

## Case Study

# TAKING THE RIGHT DECISION

## Sameer Anand

Mr. Subodh Kumar, C.E.O. of Diwan Fibers, was on the cross road after covering a long distance in the same industry. He felt that this was the right time to take the stock of the position and strategy of Diwan Fibers over the last couple of years. The only thing that stuck him was the future success of Diwan Fibers as the profit margins declined drastically in the last two years. Earlier the number of buyers were more than the number of suppliers, now the scenario has reversed. The buyer-supplier ratio has changed from 5:1 to 2:5.

**Learning has its own cost, especially when you are starting afresh after unlearning what you have learnt in the past with your unpleasant experiences.**

## Background of Diwan Fibers

Entrepreneurs seldom march to the same tune as of others, and this out of step mindset often ends up costing entrepreneurs their jobs. Subodh Kumar had this experience early in a corporate career that ended at the age of 37. Mr. Subodh Kumar, is a first class MBA and has more than 15 years of experience in the marketing of synthetic yarn and fiber, with leading companies in India both in private as well as public sector. Three years before resigning from his job, Mr. Subodh Kumar started a partnership venture "ABC Enterprises" in 1995 as a consulting partner along with two more partners in Panipat, Haryana. They started with a small garneting plant, whereby they were processing the orders and also supplying the processed raw material through yarn waste to handloom manufacturers. Being an expert in this field Mr. Subodh was providing consultancy to the new firm manufacturing raw material for the handloom and carpet industry in that area. Within a period of three years, the venture picked up very well with an annual sales turnover of Rs. 75 lakhs leaving substantial profit margins. On September 16, 1998, a subsidiary unit of ABC Enterprises was started by the name of "Diwan Fibers" and in the same year one more process was added to manufacture car mats for Maruti Zen. Employee strength also grew from 20 to 70.

## Changed Scenario

On November 18, 1998, Mr. Subodh Kumar completed his journey as intrapreneur (entrepreneur within an organization) and jumped in an entrepreneurial venture thinking that the fiber business has now become self sustainable and can be easily handled by other two partners, though he was always available for the consultancy as and when required. After leaving his job Mr. Subodh Kumar started his next venture again related to stream of his experience in garment industry, in the geographical region of Delhi, along with a partner. The new venture "Bhavya Creations" included the activities not only related to manufacturing of exclusive Denim Products, but moving a step further also in marketing those products. Bhavya Creations launched two branded jeans "Flame" and "Harley" in the New Delhi market and in the market of National Capital Territory (NCT) of Delhi. Being a quality conscious person Mr. Subodh priced both the brands higher than the inferior local brands and lesser than the international brands like Wrangler, Levis, and Killer etc. Due to lack of advertising and promotions market, response of brands was not very good. Also, the retailers refused to keep additional stock as the product was comparatively highly priced as compared to other local brands. Problem of prolonged credit from the market started emerging and disturbed the entire payment cycle. Things became worse in the following months,

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despite adding innovative product line for the existing and new customers, the payment problem prolonged and finally ended into bad debt from primary buyers. Bhavya Creations had to close down in less than a year's time after incurring huge losses.

**If you are training someone to be even better at your job than you are, then you're, one of the most valuable person of our company.**

After a set back in branded products there was another retard waiting for him. Mr. Subodh intended to look after the garneting business but this time his other two partners wanted the split in partnership. Dewan Fiber came into Mr. Subodh's share, which was just a small part of ABC Enterprises but he took it as a challenge and started implementing innovative ideas by adding refined processes in his unit. He was doing very fine till the time intense competition came in. Supply started exceeding the demand and profit margins reduced drastically and this hit the garneting industry in that region badly from both the sides and left a prolonged and intense impact. This was highly damaging for Mr. Subodh, but being a visionary, hard worker and ambitious person, he decided to have something new and different than the existing business for future growth. He ventured into the new business of Dairy Farming where he invested more than 20 lakhs, which included 70% bank loan. He was absolutely new to this kind of business yet he was very positive and confident. From his past experiences Subodh says "Learning has its own cost, especially when you are starting afresh after unlearning what you have learnt in the past with your unpleasant experiences". He started with ten cows, in spite of taking all necessary measures, cattle started getting ill. After one week of starting the farm, two out of ten cows died. In the next week two calves also died. At the same time the output of milk was also much less than his calculations. Now Mr. Subodh Kumar was in great dilemma, what to do and what not to. He didn't lose his serenity and moved ahead as per expert's advice and started buying buffalos instead of cows, as they are less prone to diseases and needed comparatively less care. In less than six months of time Subodh Kumar added more barns (shed) in the existing dairy farm in the outskirts of the city. The dairy plant provided fresh milk to the bulk buyers and to individual households through a home delivery route in the city. After 20 new additions of cattle, the small barn has become a 6-acre complex with more than 200 cattle and 20 employees. Yet break even was to be achieved which was expected only after the completion of one year, provided everything went smoothly. Mr. Subodh was very optimistic about the new project and followed two rules.

"Rule 1: The customer is always right."

"Rule 2: If the customer is ever wrong, follow Rule 1."

Subodh says "he wants to make customer say "Wow!" and then return again and again." Mr. Subodh and his team regularly talk to customers, solicit suggestions, and manage the business with one objective: Make customer happy. His success is based on the sincerity of his policies and the attention to planning that result in what Subodh calls "action based policies." These include "If you would not take your product home for your

#### **At a Glance (Indian Dairy Market)**

- o **Human population:** Over 1000 million (70 million dairy farmers)
- o **Milk production:** 74.3 million tonnes (203.5 million lpd)
- o **Average annual growth rate (1995-2000):** 5.6%
- o **Per capita milk availability:** 214 g/day or 78 kg/year
- o **Milch animals:** 57 million cows; 39 million buffaloes
- o **Milk yield per breedable bovine in-milk:** 1,250 kg
- o **Cattle feed production (organized sector):** 1.5 million tonnes
- o **Turnover of veterinary pharmaceuticals:** Rs. 550 crores
- o **Dairy plants throughput:** 20 mlpd
- o **Throughput as percentage of total milk output:** 10%
- o **Value of output of Indian dairy industry last year based on the retail price:** Rs. 105,000 crores

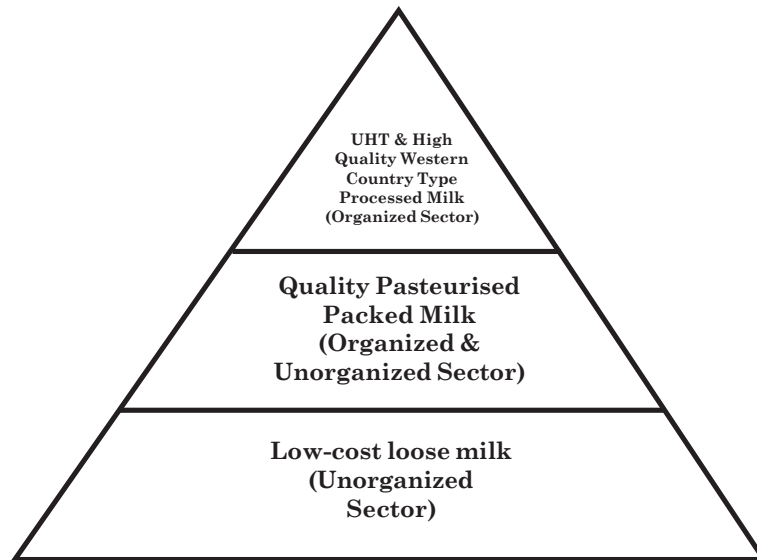


Figure 1: Pyramid Structure of Indian Dairy Market

family's consumption, don't sell it to customers"; "Only happy customers come back"; "A customer who complains is our best friend because we get the opportunity to improve"; "When in doubt, throw it out"; and "If you are training someone to be even better at your job than you are, one of the most valuable person for our company."

Mr. Subhodh was aware that continuous value addition is very important for further expansion in the area of operations. He had been continuously implementing new methods to increase the yield of milk and installed modern milking equipments to provide better facilities to the customers. To increase the profitability of new venture he decided to build a workshop in the existing farm for manufacturing value added products from milk viz. cream, ghee, cheese etc. He started approaching bulk buyers and institutions consuming these products to create a strong platform for marketing the products. During these developments, all of a sudden he had a severe heart attack and was admitted in a leading heart institute. After diagnosis, it was found that there is 80% blockage in the main artery, which was removed and finally angioplasty was done. He was recommended one month complete bed rest and not to exert much. After getting back to work, things were not in good shape. Condition of Diwan Fibers was not at all improving and at the same time dairy business required more push. The losses were multiplying. He was again in dilemma. One fine day Mr. Subodh, was discussing with his team in his office to take the absolute decision regarding both the ventures viz. Dewan Fibers and Anand Dairy Industries. During there discussion Dr. Pramod Kumar, elder brother of Mr. Subodh entered into the discussion chamber. Dr. Pramod Kumar is a leading Orthopaedic Surgeon at Bhiwani, Haryana. He runs a nursing home with his wife who is a pediatrician. Both of them are very successful in their venture. Now he wants to start the trading of medical equipments and physiotherapy center in his area, as there is no such in Bhiwani and its vicinity. He also wants to add a CT Scan center to that venture in the later stage. All this he wants to do with the help of his brother because he is aware that Mr. Subodh's existing ventures are not doing very well since last few years.

#### Emerging Dairy Markets in India

- **Food service institutional market:** It is growing at double the rate of consumer market
- **Defence forces market:** An important growing market for quality products at reasonable prices
- **Ingredients market:** A boom is forecast in the market of dairy products used as raw material in pharmaceutical and allied industries
- **Parlour market:** The increasing away-from-home consumption trend opens new vistas for ready-to-serve dairy products which would ride piggyback on the fast food revolution sweeping the urban India.

Source: [www.indiadairy.com](http://www.indiadairy.com)

## In the C.E.O.'s Chamber

**Subodh:** Hey Pramod ! how come you are here?

**Pramod:** Just to see you, dear.

**Subodh:** Meet Mr. Rajesh, Marketing Manager, Diwan Fibers and Mr. Seth, Operations Incharge, Anand Dairy Industry.

**Rajesh:** Hello sir.

**Seth:** Welcome Dr. Pramod.

**Pramod:** Well, I have heard that Diwan Fibers is not doing well since long time and Anand Dairy is also not up to the mark.

**Rajesh:** You are right sir, due to prolonged intense competition we are not able to sell the entire production. We are already running on 40% capacity since last year and things are getting worse. Even if we are trying to sell to our old clients on our established reputation for producing quality, we aren't getting enough margins to sustain.

**Subodh:** Our competitors also face the same situation. I personally feel that now wait and watch time is over.

**Pramod:** And what about dairy business.

**Subodh:** Definitely there are some functional problems but we are trying to overcome that and hopefully we will be able to conquer the problem very soon.

**Pramod:** Don't you think after first heart attack you need to take care of yourself, by doing less physical exertion?

**Subodh:** Yes, I am aware of but what is the alternative.

**Pramod:** I have a proposal for you.

**Subodh:** Proposal ! What kind of proposal?

**Pramod:** Come and join me. I am planning to start a physiotherapy center in my city. I have already bought a land in a very prime and functional location. Later on we may also start a CT scan center. It is better that you wind up every thing and join as soon as possible.

**Seth:** But sir, we have come a long distance and are further planning to manufacture milk products to sell in the market. We are very sure about our success.

**Pramod:** On what basis you are claiming this?

**Seth:** Sir, according to a study conducted by McKinsey & Co. a leading research and consultancy firm in the world, India's processed food market is growing at a phenomenal rate. It is set to be the world's largest food "factory", valued at US \$140 billion by the year 2005. I am sure that Indian exporters and entrepreneurs would largely benefit from many opportunities that this sector has opened. If we succeed in the local market, we can think of going for some technical collaboration or a strategic alliance with some foreign player. Well, that is just an idea, as lucrative markets always allure businesses in saturated market.

**Subodh:** Yes, I have also gone through the research report. Even McKinsey and Co. has claimed that the market for value-added processed foods is projected to treble to US\$ 50 billion in the next ten years. They also identified dairy and poultry industries as two of the three areas with the largest opportunities. Moreover, the disposable income is on the rise in India, also our country has transformed itself from scarcity to self-sufficiency in milk during the last three decades, and as a result of wide-ranging technological progress, India ranks as the world's second largest milk producer.

**Seth:** And, why do we forget that location wise we are at advantage being very near to the National Bureau of Animal Genetic Resources (NBAGR) established by Government of Indian Republic in Karnal, Haryana to seek necessary consultancy and assistance related to various technicalities in dairy farming.

**Subodh:** That's right; above all we have also got our company registered with National Small Industries Corporation Limited (NSIC) for both technical and marketing assistance.

**Pramod:** All that is absolutely fine, but I question the past performance?

**Subodh:** That's just the part of business and we are waiting for the one-year cycle to be over and we are confident about the success this time.

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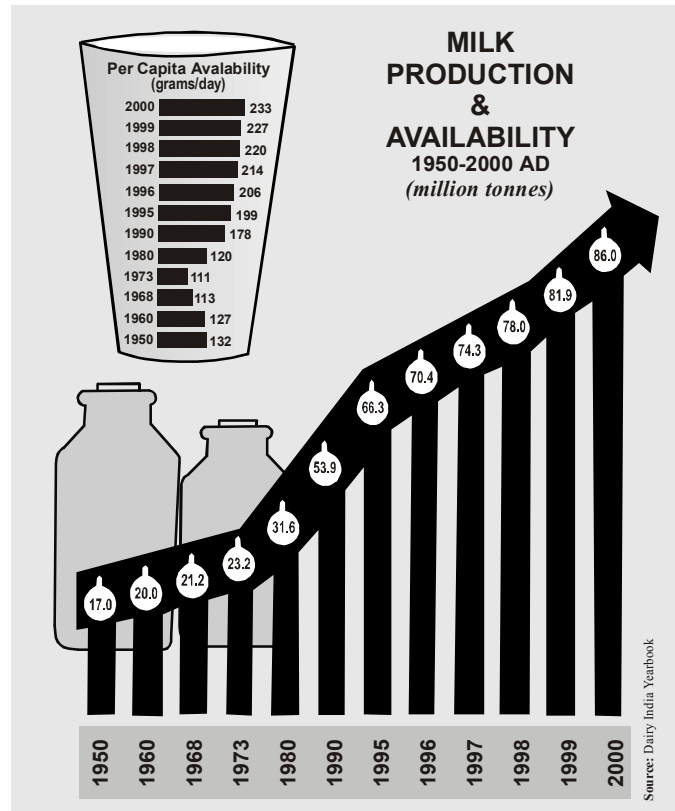


Figure 2: Milk Production & Availability

**Pramod:** Still, my sincere suggestion is that you give it a good thought again, considering all the factors and keeping in mind the bigger picture. As you wish to wait for the cycle to complete, go ahead but do not delay the decision.

**Subodh:** I am keeping my fingers crossed, but I will keep your offer in mind. I am aware that now it is time to take the right decision.

**Questions:**

1. Analyze the entrepreneurial qualities of Mr. Subodh Kumar.
2. “Now it is time to take the right decision”, What decision is Mr. Subodh talking about?
3. Whether Mr. Subodh Kumar should join his brother after winding up his all other businesses and start afresh?
4. If you were in Mr. Subodh Kumar’s place what would you do?

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