Strategy formulation : a case study

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Strategy Formulation : A Case Study

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The authors in this case study describe a model for strategy formulation as applied to a firm in South India in a comprehensive manner.

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Introduction

The firm, Venkateswara Agro-chemicals and Minerals (VACM) at Madras formulates pesticides and produces trailers for use in the urban areas. It is a daughter of Peirce Leslie India Ltd. (PLI), but quite autonomous.

The pesticides are distributed by the parent company in the four southern states. See Figure 1. The trailers are distributed by an independent sales-representative. For the sake of simplicity we will deal in this article with the pesticides. It is a small firm: some 50 employees, 2 crores Rs (1 crore = 10^7 Rs = almost 10^6 U.S. $) turnover, some 10% added value. The potential market in India is over 400 crores, and slightly increasing every year. Formulating is done by 250-300 firms. Most formulating is being done by basic manufacturers (Bayer etc.), but the Indian government does not allow them to formulate more than 50% of their production.

The balance they have to give to a few other minor firms, mainly by government choice. Nevertheless, these basic manufacturers are very strong in the market. First of all because the initiate new products with brand names. The others follow. Secondly the larger firms have some 10 to 15% of the market. VACM under 1%. Thirdly: most small firms don't live long because they lack financial means to have a

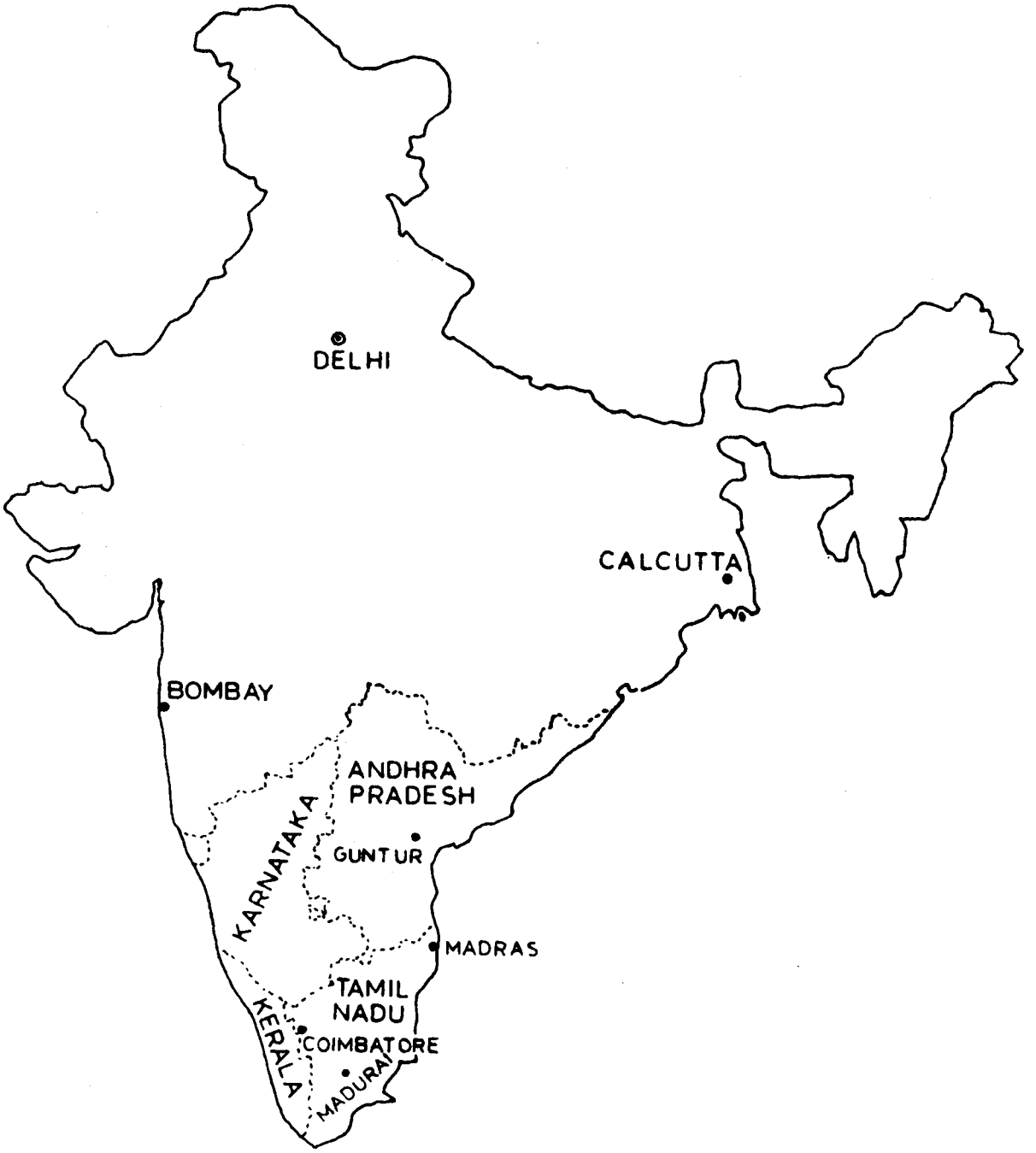

Fig. 1 : Madras and Environment

long breath and—last but not least—they have a weak distribution channel.

So there is little scope that the number of small firms will increase.

VACM has obtained registrations for over thirty products, among it the newly introduced synthetic pyrethroid. This range is quite good, although a larger range should be more attractive for the dealers.

In Tamilnadu, Andhra Pradesh and Kerala there are some 300-400 dealers. Most of them are supplied by VACM. The farmers can pay only after the harvest and as a consequence 1 to 2 months credit is given to the dealers by the formulaters. Likewise basic manufacturers give some credit to the formulaters.

We tried to make a product-market analysis (one of the key information you have to have in a firm) in terms of sales and contribution per product per crop per year per area, but this was, in spite of the extensive and detailed information VACM has at hand almost impossible.

We were given six lists of products and markets, but these were not compatible in terms of unit (litres, pieces, MT, Rs.) time period (one whole year, others April till December) and the like.

It is possible that better information than we got could be derived from the files but our impression is that things could be organised much better in this respect.

Anyway, we could produce some relevant product-market matrix out of the data given.

From this we could draw several conclusions, e.g. :

1. Andhra Pradesh and Karnataka have more than 90% of the volume. Why is Tamilnadu so lagging ?
2. Four products provide for 95% of the volume. We have to compare this with aggregated data for all companies per area per product (if available) to assess whether VACM is performing well or not for a given product and area.

Analysis like this can't give straight-away solutions, but they give questions; keys for solutions via discussion and/or in depth analysis.

We carried out a market survey. The questionnaire is shown in Figure 2. And the results are summarized in Figure 3. These results are quite obvious. Dealers

1. Is VACM your supplier ?
2. If not, why ?
3. Which are the products VACM supplies you ? For how many years ?
4. Do you know the whole product range of VACM ?
5. How many years are you in the pesticides business ?
6. Yearly sales turnover ? Wholesaler/retailer ?
7. Main crop in this area ?
8. Are there products which VACM could provide, but upon which you prefer other suppliers ? If so, why ?
9. Are you satisfied or not satisfied with VACM's quality, price, delivery time, service, credit facilities, sales incentives ?
10. Do you foresee any increase/decrease in the amount of crop ?
11. Same for crop diseases and pest population.
12. Do customers indicate the brand or is it due to your choice ?
13. Do you foresee increase/decrease of certain products (all companies) which and why ?
14. How many suppliers do you have ?
15. Do customers prefer small or large packages ?
16. What do you think about VACM packaging ? Symbol ?
17. What do you think of VACM (PLI) agents ?
18. What do you think of VACM's sales promotion ?
19. Any comments on PLI and VACM brochure ?
20. Your name please.

Fig. 2 : The questionnaire (abbreviated)

--46 dealers and 5 agents were interviewed.

Distribution of the dealers interviewed :

—Guntur (the place of the pesticiedes market) : 18

Main crop : Cotton, further on tobacco and Chilli.

—Madurai—Main Crop: Cotton : 6

—Madras—Main crop: Paddy : 11

—Coimbatore of which : 11

Nilgiris: Crops: tea, vegetables

Pollachi: Crops: paddy, cotton, groundnut and vegetables.

—awareness of VACM to dealers can be improved greatly; this can be effected because :

—not all farmers insist on established brand-names; Half of the farmers are indifferent and satisfaction about VACM is quite good.

—packages are quite different;

—commodity product;

—quality and price okay;

—delivery time okay;

—dissatisfaction about credit facilities and other incentives;

—the packages are being liked;

—agents/salesmen are appreciated very well although some agents are less interested in pesticides than in fertilizers;

—an overall lack was felt in fieldwork and sales promotion;

—farmers are in favour of small and liquid packages, although there are signals that granules might come up;

—the yearly turnover of a typical dealer is some 5-10 lakhs, whereas this is much higher in Guntur;

—also in Guntur one will find the whole range of products, whereas in other areas only half of the range is applicable;

—Other dealers' attributes :

number of VACM products carried : 2—4

number of suppliers : 10—15

number of total products : 30—40

—a slight increase in crop diseases and pest population can be expected;

—dealers foresee an increase of the use of :

* Synthetic Pyrethroid (except Madras)
* Monocrotophos (Guntur)

—and a decrease of :

* BHC (Madras)
* Carboryl (Madurai)
* Malathion (Guntur)

Fig. 3 : **Summary of Market Survey**

are satisfied with VACM except for the sales incentives and promotion by VACM.

VACM has ambitious plans to penetrate the markets in North-West India, making use of the distribution network of PLI. This because of two reasons: Increasing sales and spreading risk over the country. Having increased the sales VACM management thinks it would well be possible to go into basic manufacturing. We don't think that this is possible. The required know-how and skills is not easily available to the company. It requires also a different attitude (research). The investments will be high and it is a 'law of business' that the value added by backwards integration is less than in forward integration. So instead we think in the opposite direction. In our opinion there are two more reasons for spreading the the wings over the country. The market of pesticides is growing by several percentages per year. So one should enter now when it is still growing. It could well be that it will stabilize or even decline in 10 to 20 years (source: Agricultural Dept. in Madras) due partly to substitution by biological control. A second reason is the possibility to make a more precise total forecast because if the forecasts of several areas are independent, the deviations will level out.

Also VACM sees much opportunity in home insecticides. In fact it was introduced right after our survey.

SWOT Analysis:

To summarise previous diagnoses, forecasts and comparison, one can state some key-issues in strengths — weaknesses — opportunities—threats matrix. Some strengths may help to overcome some threats, or exploit opportunity. On the other hand some weaknesses may be reinforced by some threats or phased out by some opportunity. See Figure 4.

Alternatives

Having all the data gathered and analysed, we had lengthy discussions with VACM management and we eventually came up with the following feasible alternatives.

—Increase in sales in South India especially in Tamilnadu by adjusting the marketing mix—promoting by posters, brochures, (including safety-aspects) field work (VIDEO) demonstration, meeting with dealers and extending credit periods.

—Enter North India, relying on PLI distribution network, and start in the near future a second unit in this area.

—Exporting to e.g. Taiwan, Singapore, and Sri Lanka.

—Forwarding integration, i.e. selling or hiring out equipment to use pesticides; sprayers, helicopters, safety equipment etc.

But better than adhoc alternatives, one can consider the *common thread of the business*. Like many managers VACM's management is highly inclined to enter any attractive market. So the home-insecticides are entered, which has no single relationship with agro-pesticides. The only similarity is that some agro-pesticides are insecticides. But both manufacturing, marketing, distribution, use and purpose is totally different ! VACMS's common thread could be e.g. agro-cultivation rather than agro-chemicals ! And since management has decided to go into home-insecticides, one could argue that a second division is urban cultivation (for use in houses, kitchen gardens, hotels, restaurants to kill insects and protect plants and flowers). The second market is a consumer market, where the former has more characteristics of an industrial market.

In Figure 5 we show some basic features :

As argued already VACM should go into forward (vertical) integration rather than backwards. Think of the synergic impact of the farmer using VACM equipment together with VACM pesticides.

Being in urban-cultivation one can think of small packages pesticides for e.g. vegetables (kitchen-gardens) or plants and flowers. But also think like deodorants, sprayers for use of pesticides etc.

Objectives should be rated in functional rather than in physical terms.

For all three divisions this could be worked out more in detail. The message here that if one has a more fundamental look on the business, one can see other possibilities. Important here is that these possibilities are related to the present business and not just unrelated product market technology combinations.

Recommendations

Finally we come up with the following ideas, agreeable for VACM's management (in which the financial recommendations are not 'fully explained here, being not relevant for the purpose of this article) :

General

1. Split down the company in two divisions :
   Rural-cultivation and Urban-cultivation.
   It will spread (financial) risk and profile the identities.
2. Improve management information, with or without the help of a computer.
3. Avoid high investments. First consolidate the businss. Avoid too rapid growth; monitor the liquidity carefully. First of all equity-debt ratio should be 'normal' before VACM can invest heavily. Another reason to consolidate

	STRENGTH						WEAKNESSES						
	BACKED BY PLI	INRRASTRUCTURE (DISTRIBUTION NET WORK OF PLI)	ACCOUNTING SYSTEM	RELATION WITH BANK	PROFESSIONAL MANAGEMENT	QUALITY/PRICE/ PACKING SERVICE	PL AGENTS HAVE DIVIDED INTEREST	FIELD WORK/ PROMOTION	NO AGGRESSIVE SELLING	INADEQUATE EXTERNAL MGT. INFORN. SYSTEM	PRODUCTION PLANNING	DELEGATION	NO PRODUCTION FACILITY FOR GRANULES
OPPORTUNITIES													
AVAILABILITY LAND													+
SPREAD RISK OVER COUNTRY	+	+		+	+	+	−			−	+		
INCREASE SALES	+	+		+	+	+	−	−	−	−			
TIE-UP WITH COMPANIES FOR TECHNICAL MATERIAL/ JOINT VENTURES					+	+							
EXPORT MARKET	+				+					−			
HOME INSECTICIDES	+				+								
THREATS													
SUBSTITUTION OF PESTICIDES BY BIOLO-GICAL CONTROL										−			
GOVT. REGULATION ON POLLUTION (SAY BAN ON DDT)										−			
NEW REGISTRATIONS					+					−			
LIQUIDITY HAS TO BE MONITORED CAREFULLY			+	+									

THE + (POSITIVE) and − (NEGATIVE) ARE THE KEY-ISSUES TO BE CONSIDERED

Fig. 4 : SWOT Analysis

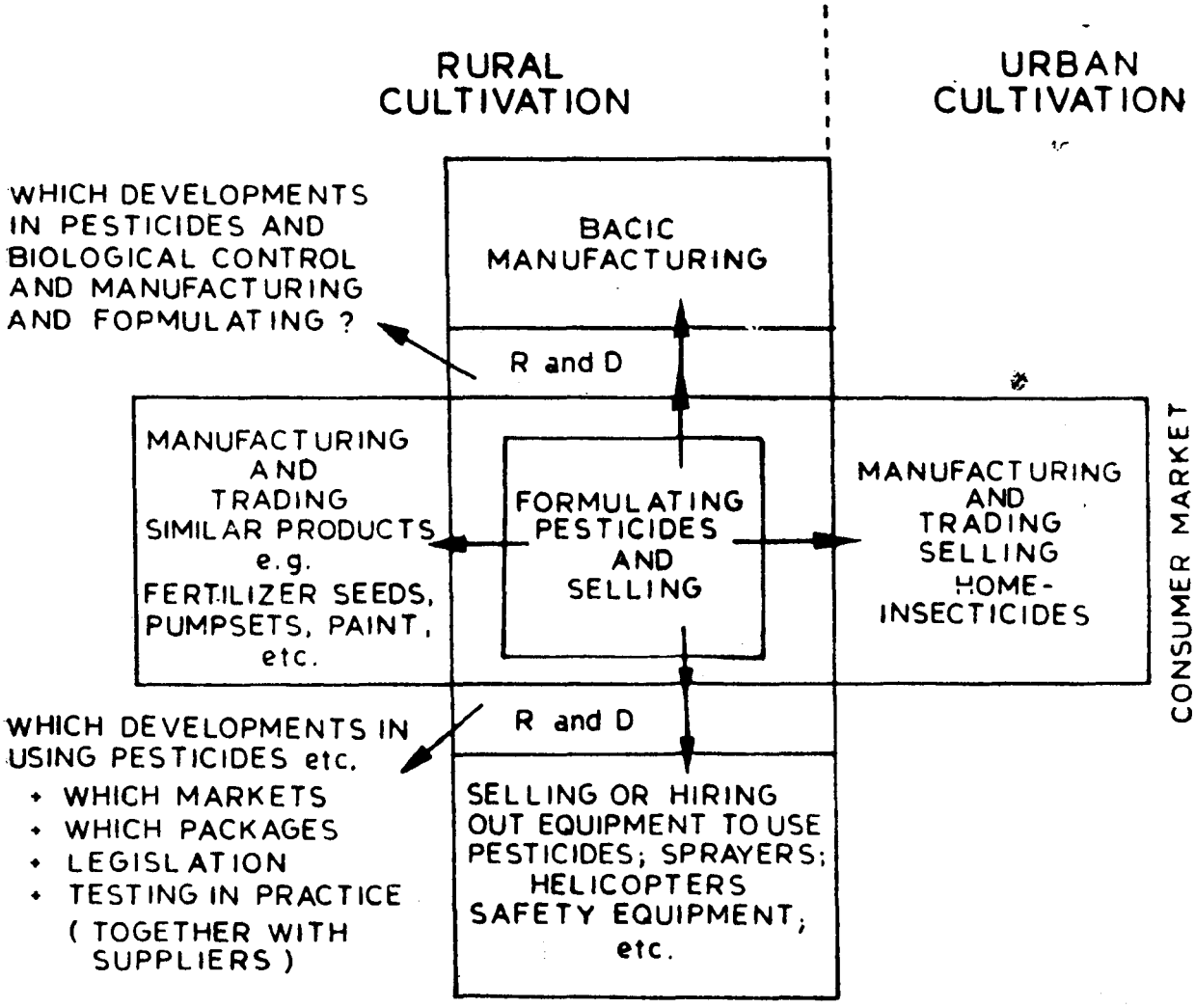

Fig. 5 : The common thread of the business versus various alternatives

is to work on the task structure in the company; delegation should be improved.

Rural-cultivation

1. Introduce pesticides in one or two states in North India on a full scale range rather than a few pesticides in many states. Other states can follow in the next year.
2. Forwards integration instead of backward.
3. Improve sales promotion. Especially in Tamilnadu this can lead to increased sales.

Urban-cultivation

Introduce home-insecticides at, at least the break-even level.

Use of the Approach in the Indian Context

First of all we can state that given this company, we see no reason at all why our approach would not be applicable for India. There are no essential differences. Many people (in India or well in Europe)

had doubts about the applicability because of :

1. Stringent Government regulations.
2. The different 'Culture'.
3. Conflict of Interest (holding-subsidiary or family owners-managers).
4. The considerable use of black money.
5. The power lobby and
6. Banks are conservative and avoid taking risks.

Altogether, it became a real challenge to us to introduce our approach successfully in India. We will deal with these 'differences' underneath.

1. India has indeed a great many Government regulations on Pricing, Production, Import, Export etc. But so has Europe on this matters. Moreover, they have more stringent regulations on pollution, safety and consumer affairs ! And even so Government regulations can benefit the company.

   An example; basic manufacturers can't formulate more than 50% of what they produce.

2. Here is a point, which has much truth in it. We were surprised that staff did not take initiative because they are not used to it, or because they are afraid to make mistake forgetting that leaving behind action is a mistake in itself !

   An agent of VACM, quite familiar with VACM, put it this way : "its odd, but whatever question you raise to anybody you find yourself taking the general manager ultimately".

   One manager in a conglomerate in Madras argues, that all this is mainly due to the colonial heritance : the British were the rulers; the Indians had to obey.

   Management "mistrusts" the staff and monitors them constantly. Staff just does what they are told (clerical behaviour) and is looking for excuses and alibis. VACM management is aware of this and is deliberately working on this.

3. Conflict of Interest, not found in VACM. Moreover we find this all too often in the European context !

4. Not recognised or problem in VACM.

   By the way the black money circulation in e.g. Holland is estimated as more than 10% of the national income.

5. In essence this is also the case in all other countries in the world. But in India it is certainly a way of life—a reality. Public affairs—as it is called—seems to be of great importance in India. To our opinion VACM does not benefit from these opportunities in full. Instead it is proud to do business on a 'straight forward and predictable' way.

6. We believe in most countries banks are conservative; state owned or not. Except for instance in Japan and U.S.A. (venture (risk) capital is available here). Bankers are conservative by nature and live in a different world compared to enterpreneurs.

It is possible we did not feel the differences because VACM is an exception. However, we don't believe so based on several informal talks with managers of several different firms in India.

What really differs from the European context is that it takes time, say twice of what in Europe due to several reasons :

1. Telephones and Telexes function badly.
2. Copying documents is very troublesome, rather it is retyped.
3. Indians have a different meaning of time. Appointments can be made but it seldom happens that one is on time. We refer here to the phenomenon Indian Standard Time; the appointment ± 1 hour !

4. Conditions are worse. No proper office—five to six people sitting in one room behind a tiny desk. Air conditioners and fans are buzzing. If not air-conditioned the heat can be enormous.

5. Also efficiency of many staff people is low, partly because of 2, 3 and 4.

Post Script :

We never come across a firm of comparable size with VACM in Europe, which had such an extended information on all kinds of areas mainly in the field of accounting, which seems perfect to us.

A different thing is het mode in which it is filed. This could be improved in several ways; most of the data are given very detailed. Asking information we were shown one detailed sheet after another. This might be okay for day-to-day operations, but when it comes to management information to direct the firm it is quite insufficient. It is too detailed to moniter the structure and the trend : data are mainly given per year per sheet. Also management information about the environment is stated in only quantitative terms and scattered over management, staff and agents/salesmen. That means for instance no systematic monitoring of strategic mover of competitors, developments in crop-cultivation, plans of government, new technologies to formulate, no systematic product-market analysis in terms of trends, no analyses of market growth and market share and so on.