TRANSFORMING FOR SURVIVAL

A Case Study

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ABSTRACT

Blends India Limited (BIL), one of India's leading conglomerates, engaged in multiple businesses such as tobacco & cigarettes, paper & paperboards, packaging, hotels and agricultural exports faced a typical situation in the decade of 90's. Although the group's turnover was more that Rs. 9000 crore, eighty percent of it was contributed by the tobacco division alone. BIL, with a history of existence for more than 100 years, enjoyed a supernormal market share in India's cigarettes market. Overall, its market share was around 85% and in some parts of the country it was almost a monopoly with more than 95% market share. However, 90's was the period when regulations on the cigarettes business were becoming more and more stringent all over the world and situation in India was no different. World Health Organisation (WHO) was pushing forward its ant-tobacco agenda very strongly. All countries had started formulating and implementing stringent ant-tobacco regulatory frameworks. India had also formulated laws restricting the sales and promotion of tobacco products in general and cigarettes in particular. For Blends India Limited, the situation was becoming a serious concern. Slowing down of growth in cigarette sales presented a bleak future for its business and a probable ban on sale of cigarettes was not being ruled out. Facing a challenge for survival, BIL had to take decisions for reducing its dependence on the cigarettes business. However compensating for the sales lost in the cigarettes business through growth in its other existing businesses was almost impossible. BIL had to change its strategy and invest and new businesses. A complete makeover of its business and image was on the agenda. This case presents a detailed analysis of the situation faced by BIL and poses pertinent questions to reinforce the key concepts in the domains of Strategic Management, Marketing and Human Resources Management.

KEYWORDS: Diversification, Regulatory affairs, Leveraging Distribution Network, Cigarettes Business, FMCG.

SUMMER OF 1997 - THE REPORT

It was a hot summer afternoon of 1997 in Kolkatta. Anup Mishra, the CMD of Blends India Limited (BIL), was sitting in his plush office, deeply concerned, having read a twenty page confidential report presented to him by Swarup Dutta who was the head of BIL's Tobacco & Regulatory Affairs (T&RA) department. The report outlined the regulatory steps that the government of India was contemplating in order to curb the sales and promotion of cigarettes and other tobacco products in India. "By when Swarup da?" asked Mishra. "It seems imminent now, may be in next 2-3 years." replied Dutta. "Okay, let's see what we can do. Thanks for coming. Let me know on priority if any other information comes up." Said Anup Mishra, and went back to a deep thinking mode. Swarup Dutta left the office in a not very enthusiastic mood.

ANTI TOBACCO REGULATIONS IN INDIA

Regulations against the cigarettes business was not a new phenomenon. It was a normal expectation that in each year's union budget the taxes on cigarettes would be increased. The state governments too imposed various taxes each year on cigarettes. These taxes had become a substantial source of revenue for both the central as well as state governments. There were other regulations too; smoking was not allowed in government offices and statutory warnings were necessary on all cigarette packs and advertisements. However, these steps did not hurt the cigarette companies significantly. The business was growing and so were the profit margins. But, in last few years, the World Health Organisation (WHO) was running a strong anti tobacco campaign on various international forums. Governments were being pressurised to implement stringent anti tobacco regulations. India which accounted for 12% of world smokers was also facing the pressure from international as well as domestic anti-tobacco organisations. As a result, central and state governments proposed various regulations which were being discussed and studied by different committees. Brining regulations against cigarette smoking was not difficult, but taking any action against the bidi industry had political and social implications. The cigarette industry comprised of just 3-4 major companies accounting for 99% of the cigarettes business in India. The Bidi industry, on the other hand, was a very fragmented industry. Small bidi manufacturing units operated throughout India's rural areas. Most of the manufacturing activities which included "Tendu leaf" collection to rolling and packing of bidis was done manually. The industry was labour intensive, providing employment to many people in rural areas. Another typical fact was that most of the bidi manufacturing units were owned by local politicians or businessmen having affiliation to various political parties. Governments, therefore, were reluctant to bring any laws that would adversely affect the bidi industry. Incidentally, the cigarette industry became the punching bag for the government as well as anti-tobacco organisations.

T&RA DEPARTMENT OF BLENDS INDIA LIMITED

The Tobacco and Regulatory Affairs (T&RA) department was established in BIL in the late 80's. The department basically collected the anti tobacco news appearing in various local & national newspapers and filed it. For many years their work was of passive nature. However, in the early 90's a surge in the anti-tobacco activities was seen. National and international health organisations were demanding strict regulations, some even demanding a total ban on tobacco products. The government also came into action and regulations were being discussed and committees were being formed to study the issue. The central government had formed a high level parliamentary committee to look into the matter. It was at this time BIL realised that its T&RA department must play an active role. Swarup Dutta, who had worked in sales & distribution for 18 years in BIL was appointed as the new head of T& RA. Dutta knew he was fighting a losing battle and stricter anti-tobacco regulations were bound to come into force sooner or later.

He devised a strategy of "Dilute and Delay" (D&D). He utilised the sales and distribution team of BIL to collect all the relevant information about anti-tobacco activities at local level throughout the country. Channel partners of BIL (The Distributors) were mostly the people who had a clout with the politicians at local level. Their help was taken in arranging meetings with local politicians to give them representations about concerns of the cigarette industry. In order to soften the assault on cigarette industry, following points were put forward in representations to the politicians and government both at local and national level:

1. Cigarettes were legal product in India. The industry contributed significantly to the government revenue and also to various CSR activities. Therefore, it would be unfair to put harsh restrictions on a legal business which would threaten its survival.
2. Adult consumers had the right to make an informed decision on consuming or not consuming a legal product.
3. There were more than a million small daily needs and convenience shops in India which earned a substantial amount their income by way of selling cigarettes.
4. Cigarettes smoking contributed to only 16% of tobacco consumption in India, whereas, 84% was contributed by bidis and chewing tobacco.
5. Cigarettes were the safest form of tobacco consumption as compared to the other alternatives. Nicotine and Tar contents (which are supposed to be harmful for health) in cigarettes were significantly lower than in other forms of tobacco being consumed. Therefore, if the government wished to reduce tobacco consumption in the interest of public health, cigarette industry should not be the first target. Chewing tobacco, Gutkha and bidis needed to be controlled first.

The efforts of the T&RA had been partially successful in softening the government's stance against the cigarette industry. Many regulations were delayed or put on hold. Sale of Gutkha was banned by many states, which indirectly benefitted the cigarette industry. Dutta was appreciated by the senior management for his achievements so far.

PROPOSED REGULATIONS

The latest information that Dutta got through his sources was quite disturbing. Government had made up its mind to bring in strict regulations on the cigarette industry. Some of the proposals were:

- A complete ban on advertising and promotion of tobacco products in all types of media across India.
- A ban on smoking in all public places.
- A ban of sale of tobacco products within 100 meters of educational institutions, religious places and government offices.
- A ban on sale of tobacco products to minors.
- Apart from the statutory warning, pictorial warnings on packaging which should cover 80% of the packet area.
- A compulsory statutory warning to be displayed on screen whenever a smoking scene is shown in films or television.
- A compulsory screening of anti-tobacco documentary before screening of films in theatres and television.

What these regulations would mean is that it would become impossible to launch any new brands in the cigarettes category. The restrictions on distribution would hurt sales substantially. Sales may decline at a faster pace and entry of new consumers would be restricted. Dutta was quite convinced that despite all the efforts it would not be possible now to either dilute the regulations or delay them beyond two to three years time. He prepared a detailed report for the CMD, Anup Mishra, which he delivered personally to the CMD's office in a sealed envelope marked "confidential" and "for CMD's eyes only".

WINTER OF 1997 – THE BOARD MEETING

Anup Mishra was addressing the board members which also included a representative from the American Tobacco Company (ATC), Ms. Stephanie Drewmore (The shareholding pattern of BIL was such that the ATC held 33% of shares, financial institutions like the UTI, LIC and others held 33% of shares and rest of the shares were with the public).

After explaining the T&RA report to the board members, Mishra said "... and therefore, in my opinion, it is no longer in the interest of BIL to depend heavily on the cigarettes business. Time has come that we consider options for diversifying into other potential businesses which were capable of generating revenues comparable to the tobacco division. It is simply not practical to expect our other divisions to generate such revenues. Today we are cash rich, comfortably sitting on reserves to the tune of Rs. 5000 crore. If there would be any right time to think about diversification, it is now. I need the approval of the board to chalk out a diversification strategy and a detailed plan of action." Most of the board members agreed, "I think you are right Mr. Mishra, we would support your decision. Please go ahead" said the representatives of UTI & LIC.

However, Ms. Drewmore of ATC had a different take on the issue "I don't think we should invest in any other businesses. It would be a waste of our resources. What's the guarantee of success? Instead think about the merger option with VTC". Anup Mishra had expected such a response from the ATC member. ATC had been pushing for BIL's merger with VTC for a long time. VTC was another cigarette company having an overall 8% market share in India. ATC had a 33% shareholding in VTC too. BIL was not interested in the merger. Mishra believed that VTC had no strong national level brands. They were doing average business in some pockets of India. He did not see any synergy in the merger and therefore had never agreed to the option.

The meeting ended and a satisfied Anup Mishra walked out of the board room. Board had agreed to his proposal with majority in his favour. He had a lot of decision making to do now. He knew he would be busy with his management team for next few months.

PLANNING FOR FUTURE

Anup Mishra had called a meeting of his senior management team which included the head of the sales & marketing department, the HR head, head of the strategic planning department and a few other senior officials. He had appraised them of all the recent developments and the decision the board members. He had asked them to analyse the strengths in their particular areas which could be leveraged and give recommendations on their opinion about the way forward for BIL. Today was the day when the deliberations were going to begin.

BIL BRANDS

Ranjan Gupta of the strategic planning department began his presentation. He outlined the strengths of BIL. He spoke particularly on the brand building capability of BIL. Over a period BIL had built a strong brand portfolio. There was a brand for each segment and each price point. It was said that the MBA graduates from the premier institutes of India joined BIL only to get training in brand building. BIL brands enjoyed the top of the mind awareness (TOMA) from consumers. All major sports events in the country had a sponsorship of a BIL brand.

Occasionally, other cigarette companies had tried to launch brands to challenge the BIL's brands, but each one of them was a failure. BIL used every trick in the book to ensure that no competitor brand survived for more than a few months in the market. Its strategy included non visibility and non availability of the newly launched competitor brands. Retailers were arm twisted; competitor displays were removed from retail shops, the stock was bought outright from retailers. Retailers were even threatened that if they stocked competitor brands, they wouldn't get BIL brands.

In other divisions too BIL was recognised for its high standards of quality. BIL's "Sunrise" was a well known brand in hospitality industry. Sunrise chain of hotels had some famous properties across metros and places of tourist attractions. In Agri-business division BIL had developed a unique supply chain network. They bought agricultural produce directly from farmers and exported it. This was done through their established network in rural areas. The farmers got best rates for their produce as middlemen were eliminated. BIL also provided assistance to tobacco farmers in form of providing seeds, fertilizers, pesticides, crop insurance and crop purchase guarantees. The relationship with farmers was such that BIL came to be known as "talli company" (Mother Company in Telugu) in South India.

Gupta raised a few pertinent questions "In our attempt of diversification, should we build our own businesses or should we take an easy route of acquisition of other businesses? Should we leverage our existing brands by extending them to new product categories or shall we go for building new brands? It is true that we have exceptional brand building capabilities, but we must not forget that the last successful brand we launched in the cigarette category was almost twenty years back. We have not launched any brand since then."

SALES, DISTRIBUTION & MARKETING AT BIL

Ehsaan Kazmi – Marketing Director who was accompanied by Joseph Bhamgara, the National Distribution Manager of BIL, outlined the strengths of the Sales and Marketing function. BIL had absolute market dominance. A typical BIL distributor serviced one district. Stocks were sold to distributors by BIL against cash payment. There were no credit sales (one month credit was a norm in other companies operating in the FMCG industry). Furthermore, many distributors maintained cash balances with BIL which offered 0.5% interest more, on the balances maintained with BIL, than what PSU banks offered. The entire distribution channel was under a strong control of the BIL. The channel through which BIL mainly operated was the convenience channel (pan shops) and HORECA (Hotels, Restaurants and Canteens). Some big grocery shops acted as wholesalers who sold stocks to some of the retailers in city and mostly to retailers from nearby villages.

Each distributor maintained a team of salesmen for daily retailing in the city. These salesmen were given specific routes for distribution of products which they did on bicycles. A product carrying box was provided to them by the distributor. Unique feature of this system was that the salesmen earned their income solely on the basis of commission and were not paid any salaries by the distributor. The distributors also maintained a team of supervisors whose main work was to ensure availability of brands at retail outlets. They were responsible for resolving any issues that retailers had and they were BIL's eyes and ears in the market. They were also in-charge of putting up on-shop and in-shop displays, signage and other merchandising items. This was called Trade-Marketing which was a unique feature of BIL. "Continuous Availability" and "Visible Distribution" were the key principles of BIL's distribution. No other FMCG company maintained such team. BIL reimbursed the salaries of these supervisors to the distributors.

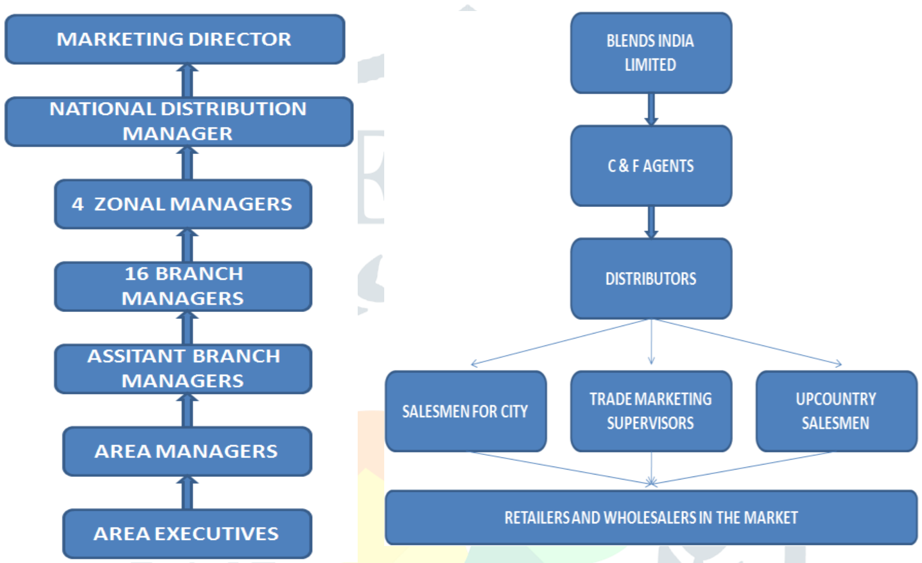

Figure 1: Structure of BIL's Marketing Department & the Distribution Network.

For distribution in upcountry towns and villages, the distributor had a van which covered a different route on each day of the week. The routes were decided to cover towns and villages above 10,000 populations in the district. Upcountry distribution costs were reimbursed by BIL.

The Marketing team of BIL operated through a network of 16 branches. A branch typically had a Branch Manager, an Assistant Branch Manager, Area Managers and Area Executives. Each Area Executive handled 4-5 distributors. The Area Executives are headquartered at the branch location and they tour their allotted area for 22 to 25 days every month. An Area Manager handles the areas of about 3 to 4 Area Executives. At month end they report to branches for debriefing meetings and next month's planning.

The demand and market pull of BIL's brands was such that its products reached every small town and village of the country. BIL boasted of an unparalleled distribution and trade-marketing network. Strong brands, absolute market dominance, trade-marketing and distribution were indeed the strengths of BIL in cigarette industry.

DISCUSSION POINTS

Imagine yourself in Anup Kumar's position and discuss the following points:

1. Based on a SWOC analysis, should BIL enter into new businesses by itself or should it takeover any existing companies and brands? What would be the advantages and disadvantages of either option?
2. What type of businesses will be suitable for BIL to enter into?
3. Are there any weaknesses in BIL's Marketing & Distribution network? What needs to be done to overcome those weaknesses?
4. What can be done to maintain the dominance in cigarettes business? What future do you see for this business?