

# Kanpur confectioneries essay



**ASSIGN  
BUSTER**

It had also desired to retain full control over the quality and production processes. It had promised to the sub contractors that it would compensate them adequately in terms of volume of business and conversion charges. To KCPL the advantages were in getting assured return on its investment and access to APL's manufacturing expertise but the disadvantages were in the possible loss of independence in decision making, dilution of company's own brand, 'MKG', and family prestige. KCPL and its Background KCPL was started in 1945 by Mohan Kumar Gupta, then 28, in Jaipur, Rajasthan State, to sell sugar candies under the brand 'MKG'.

Earlier, he was a worker in a candy unit in Jaipur. He started his own business with the dealership of candies produced by others. With the experience gained he set up a production unit in Jaipur in 1946. Between 1946 and 1950 thirty units were set up in the unorganised sector in Rajasthan to sell a variety of candies. As competition increased the margins came down. KCPL could not compete on costs as its costs were higher than the other manufacturers. Mohan Kumar faced a financial crisis. He decided to shift the production to another state and reduce costs.

In 1954, he bought one and a half acres plot in Radha Industrial Estate, Kanpur, Uttar Pradesh (UP) and set up a candy making unit. He became the first entrepreneur to set up a candy making unit in UP. He appointed three sales representatives to cover the entire state, establish dealership and promote 'MKG' as a leading brand. He advertised 'MKG' in the vernacular news papers and on hoardings located at cross roads. To build further on his success, he established a dealer's network in the neighbouring states of

Bihar and Madhya Pradesh. By the end of sixties he was a leader in candies in the northern region.

He decided to invest his surplus cash to diversify into making glucose biscuits and selling them under the 'MKG' brand. In 1970 there were two large national and six regional manufacturers. The demand was growing at more than 15% per annum. The margins were attractive. He saw the biscuits' venture as an extension of the candy business. The process was simple and the equipments were available indigenously. Sugar was the common raw material. However, he had to Prepared by Professor Mukund Dixit and Mrs. Vandana Dixit. The names of places, products and people are disguised.

The case writers express their gratitude to the members of the family that cooperated with them in writing this case. Teaching material of the Indian Institute of Management, Ahmedabad is prepared as a basis for class discussion. Cases are not designed to present illustrations of either correct or incorrect handling of administrative problems. © 2001 by the Indian Institute of management, Ahmedabad. 2 of 6 IIMA/BP0268(A) arrange for regular supply of other raw materials like maida (refined wheat flour) and vegetable oil (vanaspathi). He tied up with local merchants and commenced production in 1970.

He rented depots in key towns for stocking the biscuits. He continued to advertise the brand in vernacular newspapers. He also advertised the brand at retail shops. The business was profitable but the acceleration of production was constrained by the scarcity of ingredients like maida, sugar

and vanaspathi. He extended his range and offered cream, salt and Marie biscuits under the `MKG' brand. In 1973-74 KCPL reached the number two position in the market with a monthly sale of 110 tonnes (1 tonne= 1000 kg). Prince Biscuits, promoted by Ghanshyam Das in 1960, was the leader with a monthly sale of 130 tonnes.

His plant, located at Agra, Uttar Pradesh, had a monthly capacity of 150 tonnes. International Biscuits Ltd. held the third position with a sale of 100 tonnes per month. Its plant located at Mumbai, Maharashtra, had a capacity of 800 tonnes per month. It was a leading player in the Western and Eastern regions. A-One Confectioneries Limited, an overall national leader with a total capacity of 900 tonnes per month, did not have a significant presence in the North. However it had a leading position in the South. In 1980-81 KCPL's turnover in biscuits' business was Rs. 2 crores, an increase of 15% over 1979-80.

Its net profits were Rs. 20 Lakhs, an increase of 12% over the previous year. In 1980-81 KCPL doubled its capacity from 120 tonnes per month to 240 tonnes per month. In 1983-84 its sales increased to Rs. 3 crores and net profits to Rs. 25 lakhs. Technology and Operations in 1987 Biscuit making involved preparation of dough by mixing maida sugar syrup, vanaspathi and certain preservative chemicals in a given proportion, stamping the dough to get various shapes and sizes, and baking the shapes to get ready to eat biscuits. It is the proportion of ingredients that enabled the company to develop a secret formula.

The quality of materials received was checked in a laboratory for impurities and existence of metal particles. Maida was cleaned and fed to the mixing unit manually. The sugar crystals were converted into sugar syrup by dissolving the crystals in water and heating the solution. The hot solution was cooled to room temperature and stored in cylinders. The syrup was mixed with maida and vanaspathi in small mixers. The mixed dough was fed to the stamping unit and the stamped wet biscuits were fed to the oven for baking. The temperature needed for baking varied from stage to stage.

The quality of biscuits depended on the care with which the temperature was maintained at different phases of baking. The ready to eat biscuits were sent to the packing department. The biscuits were manually packed in packets of 100 grams. In 1986-87 the average monthly production of ‘MKG’ biscuits was 120 tonnes. KCPL depended on both permanent and casual workers for its operations. In all there were ninety permanent employees. The monthly salary bill was Rs. 2.75 Lakhs. Casual workers were employed on daily basis to support activities in the packing and material-handling department.

The size of casual work force depended on the volume of production. On an average, six casual workers were employed to support one tonne of production. The daily wage rate was Rs. 50. The workers were from the local region. The prime problem in operations was absenteeism. The workers used to abstain from work without notice. The absenteeism was fifty per cent. This had led to uneven production. The daily production varied between 2 tonnes per day to 6 tonnes per day. The company sought the advice of technical consultants on issues relating to capacity expansion, equipment selection and productivity improvements.

The overall operations were supervised by Arun Kapoor, Manager (Operations). He was a graduate in science from a local college. 3 of 6 IIMA/BP0268(A) KCPL bought maida in bags of 50 kg, sugar in bags of 100kg and vanaspathi in tins of 15 kg, from local suppliers and stocked them near the mixing unit. Induction of Family Members Mohan Kumar had six sons. Alok Kumar, the eldest son of Mohan Kumar, joined the business in 1960 after completing his graduation in commerce. Vivek, the elder son, joined the company in 1965 after completing his graduation in mechanical engineering. Sanjay, the last son, joined the business in 1974 after completing his graduation in arts. The other three sons of Mohan Kumar started their own trading concerns to trade in metal parts and containers. In 1982, Mohan Kumar handed over the leadership of KCPL to his eldest son. The sons of Alok, Vivek and Sanjay were studying in school. The allocation of responsibilities among the family members was clear. Alok Kumar looked after finance and liaison functions. Vivek looked after human resource management and manufacturing, and Sanjay was responsible for marketing, logistics and administration.

They did not interfere in each other's areas. The family members met on the fifth of every month to review the operations and performance of the businesses, and think through the issues for the future. Decision making within the family was seen by them as participative. The family members could disagree on issues without disrespect to the fraternal hierarchy. The management principles laid down by the family were: respecting the laws of the land, not exploiting labour, running business on ethical lines, treating the consumer as king, and not evading taxes.

Funds Management The banker to the company was State Bank of India. KCPL was associated with this bank since 1954. The company believed in the policy of ploughing back the surplus. The family members earned a salary. ‘ MKG’ Brand `MKG’ was a popular brand in the Northern region. ‘ MKG’ biscuits were known for their quality, crispness and affordable price. The brand was advertised in the vernacular dailies and weeklies. It was also advertised on hoarding on cross roads and at the point of sale in “ Kirana” shops located in residential colonies. The biscuits were available in standard packs of 100 grams.

KCPL did not sell loose biscuits to the Kirana shop. The Kirana shop owners broke the pack and sold them loose whenever needed. The consumers were middle class families in urban and semi urban areas. The families in metropolitan cities preferred A-One or International. Canteens of institutions bought biscuits by floating competitive tenders. They placed orders on the lowest bidder. In 1986-87 KCPL had sold 360 tonnes to the small and medium sized institutions. The total demand from these institutions was estimated to be around 2400 tonnes. The large institutions preferred the other three brands.

Competition and KCPL’s Performance In 1973-74, Glucose biscuits were a growing segment of the biscuit industry. Only two national players, A-One Confectioneries Private Limited and International Biscuits Limited, dominated the industry. However, competition increased with the setting up of seventy units in the unorganized sector between 1975 and 1980. Some of them were set up in the backyards of entrepreneurs under less hygienic production

conditions. They either sold unbranded biscuits or sold them with brand names sounding similar to the leading brands.

They even imitated the packaging style of the leading brands. It was apprehended by the industry that the units in unorganized sector avoided payment of taxes. The manufacturers 4 of 6 IIMA/BP0268(A) had to pay an excise duty of 15% and sales tax of 7% of sales value. During the same period 8 new units were set up in the organized sector in Uttar Pradesh. In the new competitive environment, KCPL got stuck in the middle. It could not increase its prices to take care of rising costs of labour and material. It did not have the national scale to reduce costs considerably or did it have the premium image to get a higher price. It could not withstand the competitive pressure. Between 1983-84 and 1986-87 its sales declined. Its capacity was rendered surplus. It incurred a loss. See exhibit 1 for details of monthly operating performance of 'MKG' operations in 1986-87. The candy business was on the decline. Owing to increased competition from both organized and unorganized players the margins were under pressure. The business had become unattractive and uncompetitive. The family members decided to close the candy line.

Arrangements with Pearson Health Drinks Ltd. In 1985 Pearson Health Drinks Limited (Pearson), a multinational company selling 'Good Health' nourishing health drink, decided to diversify into health biscuits by building on its good will in health drink market. It also decided that it would not set up its own manufacturing facility. It would outsource the supply from small and medium scale units by providing technical support. Mr. Ramakant Joshi, a consultant



to KCPL, recommended KCPL's case to Pearson. He had worked with Pearson before starting his consulting company.

Pearson promised a load of 100 to 125 tonnes per month and a conversion rate of Rs. 3 per kilo after reimbursing fully the cost of materials. It also agreed to allow KCPL to run its existing line of business. KCPL saw an opportunity to utilize its surplus capacity. It also hoped to learn new tools of quality management. It did not see Pearson as a competitor to KCPL. The agreement with Pearson was signed at its corporate office in Paris in May 1986. The initial order from Pearson was for 50 tonnes per month between May 1986 and March 1987.

Pearson relied on the expertise of KCPL. It did not provide any technical guidance. Its officers inspected the quality of the biscuits before dispatch. The market response to Good Health biscuits was not very encouraging. They were seen as high priced biscuits without any additional benefits. The customers had perceived the AOne biscuits as health and energy providing biscuits. The price of A-One biscuits was twothirds of ' Good Health' biscuits. APL had stressed in its advertisements that its biscuits contained milk solids. Offer of APL On September 8, 1987 Mr.

Bharat Shah, Chairman of APL, mentioned in the meeting of Confectioneries Manufacturers Association of India (CMAI) that his company was interested in augmenting its supplying capacity by promoting contract manufacturing units (CMU) that made biscuits for APL according to the specifications developed by APL. He also mentioned that his company would provide technical guidance to the CMUs and offer fair conversion charges. Mr. Alok

Kumar Gupta met Shah after the conference and enquired whether he was serious in his proposal. Shah answered in the affirmative. To APL, CMU route was an attempt to reduce its cost of manufacturing.

APL was an overall national market leader with a reputation for quality and price competitiveness. It had not changed its prices in the last three years. It had its plants in Chennai, Tamil Nadu. Its monthly capacity in 1986-87 was 1200 tonnes. It had mechanized most of its operations and reaped benefits of large scale economies. It had introduced quality control procedures based on Japanese practices. These practices had enabled the company to minimize wastage and improve responsiveness to customer's orders. It competed with both national and regional 5 of 6 IIMA/BP0268(A) layers in various biscuit segments. It had aspirations of becoming a leader in each of the regional segments. It had entered the Northern segment in 1973-74. By 1986-87 it had become a leading player in the segment with a monthly sale of 200 tonnes. The Proposal APL offered to place an initial order for producing seventy tonnes of Glucose biscuits per month. It also offered to supply the pre printed packing material with APL name. It would inspect the production processes of KCPL and recommend changes in processes and equipments, if needed. The changes needed to be carried out by KCPL at its own cost.

APL would post two quality control officers at KCPL plants and enable KCPL to adhere to quality procedures. It would supply the ' APL secret ingredient' to KCPL but KCPL would be required to buy the other ingredients like sugar, maida and vanaspathi oil from one of the authorized suppliers of APL . It offered to reimburse the raw material expenses as per its norms and pay a

conversion charge of Rs. 1. 50 per Kilogram to cover the expenses on labour, overheads and depreciation. The initial contract was to be for three years. Shah had hinted that the off take would be increased if KCPL rose to the expectations of APL.

In terms of control, KCPL would be required to send daily production and raw material consumption report to APL. Discussion in the Family Alok Kumar presented the proposal of APL to his brothers. There were both advantages and disadvantages. A clear advantage was in terms of avoiding marketing, brand building and distribution expenses and minimizing the business risks. It would also help them utilize the surplus capacity. The disadvantage was in the possible loss of independence. It was also feared that they might not be able to concentrate on strengthening the ‘MKG’ brand built over the years.

In fact, the family name was dependent on the success of the biscuit line. In the early years of its growth, Mohan Kumar had the vision of emerging as a leading national brand and competing successfully with APL. There were also anxieties in terms of how the relationship with APL would work out and how APL’s experience of managing large plants in Chennai would help in running a small plant in Kanpur. Would there be interference? Would they be asked to make additional investments in manufacturing? Was the conversion charge fair? How would Pearson view the venture was another issue.

The other questions were: what did the family members want from their business ventures? What would they like to give to their sons when they grew up? They had to decide soon as they were not sure whether other

biscuit manufacturers were also interested in the opportunity and would out beat KCPL in approaching.