

Business admin essay



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PRAGATI EDUCATION SOCIETY'S NATIONAL INSTITUTE OF RETAIL

MANAGEMENT MARKS: 80 SUB : BUSINESS ADMINISTRATION N. B. :

1) Attempt any Four cases 2) All cases carry equal marks. No : 1 REMAINS OF A DREAM This is a tragic story, narrated in first person, of an entrepreneur who became bankrupt for no fault of his, without producing anything, mostly because of the irresponsible political and government environment. This case study, documented by Bibek Debroy and P. D. Kaushik and published in Business Today is reproduced here with permission.

In the 1980s, I worked as a chemical analyst for a transnational in Germany, but kept thinking about shifting to India. Opportunity knocked when I saw an advertisement by the Uttar Pradesh government inviting NRI professionals to start a chemical unit in the newly identified Basti Chemical Industrial Complex. I hail from Lucknow. Hence, this was attractive. I inquired from the Indian High Commission and was told that there is single window clearance for NRI investors.

The brochure said several things about the benefits – excise and sales tax holiday for five years, uninterrupted power supply, low rate of interest on loans, and clearance of application within 30 days. I started the application formalities for a chemical unit. Once the application was accepted, I requested for long leave from my employers. I also inquired from my relatives in Lucknow and was told that the Uttar Pradesh government's intentions are clear, and developmental work is progressing at fast speed.

Every now and then, I received a letter from the ministry of industry in Uttar Pradesh to furnish some paper or the other, as part of procedural formalities.

After three months, I received my provisional sanction letter for allotment of land, and term loan. The letter also stated that within six months, I must take possession of the land, and initiate construction. Otherwise, the deposited amount (Rs 1 lakh as part of my contribution) will be forfeited. I resigned from the company, and shifted permanently to India, since my employer turned down my request for long leave.

On reaching the complex, I was surprised to see that the Uttar Pradesh State Industrial Development Corporation (UPSIDC) had actually developed the land in terms of markers, and signboards, compared to what I had seen on my last visit. Though roads were not fully laid, it was evident that work was in progress. I took possession of my land and started construction.

Meanwhile, I approached the UPFC for granting me the term loan for ordering the plant and machinery. The first obstacle came from the Uttar Pradesh State Electricity Board (now Uttar Pradesh Power Corporation).

The electricity supply to the complex was not yet available. On inquiring, I was told that the plan had been sanctioned, but required clearance from the power ministry, before undertaking further work. The approximate time to get grid supply ranged between four and six months. The next obstacle came from the Uttar Pradesh Financial Corporation (UPFC). It could release the first instalment after I completed construction till the plinth level. I continued work with the help of a diesel generating set. It took another month to reach the plinth level.

But before I could request UPFC to release my first instalment, I received a letter from UPFC that I had to deposit interest against the amount paid to the

UPSIDC for land possession. This was a shock, because interest had to be paid even before anything was produced. But I had no alternative, because the first instalment was due. The UPFC promptly released the first instalment after inspecting the construction. It helped me continue construction work, and also book for plant and machinery. Six months went by. Construction was almost complete. I had received three instalments from the Uttar Pradesh Financial Corporation (UPFC).

Each time the payment of interest was due, the required sum was adjusted from the instalment released. If there was any shortfall in money required for construction, I paid from my own pocket. But after nine months, my coffers went empty. Machinery suppliers were after me, for payment. UPFC insisted on interest payments, because this was the last instalment of my term loan and interest due couldn't be deducted from future instalments. I borrowed from family and friends and paid up. Then I received the final instalment from UPFC for plant and machinery, with another notice that the yearly instalment for the principal was due.

Within two months, machinery was commissioned at the site. But electricity was yet to reach the complex. In the previous year, I had visited the Uttar Pradesh State Electricity Board (UPSEB) office innumerable times. I also approached the industry association to assist me. But all my efforts were in vain. This did not help me, or others like me, to get the grid supply. There were 14 other who were in the same boat. The biggest company of them all – obviously with contacts at higher levels – arranged for grid supply from the rural feeder.

But that plan also did not take off, because the rural feeder supplied poor quality power for a mere six hours. A process industry requires 24 hours of uninterrupted electricity supply without load fluctuations. It is precisely because of this that all 15 of us, who were waiting for electricity, had insisted on industrial power from UPSEB. All plans failed. Captive generation was not a viable alternative now. And we continued to wait for the grid supply. We met the former minister for industry and pleaded our case. He assured us that he would take up the case with the power ministry.

Meanwhile, I defaulted on interest payment. So did the others. The final blow came in the Assembly elections, when both the sitting : Member of Legislative Assembly, from Basti, and the state industrial minister lost their seats. Suddenly, everything – from road construction work, to the laying of sewer and phone lines – came to a standstill. Only the police post and the UPSKB rural feeder office remained. The new incumbent in the industrial ministry hailed from Saharanpur, so the thrust of the ministry changed. Basti was not on their priority list anymore.

After waiting for tow years, UPSEB was not able to connect the complex with grid supply. In the end, UPFC initiated recovery action and sealed my unit. Besides, they claimed that I could not get NRI treatment, with preferential interest rates, because I had permanently moved to India. Thus, there were also plans to file a case against me on account of misinforming the corporation. Experts suggested I should file for insolvency if I wanted to avoid going to prison. This I did in 1994. I spent Rs. 15 lakh from my own pocket. Now, all that remains of an entrepreneurial dream is a sealed chemical unit in Basti and a complex legal tangle.

I was better off working for the transnational in Germany. Power does not come out of the barrel of a gun. A gun's barrel comes of power, especially when the latter does not exist. QUESTIONS 1. Identify and analyze the environmental factors in this case. Ans:- Success and Failure of any Business units depend on its Environmental factors. Its Consists of Internal Environment and External Environment. However in this case the External Environment was more dominant since this Chemical units was not functional due to uncertain delay in provide the promised facilities.

Here are the two factors has contributed strongly in failure of this unit. A. Political Environment :- This environment manage the effect of factor related to Public affairs and their impact on the business of an organization. There are certain factors which affect functioning of Political environment considerably. (Policies related to Small Scale Industries, Public sector, Sick Industries, development of backward areas, pollution and consumer protection Broadly failure of these two environment has ruin the planning on running a Chemical units 2. Who were all responsible for this tragic end?

Ans:- As it evident that the failure of Political environment and Regulatory environment has led to this tragic end. Tragic end of this plan is attributed to below listed entity :- Some extant entrepreneur was also responsible for this situation, he should have done detail analysis before initiating this project, SWOT Analysis might have help this entrepreneur to be well prepared for this possible tragic situation. 3. It is right on the part of the government and promotional agencies to woo entrepreneurs by promising facilities and incentives which they are not sure of being able to provide?

Ans:- Entrepreneur need to be encouraged by government by all means, because this is the way more employment can be created and economic growth of Country can be strengthen. This was of treatment to entrepreneur will lead to industrial crisis within the country and possibly business will move out to other country where they will get favorable condition to prosper. In India there is big gap between Entrepreneur and Bureaucrats.

Entrepreneur feel that Bureaucrats are insensitive toward the need of Industrialist, they are easy going, low motivated, don't understand the value to time, delay the decision.

Bureaucrats has fail to understand the industries has to be viable in the short-run to achieve long-terms national goal. 4. Should there be legislation to compensate entrepreneurs for the loss suffered due to the irresponsibility of public agencies? What problems are likely to be Solved and created by such legislation? Ans:- Indeed, there must be legislation in force to compensate entrepreneurs for the loss suffered due to irresponsibility of public agencies. By doing so Government will infuse a sense of confidence in industrialist and entrepreneur can dare to take chances in such future proposals.

Biggest problem in such overall situation is the monetary loss to entrepreneurs, it will be a real help on compensating in financial terms. 5. What are the lessons of this case for an entrepreneur and government and promotional agencies? Ans;- The bigger loser in the case is entrepreneurs, as it visibly doesn't impact government or promotional agencies For entrepreneur's lesson, is they must go systematically and with proven technic to take such initiative. SWOT analysis is a proven technics, if it was

done diligently by the entrepreneur, he wouldn't have landed in this trouble or might be he would have minimized his suffer losses.

Entrepreneurs should be aware of the External Environment, which directly impact functioning of his unit, so that we might have full proof plan to counter such situation, as its clearly depict that this entrepreneur was under prepared for this situation, as he never anticipated that this might strike him. Government and Promotional Agencies, first of all lost trust from the entrepreneurs and then has lost a new opportunities, who's success would have created no. of jobs in that locality and better the life of unemployed people. Also contributed to revenue of state government.

These sorry situation could have been avoided by Government and private agencies and ensure it would as a successful story. No : 2 THE COSTS OF DELAY The public sector Indian Oil Corporation (IOC), the major oil refining and marketing company which was also the canalizing agency for oil imports and the only Indian company I the Fortune 500, in terms of sales, planned to make a foray in to the foreign market by acquiring a substantial stake in the Balal Oil field in Iran of the Premier Oil. The project was estimated to have recoverable oil reserves of about 11 million tonnes and IOC was supposed to get nearly four million tonnes.

When IOC started talking to the Iranian company for the acquisition in October 1998, oil prices were at rock bottom (\$ 11 per barrel) and most refining companies were closing shop due to falling margins. Indeed, a number of good oil properties in the Middle East were up for sale. Using this opportunity, several developing countries “ made a killing by acquiring oil

equities abroad. ” IOC needed Government’s permission to invest abroad. Application by Indian company for investing abroad is to be scrutinized by a special committee represented by the Reserve Bank of India and the finance and commerce ministries.

By the time the government gave the clearance for the acquisition in December 1999 (i. e. , more than a year after the application was made), the prices had bounced back to \$24 per barrel. And the Elf of France had virtually took away the deal from under IOC’s nose by acquiring the Premier Oil. The RBI, which gave IOC the approval for \$15 million investment, took more than a year for clearing the deal because the structure for such investments were not in place, it was reported. QUESTIONS 1. Discuss internal, domestic and global environments of business revealed by this case.

Ans:- Internal environment relates to the factors within the organization that affect its strength and weakness. In this case it states that IOC has Organizational culture is designed as their employees or top management are involved in enhancing their brand image overseas globally, hence they notice an opportunity to acquire Oil refinery in Iran and acted on this plan quite early. Domestic Environment relates to the factors within the country that monitor the functioning of Organization, it has set of regulation apply on a firm when it operates in international environment.

Because of that IOC was able to get the necessary approval to acquire any overseas entity. This process of approval has to go through the customary way of treatment. Moreover this kind of structure of investment was not in

place and consequently delay took place. Global Environment here shows that other countries are either flexible in terms of such investment plan or they have already anticipated such requirement in near future by entrepreneur and these sort of approval of investment doesn't take much time. 2. Discuss whether it is the domestic or global environment that hinders the globalization of Indian business.

Ans :- Globalization of Indian Business hinders because of Domestic environment shortcomings. Global environment were flexible here, Iran government were ready to given acquaintance to foreign entrepreneur, Domestic environment comprises many factors which influence the globalization of Indian Business like: – Government awareness or will power to look on such ideas, Political stability, law and regulation set by governing body, financial strength of country. It is good to have such controlling factor, but at the same time these factors has to be flexible as per the need of time, so that good opportunities are not missed. . Even if Elf had not acquired Premier Oil, what would have been the impact of the delay in the clearance on IOC? Ans;- IOC has big setback by losing the acquaintance of Premier Oil. By the time RBI given approval IOC for investment, it was one year delay and the price of Oil per barrel has jump for \$11 to \$ 24. So it means that IOC would end up paying more than what the IOC management has planned up in the beginning, and this would surely leave severe blow to the plan setup by IOC . 4. What would have been the significance of the foreign acquisition to IOC?

Ans:- Foreign acquisition to IOC would have benefited in following ways :-
(They would have enough supply of oil for longer time (Market Price

fluctuation won't affect IOC, they will better control on price. (Additional flow of 4million on oil to their stock (IOC earned a global market share on oil. 5.

What are the lessons of this case? Ans:-This deal was lost due to due the delay in decision making and possibly it happened due to no delegate of IOC was part of this entire process to highlight the importance and criticality of this investment.

Hence below are the points need to be learned and taken into practice. any such approval. No : 3 NATURAL THRUST Balsara Hygiene Products Ltd. , which had some fairly successful household hygiene products introduced in 1978 a toothpaste, Promise, with clove oil (which has been traditionally regarded in India as an effective deterrent to tooth decay and tooth ache) as a unique selling proposition. By 1986 Promise captured a market share of 16 per cent and became the second largest selling toothpaste brand in India.

There was, however, an erosion of its market share later because of the fighting back of the multinationals. Hindustan Lever's Close-up gel appealed to the consumers, particularly to the teens and young, very well and toppled Promise form the second position. Supported by the Export Import Bank of India's Export Marketing Finance (EMF) programme and development assistance, Balsara entered the Malaysian market with Promise and another brand of tooth paste, Miswak. The emphasis on the clove oil ingredient of the Promise evoked good response in Malaysia too.

There was good response to Miswak also in the Muslim dominated Malaysia. Its promotion highlighted the fact that miswak (Latin Name : Salvadora Persica) was a plant that had been used for centuries by as a tooth cleaning

twig. It had reference in Koran. Quoting from Faizal-E-Miswak, it was pointed out that prophet Mohammed used “ miswak before sleeping at night and after awakening. ” The religious appeal in the promotion was reinforced by the findings of scientists all over the world, including Arabic ones, of the antibacterial property of clove and its ability to prevent tooth decay and gums.

Market intelligence revealed that there was a growing preference in the advanced countries for nature based products. Balsara tied up with Auromere Imports Inc. (AAIL), Los Angeles. An agency established by American followers of Aurobindo, an Indian philosopher saint. Eight months of intensive R & D enabled Balsara to develop a tooth paste containing 24 herbal ingredients that would satisfy the required parameter. Auromere was voted as the No. 1 toothpaste in North Eastern USA in a US Health magazine survey in 1991. The product line was extended by introducing several variants of Auromere.

A saccharine free toothpaste was introduced. It was found that mint and menthol were taboo for users of homoeopathic medicines. So a product free of such mints was developed. Auromere Fresh Mint for the young and Auromere Cina Mint containing a combination of cinnamon and peppermint were also introduced. When the company realised that Auromere was not doing well in Germany because of the forming agent used in the product, it introduced a chemical free variant of the products. QUESTIONS 1. Explain the environmental factors which Balsara used to its advantage.

Ans:- Balsara has extensively surveyed Market and Socio-Cultural Environment to its advantage. Market Environment Under this environment SWOT system used as follows:- (They have understood Customer or client requirement, preferences, perception, attitude and satisfaction of customer. (Product features has been improved as per the demand, promotion of product was done Well (Quality of the product has been maintained. (Balsara has understood the competitor, nature of competition and has setup strategy to deal with major competitors Socio-Cultural Environment :-

SWOT analysis has been used for understanding Socio-Cultural environment associated with Balsara as follows:- (Demographic characteristics has been studied as variation of population, age composition, income of population. These two environments were quite crucial for the success of Balsara in Business front, it was well addressed and understood by Balsara management team. And hence they were succeeded in Business terms. 2.

What is the strength of AAll to market ayurvedic toothpaste in USA? Ans:- AAll has understood the expectation in terms of quality and variation of product from their Customer in USA.

AAll has ensured that all sorts of consumer requirement are addressed in their product and taken care. Such as No : 4 THE SWAP The Economic Times, 20 October 2000, reported that Reliance Industries entered into a swap deal for the export and import of 36 cargoes of naphtha over the next six months. Accordingly, three cargoes of 50, 000 tonnes each were to be exported every month from Reliance Petroleum's Jamnagar refinery and three cargoes of the same amount were to be imported to the Reliance Industries' Hazira facility.

The deal was done through Japanese traders Mitsubishi, Marubeni, Itochu, IdCmitsu and Shell.

The export was done at around Arabian Gulf prices plus \$22. Reliance, needs petrochemical grade naphtha for its Hazira facility which is not being produced at Jamnagar. Therefore, its cracker at Hazira gets petrochemical grade naphtha from the international markets in return for Reliance Petroleum selling another grade of naphtha from its Jamnagar refinery to the international oil trade. If RIL imports naphtha for Hazira petrochemical plant, the company does not have to pay the 24 per cent sales tax, which it will have to pay on a local purchase, even if it is from Reliance Petro.

Besides Reliance Petro will also get a 10 per cent duty drawback on its crude imports if it exports naphtha from the refinery at Jamnagar. The export of naphtha with Japanese traders is being looked as a coup of Reliance as it gives the company an entry into the large Japanese market. Indian refineries have a freight advantage over the Singapore market and can quote better prices. QUESTIONS 1. Examine the internal and external factors behind Reliance's decision for the swap deal. Ans:- Examining internal and external factors of any organization has a defined way of using SWOT analysis.

So here we'll discuss the Strength and weakness within reliance as internal factors (Strong organizational culture, they are equipped with good sets of people to do such Research and development. (Good management reputation (Excellent distribution network (as a weakness Reliance were not able to source the petrochemical of naphtha in local market. As External factors which influence this decision, here Reliance has identified the

opportunity and threat. (Opportunity to market their product in Japanese market (Rules and regulation by government were in favor of reliance needs, like the duty drawback scheme. Exporting to Singapore market give an advantage on freight cost, and hence RIL is more effective in their quote and clinch business opportunity Hence above are the factors which trigger the decision of swap deal. 3. What environmental changes could make swap deal unattractive in future? Ans;- Following the environmental changes which can make swap deal unattractive (If the current benefit declined by government and roll back of duty drawback Policy in future. (Any drastic price increase in International market and at the same time availability of such product at lower cost in domestic market. Poor Distribution Network (Fall in Quality of product. (Any changes in Export/Import policy by Japanese Governing body. 3. Could there be any strategic reason behind the decision to import and export naphtha? Ans:- Of course there is strategic decision behind to export and import the naphtha, whether its RIL or Government, both of them has their own interest to promote it. Likewise :- Reliance point of view:- (Promoting Brand name in International market (Acquiring share in international market of naphtha. (Broadening the revenue of Reliance. (Fulfilling the need of raw material to produce their export goods. Exceeding customer expectation. Government Point of View:- (Plan to boost Indian economy. (Promoting Export will increase the inward flow of foreign currency. (This will generate encouragement to other domestic entrepreneurs look beyond Indian market. 4. Should Reliance import and export naphtha even if it does not provide any profit advantage? Ans:-If reliance doesn't get benefit in import and export of naphtha. Either they can

stop the business or they can wait bit longer if they can advantage of their presence in overseas market with any other customer..

But if there is no profit coming in any ways whether social or monetary, there is smartness in indulging in that sorts of business. No : 5 A QUESTION OF ETHICS TELCO opened bookings for different models of its proud small car Indica in late 1998. The consumer response was overwhelming. Most of the bookings were for the AC models, DLE and DLX. The DLE model accounted for more than 70 per cent of the bookings. Telco has planned to commence delivery of the vehicles by early 1999. However, delivery schedules for the AC models were upset because of some problems on the roll out front.

According to a report in The Economic Times dated 13 March 1999, Telco officials attributed the delay to non-availability of air conditioning kits.

Subros Ltd. supplies AC kits for the DLE version and Voltas is the vendor for the DLX version. Incidentally, Subros is also the AC supplier to Maruti Udyog Ltd. Telco officials alleged that Subros was being pressured by the competitor to delay the supply of kits. “ If this continues, we will be forced to ask Voltas to supply kits for the DLE version too,” a company official said.

QUESTIONS 1.

Why did Telco land itself in the problem (supply problem in respect of AC kits)? 2. If the allegation about the supplier is right, discuss its implications for the supplier. 3. Evaluate the ethical issues involved in the case. (Also consider the fact Maruti was 50 per cent Government owned.) No : 6

DIFFERENT FOR GAMBLE Product and Gamble (P & G), a global consumer products giant, “ stormed the Japanese market with American products,

American managers, American sales methods and strategies. The result was disastrous until the company learnt how to adapt products and marketing style to Japanese culture.

P & G which entered the Japanese market in 1973 lost money until 1987, but by 1991 it became its second largest foreign market. " P & G acclaimed as " the world's most admired marketing machine", entered India, which has been considered as one of the largest emerging markets, in 1985. It entered the Indian detergent marketing the early nineties with the Ariel brand through P & G India (in which it had a 51 percent holding which was raised 65 per cent in January 1993, the remaining 35 per cent being hold by the public). P & G established P & G Home products, a 100 per cent subsidiary later (1993) and the Ariel was transferred to it.

Besides soaps and detergents, P & G had or introduced later product portfolios like shampoos (Pantene) medical products (Viks range, Clearasil and Mediker) and personal products (Whisper feminine hygiene products, pampers diapers and old spice range of men's toiletries). The Indian detergent and personal care products market was dominated by Hindustan Lever Ltd. (HLL). In some segments of the personal care products market the multinational Johnson & Johnson has had a strong presence. Tata group's Tomco, which had been in the red for some time, was sold to Hindustan Lever Ltd. (HLL).

HLL, a subsidiary of P & G's global competitor, has been in India for about a century. The take over of Tomco by HLL further increased its market dominance. In the low priced detergents segment Nirma has established a

very strong presence. Over the period of about one and a half decades since its entry in India, P & G invested several thousand crores. However, dissatisfied with its performance in India, it decided to restructure its operations, which in several respects meant a shrinking of activities – the manpower was drastically cut, and thousands of stockists were terminated.

P & G, however holds that, it will continue to invest in India. According to Gary Cofer, the country manager, “ it takes time to build a business category or brand in India. It is possibly an even more demanding geography than others. ” China, on the other hand, with business worth several times than in India in less than 12 years, has emerged as a highly promising market for P & G. when the Chinese market was opened up, P & G was one of the first MNCS to enter. Prior to the liberalisation, Chinese consumers had to content with shoddy products manufactured by government companies.

Per capita income of China is substantially higher than India’s and the Chinese economy was growing faster than the Indian. Further, the success of the single child concept in China means higher disposable income. Further it is also pointed out that for a global company like P & G, understanding Chinese culture was far easier since the expat Chinese in the US was not very different from those back home where as most Indian expats tended to adapt far more to the cultural nuances of the immigrant country. One of P & G’s big in India was the compact technology premium detergent brand Ariel.

After an initial show, Ariel, however, failed to generate enough sales – consumers seem to have gone by the per kilo cost than the cost per wash propagated by the promotion. To start with, P & G had to import the

expensive state-of-the-art ingredients, which attracted heavy customs duties. The company estimated that it would cost Rs. 60 per kilo for Ariel compared to Rs. 27 for Surf and Rs. 8 for Nirma. Because of the Rupee devaluation of the early 1990s, the test market price of Rs. 35 for 500 gms was soon Rs. 41 by the time the product was launched.

HLL fought Ariel back with premium variants of Surf like Surf Excel. It is pointed out that, “ in hindsight, even P & G managers privately admit that bringing in the latest compact technology was a big blunder. In the eighties, P & G had taken a huge beating in one of its most profitable markets, Japan, at the hands of local company Kao. Knowing the Japanese consumer’s fondness for small things, Kao weaved magic with its new-found compact technology. For a company that prided itself on technology, the drubbing in Japan was particularly painful.

It was, therefore, decided that compacts would now be the lead brand for the entire Asia-Pacific region. When P & G launched Ariel in India, it hoped that the Indian consumer would devise the appropriate benchmarks to evaluate Ariel. As compacts promised economy of use, P & G hoped that consumers would buy into the low-cost-per-wash story. But selling that story through advertising was particularly difficult, especially since Indian consumers believed that the washing wasn’t over unless the bar had been used for scrubbing.

Even though Ariel was targeted at consumer with high disposable income, who represented half the urban population, consumers simply balked at the outlay. Thereafter, one thing led to another. Ariel’s strategy of introducing

variants was a smart move to flank Lever at every price point by cleverly using the brand's halo effect. And by supporting the brand in mass media and retaining the share of voice. By 1996, it had become clear that Ariel's equity as a high-performance detergent had begun to take a beating.

Its equity as a top-of-the-line detergent was getting eroded.... Nowhere in P & G's history had a concept like Super Soaker been used to gain volumes.... It was decided that Super Soaker would no longer be supported, nor would Ariel bar be supported in media. QUESTIONS 1. Discuss the reasons for the initial failure of P & G in Japan. 2. Where did P & G go wrong (if it did) in the evaluation of the Indian market and its strategy? 3. Discuss the reasons for the difference in the performance of P & G in India and China.