essentially experience of working as a Training Manager. In both the cases persons appointed lacked the needed qualification and experience for the top job in the personnel department. The direct fallout of this was that Mr. Vikas, the Personnel Manager did not have faith in the competence of his superior and he had frequent arguments whenever he differed with them in manner in which they handled some important issues relating to the industrial relations.

**(c)** Mr. Amit Kapoor the Chief Personnel Manager did not possess any formal degree in personnel management and industrial relations. However, this did not give any right to Mr. Vikas, Personnel Manager who reports to him to have frequent arguments on the manner of handling issues relating to personnel and industrial relations. If at all Mr. Vikas had some serious differences with Mr. Amit Kapoor and later with Mr. Balram who succeeded Mr. Amit Kapoor, he should have brought his view points to their notice in a more dignified manner keeping in view the hierarchy of the department. There could be two possible reasons for this tendency of Mr. Vikas. First, he appears to have complex that he is superior on account of his relevant qualification and as a result he developed ego. Secondly, it also seems that Mr. Vikas was rather impatient to rise in the career ladder and become the Chief Personnel Manager without gaining much work experience. To achieve this end, he wanted to belittle the Chief Personnel Managers on every opportunity that came his way. In any case, the argumentative tendencies tantamount to indiscipline and insubordination and cannot be justified. On the contrary, the top management should have sought his explanation on his frequent arguments with Chief Personnel Managers.

**(d)** Human resources policies and plans deal with the most precious resources of an organization. It is the people who carry out the various functions in production marketing, finance, etc. and the success of an organization depends upon the quality of people selected to their functions. This presupposes an integrated approach towards human resources functions and overall business functions of an organization.

The human resources management practices of an organization can be important sources of competitive edges. In this context human resources manager / department can play an important strategic role in the following important areas.

(i) The human resources management must be able to lead people and organization towards desired goals and direction involving people right from the beginning.

(ii) The human resources management can also help developing core competency by the firm.

(iii) A significant role can also be played in building a highly committed and competent work force.

(iv) The human resources management can also help in developing healthy work ethics and culture and create an atmosphere of trust and goodwill to encourage creative and innovative ideas. Jobs can be redesigned to make them more challenging and rewarding.

**Case Study – 5**

*Read the following case study and answer the questions given at the end:*

*Meters Limited is a company engaged in the designing, manufacturing, and marketing of instruments like speed meters, oil pressure gauges, and so on, that are fitted into two and four wheelers. Their current investment in assets is around Rs. 5 crores and their last year turnover was Rs. 15 crores, just adequate enough to breakeven. The company has been witnessing over the last couple of years, a fall in their market share prices since many customers are switching over to a new range of electronic instruments from the range of mechanical instruments that have been the mainstay of Meters Limited.*

*The company has received a firm offer of cooperation from a competitor who is similarly placed in respect of product range. The offer implies the following:*

*(i) transfer of the manufacturing line from the competitor to Meters Limited;*

*(ii) manufacture of mechanical instruments by Meters Limited for the competitor to the latter's specifications and brand name; and*

*(iii) marketing by the competitor.*

*The benefits that will accrue to Meters Limited will be better utilization of its installed capacity and appropriate financial compensation for the manufacturing effort.*

*The production manager of Meters Limited has welcomed the proposal and points out that it will enable the company to make profits. The sales manager is doubtful about the same since the demand for mechanical instruments is shrinking. The Chief Executive is studying the offer.*

*(June, 2009)*

**Questions**

*(a) What is divestment strategy? Do you see it being practised in the given case? Explain.* *(5 Marks)*

*(b) What is stability strategy? Should Meters Limited adopt it?* *(5 Marks)*

*(c) What is expansion strategy? What are the implications for Meters Limited in case it is adopted?* *(5 Marks)*

*(d) What is your suggestion to the Chief Executive?* *(5 Marks)*

**Answer**

**(a)** Divestment strategy implies exiting from one or more of existing business activities or lines due to strategic reasons. Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. The option of a turnaround may even be ignored if it is obvious that divestment is the only answer.

In the given case study, technological obsolescence appears to be a major reason leading to divestment. The competitor firm making offer to Meters Limited seems to be interested in divesting in manufacturing activities and concentrate on marketing.

**(b)** One of the important goals of a business enterprise is stability to safeguard its existing interests and strengths, to pursue well established and tested objectives, to continue in the chosen business path, to maintain operational efficiency on a sustained basis, to consolidate the commanding position already reached, and to optimise returns on the resources committed in the business.

A stability strategy is pursued by a firm when:

- It continues to serve in the same or similar markets and deals in same products and services.

- The strategic decisions focus on incremental improvement of functional performance.

Stability strategy doesn't seam to be the appropriate strategy for Meters Limited. In view of fast approaching product obsolescence, Meters Limited should look for such strategy that would help in gaining market share in the new segment rather than battling in a segment that is declining. They cannot afford to maintain the same market posture and maintain same level of effort. As there are significant changes in their external environment, they need to make adjustments for their sustenance.

**(c)** Expansion Strategy is a proactive strategy implying making new investments and venturing into new business, products and/or markets. It is true growth strategy, having lot of business risk but nevertheless resulting in good rewards. Expansion strategy is implemented by redefining the business by adding the scope of business substantially increasing the efforts of the current business. Expansion is a promising and popular strategy that tends to be equated with dynamism, vigor, promise and success.

The markets for products of Meters Ltd with their existing technology are in the state of decline. They are being replaced by newer electronic technology. It would be a good idea to acquire the electronic technology and move out of the market that is reducing and has little scope. They may also consider expanding through diversification in other related and unrelated products.

**(d)** A combination Strategy is recommended for Meters Limited. The competitor is trying to adopt divestment. They are outsourcing manufacturing and retaining marketing with them. It would be very convenient for them to get out of the market in future. If Meters Limited accepts this preposition, they run the risk of continuing manufacturing in dwindling market followed by product obsolescence. At the same time, they have a medium-term objective of utilizing their installed capacity and making some profits. The Following package is recommended:

(i) Invest in new product development to facilitate quick switchover to the new technology.

(ii) Meters Ltd also need time to invest in emerging new technology and pursue expansion strategy. The offer of competitor may be considered for acceptance, in case there is clear buy-back arrangement for bringing in sales revenue and profits with less competition.

(iii) In longer run, they should divest the existing products.

(iv) They should identify other areas for expansion. This will enable Meters Ltd to spread their risks.

**Case Study – 6**

*Read the following case and answer the questions given at the end :*

*The ripple efforts of the 2008 Global Economic meltdown had begun to hurt the Rupees 1,268 crore J. K. Paper Ltd. also. Like all other business houses in India, J. K. Paper Ltd. was also* *finding the going though. The general trend of soaring prices and contraction in demand had started affecting the sale of J. K. Paper Ltd. products also. Its customers were focusing on correcting their inventory positions (using existing stocks of materials to keep production lines and marketing activities rolling). Consequently, they were not buying much from J. K. Paper Ltd. Even the investors did not like what they saw – J. K. Paper Ltd. stock fell from Rs.57.20 on 1 January, 2008 to a low of Rs.14.12 on 12 March, 2009. The company was in the midst of Economic crisis. Mr. Harshpati Singhania, Managing Director of the Company, realised that some strong measures must be taken to extricate the Company from its present crisis. To this end, Mr. Singhania held several brainstorming sessions with the top management team and finally identified the focus areas: Managing working capital flows, cutting costs and paying attention to employee productivity.*

*Moving away from the traditional approach one usually follows during the recessionary periods, Mr. Singhania instead of shutting down company's plants and cutting production, decided to continue to operate the Company's two plants at Gujarat and Orrisa at 100% capacity. To match sales with production, he planned to reach out to newer customers by widening Company's distribution network. He identified packaging boards to be marketed in rural areas where the meltdown had minimal effect. As the market conditions were still difficult, the company also decided to cut the prices by 2 to 3 per cent. Alongwith the price cut, its marketing thrust in rural areas ensured that the sales were not impacted much. Net sales remained flat throughout 2008-09, though the profitability of the Company suffered because of the lower margins it received from its rural thrust.*

*For raising capital, the Company did not approach banks and investors, rather it intensified it efforts to recover its debits from its clients. The efforts resulted in fast recovery of crores of rupees. Disputed debts were also settled expeditiously to raise more cash.*

*To cut costs further, the Company took steps to improve productivity and reduce its wage bill. Inefficient employees were asked to leave. No new appointments were made unless they were critically important. In addition, employees received lower increments for 2008-09; even Mr. Singhania did not take any increment.*

*When the global slowdown sent the international prices of the pulp, the main raw material for the paper industry, crashing from Rs.36,960 per tonne in April, 2008 to Rs.18,240 per tonne in September, 2008 the company bought enough pulp to last for about 9 months as against its policy of buying, in the normal course, pulp for about 2-3 months. According to Mr. Singhania, this decision also resulted in a huge saving.*

*Mr. Singhania and his senior management team also re-evaluated the organisational structure to improve efficiency in the organisation.*

*When all the above strategic decisions had been successfully implemented, Mr. Singhania knew that the worst for the company was over. This was also reflected in gradual increase in the quarterly profits of the company, Mr. Singhania however sounded very modest about his stewardship of the Company while appreciating his Senior management team for the great job done to ride out the slowdown.* *(Nov., 2009)*

**Questions**

(a) *Where did the recession hit J. K. Paper Ltd.?* *(2 Marks)*

(b) *Explain with reasoning the corporate strategy the Company had adopted for its survival.* *(2 Marks)*

(c) *What functional strategies were undertaken by the Company to overcome its crisis?* *(6 Marks)*

(d) *State the basic responsibilities of a strategic leader in a business house. Explain whether or not Mr. Singhania provided strategic leadership to the Company.* *(2 + 2 = 4 Marks)*

(e) *What lessons are learnt from the experience of J. K. Paper Ltd. to ride out the economic meltdown?* *(6 Marks)*

**Answer**

**(a)** The economic recession of 2008 hit J. K. Paper Ltd. primarily in three areas: (i) contraction in demand for its products due to general trend of soaring prices all over, (ii) financial crunch, and (iii) fall in its share prices.

The customers of the company were not buying much and they started focusing on correcting their inventory. This led to decrease in demand and reduction in funds for their working capital needs.

**(b)** The company had followed the stability strategy to tide out the economic crisis. It decided to maintain its production at pre-melt down period. It reflected in the decision of the top management to operate its two plants in Gujarat and Orissa at 100% capacity. It also decided to widen its distribution network to counter the challenge of contraction in demand. It identified rural sector to market aggressively its packing boards. The company had rightly decided against divestment or liquidation strategies as it knew that the meltdown was only a passing phase, so the need of the hour was to' stay afloat and then to wait for the appropriate time to plan for expansion, if needed.

**(c)** The top management team of the company under the leadership of Mr. Harshpati Singhania, Managing Director of the company decided to adopt various functional 'strategies to ride out the slowdown. After several rounds of brainstorming sessions with the top management Mr. Singhania identified the focus areas and took initiatives on the following functional strategies:

**Production Strategy:** In the face of contracting demand, Mr. Singhania took a bold decision to play a contrarian card. Instead of shutting down plants and cutting production he decided to operate the company's two plants in Gujarat and Orissa at 100% capacity. Moreover, he also took another unusual decision to buy pulp - the main raw material for the paper industry, when its prices crashed substantially, in huge quantity to build up its massive stock pile to last for about 9 months as against the usual practice of buying pulp stock for about 3 months in the normal course. This resulted in a huge saving for the company.

**Marketing strategy:** To maintain the production and subsequent sales, the company decided to identify new customers and widen its distribution networks to reach out to new customers. The thrust was laid to push the sales of its packaging boards material to consumers in the rural areas where the effects of meltdown were minimum. Prices were reduced by 2-3% to give thrust to sales.

**Financial strategy:** For managing working capital, the company again took an unusual step of not approaching banks and investors. Instead the company decided a unique strategy to intensify its efforts to collect its debits from the clients. The company succeeded in collecting crores of rupees in a very short period through debt recoveries. It even decided to settle its disputed debts outside the court very expeditiously. This also fetched a good amount of cash to the company. The company also took decisions that led to cost reduction. It reduced its work force and reduces to expenditure on account of wages. It also made bulk purchase of pulp, main raw material to reduce the costs and improve.

**Human Resources Management Strategy:** The company took steps to improve employees productivity and reduction in wage bill. The top management also gave to all its employees lower increments. Even Mr. Singhania did not accept any increment for himself. Non performing employees were asked to leave the company. New recruitment of employees was stopped unless it was critically important.

**Review of Organization Structure:** For the successful implementation of company's strategies to ride out the slow down, the organisational structure of the company was re-evaluated and reviewed. It was directed towards improving efficiency within the organisation.

**(d)** In the company a strategic leadership is provided by its managing director who discharges his responsibility through the following well thought out strategies –

(i) To manage the employees of all classes for effective and efficient working

(ii) Sustaining high performance over a time

(iii) Willingness to take candid, bold and, at times, unusual and contrarian decisions

(iv) Taking such decision making responsibilities which can not be delegated

(v) Effective feedback through face to face communication

When J. K. Paper Ltd. was in the midst of financial crises due to economic meltdown its Managing Director realized that it was the time to bury down the hatchets and prepare for a long haul. Like a truly effective leader, he took some contrarian decisions to put company back on its track. Some of the important decisions were:

- to operate the company's plants in Gujarat and Orissa at their 100% capacity so that production remains at pre-melt down period levels.
- to match sales with production and to overcome the effects of recession on the company's sales it was decided to widen the distribution network to reach out to new customers.

- he also refrained from easy decision to approach banks and investors for funds to manage working capital requirements. Instead, he initiated steps for speedy recovery of debts from its clients including recovery of disputed debts through negotiated settlements. All this resulted in collecting crores of rupees in a short period.
- he also set an example before employees by refusing to accept any increment in his own salary. Employees also accepted lower increments for 2008-09.
- decision to buy pulp in bulk when its prices crashed so that the stock of pulp lasts for a much longer period resulting in huge savings in costs.
- thus Mr. Singhania provided an effective strategic leadership by taking some bold, convergent and contrarian decisions which had helped the company to come out of its crisis.

**(e)** There are lessons to be learnt from any crisis. The lessons learned from the J. K. Papers can be summarized as follows:

- *Do not Panic:* There is no need to panic even if the company is facing difficult times such as contraction in demand or is facing liquidity crunch. On the contrary, one should look towards the strong points of the organization to convert threats into opportunities.
- *Consult others:* During recession when the company is facing crisis, Managing Director of J.K. Paper Ltd. held several brainstorming sessions. The issues were discussed with the team to identify ways and means to overcome the situation. Through the process, the company identified focus areas such as managing working capital flows, cost cutting and improving employees productivity.
- *Go to micro level:* While analyzing different aspects of the crisis, consider all relevant aspects of the business. Novel ideas may emerge in the process. Identify major areas of improvement and then break them into micro plans and decisions.
- *Take bold decisions:* When the situation is not as desired the company should take bold decisions for its sustainability. Identifying new markets or asking unproductive employees to leave are some of the bold decisions taken by J.K. Ltd.
- *Leaders should set an example:* The virtues reflected in the behaviour of the leaders are often imbibed by the followers. Hard work, dedication and commitment also trickle down in the organisational hierarchy. Individuals in an organisation can also accept decisions better if they are uniformly applicable. In the given case, employees can accept the low increments better as the leader has also decided to forgo increments.

## NOTE