ISSN - 2319-7145
RNI - DELENG/2012/46552

FIIB Business Review (FBR)

Volume 3 Issue 4 October 2014 to December 2014

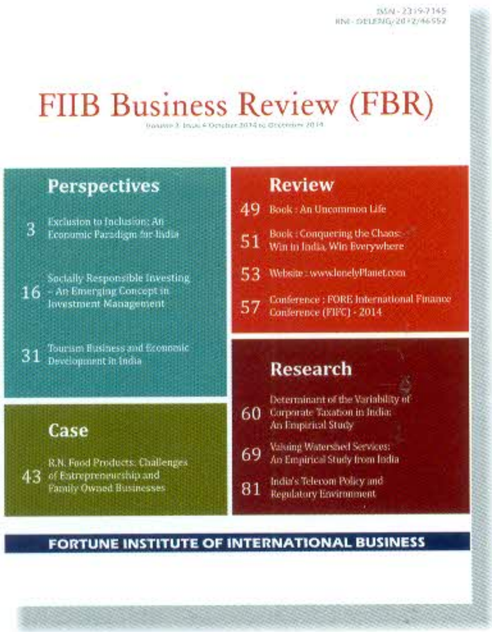
Perspectives

Case

Review

Research

FORTUNE INSTITUTE OF INTERNATIONAL BUSINESS



FIIB Business Review (FBR)

FIIB Business Review (FBR) is a quarterly journal brought out by Fortune Institute of International Business (FIIB) for disseminating knowledge and good practice of professional management. It is aimed to serve as a vehicle of communication between those who study management and those who practice it by publishing articles that are both research-based and address issues of current concerns to practicing managers.

A peer reviewed journal, FBR invites manuscripts that provide insightful perspectives on emerging managerial themes, management research of value to professional managers and academics and management cases on contemporary managerial issues from management consultants, policy makers, senior executives as well as academics.

If you have any comments or questions about FBR, please contact **editorfbr@fiib.edu.in**

Submission of manuscripts for publication review to be sent to :

Editor, FBR
Fortune Institute of International Business
Plot No. 5, Rao Tula Ram Marg, Opp. Army R & R Hospital,
Vasant Vihar, New Delhi-110057.
Ph: +91-11-4728 5052/09
E-mail : editorfbr@fiib.edu.in
www.fiib.edu.in/fbr

Printed and Published by Ms. Radhika Shrivastava,
on behalf of Fortune Institute of International Business, Plot No. 5, Rao Tula Ram Marg, Opp. Army R & R Hospital, Vasant Vihar, New Delhi - 110 057.

Printed at Kaveri Print Process
114, Patparganj Industrial Area, Delhi - 110 092
and published at New Delhi.

Content

R.N. Food Products: Challenges of Entrepreneurship and Family Owned Businesses

by Purushotham Bung & Kirti Shivakumar

Abstract

M/S R.N. Food Products came into existence in November 1997. Starting with manufacturing basic spice powders; the firm's products were available throughout Karnataka and Goa. They were available in convenient pack sizes ranging from 50 grams to 10 kgs. In the year 2002, R N. Foods started manufacturing mixed spice powders like garam masala, chicken masala, and sambar powder. In the year 2004, R.N. Foods added pickles to its portfolio producing according to FPO standards. Pickles were sold in two different brand names, namely P&P (premium brand) and KrsnA (a regular brand). The case outlines the way the entrepreneur started the business, the challenges he faced and what ultimately happened. It further looks into various risks and decisions that impact a small scale set-up.

Keywords

Entrepreneurship, Initiative, Small and Medium Enterprise, Business Strategy

Starting a business is a big achievement for many entrepreneurs, but maintaining one is the larger challenge. There are several challenges unique to a small business like money management, client dependence, lack of focus on the bottom line, the tough act of balancing between quality and growth. Some of the specific challenges entrepreneurs in India face are the family challenges, social challenges, technological challenges and financial challenges. The case focusses on the process of entrepreneurship, the various challenges that entrepreneur Raj faces and the choices he has an entrepreneur. It also brings out the unique challenges family owned businesses face.

Research has indicated that small family managed businesses fail mainly due to the following reasons: poor succession planning, break ups, risk myopia and aversion to letting go of control and allowing professionals to run the business (Hawkey, 2002). They fail to visualize that one day the business may have to be shut down and therefore are not prepared with an exit strategy. An exit strategy is a means of leaving one's current situation, either after a predetermined objective has been achieved or as a strategy to mitigate failure. In entrepreneurship and strategic management an exit strategy, is a way to transition one's ownership of a company or the operation of some part of the company. Entrepreneurs devise ways of recovering the capital they have invested in a company. The most common strategy is the sale of the company as a whole or its assets. Studies by Franco and Hasse (2010); Ramachandran (2006) have shown that most small family managed businesses enterprises fail to take off because the entrepreneur fails to objectively analyse the causes of their ventures unsuccessful performance and failure. In most of the studies it was seen that even though some owner-managers displayed some awareness about the inherent weaknesses of their enterprises, most of them did not recognizes or understand the problems such as lack of a well-defined strategy, a myopic vision, and inadequate social capital.

According to a report by Price Water House Cooper, family businesses have their own unique challenges[1]

Challenges which crop up because of diverse family opinions and internal issues

- Problem of succession planning - creating the next line of leadership, generation
- Difference of plans and styles of working of the older generation and the newer generation
- Avoiding the hiring of external staff especially in decision making positions.
- Lack of a proper planned availability and access to capital to help the business grow and develop.
-

Shukla (2014) states, "The percentage of family firms that successfully transition across generations decreases from generation to generation. Some sell to the outsiders, some sell to the employees while the remaining fail."

It was a rainy day in June 2008. Grey clouds hovered around and deepened the gloom Raj felt. He lay on the hospital bed, wistfully staring at the ceiling. "How did I get into this mess?" he wondered. Doctors advised him not to focus on those issues which were stressing him, since they felt it was the stress caused by the business turmoil led to a health crisis. Raj had suffered a mild heart attack and was required to rest for a few days. The forced solitude in the hospital ward gave him ample time to think. He felt weak, mentally and physically. His hospitalization had caused a lot of fear in the minds of his family members, and even the normally strong Raj was shaken.

A thousand questions began to dance in his already disturbed mind. "What should I do? I have tried all possible means, but there seems to be no end to my problems in the business? Is this business ever going to be profitable? How long can I sustain it like this? Is closure the only way to exit from the business? Is there any other option left for me? Where did I go wrong? Why was I blind to the first signals of distress in the business?"

Nostalgia crept in and he was flooded with memories. Raj hailed from a business family who had a commission agency, an oil industry, and a cotton ginning/pressing industry in the smaller cities of India. Raj opted to study engineering, and thus had never been involved in the family business. After his graduation, he took up employment with Videocon in 1991.Three years later he enrolled for an MBA programme in Australia. After completing his MBA he returned to India in August 1995, just to meet his parents before going to Singapore. Raj was excited, he had received a lucrative job offer from "Spotlight Inc.", an Australian based company which had offered him the position of "Head -Operations" at Singapore with a very attractive salary , perks and other benefits. He had been adopted by his uncle, since the uncle had no male offspring. He pleaded with his parents and uncles' family to allow him to go to Singapore, but all they said was "Do whatever you want to do but do it in India". He had to give in and it was at this point that he began to think of entrepreneurship as an option. He spent six long months scouting for ideas, travelled to Pune, Mumbai, Bangalore, Delhi, etc., and visited many companies, met entrepreneurs, attended trade fairs and met executives from Govt. Departments.

Raj had joined Videocon at Ahmednagar in May 1991, soon after he completed his engineering. It was during his stint with Videocon at Ahmednagar that he became familiar with the food processing Industry, especially one firm called "Meghanand Masale" So when Raj was contemplating the idea of becoming an entrepreneur, venturing into the food processing industry was the first thought which came to his mind. Raj also felt excited about the fact that the Indian Food Industry was going through a dramatic change with ready to eat foods and a wide array of masala powders receiving a very good response in the hitherto conservative food industry of India. The huge successes of "Pravin Masale", "MTR", "MDH" and other big brands made Raj feel that perhaps this was the right industry for him.

Raj started working on his project from May 1996 onwards. Though he had been involved superficially in the family business, it was only during his times away from college, during vacations. All the brothers and cousins were already involved in the family business. Though Raj himself was nervous about being a greenhorn in business, the presence of the younger brothers/cousins who were already full time business men encouraged him. Thus the venture began with both experienced and a novice as heads of business.

The next step was the search for land. At Belur Industrial area, near the city of Dharwad, the Karnataka Government had mooted the idea of a "Government developed Industrial growth centre" and was offering huge incentives to attract industrialists'. So Raj zeroed on to Dharwad. Having completed his schooling and college (PU) in the twin cities of Hubli-Dharwad, Raj felt familiar and comfortable with choosing Dharwad to set up his unit. But deep down there was another factor which attracted Raj to Dharwad, the possibility of being able to pursue a career in academics, simultaneously while managing his industry. Dharwad was an educational hub and many new institutions were springing up offering employment opportunities in academics. Finally R.N. Foods came into existence in November 1997.

The People

There were five partners in the business- all belonging to the family enterprise.

- Raj - Part Time - Partner
- Ranganath - Full time - Working partner.
- Satyanarayan - Investor
- Balaji - Investor &Part Time Working Partner
- Manish – Investor

(Family Tree indicated in ExhibitI)

The plant had 10 unskilled workers during off season, which went up to 25 and even more during season. 3 Semi skilled workers were also employed in production and operations. In addition there were 2 supervisors in production and 10 sales personnel. Raj used to spend 2 to 4 hours every day for business and 8 hours as a lecturer whereas the other partner (full time) used to spend his whole working time at the plant. Being involved in academics, Raj could not focus full time on his business.

Beattie (n.d) feels that many small businesses have the founders working at a job and building a business simultaneously. This split focus can make it difficult for the business to grow, but the entrepreneur fear he would run out of cash if he doesn't continue working.

R N Foods used "tally–ERP solutions" to keep track of stocks, accounts payables, receivables, etc. Delegation of responsibilities to some extent seemed effective. Mechanization & Automation of some manufacturing processes brought down lead time significantly. Streamlining of processes and planning the routes for van sales lead to significant fall in the costs and expenditure. It also helped in improving quality.

The Products

Starting with manufacturing basic spice powders like Chili powder, turmeric powder, etc.; the firm's products were sold throughout Karnataka and Goa. They were available in convenient pack sizes ranging from 50 grams, in polyester poly pouches, up to 2 Kgs and 5 to 10 kgs, in HDPE sacks. In the year 2002, R N. Foods started manufacturing mixed spice powders like garam masala, chicken curry masala, sambar masala, etc. In the year 2004, R.N. Foods added pickles, producing according to FPO standards, to its product portfolio. Pickles were sold under two different brand names, namely "P&P" (which means Pure n Perfect, a premium brand) and "KrsnA" (a regular brand), whereas spice powders were sold under the "P&P .The products were sold at more than 1500 Grocery stores, Kirana shops, super markets, and to several hotels/restaurants spread over entire Karnataka and Goa. A full-fledged branch office in Goa was opened in 1998 itself. Sales were done normally through "van sales", where the vans used to go on pre-designated routes. There was a designated sales executive for every route and it was his responsibility to ensure that he visited all the dealers of that route that at least once a month.

Though R N Foods were doing fairly well with spices they began focusing more on pickles thinking that competition would be lesser in pickles and they could becomea brand to reckon with in the pickles trade. In the beginning it did sound like a great idea, but later the entrepreneurs realized that profit margins were much thinner in the pickle industry than in spice powders. To make spices/masala powders, there was no need to maintain a long list of raw materials. Whereas for pickles the list of raw materials were exhaustive and needed to have a sufficient stock of raw materials to last for a year. "Procurement of mangoes, lime and other fruits and vegetables, cleaning them, destalking them, cutting them into 2 pieces, chopping them into small pieces, adding preservatives to them, storing them back into big drums" was a laborious manpower intensive process. Quality and perishability was a big issue in pickles. A small mistake meant the entire produce turned bad. As production increased, ensuring quality became a serious challenge. Moreover cut throat rupee competition from the unorganized sector, especially the home/micro enterprises and cottage scale producers was another serious issue.

Sales and Profitability

Transaction per customer used to fluctuate between (Rs. 500 - Rs. 10000). In some cases it used to be above Rs. 10,000. Total sales per route was around (Rs. 75,000 to Rs. 1,50,000). It used to take around 5 to 8 days for every route. Monthly turnover used to fluctuate between Rs. 4 to 6 lakhs.

However, expenditure involved in "van-sales" model was very high. Total selling expenditure alone was around 20%. In the traditional businesses like this, it was very much on higher side since there were so many competitors. Raj says, "Every chili trader from Byadagi and Hubli, and every turmeric trader from Sangli was our competitor as majority of these traders were having their own brands. Moreover frequent high price fluctuation was also a big issue". Competition from small scale producers, home industries and cottage industries was also becoming intense. They tried other varieties like Green chili pickle but discontinued later due to lack of volume.

Funding and other Financial Issues

The source for the initial financing of the business was as follows

Purpose	Source	Amount (in lakhs)
For purchasing Land of 2 acres	Family	10
Leveling, fencing, approach roads and construction of main shed	Family	20
Purchase of Machines	KSFC	15
Working capital	State Bank of Hyderabad, Dharwad	10 (later increased to 15)

Table 1 : Method to Facilitate Natural Resource Based View

The initial capital investment was 60 lakhs. The working capital loan availed kept on increasing up to 25 lakhs and there was not a single occasion when the limit came down below 20 lakhs. In short what was meant to be a working capital loan became a term loan.

The bank manager cautioned Raj several times and spoke to him on length about maintaining "financial discipline" and following "financial planning". But trapped in the debt cycle, Raj went on hoping things would be fine in due course of time, a false hope which never materialized. Focusing on short term solutions, he tried to get raw materials on credit from suppliers. Naturally the suppliers charged a higher price for extending the payment deadlines. He also started giving exorbitant cash discounts to encourage cash sales and begun to indulge in rehabilitation exercises of the industry. Between the years 2002 to 2007 he invested more than Rs. 50 lakhs to rejuvenate the flagging business. This went on and on till 2008. Like most people going through a bad phase, Raj too fell prey to superstition and renovated the building according to "Vaastu Shastra" principles. The cost of this renovation was huge, to the tune of Rs. 10 to 15 lakhs.

Raj was a restless soul, bouncing back and not one to concede defeat soon; he kept thinking of ways to make money, so that he could fuel the business. It was some time in 2002 that Raj hit upon a new idea. He felt that since he had now known the Chili market well, he could supply raw material to large manufacturers. Having worked on this idea, Raj managed to get voluminous orders from large companies like Sunrise Spices Ltd., (Kolkota) Aditya Spices (Erode, Tamil Nadu). In the year 2003,Raj bagged a huge order to supply Byadgiand Guntur chilies for export. However the buyer insisted that the chilies would have to be stem less. De-stemming chilies is an art and should be done by expert workers. If the stem is not removed properly, the chili could get torn and damaged. There were workers in Hubil and Byadgi who are skilled in the process of removing the stems from the chilies while keeping the chilies intact. However Raj felt he could cut costs by getting this job done at his native place called Shorapur, where there were a large number of unemployed people in the vicinity. For seven grueling days, he toiled with hundreds of workers and somehow completed the mammoth task. Soon after the dispatch, he was informed that the entire lot was rejected due to improper de-stemming. Raj incurred heavy losses during this transaction. This incident added to the down slide of the flagging financial condition of the company.

Sales Revenue was fluctuating between 50 to 70 lakhs from 1998-2008.The Chartered Accountant, who was also a family member, realized quite early in the day that the business was going on a down slide and cautioned Raj, He raised very vital issues, which should actually have been an eye opener for Raj. However Raj was drawn into a vicious circle of taking loans upon loans to clear the earlier debts and refused to see what was so obvious to others. The CA often cautioned Raj about his business model and is reported to have said "I don't see any future in your business. So better come out of it and think about new business". He often advised Raj to explore the possibility of becoming a supplier to big companies instead of trying to build his own brand. The CA also felt that the 'van sales' model was not right and that regional distributors should be appointed, who when closely monitored and compensated well, would add to the sales, and one could scale up further. Unfortunately Raj never took his advice seriously and began to think of the Chartered Accountant as a person who was a pessimist who did nothing but discourage him.

Brush with the Law

Ms. R N Foods had purchased dry chilies worth around Rs. 5 lakhs from a merchant with whom they were dealing since past 3 years who operated from Byadagi. As a safety against payment, the merchant was issued two cheques of 2.5 lakhs each. The merchant used to come to Dharwad and collect cash as and when required. This used to be adjusted towards outstanding payments from the Company. It never occurred to Raj that a receipt had to be obtained from the merchant.

In the coming 4 to 5 months R N Foods had paid the entire amount. Later the merchant approached them asking for interest for delayed payment. An argument ensued and a very irate merchant walked off. After going back to Byadagi, without informing the company, the merchant presented those two cheques which obviously bounced. The merchant sent the company a legal notice. R N Foods took it lightly because they felt that when they had already paid the merchant, they need not worry. They woke up only after policeman from Byadagi approached them with the court summon. Timely intervention of the other local merchants both from Byadagi and Hubli as mediators saved them. The mediators convinced the merchant to compromise and hence the crisis was overcome.

Another incident which Mr. Raj always recalls is the problems he faced with the ESI authorities when they inspected the factory and collected the required information about number of employees, their salaries, etc. during April - May 2005. The Dharwad Branch Manager and officers from Hubli sub-regional office kept trying to reach Raj over phone and even sent few notices between May 2005 and April 2007. The management of Ms. R N Foods felt that since their employee strength was lesser than 20 they would not be under the ambit of ESI Act. Though they did not know much about the ESI Act, they kept reinforcing their stand and ignored the notices. Most of the time they requested the postman to return the same saying "door locked" or addressee not found.

One fine day in the month of May 2007, again a police man approached them with a summons from the court. This prompted them to take the advice of a legal expert. They were horrified to know that noncompliance of the ESI Act is a serious offence. Fortunately the Government launched an amnesty scheme in 2010 which came as a great relief for RN Foods. They immediately paid all the arrears with interest and penalty from May 2005 onwards.

The way the cookie crumbled

Since 1997 to 2008, R N Foods had hardly made any profit. The failing business took its toll on family ties too. The elders, who were watching from the shadows 'till, 2000, gradually began to show resentment and dissatisfaction. (especially the three uncles of Raj namely Govindram, Devikishan and Rambilas). Ranganath the full time working partner, moved out and joined his father's business. The other partners too did not show any interest to revive the business. Whenever Raj approached the family members for any financial help, there was a strong resistance. Things came to a point when, in the year 2010, there was a closed door meeting of the family elders and the division of the family business was agreed upon. R. N. Foods was the white elephant no body wanted. So Nandakishore and his adopted son Raj continued to be saddled with the losses of RN. Foods. Once the partition of the family business was done it became the sole responsibility of Mr. Raj to clear the loans and take the decision whether or not to continue the business (R N. Foods).

The problems seemed to be like a vortex, spinning all around him. He had never taken advice from the family members, and made all decisions on his own. Neither had he thought of taking assistance or employing a professional from the pickle/spices industry. Difference of opinion in the family increased and the family business was partitioned. Burdened with loans and health problems, he took a decision to come out of this business. He had tried all possible ways to grow and expand the business but all his efforts failed and strategies proved wrong. Tired and exhausted both in body and soul, Raj suffered a heart attack in June 2008. Life was now at cross roads. What should he do now?

End Notes

1 *PwC's Family Business Survey 2012-13 is a survey conducted over a period of six weeks between July and August 2012. 50 senior executives from the top ET-500 family businesses in India were interviewed to get an outsider view of the challenges that family managed businesses face.*

2 *Andrew Beattie in his discussion on the major challenges a small business faces cites Client Dependence, Money Management, Fatigue, Lack of focus on the bottom line and balancing between quality and growth.*

3 *Byadgi is a town in Haveri district in the state of Karnataka, India. The town is famous for the red Byadgichilli. It is Asia's largest chilli market. It is about 100 kms from Dharwad.*

4 *Sangli is a district headquarter in the neighboring State of Maharastra , famous for "turmeric". Turmeric is a vital ingredient in spice powders as well as pickles. Earlier families used to pound turmeric powder from the turmeric root at home itself. Today you can find several branded and unbranded turmeric powders, ready to use in sachets, packets and even sold loose. Sangli is about 270 kms from Dharwad.*

5 *Vastushastra (vāstuśāstra, also vastuveda and vastuvidya, "science of construction", "architecture") is an ancient doctrine which consists of precepts born out of a traditional and archaic view on how the laws of nature affect human dwellings. Beginning in the late 1990s, a number of Western publications aiming at the esotericism market have appeared, offering Vastu as an alternative to Chinese Feng Shui. While Vastu had long been essentially restricted to temple architecture, there has been a revival of it in India, in recent decades. Misconceptions about this ancient science abound, and, in the hands of the unscrupulous, it has now morphed into a superstition which strikes fear in the hearts of people.*

6 *Employees' State Insurance Scheme of India is a multi dimensional social security system tailored to provide socio-economic protection to worker population and their dependents covered under the scheme. he promulgation of Employees' State Insurance Act, 1948 envisaged an integrated need based social insurance scheme that would protect the interest of workers in contingencies such as sickness, maternity, temporary or permanent physical disablement, death due to employment injury resulting in loss of wages or earning capacity. The Act also guarantees reasonably good medical care to workers and their immediate dependents.*

References and Links

- *Beattie, A. (n.d.). 5 Alternatives To Starting Your Own Business. [Blog] Available at: http://www.investopedia.com/articles/pf/12/small-business-challenges.asp accessed on 24 Dec. 2014.*
- *Canina, L., Palacios, D., & Devece, C. (2012). Management theories linking individual and organizational level analysis in entrepreneurship research. International Entrepreneurship and Management Journal, 8(3), pp 271-284. Retrieved from http://link.springer.com/article/10.1007%2Fs11365-009-0124-5, accessed on 12 December, 2014.*
- *Hawkey, J. (2002). Exit Strategy Planning: Grooming your business for sale or succession. Gower Publishing, Ltd..*
- *Leenders, M. A., & Waarts, E. (2001). Competitiveness of family businesses: Distinguishing family orientation and business orientation. Erasmus Research Institute of Management, Erasmus Universiteit. Retrieved from http://repub.eur.nl/res/pub/114/erimrs20010920161941.pdf accessed on 14 March 2012.*
- *Ramachandran, K. (2006). Indian family business: Their survival beyond three generations. Indian School Business, Hyderabad. Retrieved from http://www.encubeindia.com/downloads/indian_family_businesses.pdf, accessed on 14 March 2012.*
- *Santhi, N., & Kumar, S. R. (2011). Entrepreneurship Challenges and Opportunities in India. Bonfring International Journal of Industrial Engineering and Management Science, 1(Special Issue Inaugural Special Issue), 14-16.*
- *Shukla, S. (2014). Succession Planning for Family Business. [Blog] Available at: http://blog.ediindia.ac.in/succession-planning-for-family-business/ accessed on 24 Dec. 2014.*

Author Profile

Prof. Purushottam Bung is an academician with rich industry and entrepreneurial experience of nearly two decades. He completed PGDM from Melbourne Business School, and MBA from Monash University, Australia. He was awarded Doctorate by Karnatak University, India. He has presented and published numerous research papers in national and international conferences and renowned journals. He has been offering management consultancy services to local businesses and entrepreneurs as well. He has been bestowed with 'Distinguished Educator' award by Discovery Education Media, New Delhi in 2012. He is the VP of NKPMIA (North Karnataka Private Management Institutions Association) and treasure of AIMS (Association of Indian management Schools) Karnataka and Kerala chapter. Currently he is a Professor and Director of KLS' Institute of Management Education and Research. Belgaum, Karnataka. He can be reached at director@klsimer.edu

Dr. Kirti Shivakumar has 24 years of experience in industry, consultancy, training, teaching and administration. She holds an MA, PGDIRPM, PGDPR and MHRM and Ph.D. She is an Accredited Management Teacher from AIMA and a Dale Carnegie Certified Teacher. She is the recipient of a grant by MDI-CII-AICTE-UNDP for developing case studies in CSR, and grants to develop case studies in Entrepreneurship from ISB Hyderabad. She received the Best Case Study award from Amity Business School and ISB, Hyderabad, As a trainer, she has conducted training programmes across all levels of management, for organizations like Bajaj Electricals, West Coast Paper Mills, IOC and Reliance Engineering in the areas of Soft skill development, Training the Trainers, Leadership and Communication. Currently she is a Professor at KLS' Institute of Management Education and Research. Belgaum, Karnataka. She can be reached at dr.kirti@klsimer.edu