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vidwat

The Indian Journal of Management

DHRUVA
defining excellence

VIDWAT (विद्वत) in Sanskrit means: know, understand, find out, learn, ascertain, discover, and expound.

"Vidwat – The Indian Journal of Management", published by Dhruva College of Management, Hyderabad, reflects this array of meanings. It is a vehicle for a wide range of researches from across the globe to bring their insights to B-Schools as well as practicing managers.

"Vidwat – The Indian Journal of Management" is a biannual publication. Its objective is to encourage and publish applied research in all the functional areas of Management. It lays emphasis on management issues that are relevant to academicians and practicing managers.

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From the editor's desk

Dear esteemed readers of Vidwat,

Welcome to the latest issue of Vidwat – The Indian Journal of Management! As before, we have put together articles that are seminal in nature and sensitive to the topical issues concerning the domain of management.

The issue carries Op-Ed by Dr David J Sumanth's 'ACT' and Dr S Pratap Reddy's 'Act or Not-To-Act,' two research papers, three case studies and a book review. The concluding article is about the initiative of AHIMSA.

The first research paper on Indian Hotelscape is an engaging account of the Taj Group's rise to leadership position in the hotel industry. The challenges of managing a portfolio of multiple-brands by the over a century old Taj Group is what constitutes the crux of the paper.

The other paper is on Cartel in Cement Industry in India that attempts to explore the complexities of unearthing collusive behavior in this industry. It tries to offer a pedagogical tool to explain the concepts of imperfect markets, especially oligopoly markets under collusion.

The case study of the German Cement giant Schaum's is a case of trials and travails in the course of spreading its wings into India through the overpaid acquisition of Dinobandhu Steel's Cement business.

The million dollar question is: Will it be able to replicate its growth story in India?

'Anything but cricket' is an illustration of exceptionally successful saga of brand building and brand destruction. Have the peripherals pushed the play into the backseat? Will IPL be able to sustain the brand value it has built up in a short span? That's precisely what this thought-provoking paper offers to answer.

'Catamaran's waterbase solutions' is the case of CWSPL - which set out with a new paradigm of b2b fisheries business model and has had some remarkable success in its course through the slushy waters of fisheries business.

"A good book is the life-blood of a master spirit," says Milton. The distilled experiences as presented in print by the various authors at times serve as valuable guideposts in the course of our journey. The two books under review could prove to be handy for those pursuing success in their endeavours – both academic and managerial.

The bibliography section presents useful references in the emerging field 'international retail marketing.

Send us a good research paper for publication in the next issue of Vidwat and also write in your

suggestions to improve the journal.

Looking forward to your critical review…

Prof. P L K Reddy

Editor

Op-Ed:
Act or Not-to-Act

Right vs. Right

In the plateau of ethical scandals that plagued during the last decade, greedy corporate executives were cast as villainous, self-serving individuals who had made a morally untenable choice between a right and wrong. Choosing between right and wrong is obviously simple, but making a choice from two or more options that are equally viable and which are expected to carry the same moral weight is a tough call .This is the essence of choosing “right Vs right!”

Often, the nature of such decision-making situations involves the individual electing a choice that challenges the different aspects of his identity, thus making it more complex than simply deciding on whether something is right or wrong. If one is asked by colleagues if he knows whether the branch will be closing; there are single mothers and people who really need to look for other jobs if their employment suddenly disappears. They feel torn: on the one hand, one feels it is right to reveal the closing information to his colleagues so that they can prepare themselves and their families for a difficult period; on the other hand, he has a professional obligation to withhold the privileged information until management makes a formal announcement.

There is a world of difference in choosing between the lesser of two evils and between two of equal merit. The implications of being strong and brave and making a choice between two right options are serious, for in doing one right thing, we leave another right thing undone. Even though we may understand the rationale for our own decisions, we can still feel as if we have betrayed ourselves or someone else.

Creative Destruction

Disruptive Innovation creates a new market by applying a different set of values, which ultimately (and unexpectedly) overtakes an existing market, e.g.; the lower priced Ford Model T. Marx argued that the devaluation of wealth during capitalism's periodic economic crises was an inevitable outcome of the processes of wealth creation. “Creative destruction “is the way in which capitalist economic development arises out of the destruction of some prior economic order. It must ceaselessly devalue existing wealth (whether through war, dereliction, or regular and periodic economic crises) in order to clear the ground for the creation of new wealth.

Reproductive Recession

Women are primed to lead, in this global era. Girls now match boys in higher education including participation in business and MBA programs. It seems that things are changing for the better—at least in corporate world. This magic is replicated worldwide, but most alarming thing is that the modern women are shunning away from bearing children. The present recession coupled with women's empowerment emboldening women to either remain single, or leading to "live-in -relationships “or postpone pregnancies, if not aborting. Thus reproductive recession goes against the very nature of procreation as well as family continuum.

Growth Recession

An economic situation where a country's growth occurs at such a low rate that unemployment stays high or continues to rise. This is due to the fact that more jobs are lost than are created. Therefore, despite growing, the economy may appear to be in a recession. American economy is a case in point. In spite of perceptible gains in real GDP, it has witnessed 'growth recession' intermittently during the last two decades. Job creation has been sluggish as compared to the rate of jobs contraction, resulting in a piquant situation of net unemployment. A quintessential paradox situation!

Once an individual has taught himself some of the critical thinking and decision - making strategies that are necessary to confront such dilemmas, individuals can begin to make effective decisions by passing dilemmas - to create an organizational culture in which a more ethical, evolved, elegant, and intelligent framework for making decisions can be promoted, the benefits of which will be likely to extend to society at large

Dr S Pratap Reddy
Founder Chairman – DHRUVA
Editor-in-Chief, Vidwat

We Have An Opportunity

The late Buddy Lee was president of the Board of Directors of the Charleston, South Carolina, Speech and Hearing Centre I was the President/CEO of the organization. When I would call Buddy and say, "We have a problem," he would always answer: "No Mitch. We have an opportunity." His optimism never failed to inspire me and caused me to adopt his philosophy as my own. I no longer have problems. Thanks to this wise counsel, I only have opportunities.

Mitch Carnell (SPWC)

ACT...

Dr David J Sumanth

Admiration

The first thing that I want you to think about, when you go out today and you start competing, is the word 'ADMIRATION'. Why is that important? This is what I discovered. If I am completely engrossed in my own achievements, my own accomplishments, constantly looking toward me, my mind will become too heavy. I will become thick-headed. I will become too proud. I will only learn about myself. The reality of the world today, more than ever before, is that we have 7 billion people out there in this world; we are almost 240 countries. India, as big as it is and as much as it has grown economically and politically in the last 15-16 years, is still a very small % of the entire world. And so, you admire, not just yourselves - even if you are a topper student - but you admire others within your class as well. You admire your professors, you admire your teachers, and importantly you admire your God and your parents. That creates humility and to me every great leader must exhibit the quality of humility.

And also admiration enables us to have the power of synergy. When you are managing teams, what is the fundamental reason for having a team? You have the synergy of the knowledge and the experience of the entire team of people and not just of yourself. That again goes back to the fundamental principle, that when you are humble to learn from others in the team, you are going to find that you can capture so much more knowledge and wisdom from that.

Compassion

The second element in this success story that you will face, is the 'C', which stands for 'COMPASSION'. At the age of 25, I was sent to about 15 different countries, including the entire Europe, and the far eastern countries except Latin America. By the time I was done with about 25 countries, I began to sit down one day in the plane, on one of those napkins I began to write down. Instead of writing the differences between the people around the world, I was writing down the common characteristics of people around the world. I listed 12 of them. And one of them happens to be compassion. What I have discovered is that, at the basic human core level, we all are very compassionate people and I see the evidence of this constantly.

And you know even the birds are so compassionate to each other. I recall (an incident) when I and my wife were driving in Miami, Florida about 22 years ago. There is a street called 136 street. As we were coming around 30 miles per hour in that 35 mile zone, I had to suddenly put the brakes on because there was a bird, a small sad dove, sitting right next to a dead partner. That little bird was sitting next to the dead partner who apparently seems to have been killed by a car going over. That one was languishing simply at the thought of his or her partner leaving this world. That really touched me. I said to myself, My God! That is teaching me a lesson in compassion. When a bird can have that much compassion for a fellow bird, how much human beings like us should be compassionate about others. How many of you have heard of Mother Teresa? So, now what was so special about Mother Teresa? Here was a lady who came from Czechoslovakia. She was in her 20s and she said she wanted to deal with the people who are the most downtrodden at that time and continued to be (so) even today. The thought of lepers will scare most of us sitting in this room and yet this lady in her 20s decided to go to a foreign country like India, and go to a foreign place of Calcutta and most importantly a foreign place called leprosy colony, and she began to take each one of those lepers and started washing their wounds with her hands sometimes bare hands, bandaging them, popping them up, laying them down. And those who are about to die, she wanted them to die with dignity, that was her goal. The Nobel laureate today has mission (her) mission spread in 85 different countries. Why? There is compassion in all of us. It takes people like Mother Teresa to bring that into a mindset and say 'we too you know can be compassionate for the others'.

Tenacity

And the third thing I want to talk about as an element of true success is tenacity;, the T for 'TENACITY'. What I have discovered in the last 45 years of professional life in consulting with corporations worldwide and governments worldwide. It's not your IQ, it's not your EQ, it is really the tenacity of the purpose ultimately which differentiates real successful people and not really successful people. Because, you see, when Thomas Elva Edison struggled and struggled and struggled and failed more than 6,000 times trying every type of element in the world, finally on the last stretch he said, it is 99% perspiration and 1% inspiration not the other way around. So he persevered with the tenacity of the purpose and finally hit that carbon element because of which we are able to sit under this beautiful light. So the tenacity of purpose is another quality of great leaders. So if you want to be successful in the short term event, prepare tomorrow to win the prizes worth 1 lakh or more. If you really want to win many successes in life throughout your careers, throughout your life, you have to be tenacious.

Dr David J. Sumanth is Professor and Founding Director of the Productivity Research Group at the University of Miami. In 1979, he introduced "Productivity Engineering" as a Master's concentration in Industrial Engineering at the University of Miami, making it the first U.S. University to offer such a program.

He founded the International Conference series on Productivity & Quality Research, and chaired the first five conferences from 1987 to 1995. He also founded the International Society for Productivity and Quality Research in 1993, and serves as Chairman of its board. Also, he is Editor-in-Chief of the International Journal of Productivity & Quality Research, which he also founded in 1995.

Building Cathedrals

A woman asked a construction worker, what are you doing? He said, "I'm laying bricks." She asked another worker nearby and he said, "I'm chiseling stone." She asked a third worker and he said, "I'm building a cathedral." This is a story that was passed on to me by a colleague and I don't know who originated it. But it inspires me to remember that building a business is important work and to keep my eye on the big picture, even when I am doing what seem like mundane, insignificant tasks."

Bonnie McEwan (Make Waves: Impact Marketing)

Advice from Shakespeare

"Our doubts are traitors, and make us lose the good we oft might win, by fearing to attempt."

Jim Collins (Good to Great: Some Companies Make the Leap and Others Don't)

IHCL's Menu of Hotels: Competing for the Indian Hotelscape!

Dr Subhadip Roy

"Our brand architecture had to be changed for the future to remove confusion, give focus to our marketing and take on the challenge from global rivals."[1]

Raymond N. Bickson,
M.D. & C.E.O., Indian Hotels Company Limited

"Since every hotel, irrespective of its size, had a Taj tag, it was a major challenge for us to differentiate the product in terms of quality and service standards,"[2]

Raymond N. Bickson,
M.D. & C.E.O., Indian Hotels Company Limited

The two quotes above summarize the need for a multibrand portfolio and the challenges faced by The Indian Hotels Company Limited (IHCL), popularly known as the Taj group. The IHCL had a heritage of more than 100 years in the hospitality industry and could boast of being the largest group of hotels chains in India in 2012. It had a global presence with its flagship brand 'Taj' being highly appreciated by the target audience. In early 2004, the Taj group decided to cater to different segments of the market by launching new brands of hotels for different customer segments. Thus, brands like Gateway in upscale and Ginger in economy segments were functioning by the end of the first decade of 2000. In late 2009, the group launched a new brand named Vivanta for the upper-upscale segment and was planning to launch a midscale brand post 2012. All the new brands came out as a result of considerable amount of consumer research and the Taj group's objective of catering to multiple segments of the market. Thus the brand architecture of the Taj group in 2012 consisted of four brands, namely Taj, Vivanta, Gateway, and Ginger.

However such brand architecture posed quite a few challenges for IHCL. The first question was that of the positioning of the various brands. Vivanta was launched with the Taj (tagged as Vivanta by Taj) association and whether it would be able to differentiate itself from The Taj was a question. Some experts also felt that Vivanta had not been promoted enough so as to create a significant amount of brand awareness till early 2012. The budget hotel brand Ginger on the other hand was not being expanded by the group as announced. Even though the company had expansion plans with year 2015 as the target, in early 2012 it had the least contribution to the overall earnings. The Gateway which was aimed at the upscale business/leisure traveler was however doing well but that also could be attributed to the growth in the four star category of hotels in India. IHCL had succeeded in establishing Taj, Ginger and Gateway and was on the way to do the same for Vivanta. The major question was how to sustain the brands as different and how to keep the flagship brand, Taj and its associations unique. The brands were targeting different segments and so were facing competition at different levels from regional, national and international players. Lastly, there was always a question of brand dilution since both The Gateway and Vivanta had a tag "by Taj" which could erode the premium associations of the parent brand. The group needed to assess its multi-brand portfolio and chalk out a future plan to retain its leadership position in the Indian Hotel Industry.

Background of Tata Group

The Tata group was founded by J N Tata in 1868 and comprised of over 100 companies in 2012, which were spread across seven business sectors namely, communications and information technology, engineering, materials, services, energy, consumer products and chemicals. It had gained international recognition by operating in more than 80 countries across six continents. It was also exporting various products and services globally to 85 countries. The corporate brand Tata was ranked 41st of the world's 100 most valuable brands in 2011[3] by a UK based consultancy firm Brand Finance. Similarly TATA achieved 17th rank among the '50 Most Innovative Companies' list published by the Business Week Magazine[4] . The TATA group had earned a lot of reputation alongside being successful in business which was evident from its 11th rank among the 'world's most reputed companies' list by the US

[1] Bhandari, B. (2010, October 11). Room for all, Business Standard, Retrieved from http://www.business-standard.com/india/news/room-for-all/410920/ on 15/07/2012.

[2] Zachariah, R. (2010, May 1). Bickson rebuilds Taj brand architecture, The Times of India, Retrieved from http://timesofindia.indiatimes.com/business/india-business/Bickson-rebuilds-Taj-brand-architecture/articleshow/5879146.cms on 21/07/2012.

[3] About Us: The TATA Group Profile, Retrieved from http://www.tata.com/aboutus/sub_index.aspx?sectid=8hOk5Qq3EfQ= on 18/07/2012.

[4] About Us: The TATA Group Profile, Retrieved from http://www.tata.com/aboutus/sub_index.aspx?sectid=8hOk5Qq3EfQ= on 18/07/2012.

based Reputation Institute[5]. The combined revenue of the group was $83.3 billion (around INR 3,796.75 billion) in 2010-11, which included 58 per cent of the revenue coming from business outside India. The major companies of the group included Tata Steel, Tata Motors, Tata Consultancy Services (TCS), Tata Power, Tata Chemicals, Tata Global Beverages, Tata Teleservices, Titan, Tata Communications and Indian Hotels. The Tata group had spearheaded the industrial development in India through several industries of national importance in India in the decade of 2000-2010. The outcome of the efforts put in by the TATA group has resulted in creation of companies such as TCS (first software company owned by an Indian firm) and Tata Motors, which made India's first indigenously developed car, the Indica, in 1998 and unveiled the world's lowest-cost car, the Tata Nano in 2009. The Tata group has always pioneered technology developments and have focused on innovations to drive its business globally. Examples of such innovations include the Tata Nano car and the Eka supercomputer (developed by another Tata company). Anchored in India and committed to strong ethical values, Tata companies have built multinational businesses aiming at achieving growth through excellence and innovation, while maintaining a holistic and sustainable perspective towards shareholders, employees and the civil society (Refer to Exhibit I for a brief timeline of the Tata Group).

The Indian Hotel Company Limited (IHCL):Early Days

Indian Hotels Company Limited (IHCL) was incorporated in 1902 by J N Tata. In the next year (1903), the first property was launched as the Taj Mahal Palace Hotel in Mumbai (then known as Bombay). The Taj Group under IHCL had unique strategies to rise above competition in the hotel industry. One such strategy was to convert former royal palaces and heritage buildings in world-class luxury hotels. By the 1970's Taj had started its presence felt in the luxury hotel segment in India. In 1974 the Taj Group opened a deluxe beach resort in Goa and the Taj Coromandel in Chennai. During the same period, the Taj President was opened in Mumbai and the Taj Mahal Hotel in Delhi.

In the decade of the 1980's the growth phase continued as the Taj Group went global by opening the Taj Sheba Hotel in Sana'a, Yemen and acquired interests in the 51 Buckingham Gate Luxury Suites and Apartments in London. By the late 1980's, the Taj group established it's presence in five major metro cities in India namely Mumbai, Delhi, Chennai, Kolkata, and Bangalore and was the first Indian hotel chain to achieve this. The growth phase did not stop in the 1990's as the group continued to expand domestically and globally. Major achievements during this phase were the launch of Taj Kerala Hotels and Resorts Limited in collaboration with the Kerala Tourism Development Corporation and the launch of the Taj Exotica Bentota in Sri Lanka. The first decade of the new millennium was also good for the Taj group since it continued opening of new hotels abroad (such as The Taj Exotica Resort & Spa, Maldives), acquiring old property (such as Regent Hotel in Bandra which was renamed as the Taj Lands End, Mumbai) and new partnerships (such as partnering with the GVK Reddy Group to set up Taj GVK Hotels and Resorts Limited).

Since its inception, the Taj group had successfully converted some of the former royal palaces in India into luxury hotels of international standards. Some of these were: the Taj Lake Palace in Udaipur, the Rambagh Palace in Jaipur and Umaid Bhawan Palace in Jodhpur. In 2002, the group acquired licenses to manage the Rawal-Kot palace in Jaisalmer and the Usha Kiran Palace in Gwalior. The next year, the group celebrated 100 years of the opening of its first and flagship hotel, the Taj Mahal Palace & Tower in Mumbai. In the year 2004, the group decided to cater to the business and 'value for money' segments and thus it launched two new ventures. Wellington Mews, a luxury serviced apartment concept (the first of its kind from the Taj group) that came up in Mumbai, and 'Ginger', a budget hotel chain was launched with a pan India presence. International presence was also on the rise through the acquisition of the 'W' hotel in Sydney, Australia (in 2006) which was later renamed as 'Blue, Woolloomooloo Bay'. The group also made its presence felt in the North American market through acquisition (such as Ritz Carlton in Boston in 2007) (Refer to Exhibit II for a brief timeline of IHCL).

The success of the Taj group rested on two pillars of luxurious living and fine dining. It won accolades for exotic culinary experiences for its guests by either bringing world cuisine for Indian guests or vice versa. This was ably supported by the experience provided by Jiva Spa present in the luxury hotels from the Taj group. The concept spa brought the best of Indian and Asian techniques of health and well being in a classy set up. With its roots in the ancient Indian healing philosophy the Jiva Spas offered a holistic concept of living through a gamut of activities such as Yoga and Meditation.

[5] About Us: The TATA Group Profile, Retrieved from http://www.tata.com/aboutus/sub_index.aspx?sectid=8hOk5Qq3EfQ= on 18/07/2012.

The Taj group was very effective in using the forward and backward linkages of the hotel business by launching unique concepts including the Taj Air (a private luxury jet operation) and the Taj Sats Air Catering, which was one of the largest airline catering services in South Asia. To indigenously tackle the supply of trained staff, the group also started the Indian Institute of Hotel Management (IIHM) in Aurangabad since 1993. IIHM had a three-year diploma course on offer with electives for departmental specializations. The entire program was designed with assistance from internationally renowned hospitality institutions and was affiliated to several programs in US and Europe.

The Indian Hotel Industry

The Ministry of Tourism (Government of India) have classified the hotels in India according to the general features and facilities offered into the following categories: Five (5) Star Deluxe, Five (5) Star, Four (4) Star, Three (3) Star, Two (1) Star, One (1) Star and Heritage Hotels (which included Grand Heritage, Classic Heritage and Heritage Hotels). The heritage hotels were mostly palaces and places of historical value converted into hotels. According to origin and size, the Indian hotel industry could be divided into three categories: a) Large Indian Hotel Chains: comprising of the Indian Hotels Company Limited (the Taj group) and associate companies, EIH Limited, ITC Hotels, Indian Tourism Development Corporation (ITDC) etc.; b) Small Indian Hotel Chains: comprising of players such as Sarovar Hotels, Lemon Tree Hotels, The Leela group, etc.; and c) International Chains: comprising of groups like Starwood, Hilton, Marriott, etc.

Even though there have been major hurdles for hotel developers such as corruption and red tape, 18 of the top twenty global hotel majors were present in India in 2011. Most of the global players relied on an Indian counterpart for the development and constructional support. This mostly took the form of a joint venture which helped the global player to learn from the experience of the local player. However, in some cases, the global player ended up buying out the Indian partner such as Carlson group, who acquired its local development partner RHW Hotel Services or InterContinental Hotels Group (IHG) which acquired a 24% stake in its Indian partner, Duet India Hotels Group. The foreign players competed at different levels (with multiple brands) with some targeting the upper levels (ex. Hilton), some in the mid market (ex. IHG) and some with offerings across segments (ex. Starwood). Most global players had aggressive expansion plans for period 2012- 2020.

The Indian hoteliers are also present in all star categories and many of them have aggressive plans. While there are players like the Taj group which operate across segments, there are relatively smaller players such as Leela which cater to only 5 star category (ref Exhibit III). The three largest domestic players are the Taj Group, the ITC Welcome Group and Eastern India Hotels (EIH) in the same order. Newer brands like Sarovar Hotels and Resorts are present with more than 50 hotels in India (and abroad) and cater to 3, 4 and 5 star category. Many hotel chains have institutional tieups such as Sarovar group maintaining the guest accommodation facilities for Indian Institute of Management Ahmedabad and Indian School of Business, Mohali. The Government owned chain of hotels under the India Tourism Development Corporation (ITDC) known as the Ashok Group is present in almost all business and tourist destinations in India in mainly the three and four star category. Surprisingly, in spite of such a strong presence, it is not doing good business. Some have also diversified into related business such as the Taj group and EIH which have airline catering services called TajSats and Oberoi Flight Services respectively. The Indian chains also have operations through joint ventures. For instance, Taj group has a joint venture with the GVK group of Hyderabad to manage some of their properties.

According to retail consultancy Technopak, the Indian Hospitality industry was valued at around USD 17 billion at the end of the year 2010[6] . In the same year, the Government of India approved setting up of a Hospitality Development and Promotional Board (HDPB) to regulate and monitor the growth and development of the Indian hospitality sector. However, out of the total revenue generated by the industry, around 70 per cent was contributed by the unorganized sector and the rest only was the organized sector's contribution. The contribution of the hotel and restaurant sector in overall economy of the country had been below 2 per cent in the period 2006-2011. The good news according to private reports[7] was that the hotel industry in India was estimated to show a Compounded Annual Growth rate (CAGR) of around 15% over the five year period 2011-2016. The Economic Survey of India (2011-12), pointed out to an erratic annual growth rate of the hospitality sector in the period 2005-06 and 2010–11 with signs of recovery in 2010- 11 (Refer Exhibit IV). The sector registered negative growth (-3.41 per cent) in 2008–09 over the year 2007–08, which was caused by the global economic crisis during the same period.

[6]Indiabiznews. (2011, June, 13). Hospitality Industry: An Insight. Retrieved from http://www.indiabiznews.com/?q=node/1570 on 22/07/2012.

[7]Vardharajan, K., Goel, P. and Karulkar, K. (2011). Hotels in India: Trends and Opportunities. HVS Consulting, Retrieved from http://www.hvs.com/article/5645/indian-hotel-industry-survey-2010-11/ on 22.07.2012.

According to market reports[8], India had 740 million domestic travelers and over 6.3 million foreign tourist arrivals (FTA) in 2011 which made it one of the most profitable hotel markets in the world after China. The growing middle class income in India was also a major driver behind increasing domestic travel. India in 2011 had 1,70,000 rooms according to ICRA estimates of which 60,000 were branded (Refer to Exhibit V for an estimate of existing capacity of major hotel brands in India). The 3 main customer segments in the upscale category in the hotel industry could be categorized into three segments as: The Business Traveler, The Leisure Traveler and Airline Crew (Refer to Exhibit VI for details about the segments). However, given the growth of foreign and domestic players in the country, the trend of occupancy in the last ten years have shown a declining rate in both five star deluxe and five star category while in three and four star category it has been marginal (Refer to Exhibit VII). The increasing competition had its impact on the average rates charged by the star category hotels which have either declined or stagnated in the last few years (Refer to Exhibit VIII). The hoteliers have thus looked beyond business travelers and tried to harvest the potential in the domestic market in terms of leisure and city locations. Moreover, the hotel chains realized that domestic travelers could help in reducing the gap between peak/season and off peak/season occupancy periods so that the cyclical effects of occupancy could be neutralized. Thus many hotels started to offer leisure packages during summer months, which is the peak time for domestic travel. Most star category hotels witnessed healthy increases in Revenue per Available Room (RevPAR) except the five-star deluxe category, which witnessed a decline of 1.4% (Refer to Exhibit IX). However, the major gainers were the three and four star category which indicates a shift to cost savings which in turn may be the fall out of the economic scenario. Regarding the regional trends in India, most hotel markets witnessed a recovery on 2010/11 except markets like Pune, Delhi-NCR and Ahmedabad whereas Mumbai was stagnant. The decline in Pune was attributed to the sudden increase in supply. Cities such as Bengaluru (9.8%), Chennai (9.8%) and Hyderabad (6.4%) experienced highest increases in occupancy levels[9] and this phenomenon could be attributed to the revival of the IT/ITeS sector in 2010/11 which contributed to major business travel in these cities. Moreover all these three cities did not have a significant increase in supply in the same period. Among the leisure destinations, Agra was the only market to witness a steady increase in occupancy with Goa and Jaipur trailing behind but majorly[10] due to domestic travellers. According to Industry Reports there was a shortage of quality branded hotel rooms across the country, especially when the major Indian cities were compared to other international cities. The shortage of hotel rooms was set to become more pronounced if the economy grew at a healthy rate.

New Opportunities: New Products

The opportunities in the Indian hotel industry were identified by the Taj group as early as 2003 when the group was being provided consultancy by Landor Associates. Opening of a string of no frills Ginger hotels was one of the suggested moves to cater to the gap between star hotels and government owned guest houses. Thus a hotel brand called0 IndiOne was launched in Bangalore by a subsidiary of the IHCL called Roots Corp. Ltd. in early 2004. The concept was developed in consultation with renowned management thinker C.K. Prahalad. IndiOne was later renamed as Ginger. The concept behind Ginger was a no-frills self serviced hotel based on western counterparts. Ginger popularized a concept called Smart Basics™ which had the basic tenets of simplicity, convenience, style, updatedness among its offer. The initial room rates of Ginger (for advance booking) were kept at INR 999 to attract the budget seeking traveler. Initially, the hotel chain offered only the basic service but with time the brand has added some additional frills such as dining facilities, meeting rooms and coffee shops in ties up with Café Coffee Day. Even though the initial focus of Ginger was on non-metro and tier 2 cities, by end 2012 they were present in major metro cities such as Mumbai. The Roots Corp planned to have around 80 hotels across India by 2016. The prices of stay however had gone up significantly and were different for different cities. Prabhat Pani, the chief executive officer of Roots Corp justified this strategy, "If we want to maintain low rates, we would not be able to enter big markets like Mumbai and NCR (National Capital Region)"[11] citing reasons like rising real estate costs and inflation.

[8] ICRA. (2012, March). Indian Hotels Industry. (report). Retrieved from http://www.icra.in/Files/ticker/Indian%20Hotels%20Industry%2030032012.pdf on 22.07.2012.

[9] Vardharajan, K., Goel, P. and Karulkar, K. (2011). Hotels in India: Trends and Opportunities. HVS Consulting, Retrieved from http://www.hvs.com/article/5645/indian-hotel-industry-survey-2010-11/ on 22.07.2012

[10] Vardharajan, K., Goel, P. and Karulkar, K. (2011). Hotels in India: Trends and Opportunities. HVS Consulting, Retrieved from http://www.hvs.com/article/5645/indian-hotel-industry-survey-2010-11/ on 22.07.2012.

[11] Sanjai, P.R. (2012, October 22). Roots Corp opens its first Ginger hotel in Mumbai, livemint.com, Retrieved from http://www.livemint.com/Companies/RLIjP1S3Ay2upn5iUsQt7I/Roots-Corp-opens-its-first-Ginger-hotel.html on 23.11.2012

Gates Open for Gateway

Post 2005, the IHCL was feeling a need to cater to the young upscale customers who were looking out for a semi-premium experience. Thus The Gateway was launched by the Taj Hotels Resorts and Palaces in September 2008. The objective was to cater to the contemporary upscale travelers which was the segment of consumers in transition between economy and luxury (as the name suggests). The initial portfolio of the brand was of 26 hotels across India. Some of the major destinations included Agra, Jaipur, Vadodara, Varanasi, and Vishakhapatnam. Regarding the launch of the brand, the M.D. and C.E.O. of the Taj Hotels Resorts and Palaces, Raymond Bickson (Bickson) opined, “We are currently witnessing a shortage of world class accommodation in India. The Gateway is a part of the Taj Group's strategy to have a large footprint across India. It will be an important growth vehicle for the Group and we are looking at quickly scaling up the brand to a large number of hotels across India.”[12] By 2011, the brand was foraying outside India when the Gateway was launched in Sri Lanka. According to the company people, the hotel brand had around 2000 across different properties and had been operating with 70% occupancy rates since inception. The group had plans to expand into Indian towns which had airports. The target of the brand was to have 50 hotels in its folio by 2015.

A New Thought

A formal restructuring of the brand architecture of the Taj hotels was undertaken in early 2010 Bickson. Bickson opined that the Taj group was one of the brands with highest visibility and they wanted to equate it to five star luxury, “Taj is the oldest surviving company in the Tata group. It was close to the heart of founder Jamsetji Tata and that is also the case with present chairman Ratan Tata. Taj is one of the most visible brands; it is about luxury and the business is all about touch and feel…”[13] . However, with time the Taj Brand had been established across luxury to business segments. Thus the group wanted to create a brand architecture based on four brands, namely Taj, Vivanta, Gateway and Ginger. The Taj brand would exclusively cater to five star category, Vivanta would target the upper upscale segment, Gateway would be placed in the four star category and Ginger would cater to the economy/budget segment. This is where the role of Vivanta became important to fill in the gap between the Taj and the Gateway. The new brand architecture was modeled based on international hotel chains like Marriott and Hyatt. However, Bickson opined that the job was not easy, “Since every hotel, irrespective of its size, had a Taj tag, it was a major challenge for us to differentiate the product in terms of quality and service standards”[14]. Bickson further opined that this move was necessary to remove future confusion, give more focus to marketing and to compete with the global players in India. However, he also opined that some of the properties which did not fit well with the planned brand architecture would be either sold or the existing contract would be terminated. Ajoy Misra (Misra), Senior Vice President, Sales & Marketing, Taj Hotels Resorts & Palaces, further explained the rationale behind creating a basket of brands, “We are now poised to run to every primary, secondary and tertiary city in the country”[15]. The rationale provided by Misra was that the group could make the customer upgrade to different levels of offerings as he/she progressed in the life cycle. The Gateway hotels were doing good in early 2009 according to survey reports by Gallup, and was ranked as the fourth most-buzzing Tata brand in 2008 and fifth most buzzing in 2009[16] . Even though the contribution of Ginger was the least in the brand architecture, it was continued as major parts of its management were outsourced to third parties.

Launch of Vivanta

Vivanta was positioned as 5-star hospitality in the upperupscale segment after considerable research into consumer behavior of the target audience. The first Vivanta came up in Bangalore (now known as Bengaluru) as Vivanta by Taj – Whitefield, Bangalore in September 2010. Bickson was excited about the launch as he said that he launch of Vivanta would foster the growth strategy of the Taj group through domestic dominance. The name Vivanta was inspired from the term 'bon vivant' which meant people who lived life to the fullest and had fine eye for appreciation according Lulu Raghavan, Country Director of Landor Associates India. Misra further explained that multiple brands were created to appeal to different psychographic

[12] HBI Staff (2008, September 11). Taj Group launches The Gateway Hotel brand, hospitalitybizindia.com, Retrieved from http://www.hospitalitybizindia.com/detailNews.aspx?aid=2108&sid=1 on 22.11.2012.

[13] Zachariah, R. (2010, May 1). **Bickson rebuilds Taj brand architecture,** The Times of India**, Retrieved from** http://timesofindia.indiatimes.com/business/india-business/Bickson-rebuilds-Taj-brand-architecture/articleshow/5879146.cms on 21/07/2012.

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segments, "Vivanta by Taj Hotels & Resorts are positioned in the Upper-Upscale segment, flanked by Taj in the top-end Luxury segment and The Gateway Hotel in the Upscale segment. Our brand journey, which started a few years ago, continues today with our portfolio consisting of clearly demarcated brands each having a distinct identity, values 17 and experiences." The Taj Hotels and Resorts created Vivanta to appeal to the cosmopolitan young global traveler for whom a stay in a hotel was more of an experience. The Vivanta brand was thus positioned with a personality of style, sophistication, updatedness and creativity. At the same time, Vivanta also linked with the Taj group in terms of the most important qualities of warmth and friendliness. Thus the brand Vivanta managed to maintain the luxury standards of the Taj group but at the same time kept the travelers feel young and contemporary. Deepa Misra Harris (Harris), The Vice-President (marketing) of IHCL described the Vivanta customer, "The average Vivanta by Taj customer is slightly younger, believes in no boundary between work and play and is rationally exuberant. He is the kind of person, because he is so intensely consumed by work, who understands the relevance of relaxation and therefore the 18 little details of life. He will stop to smell the roses" . Bickson further explained that Vivanta would have the Taj association in its early days as Vivanta by Taj for the consumers to understand the lineage.

By September, 2011, as many as 19 Taj hotels were migrated to the Vivanta brand which included Taj hotels at Goa and Maldives. In late 2011, the brand had an inventory of nearly 2500 rooms which was planned to go up to 5000 by 2013. All the hotels however, would focus on the unique experience concept and customer touch points. As per Misra, "Vivanta will redefine this segment of hotels and offer a very fresh experience to our guests. To fashion this holistic experience, we mapped out various scenarios and aspects of the Customer Journey and crafted intervening touch-points 19 which reaffirm the brand values and ethos" .

Road Ahead

During the financial year 2010-11 the IHCL reported a total income of INR 1724.92 crores at the consolidated level with Profit after Tax (PAT) amounting to INR 141.25 crore[20]. In early 2012, the Taj Hotels were grouped into four distinct business categories namely, Luxury (Taj Mahal/Exotica), Upper Upscale (Vivanta), Upscale (Gateway), and economy/budget (Ginger). This was done to achieve consistency across different hotels and provide standardized services within the same segment. The IHCL directly held the majority of the luxury properties in the metro cities and prominent leisure destinations, whereas the other properties were controlled by subsidiaries and associates (such as Taj GVK). By early 2012, Taj Hotels Resorts and Palaces could boast of having 112 hotels with more than 13,000 rooms in 55 locations within and outside. The group had a global presence in Malaysia, Australia, UK, USA, Bhutan, Maldives, Sri Lanka, Africa and the Middle East. By the end of 2012-13, the group planned to increase its room inventory to 15,843 and number of hotels to 130. The holding company, IHCL was also listed on the BSE[21] and NSE[22] with the promoter group holding 33.6% stake in the company. The Taj Group continued with the philosophy of service excellence with an aim to provide high levels of personalized service in a consistent manner and had innovative means of improving service quality. The Taj hotels had received accolades for the luxury of service and creating excellence in Indian hospitality. They were present in exotic locations having modern amenities and business facilities across the country encompassing a wide range of destinations including metro cities, industrial hubs, scenic beaches, hill stations, historical and religious centers and wildlife destinations.

In early 2012, the IHCL was planning to launch a new brand which be positioned between Ginger and Gateway. Ginger was still positioned as a budget hotel with rates going up to INR 2500 while the rates for Gateway ranged between INR 5000-7000. This move was in tune with the western counterparts like the Accor Group which have a portfolio of hotels ranging from three star to luxury. However, certain questions still remained. First and foremost, some of the brands already there in the market were not growing as expected such as Ginger. Secondly, according to some

[17] HNN Newswire. (2010, September, 15). 19 Taj hotels migrate to new Vivanta brand, hotelnewsnow.com http://www.hotelnewsnow.com/Articles.aspx/4010/19-Taj-hotels-migrate-to-new-Vivanta-brand on 15/07/2012.

[18] Bhandari, B. (2010, October 11). Indian Hotels' four-brand strategy for success, Retreived from http://business.rediff.com/special/2010/oct/11/spec-indian-hotels-four-brand-strategy-for-success.htm on 15/07/2012

[19] HNN Newswire. (2010, September, 15). 19 Taj hotels migrate to new Vivanta brand, hotelnewsnow.com http://www.hotelnewsnow.com/Articles.aspx/4010/19-Taj-hotels-migrate-to-new-Vivanta-brand on 15/07/2012.

[20] Taj Hotels Annual Report 2011. Retrieved from http://www.tajhotels.com/About-Taj/Investor-Relations/pdf/Annual-Report-2010-11.pdf on 18/07/2012.

[21] BSE (Bombay Stock Exchange) Limited was founded in 1875 in Indian and is the oldest stock exchange in Asia. In 2012, BSE was the number one stock exchange in the world in terms of listed companies (which was over 4900). The BSE Index is also known as SENSEX and is the first and most popular Stock Market index in India.

[22] The NSE (National Stock Exchange) was incorporated in 1992 in India as a tax paying company rather than a stock exchange by leading Financial Institutions for the Government of India. The NSE in 2012 had a nation-wide coverage and offered trading in Capital Market, Derivatives Market, Futures and options etc.

experts, the Gateway had not taken off well even though the company people suggest the opposite view[23]. Thirdly, some experts felt that a lot more support was needed to establish Vivanta as a strong brand. Rajeev Sahni, Partner, Hospitality, Ernst & Young, opined, "While the target audience is defined, it is not yet clear in a consumer's mind whether it is a resort or a business hotel. Both are very different from each other."[24] Fourthly, there was no clear indication about how the company planned to tackle the problem of self cannibalization. Even though the company has clearly demarcated its target segments, what if the segments do not behave as expected? Given the fact that Vivanta was around 10-15% cheaper than the Taj and if both were present at the same place, consumer migration from Taj to Vivanta would lead to a loss of revenue for the group. However, as per Misra, it's the global trends and the Indian market structure which had influenced them to take a multi-branded approach. This viewpoint also had support from industry people such as Manav Thadani, the Managing Director of HVS India, who opined, "All changes are difficult, but Taj is following the international trends. If brands have to grow, it is important to create sub-brands"[25]. Given that the Indian hotel industry is really having a competitive landscape with global, national and local players, a multi-branded strategy might have been the right decision. However, a multi-branded strategy also meant more competition, and that too from players at different levels. Moreover the group was exploring the possibility of a fifth segment between the upscale (served by Gateway) segment and the economy (served by Ginger) called midscale which it had not tapped yet. Concern over that segment was evident from Harris, "The midscale segment is waiting for us to enter. What kind of brand we should bring in will be clear once we have done our research on the customer for that category"[26]. Lastly, there was also a concern for the properties which were not into any of the four brands in the architecture such as the Taj Residency. Whether they would be renamed as something in the existing structure (Vivanta/Gateway) or sold off was also a question being faced by the group. Time would only tell whether the brand architecture of the Taj group would bring benefits or brickbats.

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[24] Chitravanshi, R. (2011, Apr 29). Teething troubles, Business Standard, Retrieved from http://www.business-standard.com/india/news/teething-troubles/433886/ on 18/07/2012.

[25] Chitravanshi, R. (2011, Apr 29). Teething troubles, Business Standard, Retrieved from http://www.business-standard.com/india/news/teething-troubles/433886/ on 18/07/2012.

[26] Bhandari, B. (2010, October 11). Room for all, Business Standard, Retrieved from http://www.business-standard.com/india/news/room-for-all/410920/ on 15/07/2012.

Exhibit I. Timeline of Tata Group

Year	Major Events
1868	Foundation of the Tata Group by Jamsetji Nusserwanji Tata
1877	Setting up of Empress Mills, a textiles venture in Nagpur. The first of the big industrial projects undertaken by the Tata Group.
1903	Opening up of the Taj Mahal Hotel in Bombay
1904	Demise of Jamsetji Tata and passing of the chairmanship to Sir Dorab Tata
1907	Setting up of the Tata Iron and Steel Company.
1932	Demise of Sir Dorab Tata and appointment of Sir Nowroji Saklatwala as new chairman.
1932	Setting up of the Tata Aviation Service, the forerunner to Tata Airlines and Air India.
1938	Demise of Sir Nowroji and the appointment of JRD Tata as the new chairman.
1939	Setting up of Tata Chemicals
1945	Setting up of Tata Motors and Tata Industries
1968	Setting up of Tata Consultancy Services
1984	Setting up of Titan Industries
1993	Demise of JRD Tata and appointment of Ratan Tata, who took over as chairman.
1998	Launch of India's first indigenously made car, the Indica
2000	Acquisition of Tetley by Tata Tea of Tetley. In 2004
2002	Tata Group acquired VSNL, India's top international telecom service provider
2004	TCS went public in the largest private sector initial public offering in the Indian stock market. Tata Motors acquired the heavy vehicles unit of Daewoo Motors, South Korea
2005	Tata Steel acquired Singapore-based NatSteel and Tata Chemicals secured a controlling stake in Brunner Mond Group, UK.
2007	Tata Steel acquired Corus, the Anglo-Dutch giant, in a landmark deal, and in 2008
2008	Tata Nano unveiled. Tata Motors added the Jaguar and Land Rover brands to its stable.

(Source: Adapted from information given in http://www.tata.com/htm/Group_milestone.htm?sectid=0Xw9Kk6LW6s= as on 12/07/2012.)

Exhibit II. Indian Hotels Company Limited (IHCL): Major Events

Year	Major Events
1903	Opening up of "Taj Mahal Palace" in Mumbai, India
1974	Opening of first five star deluxe beach resort, the "Fort Aguada Beach Resort" in Goa and the five star deluxe hotel, the "Taj Coromandel" in Chennai
1980	Opening of the first hotel outside India, "Taj Sheba Hotel" in Sana'a, Yemen.
1984	License agreement to operate the "Taj West End" in Bangalore, "Taj Connemara" in Chennai and the "Savoy" in Ooty.
1989	Opening of a five star deluxe hotel in Calcutta, the "Taj Bengal"
1990	Establishment of the Taj Kerala Hotels and Resorts Limited with the Kerala Tourism Development Corporation.
1998	Opening of the "Taj Exotica" in Bentota, Sri Lanka.
2000	Establishment of Taj GVK Hotels and Resorts Limited with the GVK group to operate three hotels in Hyderabad.
2001	The management contract for the "Taj Palace", Dubai is awarded and launch of "Taj Exotica Spa and Resort" in Maldives
2002	Obtains licences to manage and operate two leisure hotels: the "Rawal-Kot" in Jaisalmer and the "Usha Kiran Palace", Gwalior.
2003	Re-launch of the flagship property as the "Taj Mahal Palace and Tower"
2004	Launch of first luxury serviced apartments, "Wellington Mews" in Mumbai. Opening of first economy hotel under the brand "Ginger" in Bangalore.
2005	Entered a management contract to operate "The Pierre" in New York, USA.
2006	Acquisition of the "W" hotel in Sydney, Australia (later renamed as the "Blue Sydney"). Operation of its first wildlife lodge at Mahua Kothi, Bandhavgarh
2007	Acquisition of the "Ritz-Carlton" in Boston, USA, later renamed as the "Taj Boston".
2008	Operation of Taj exotica Hotel in Ras Al Khaimah, UAE In partnership with Saraya Islands Taj Hotels Resorts and Places ranked No. 1 in the Best Hotel Chain in India category at the Business Traveller Awards 2008. The Taj Mahal Palace & Tower, Mumbai was under siege during the 26/11 Mumbai Terror attacks. Announced the opening of their 'Upper Upscale' brand in Bangalore, with a new name and identity: "Vivanta by Taj - Whitefield, Bangalore".
2009	Announced new premium hotel, "Vivanta by Taj - Panaji, Goa" Launch of Vivanta by Taj in Maldives.
2010	Unveiling the foundation stone for Vivanta by Taj - Guwahati, Assam.
2011	Launch of Vivanta by Taj - Dal View, Srinagar.

(Source: Adapted from http://www.tajhotels.com/About-Taj/Company-Information/History-Of-Taj.html as on 18/07/2012.)

Exhibit III. Major Indian Hotel Chains

Company	Brands	Existing Hotels
IHCL	Taj, Gateway, Vivanta and Ginger	112
ITC Welcomgroup	ITC Hotel – Luxury collection, WelcomHotel/Sheraton, Fortune, WelcomHeritage	42
EIH	Oberoi, Trident, Maidens	24
Sarovar Hotels and Resorts	Sarovar Premiere, Sarovar Portico, Park Plaza, Park Inn, Hometel	55
Lemon Tree Red Fox	Lemon Tree, Lemon Tree Premier,	23
Hotel Leela Ventures	The Leela	7
Indian Tourism Development Corporation	Ashok, ITDC Hotels	70
The Kamat Hotels (India)	The Orchid, VITS, Lotus, Gadh	17
Royal Orchid Hotels	Royal Orchid, Regenta, Royal Orchid Central, Royal Orchid Suites, Central Blue, Ramada, Royal Orchid Resorts	21
The Park Hotels	The Park	12
The Pride Hotels	Pride, Pride Biznotel and Resorts	11

Source: Adapted from ICRA report titled "Indian Hotels Industry", Retrieved from http://www.icra.in/Files/ticker/Indian%20Hotels%20Industry%2030032012.pdf on 22.07.2012, and respective hotel websites.)

Exhibit IV. Hotels and Restaurant Sector: Annual growth rate (in %)

Year	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Hotels and Restaurants	17.4	14.4	13.0	-3.3	2.8	7.7

(Source: Economic Survey 2010-11, http://www.indiabudget.nic.in/es2011-12/echap-10.pdf)

Exhibit V. Estimate of existing capacity of major hotel brands in India

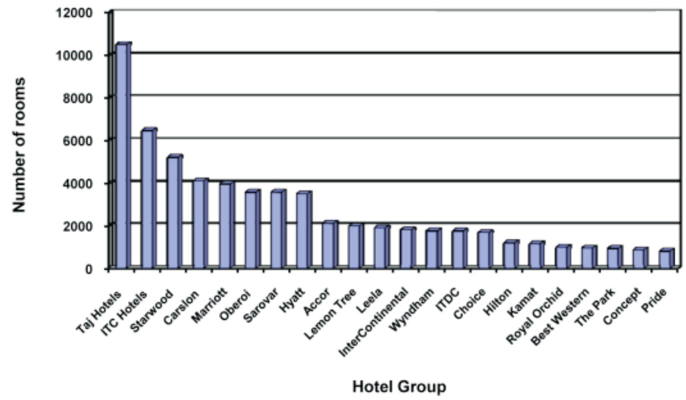

Exhibit VI. Customer Segments in the Upscale Hotel Category

Segment Name	Type of Traveler	Characteristic
Business Traveler	Corporate / business executives, both domestic and international	Provide high returns as they demand relatively lesser discounts and tend to use more of the hotels facilities such as Food and Beverages, Conference halls, etc.
Leisure Traveler	Foreign or domestic traveler whose primary purpose is holiday and sight-seeing	Usually form part of the package run by the tour companies. The margins offered by them are low as they tend to ask for higher discount and provide less food and beverages revenue as they tend to eat out
Airline Crew	Majorly domestic	Form a considerable segment as they provide repetitive and guaranteed business. However the deals in this segment are finalized by the airline company and not the crew. Thus they ask for considerable discount rates in the range of 40-50 percent and hence represent a low - yield segment.

(Source: Adapted from Corporate Catalyst India Report on Tourism and Hotel Industry in India. Retrieved from http://www.cci.in/pdf/surveys_reports/tourism-hotel-industry.pdf as on 25/07/2012.)

Exhibit VII. Trend of Star Hotel Category: Occupancy rates (in %)

Category	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	12 Month Growth	Compounded Growth
Overall Average	51.6	57.2	64.8	69.0	71.5	71.4	68.8	59.5	59.5	60.5	1.7	–0.6
Five-Star deluxe	52.2	59.3	65.0	71.4	73.8	73.0	71.7	62.5	61.6	60.6	–1.6	–1.3
Five Star	51.4	57.0	66.8	71.1	70.4	70.2	67.2	58.5	58.6	62.6	6.8	–0.5
Four Star	52.7	56.4	68.7	71.8	72.7	71.7	68.9	58.5	60.3	60.9	1.0	0.3
Three Star	49.7	53.6	59.6	56.7	65.9	68.9	64.7	56.2	55.5	57.5	3.6	0.7

(Source: Adapted from Vardharajan, K., Goel, P. and Karulkar, K. (2011). Hotels in India: Trends and Opportunities. HVS Consulting. www.hvs.com)

Exhibit VIII. Trend of Star Hotel Category: Average Rates (in USD)

Category	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	12 Month Growth	Compounded Growth
Overall Average	73	68	78	96	122	162	199	168	142	140	–1.4%	2.8%
Five-Star deluxe	99	90	102	125	161	224	278	242	204	204	0.2%	3.4%
Five Star	69	65	73	87	112	149	190	158	141	138	–2.2%	3.9%
Four Star	50	47	56	69	86	117	142	125	102	108	5.7%	6.1%
Three Star	36	35	36	41	50	69	87	77	71	73	2.7%	4.7%

(Source: Adapted from Vardharajan, K., Goel, P. and Karulkar, K. (2011). Hotels in India: Trends and Opportunities. HVS Consulting. www.hvs.com)

Exhibit IX. Trend of Star Hotel Category: RevPAR (USD)

Category	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	12 Month Growth	Compounded Growth
Overall Average	38	39	50	66	87	116	137	100	85	85	0.3%	2.1%
Five-Star deluxe	52	53	66	89	119	164	200	151	125	124	–1.4%	2.0%
Five Star	36	37	49	62	79	105	128	93	82	86	4.5%	3.3%
Four Star	26	26	39	49	63	84	98	73	61	66	6.8%	6.5%
Three Star	18	19	22	23	33	48	56	43	40	42	6.4%	5.4%

(Source: Adapted from Vardharajan, K., Goel, P. and Karulkar, K. (2011). Hotels in India: Trends and Opportunities. HVS Consulting. www.hvs.com)

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Is there a Cartel in Cement Industry in India?

Dr. M G Deepika

"People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against public or in some contrivance to raise prices"

Adam Smith, Wealth of Nations, 1776.

Pedagogical Objectives

The paper discusses as to what are Cartels and why are they formed in oligopoly markets across the world. What are the implications of formation of cartels to the consumers and the economic system? The paper then explores the complexities involved in detecting the collusive behaviour or cartels in an industry. It further raises the questions as to what does the competition law in the country speak of cartels and what are the cartel detecting mechanisms adopted to prove the existence of cartels? Is there enough evidence for the commission to prove that the cement industry is cartelised in India and how are the companies trialled and penalised? The case could be used as a pedagogical tool to explain the concepts of imperfect markets, especially oligopoly markets under collusion in Microeconomics and could also be used to teach some aspects of business strategy.

Introduction

The Competition Commission of India (CCI) in June 2012 has severely censured cartelisation in the cement industry by imposing a penalty of Rs 6,300 crore on the top 11 cement manufacturers in India. Among these, the worst hit are ACC Ltd, Ambuja cements Ltd, Ultra Tech Cement Ltd and Jai Prakash Associates Ltd which have been fined in excess of Rs 1000 crore each. All the 11 firms were fined up to 50 percent of their average profit for fiscal years 2010 and 2011, the period for which they were investigated (Mint, 2012). The antitrust watchdog in its unanimous decision, also fined the lobby group cement manufacturers association (CMA). The commission investigated 39 cement companies on a complaint filed by the Builders Association of India (BAI) a lobby group of engineering and construction contractors. The CCI website had shown that the Builder's Association in India complained that the cement companies were indulging in cartelisation through "price fixing" in 2009-10 and 2010-11. This was followed by an investigation by the commission through which the commission found that cement companies had underutilised available production capacity to reduce supplies and raise prices in times of higher demand. However, companies like Ultratech denied that it had involved in any such activity and that they would like to approach the Competition Appellate Tribunal and challenge the order. Switzerland- based Holcim Ltd, which owns ACC and Ambuja also said the units will contest the allegations against them (Mint, 2012). Even in the past the country's anti-monopoly watchdog CCI (earlier MRTPC) has been issuing notices to the top cement manufacturing companies after its investigative arm Director General of Investigations and Registrations (DGIR) had pointed towards cartelisation and slammed Cement Manufacturers Association for the exorbitant increase in prices. In December 2007, it had sent notices to about 42 companies, including the Cement Manufacturers' Association. The then MRTPC after looking into the complaints of price fixing and restrictive practices by cement companies adopted restrictive practices (The Hindu, 2008). But even then the evidence was not strong enough to prove the existence of the Cartel.

The Economic Rationale behind Cartels

Cartels are anticompetitive agreements or anticompetitive concerted practices, to fix prices, make rigged bids (collusive tenders), establish output restrictions or quotas, or share or divide markets by allocating customers, suppliers, territories or lines of commerce. This term cartel was at first introduced in 1880 for the alliances of enterprises in Germany (Singh, 2008). A cartel is usually a number of sellers or buyers who band together to eliminate competition in the market. The economic term for banding here is collusive behaviour. They meet and behave in this collusive manner to fix prices and their profitability. In modern times it is very often that cartelization is done verbally which becomes very difficult to find out (Grout and Sonderegger, 2005). Price fixing, market sharing, limiting production, bid rigging or collusive tendering are some of the types of cartels that are in existence. Cartels could also be explicit or tacit depending on the way they are formed and function. Under explicit cartels, firms interact directly to exercise their collusive behaviour like that under the OPEC. When cartels are formed tacitly, the firms establish competitive price without any interaction with its competitive firm. Oligopolistic firms have a tendency to form cartels to increase their market power, and members work together to determine jointly the level of output that each member will produce and/or the price that each member will charge. By working together, the cartel members are able to behave like a monopolist. The organization of petroleum-exporting countries (OPEC) is perhaps the best-known example of an international cartel.

Cement Industry in India

Over the last decade with India's robust economic growth, the cement industry had grown in tandem with the economic growth of the country. The average growth in the demand for cement in India was 9.1percent. Cement companies had increased the production and capacities over the years to keep pace with the increasing demand. India's cement industry had grown to become the second largest in the world and still has immense growth potential (Ernst and Young, 2011). The Indian cement industry is concentrated on a national level with top 11 to 12 firms among more than 100 firms capturing 70 percent of the cement market. The C5 concentration index for the top 5 players, Ultratech Cement, ACC Ltd, Ambuja Cements, Jaiprakash Associates and India Cements Ltd produce around 67 percent of the total produce (Singh, 2012) (See Appendix graph 1). This nature has been consistent through the years. The shares, in terms of all India cement production, of these top companies have fluctuated by small amounts in the last six years (since ACC Ltd. and Ambuja Cements Ltd. were taken over by Holcim Group). Ultratech Cement Ltd.'s production share has increased as it parent company, Birla Aditya Group, has stopped cement business in one of its companies Grasim Industries Ltd., and has used the cement manufacturing plants of Grasim Industries Ltd. Under Notable movers in production percentage are Shree Cement Ltd., and Kesoram Industries Ltd (Singh, 2012).

Competition Law in India

The MRTP Act of 1969

The companies in the post independent India had less competition and hence they tried to monopolise the market. Realising this, our Indian government, in order to protect the rights of the customers passed the Monopolies and Restrictive Trade Practices Act 1969 known as MRTP ACT. The articles 38 & 39 of our Indian constitution contain certain antitrust state policies which form the basis of MRTP Act. The major objectives of the MRTP Act of 1969 are to ensure that economic power does not get concentrated in a few big firms hands, to control monopolies and to prohibit monopolistic & restrictive trade practices. MRTP commission was established with the enforcement of the MRTP Act on August 2, 1970. However, the major limitation of this act is that it does not confer to extra-territorial jurisdiction. After the liberalization of Indian economy, the MRTP act was found to be inadequate and obsolete especially in terms of international economic developments relating to competition law (S Chakravarthy, 2002). This paved the way for the birth of a new competition law & Competitive Commission of India (CCI) came into existence.

Metamorphosis of MRTP into CCI:

The MRTP Act of 1969 had many difficulties in administering, especially in interpreting the expressions and provisions mentioned within the Act. There has been a large number of binding rulings of the Supreme Court of India and also Bench decisions of the MRTP Commission. These decisions have interpreted the various provisions of the MRTP Act from time to time and have constituted precedents for the future. Thus, where the wording of the existing law has been considered inadequate by judicial pronouncements, it became necessary to redraft the law to inject the spirit of the law and the intention of the lawmakers. A good reading of the MRTP Act will show that there is neither definition nor even a mention of certain offending trade practices which are restrictive in character (S Chakravarthy, 2002). Hence, the need for a new and better law was recognized, which gave birth to the Competition Act, 2002. It was amended in 2007 as Competition (Amended) Act 2007 under the governing body The Competition Commission of India (CCI) (The Competition Act 2002).

Competition Commission of India (CCI):

When MRTP underwent the metamorphosis, The Competition Commission of India came into existence. As the name suggests, competition refers to the general mass as the best way of ensuring that they have access to the broadest range of goods and services at the most competitive prices. With increased competition, producers will have maximum incentive to innovate and specialize which in return will result in reduction in price and wide variety of products for the consumers to choose. So a fair competitive market is good enough to achieve this scenario. CCI aims to create and sustain fair competition in the economy that will bring up a 'level playing field' to the producers and make the markets work for consumer welfare. This Competition Act achieves its objectives through an organizing body i.e. The Competition th Commission of India, which was established on 14 October 2003 by the Government of India. The major objective of CCI is to eliminate practices that have adverse effect on competition in the market and to promote and sustain a healthy competitive environment in the market. The Commission effectively carries out competition advocacy and spread the information on benefits of competition among all stakeholders to establish and nurture competition culture in Indian economy (Competition Commission of India).

CCI investigates Cartels as a means of anti- competitive behaviour adopted amongst producers mostly of consumer goods. CCI today aims to fight against cartel which appears to be the common intention of consumer groups and antitrust authorities. Seeing the effectiveness with which

CCI tackles a cartel shows that there were no penal powers with MRTP so no effective deterrence could be enforced. The Act empowers the commission in case of a cartel, to impose upon such seller, distributor, trader or service provider included in the cartel, a penalty equivalent to three times of the amount of the profit made out of such agreements by the cartel or 10% of the average of the turnover of the cartel for the last preceding three financial years, whichever is higher. The Commission under Article 27 of the Competition Act 2002 may impose a penalty up to three times its profit for each year that the prohibited agreement has been in effect; or 10% of its turnover for each year that the prohibited agreement has been in effect, whichever is higher (Soumya, 2009).

Complexities in detecting Cartels

Very often there is a high level of difficulty involved in detecting cartels since it is difficult to differentiate between a competitive behaviour and a cartel. There are two methodological approaches to detect cartels- Behavioural and Structural. If behavioural methods rely on leniency and other information like whistle blowing and indirect evidence, structural methods depend largely on economic indicators. The structural methodology uses indicators like the supply and demand, price cost analysis, capacity utilization, number of firms, firm size and concentration of firms in an industry. Leniency, Whistle blowers and indirect evidence forms the three major behavioural methods for Cartel detection. Whistle blowers may be former employees of the firm or even the existing ones who could provide direct evidence to the CCI regarding the existence of the Cartel. Leniency based cartel detection method is an incentive constraint method that deters the cartel member with the imposition of high punishment. The fact that cartel agreement usually are verbal, detecting it through economic indicators is all the more difficult (Arora and Sarkar, 2008). When, in the past, in 2008 such a complaint was cast on the cement companies that cement companies were prone to cartelisation, the then competition commission of India MRTPC after looking into complaints of price fixing and restrictive practices by cement companies found that the cement companies adopted restrictive practices. It sent notices to about 42 companies including the cement manufacturing Association in December 2007 (The Hindu, February, 21, 2008). Some studies tried to identify this with the structural methods using economic indicators (Arora and Sarkar, 2008). Economic indicators like the concentration index, pricevariations , demand/consumption trends, capacity utilisation and expense to sales ratio of the top players in the industry were examined. The concentration index of the top five players (C5) was at 43.31% was supporting the essential condition for the existence of the cartel, though not a sufficient condition. The price variations across the five zones showed that there has been a sudden surge in price simultaneously across five zones during March 2006. But simultaneously the demand for the product during December 05 to March 06 witnessed sudden surge in the demand. The capacity utilisation figures revealed that the cement companies have utilised their capacity to the maximum to cater to the surging demand. There was no indication of excess capacity to create an artificial scarcity of supply. The figures on expense to sales ratio of the top five companies had decreased over the years. Though the total sales had picked up, the cost of producing cement has not increased at the same price. This was the only indicator of the four which was supporting the existence of the cartel. But again this does not prove to be concrete evidence since declining sales ratio could also be attributed to the economies of scale during increased capacity utilisation. But again recently in 2012 the cement companies along with the Cement Manufacturers Association were charged with the complaint on collusive behaviour in the industry.

Is there a Cartel in Cement industry in India?

Based on the Sec 19 of the Competition Act of 2002, the Builders' Association of India (BAI) filed a complaint on th 26 July, 2010 against the cement manufacturer's association (CMA) and 11 other major cement manufacturing companies for the alleged violation of the provisions of Section 3 and 4 of the Act (Case 29/2010 before the competition Commission of India). As per the information in the case before the competition commission of India the respondent cement manufacturers indulge directly or indirectly into restrictive trade practices in an effort to control the price of cement by limiting the production and indulge in collusive price fixing. The complainant claims that it is the strategy of the cement companies to divide the territory of India into five zones so as to enable themselves to control the supply and fix high prices. Further the top 11 companies by the virtue of the fact that they collectively hold more than 57% of the market share in India enjoy a position of dominance and arbitrarily increase the price of cement.

The above mentioned case also states that the Builders Association of India has also mentioned that ACC cements and Gujarat Ambuja Cements are the leading cement manufacturers having approximately 21% market share in st

India. But with effect from Nov 1 2009 they have withdrawn the membership from the CMA. But despite having resigned from the membership, ACC and Gujarat Ambuja cement have been successful in keeping their prices per bag similar to that of other cement manufactures. One of the then news releases reinforced their argument....“There is widespread feeling in the industry that CMA indulges in cartelisation and holds up cement prices artificially high. Holcim cements feels that being associates with CMA would get them in trouble with Competition commission in EU and therefore they have withdrawn from the body” To support this feeling in the past action has been taken against Holcim group and it has been penalised and held guilty of acts of anticompetitive practices all over the world. According to the BIA despite having large capacities, the opposition parties with sole intention to control supply produce less cement and increase the market price of cement deliberately. The large cement manufacturers have set up the cement manufacturing units at different places in India keeping in view the availability of raw materials, power, coal, etc and accordingly have different costs of production (Case 29/2010 before the Competition Commission of India).

Industry Analysis

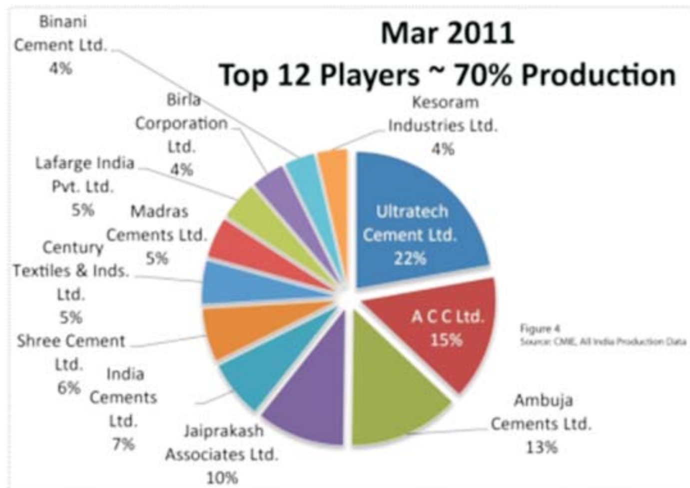
The graphs in the appendix throw some light on the recent economic indicators of the cement industry in India. All India cement price seems to be on an upward trend since 2006 and had shot up in the year 2011 and 2012 (figure 4). There has been a steady increase in the demand since 2005-06 till the year 2011 (graph 3). Figures 5 to 9 show the trends in the production, price and capacity utilization in North, central, South, East and Western zones. The trends are observed for the period from 2006 to 2010 the years suspected of cartelization by cement companies. The capacity utilization figures are shown in percentages and the trends in production and price change is shown as an index with 2005 as base year (figures from Singh, 2012).

A Company level Analysis

A Company-wise analysis of top four cement manufacturing companies - ACC Ltd., Ultratech Cement, Ambuja Cement Ltd and India Cement Ltd is made. The economic indicators like that of trend in the sales, cost of production, cost to sales ratio and that of gross profits are observed for the last four years as shown in the balance sheets of the respective companies (graphs 10 to 13). From this, we see an attractive picture of sales for all the four companies. However, the cost of production and cost to sales ratios have also been through an increase. Do these economic indicators and the information discussed in the above sections as per the case filed by the Builders Association of India against the cement companies and the Cement Manufacturers Association to the competition commission support the existence of the cartel? Clearly, it is the watchdog agency, CCI's decision.

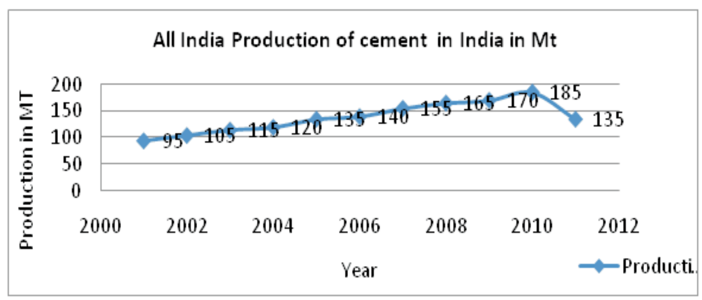
Appendix

Graph 1: Top Manufacturers of Cement in India



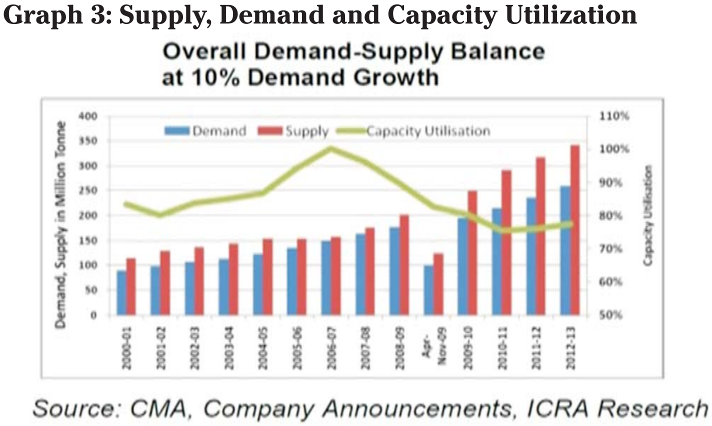
(Source: CMIE, All India Production data, taken from Sumit Pal Singh, 2012, IIT Kharagpur)

Graph 2: Trend in All India Production of Cement in India

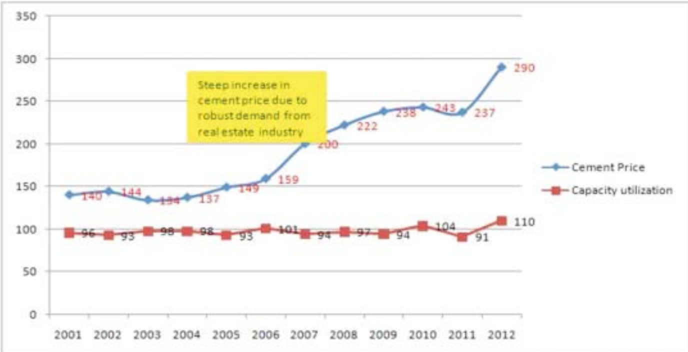


(Source: Ernst & Young Report, 2011 “Cement-ing growth”)

Graph 3: Supply, Demand and Capacity Utilization

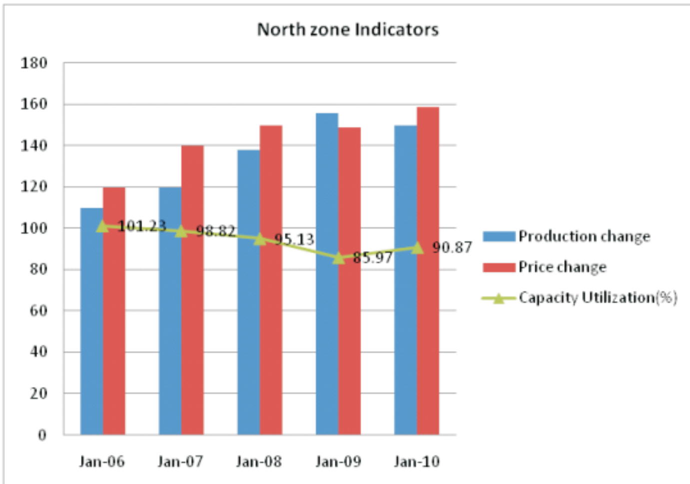


Graph 4: All India average price of cement in India



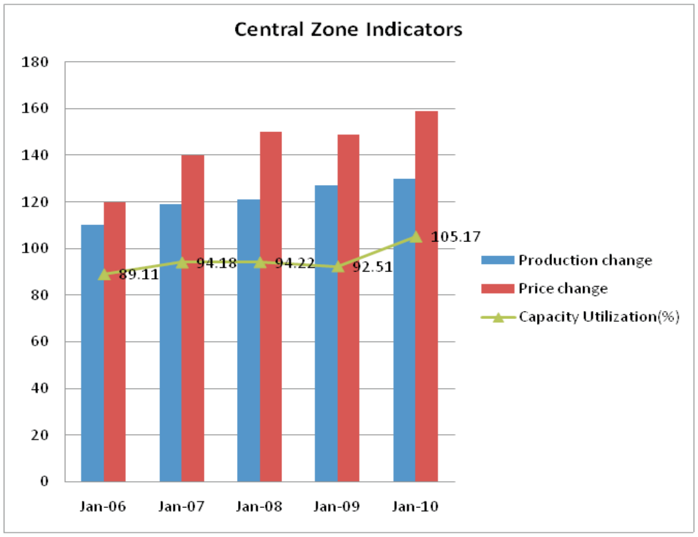
(Source: CMIE, CMA, cited in Ernst & Young Report, 2012 "Cement-ing growth")

Graph 5: Production, Price and Capacity Utilization changes in North Zone



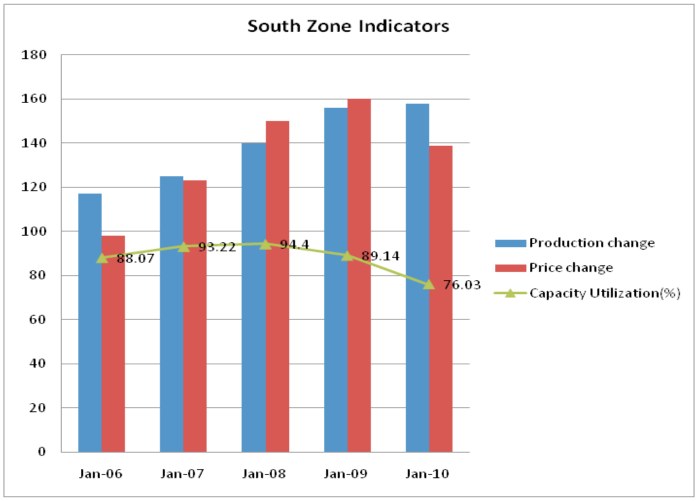
(Source: Compiled from CMIE Data various years, Cited in Singh, 2012, "Assessment of Competition in Cement Industry in India, Project report submitted to the Competition Commission of India, IIT Kharagpur)

Graph 6: Production, Price and Capacity Utilisation changes in Central Zone



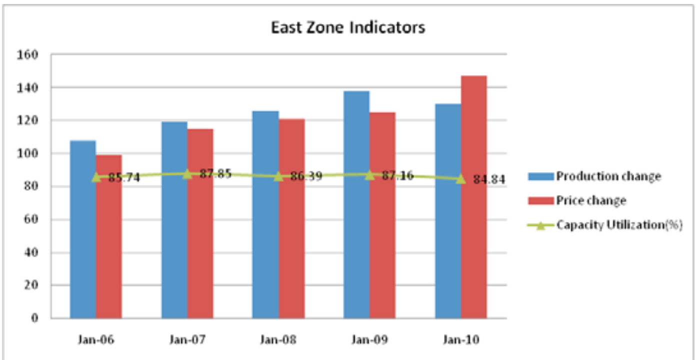
(Source: Compiled from CMIE Data various years, Cited in Singh, 2012, "Assessment of Competition in Cement Industry in India", Project report submitted to the Competition Commission of India, IIT Kharagpur)

Graph 7: Production, Price and Capacity Utilisation changes in South Zone



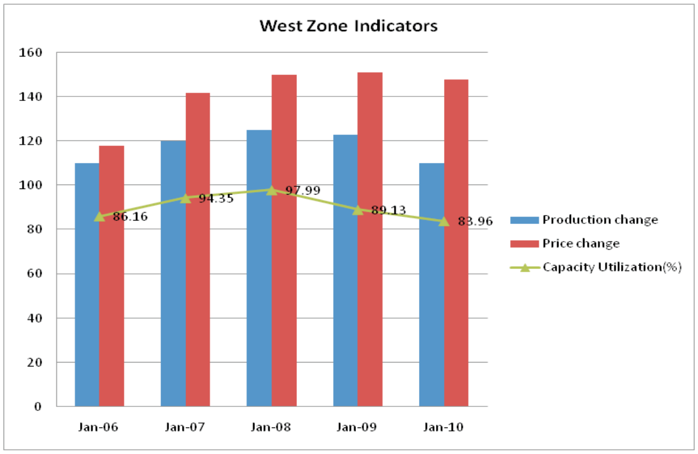
(Source: Compiled from CMIE Data various years, Cited in Singh, 2012, "Assessment of Competition in Cement Industry in India", Project report submitted to the Competition Commission of India, IIT Kharagpur)

Graph 8: Production, Price and Capacity Utilisation changes in East Zone



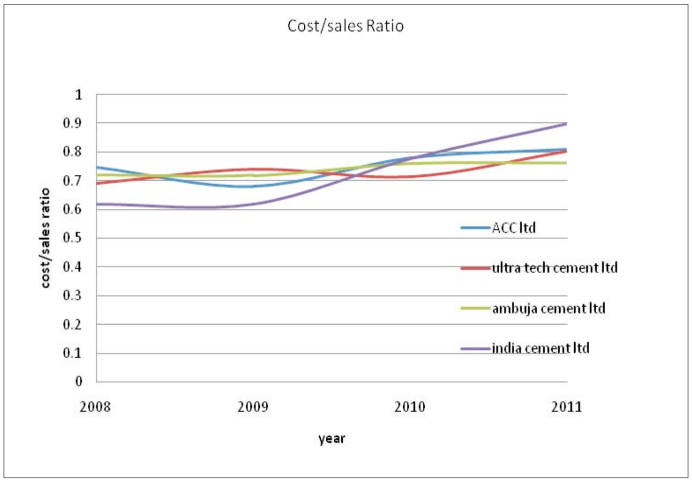
(Source: Compiled from CMIE Data various years, Cited in Singh, 2012, "Assessment of Competition in Cement Industry in India", Project report submitted to the Competition Commission of India, IIT Kharagpur)

Graph 9: Production, Price and Capacity Utilisation changes in West Zone



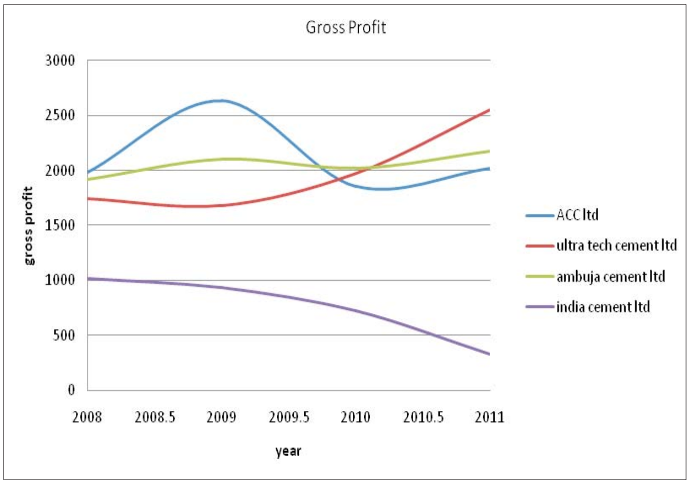
(Source: Compiled from CMIE Data various years, Cited in Singh, 2012, " Assessment of Competition in Cement Industry in India", Project report submitted to the Competition Commission of India, IIT Kharagpur)

Graph 10: Cost to sales ratios of top four Cement Companies



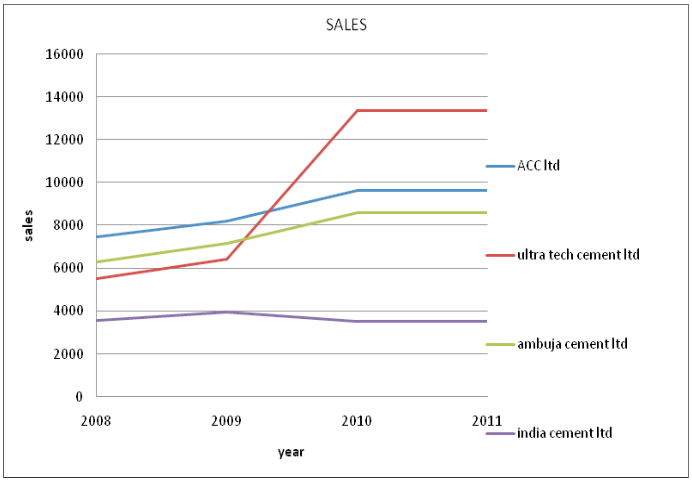
(Source: Computed from the data taken from the recent balance sheets of the respective companies)

Graph 12: Gross Profit Trends of the top four Cement Companies



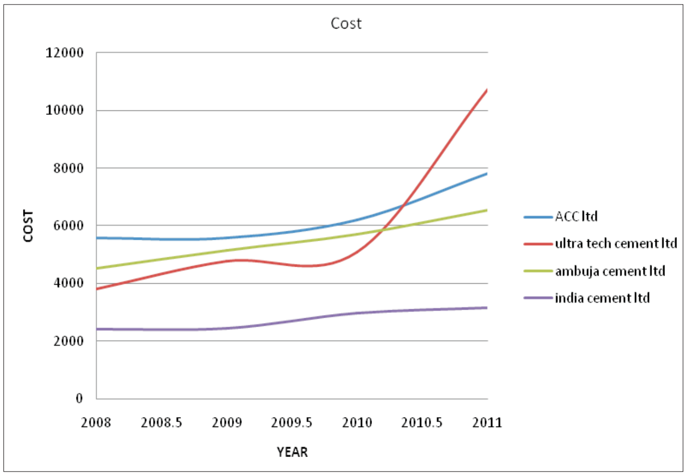
(Source: Computed from the data taken from the recent balance sheets of the respective companies)

Graph 11: Sales Trends of the top four Cement Companies



(Source: Computed from the data taken from the recent balance sheets of the respective companies)

Graph 13: Cost Trends of the top four Cement Companies



(Source: Computed from the data taken from the recent balance sheets of the respective companies)

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The Time is Now!

"When defeat comes, accept it as a signal that your plans are not sound, rebuild those plans and set sail once more toward your coveted goal. If you give up before your goal has been reached, you are a 'quitter'. A quitter never wins and a winner never quits."

Napolean Hill (Think and Grow Rich)

Uncemented in India: A Case of Schaum India

Mr. Sandeep Chatterjee

Introduction

It was a chilly December 2011 night. Mr. Daniel Klussener, the expat CEO of Schaum India was looking at the traffic from his office on the 7^{th} floor in Nariman Point, Mumbai. Having come for his second stint last year, his first stint being way back in 1999 when the company entered India, he was wondering what went wrong in thirteen years. What began as a promise was turning out to be a sob story. He was here for his second stint in an attempt to revive the company's operations in India.

Schaum A.G. is a German company specializing in four major products: cement, construction aggregates, concrete and gypsum wallboard. The cement business operates in more than 50 countries and has more than 160 factories worldwide.

To replicate its growth story in India, the company started off with the acquisition of Dinobandhu Steel's cement business since the gestation period for a greenfield cement plant is quite high (due to multiple levels of mandatory government approvals). The price paid for the acquisition was on the higher side as Schaum was desperate to enter the Indian market. For Dinobandhu which is a major steel manufacturer, the idea of getting into cement business was a means to get additional value out of the slag which was considered as waste. The hive off was part of the corporate restructuring to concentrate on their core businesses. There is a popular grapevine which says that Dinobandhu later regretted the decision.

Having cemented its position in eastern India, Schaum went for another acquisition in central India. It bought Mirchandani's cement unit which was a fly ash based cement plant (Portland Pozzolana Cement). Mirchandani's core business was thermal power plants and using the fly ash in cement manufacturing was a profitable business for them. But with depleting limestone reserves and an aging plant, it was a move aimed at strengthening their position in textile businesses. For Schaum, it was in alignment with their growth plans in India though it again overpaid for the acquisition.

Cement Business in India

India is the second-largest cement producing country in the world after China. The country's cement production was 300 million tonnes in 2010; the figure is expected to double to reach almost 550 million tonnes by 2020, as per estimates by the Cement Manufacturers Association (CMA). As of 2011, there were 137 large and 365 mini cement plants in India.

The Indian cement industry is globally competitive with lowest energy consumption and CO emissions. Apart from 2 fulfilling domestic cement requirements, the industry also exports cement and clinker to around 30 countries across the globe.

In India, cement demand emanates from four key segments - housing, accounting for 67%; infrastructure for 13%; commercial construction for 11%; and industrial sector for 9%. The cement industry in India is fragmented into five different regions because of the following reasons: - Bulky nature of cement and limestone (a key ingredient in manufacturing cement) makes it very hard to transport over long distances.

- High freight costs involved in transportation of these commodities.

A cement plant is generally located near limestone deposits and cement produced in a particular region is mainly consumed in that region. Over the years the operating costs of Indian cement companies has grown at a CAGR of 7.03% from Rs. 1330 per tonne in FY05 to Rs. 1868 per tonne in Fy10 (Data taken from 'Cementing Growth', Ernst & Young report, Page 32). Over the years, the share of freight costs has increased as shown in exhibit 1.

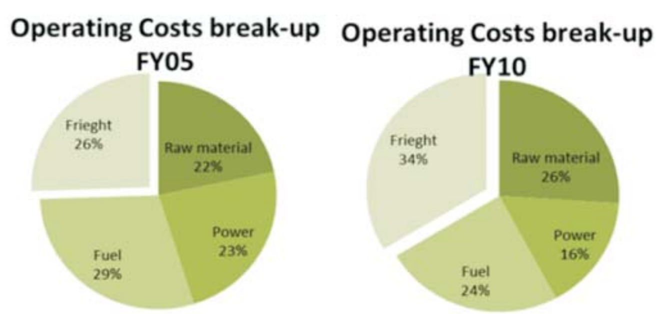

Exhibit 1: Operating Costs Breakup

(Source: 'Cementing Growth', Ernst & Young report, Page 32)

The cement industry has evolved in the form of clusters across the country due to the location of limestone reserves in certain states. Presently, there are seven clusters, namely the Satna cluster in Madhya Pradesh; Chandrapur in north Andhra Pradesh and Maharashtra; Gulbarga in north Karnataka and east Andhra Pradesh; Chanderia in south

Rajasthan, Jawad and Neemuch in Madhya Pradesh; Bilaspur in Chattisgarh; Yerraguntla in south Andhra Pradesh and Nalgonda in central Andhra Pradesh.

During 2009-10, the Indian cement industry grew at a robust rate of 12.7%, according to CMA. With the government promoting construction activities across the country through various stimulus packages for building roads, bridges, houses, etc., the Indian cement industry added a capacity of 37 million tonnes in 2009-10, which is the highest capacity ever added in any single year so far. Exhibit 2 gives cement production percentage change and GDP percentage change along with capacity utilization of cement industry in India.

The government's focus on building infrastructure is likely to continue in the near future and the Indian cement industry is expected to sustain an even higher growth rate of 15% over the coming years.

Exhibit 2: All India Cement Production (Percentage change) vs. All India Cement Capacity Utilization vs. India (Source: CMIE data, CSO)

Some of the policy measures adopted by the Indian government to support and aid the growth of the Indian cement industry include the following:

No custom duty on non-coking coal: In Budget 2012-13, the government has exempted non-coking coal, one of the main raw materials for cement production, from basic customs duty (earlier at 5%). This will have a positive impact of 1-1.5% on the cement industry's operating profit, according to Crisil, a global analytical company providing ratings, research and risk policy advisory services. The Indian cement industry sources close to one-fourth of its total coal requirement through imported coal.

North-east package: The Government of India has also approved a package of fiscal incentives and other concessions for the country's north-east region, namely the North East Industrial and Investment Policy, 2007.

Highway development funds: Further, to attract foreign investors to its ambitious highways building programme, the Ministry of Road Transport plans to roll out projects worth USD 120 billion by 2016.

Boost to infrastructure sector: The government is increasing allocation for the infrastructure sector. In FY 2011-12, it allocated USD 46.5 billion funds to the sector, tax-free bonds worth USD 6.5 billion and debt funds for the infrastructure sector, and a comprehensive policy for developing Public private partnership projects. The government has further enhanced the tax-free bond limit enhanced to USD 30 billion in FY 2012-13. It has also established an infrastructure debt fund worth USD 1.8 billion.

Rural road development: The government has allocated a fund of INR 24,000 crore for the development of rural road projects in FY 2012-13.

The Indian cement industry is weakly oligopolistic in nature on a national level with top 11 to 12 firms among more than 100 firms capturing 70% of the cement market. This nature has been consistent through the years. Exhibit 3 gives Porter's five-forces model of Indian cement industry.

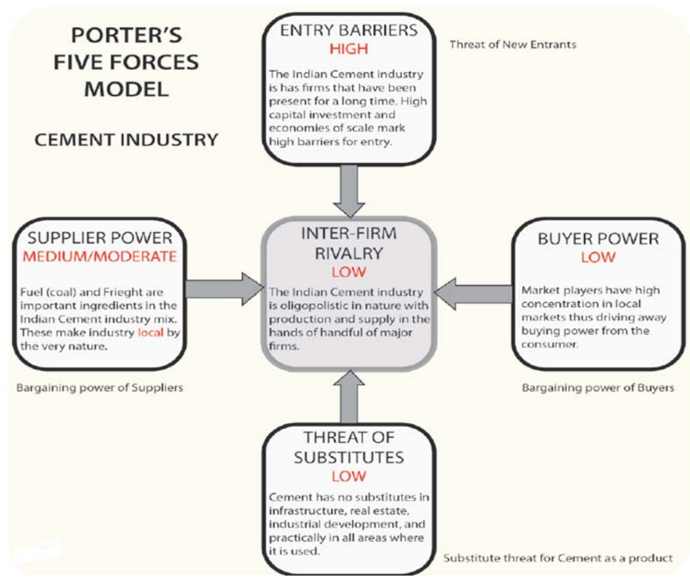

Exhibit 3: Porter's Five Forces Model (Source: Singh, Sumit Pal (2011), Assessment of Competition in Cement Industry in India, Competition Commission of India)

Supply: The demand-supply situation is highly skewed with the latter being significantly higher.

Demand: Housing sector acts as the principal growth driver for cement. However, industrial and infrastructure sectors have also emerged as demand drivers.

Barriers to entry: High capital costs and long gestation periods. Access to limestone reserves (key input) also acts as a significant entry barrier.

Bargaining Power of Suppliers: Licensing of coal and limestone reserves, supply of power from the state grid etc are all controlled by a single entity, which is the government. However, nowadays producers are relying more on captive power, but the shortage of coal and volatile fuel prices remain a concern.

Bargaining Power of Customers: Cement is a commodity business and sales volumes mostly depend upon the distribution reach of the company. However, things are changing and few brands have started commanding a premium on account of better quality perception.

Competition: Intense competition with players expanding reach and achieving pan India presence

The major domestic cement companies in India include Ultratech Cement, Ambuja Cement, JK Cements, ACC Cement, Century Cements, India Cements, Sanghi Cements, Dalmia Cements, Saurashtra Cements and Madras Cements.

The shares, in terms of all India cement production, of these top companies have fluctuated by small amounts in the last six years (since ACC Ltd. and Ambuja Cements Ltd. were taken over by Holcim Group). Ultratech Cement Ltd's production share has increased as it parent company, Birla Aditya Group, has stopped cement business in one of its companies, Grasim Industries Ltd., and has used the cement manufacturing plants of Grasim Industries Ltd. under Ultratech Cement Ltd from FY2010 onwards (Annual Reports, 2011, Grasim Industries Ltd. and Ultratech Cement Ltd.). Notable movers in production percentage in terms of overall Indian market are Shree Cement Ltd., and Kesoram Industries Ltd.

With booming cement demand in India and abroad, many foreign cement players are also establishing and expanding their presence in India. The world's top cement companies are present in India, namely France's Lafarge, Holcim from Switzerland, Italy's Italcementi and Germany's Heidelberg Cements.

Holcim, one of the largest global cement industry players, has established its presence in India by buying a major stake in two established brands of ACC and Ambuja Cements. Collectively, these companies have the largest market share in India, close to 50% of the total market size. As of 2012, Holcim has an annual capacity of 57 million tonnes, higher than domestic player Aditya Birla Group's UltraTech Cement's capacity of 52 million tonnes. Holcim is planning to raise its capacity by investing INR 1,800 crore in Ambuja Cements by the year 2013.

During the current plan (2007-12), cement players invested INR 50,000 crore to add fresh capacities of 150 million tonnes. As per projections in the 12th Five Year Plan, the cement sector would need to raise its capacities to 470 million tonnes by 2017 to meet the rising requirement for the commodity.

In the years ahead, there are several advantages to investing in the Indian cement sector, the most important of which include the following:

Structural advantages: Cement demand in India will be driven by a high push from the residential sector. Factors that will influence this trend in coming years will be increasing per capita income, nuclear families, rapid urbanization and government stimulus to various rural and affordable housing schemes.

Low per capita consumption: The Indian cement industry holds tremendous future growth potential. This is evident from the fact that the per capita consumption of cement is much less compared to the world average. In 2011, it was around 150 kg per capita, compared to the world average of over 350 kg per capita, which shows great potential for growth. The corresponding figure is 660 kg per capita in China, 631 kg per capita in Japan and 447 kg per capita in France. In fact, India's low per capita consumption of cement is one of the main reasons for strong interest shown by the foreign players in India.

High construction activity: Sized at USD 360 billion, India's construction market accounted for 5% of the USD 7.2 trillion global construction market in 2010. Further, the Indian construction market will replace Japan as the third largest, after China and the US, by 2020, during which, emerging markets will outweigh mature markets.

High infrastructure spending: According to India's 12th Five-Year Plan (2012-17) document, the two segments most important to construction activity are infrastructure and housing. Since infrastructure spending is expected to go up to 9% of gross domestic product (GDP) or USD 1 trillion for the Plan period (2012-17), this will translate into doubledigit growth for the demand of cement.

Schaum India's Production Process

Schaum had an installed capacity of 8 million tons against the national capacity of 330 million tons annually for the financial year 2011-12. All its plants were integrated cement plants.

An integrated facility prepares the raw mix, feeds it to the pyro-processing system (kiln), and then grinds the clinker from the kiln system into various cement products. Cement is transport or shipped by road, rail or barge to customers, or to regional terminals for customer pick-up. Finished cement is stored on site in large silos or bagged. Most cement plants have quarries located nearby to supply the limestone and other raw materials.

Marketing

Cement is usually viewed as a commodity with no absolute differentiation. The consumer perception is that since there is no perceived differentiation, the prices of cement from all companies should be the same.

If we look at the end customer, there are primarily two channels: non-trade and trade. The cement companies sell to the government projects directly through the non-trade channel. The prices are less than that of trade channel.

In trade channel, the cement companies operate through Carrying and Forwarding Agents (CFA). The dealers are attached to the CFAs. The end customer buys from the dealers. The stock uplift by CFA is considered sale for the cement company.

The influencers in the channel are masons, architects, engineers.

In order to change the perception of the end customer, Schaum introduced the concept of branding cement. It called its flagship brand 'Schaum' and for the first time it was positioned as 'World's No. 1 cement' rather than the traditional characteristics like compressive strength. It also started creating segments in the market and introduced a premium brand 'Torpedo' to cater to the high end segment. In spite of this positioning, 'Torpedo' launch was not a success.

There were certain brands which existed at the Mirchandanis which sold like hot cakes in the market. In order to bring all the acquisitions under the same umbrella, Schaum had decided to kill those brands and launch a new brand altogether. In 2012, Schaum decided to reintroduce the older brands to boost up its sales.

The classic thing which Schaum did was to introduce the 'Home Building Solutions' a one stop show through which it brought all the stakeholders namely architects, builders, masons, dealers and end customers together. It was an office kind of setup with everyone free to display their own models/products. This went a long way in building the visibility of the brand.

Sales

Sales were primarily through the trade and non-trade channels. In order to boost up its sale, Schaum used to conduct road shows and mason meets. Most of the cement companies followed this route but Schaum was upfront in saying that they were not cheap and hence they will not provide caps and vests to the masons. This did not augur well with the mason community.

When Schaum first came to India, the dealers were promised foreign trips for uptake of certain quantity of stock. The company had failed to honour those commitments which were hitting it hard.

The incentives given to the dealers were at par with the other companies and hence dealers did not have any additional incentive to push the 'Schaum' brand. And to add to further woes it introduced a 'Dealer Finance Scheme' in partnership with a famous bank which hurt the sentiments of the dealers as they perceived loans as something below their dignity.

The cement industry usually works in a cartel system where the players fix the prices among themselves. When Schaum first came to India, it reduced the prices to one-third of the existing market price which destabilized the market. People had not forgotten this move.

Typical malpractices are diverting non-trade material to trade and forward selling (challan). Warehouse audits do not yield any concrete results.

The company currently has a market share of 18% in Eastern India.

Logistics

Logistics (both inbound and outbound) forms substantial portion of the cost structure of cement. Hence the cement companies build their factories closer to raw materials and customers. Schaum's acquired factories were located close to the limestone mines, coal mines, water source, fly ash, slag. Since the factories were based in Eastern India, its markets were in Eastern India.

There are primarily two modes of transportation of cement bags: Rail and Road. Road is usually expensive and typically trucks are used for transportation. Rail turns out to be cheaper but companies have to depend on Indian Railways for allotment of rakes. Allotment of rakes is primarily done based on the installed capacity as well as the clout which each company has with railways.

Schaum had issues in allotment of rakes as the company followed a no-bribe policy. However it tried to transport cement using various kinds of wagon which resulted in higher pilferage. And to add to further woes, availability of rakes to North East was scarce due to priority given to food and shortage of railway lines.

Schaum also explored transportation through waterways which went a long way in reducing the logistics cost.

Schaum relied on third party transporters and there were primarily two models:

- Where the cement bags were transported directly to the dealers
- The dealers arranged for their own transportation

The warehouses at the unloading points were usually owned by the CFAs. Stock taking was performed at periodic intervals by the company officials but in spite of forward selling no discrepancies were found due to a strong nexus between the sales team and the CFAs.

Storage of cement was an important aspect as it had to be ensured that water does not seep inside especially in the rainy season.

The cement bags typically come in 50 kgs bag and hence handling of bags was a major issue. Though not advisable, rampant hooks were used by the laborers resulting in bursting of bags.

Complains related to damage of bags in-transit and missing bags was handled by the logistics team and had demurrage implications.

Finance

When Schaum came to India, it reduced the prices to record low level and the idea was to penetrate the market. There were no checks and balances on receivables. Hence bad debt started increasing exponentially.

Three years down the line, Schaum started focusing on receivables as well and there was slab based pricing on the dealer's payment in number of days. Though for Schaum, selling to CFAs was considered as sale, it was the CFAs responsibility to supply cement bags to the dealers and collect the money as well. CFAs used to pay the company directly. Though the risk of bad debt was transferred to CFAs, Schaum had the joint ownership for reduction of bad debts and tracked aging reports dealer-wise.

Overall, it followed the method of Economic Value Added (EVA) for profitability and hence there was a strong focus on working capital. Third party Finance schemes helped improve the EVA. The EVA calculation depends heavily on invested capital, and it is therefore most applicable to assetintensive companies that are generally stable.

When Schaum first came in India, it was listed in the Indian Stock Exchange. Later it got itself delisted. Over the years, the company had been able to make substantial profit. It was clearly a Value player and not a Volume player as it had the highest MRP in the market.

Exhibit 4 shows financial data (Profit after tax) with the cement production data and the capacity utilization data of Schaum India. The operating profit margin is in percentage terms, which gives the cost of running the core business of a company. Profit after tax (PAT) and cement production numbers are indexed from March 2005 level, at which each of the PAT and cement production numbers is listed at 100. The following years show the increases in PAT and cement production numbers with respect to March 2005 level. Also, the capacity utilization is in percentage terms, which is the percentage of cement produced by a company with regards to the capacity of cement production installed at its plant(s).

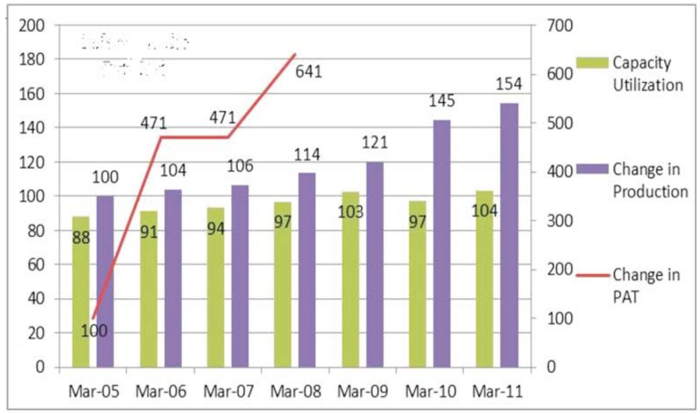

Exhibit 4: Schaum India, Change in PAT vs. Change in Production vs. Capacity Utilization (Source: Financial data: moneycontrol.com, other: CMIE data. Data on change in PAT not available after it was delisted)

Exhibit 5 shows Change in Price vs. Change in Production vs. Capacity Utilization data for Schaum India. Retail price of 50 Kg cement bag and cement production numbers are indexed from March 2005 level, at which each of the retail price of 50 Kg cement bag and cement production numbers is listed at 100. The following years show the increases in retail price of 50 Kg cement bag and cement production numbers with respect to March 2005 level. Also, the capacity utilization is in percentage terms, which is the percentage of cement produced by a company with regards to the capacity of cement production installed at its plant(s).

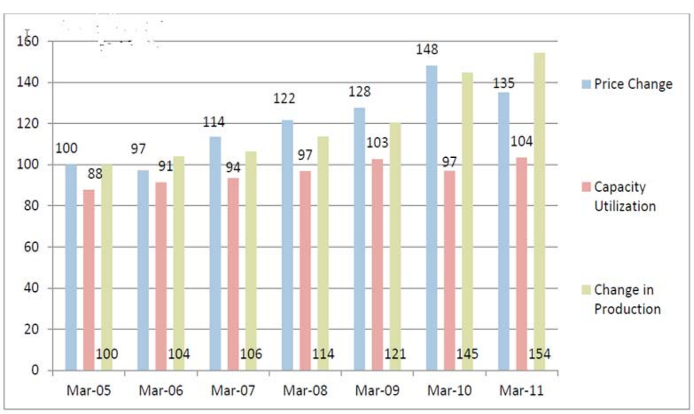

Exhibit 5: Schaum India, Change in Price vs. Change in Production vs. Capacity Utilization (Source: CMIE data)

Projects

Schaum entered India through acquisitions to reduce the gestation period and time to market. Since cement is a logistics intense trade, the cement companies usually have their factories closer to the customer and raw materials. Since Schaum had its factories in Eastern India, its customer base was primarily in Eastern India.

In order to expand its market in other parts of India, Schaum tried to go the acquisition route but without success. Rival MNCs partnered with other Indian companies and consolidated the market through acquisitions.

Schaum tried expanding its base through green field projects. There was an elaborate budgeting exercise and the EVA of the project had to be justified to go ahead. It has made certain breakthroughs in commissioning 2 plants but its flagship project in a neighboring country where limestone will be transported from India has met with rough weather. Also there are environmental concerns over building cement plants.

Information Technology

Globally Schaum had an ERP system which was rolled out to the Indian operations. However Schaum built its own integration software to connect with the Carrying and Forwarding Agents (CFAs) through proprietary technology. It was a good, low cost solution. However any effort to build/procure an optimization software for logistics was not getting the management nod due to perceived lower Return on Investment (ROI).

The entire hardware (including Personal Computers and Laptops) was taken on lease.

Procurement

Prior to the acquisition, since these were part of two different companies, purchasing was handled individually at the plant level. After the acquisition, Schaum had the Herculean task of setting up a centralized purchasing organization for cost synergies. Lot of people had to be transferred which did not go well with the employees.

Every year there was a mandate to reduce purchasing cost and it finally came to putting pressure on the supplier. The result was worsening quality of goods especially cement bags.

Some new initiatives like Reverse auction, supplier optimization were introduced which went a long way in cost reduction. Lobbying with the government for limestone and coal was a regular activity.

Customer Service

Customer service was primarily responsible for handlingcustomer complaints and organizing mason meet. This was a specialized function which had the added responsibility of influencing the builders, architects and masons.

Human Resource

The Human Resource function was an important one as it had the herculean task of integrating the cultural difference from the two acquisitions. There was widespread dissent owing to mismatch in salary and other benefits. And to add to further woes, the factories were located in remote locations without any public transportation facility.

People were recruited from other industries to bring in fresh ideas which backfired as there was widespread job dissatisfaction because of the routine nature of the job. Management Trainee and Graduate Engineer Trainee programs were also not successful.

There were too many departments with each department being headed by a Vice President thereby making it a top heavy organization. Attrition was a record high due to lack of job satisfaction.

The company followed the Hay Level job evaluation method and had a typical hierarchical structure. Hay Job Evaluation is a methodology used by many corporates and organizations to map out their job roles in the context of the organizational structure.

The general purpose for carrying out job evaluations using this or similar methods is to enable organizations to map all their roles in a manner that delivers the following key benefits:

- Where no known comparative can be easily found scale will be projected down to a lesser job function
- Recognizing equivalent levels for the purposes of salary and benefit grading/banding
- Improved succession planning
- Creation of more useful and focused job descriptions

Corporate Social Responsibility (CSR)

Schaum worldwide gives prime importance to sustainable development for sustainable economic performance. Schaum is committed to the communities where it operates. In India Schaum has undertaken a number of initiatives under its corporate social responsibility programme. The major initiatives are Project Employability, Project Low Cost Housing, and Project Education. Project Employability focuses on creating sustainable livelihoods for local communities. The concept of the project is to build communities that are more skilled and capable of sustaining themselves independently by capitalizing on the company's expertise, knowledge and competencies, rather than merely providing continued financial support. It directly provides solutions to the critical community problem of unemployment, through a method, which is "development" oriented and lays the foundation for long term success of the society.

Project Employability provides professional training in masonry to the illiterate and unemployed youth in these communities making them employable. The objective of Low Cost Housing is to promote and enhance the use of cement in houses in order to provide safe and comfortable habitats. Since a large part of India (70%) lives in rural areas, the project is largely geared to meet rural housing needs. Project Low Cost housing, which we initiated during 2004 incorporating modern technology, has become our priority area. The goal of the project is to design safe houses, which are replete with basic amenities and provide a platform for its replication across geographies. Schaum also conducts Computer Education classes, free of cost, for girl children in Eastern India as part of its Project Education.

Future of Cement Industry in India

The Indian cement industry has experienced subdued demand growth and declining operating rates over the past two years. In 2012-13 as well, operating rates are expected to remain under pressure.

For an industry characterized by high growth from 2005-06 to 2009-10, clocking a muted demand growth of 4 per cent year-on-year in 2010-11 was a jolt. A prolonged monsoon and subdued off-take of cement for construction activity weighed on demand during the year. However, there was better traction in 2011-12 in cement demand, which grew by 6.6 per cent year-on-year. While demand growth remained healthy across the north, west, east, and central India, sluggish demand in the south proved a drag on pan-India cement consumption. Bogged down by political issues, especially in Andhra Pradesh, which is a key cement consuming state, demand growth in the south remained negative for most part of the year.

Plagued by Overcapacity

Along with muted demand, the industry is plagued by overcapacity. At present, the industry is in the midst of an investment cycle — almost 63 million tonnes of cement capacity has come on stream over the past two years. A significant proportion of these additions, almost 23 million tonnes, have been commissioned in the southern region alone. Subdued demand coupled with higher-than commensurate capacity additions has dragged down pan-India cement operating rates from 85 per cent in 2009-10 to almost 74 per cent in 2011-12. Operating rates have been the weakest in the South, at sub-65 per cent levels during the year.

Resilient Prices

Despite demand growth and operating rates following a downward trajectory, cement prices demonstrated strong resilience in 2011-12. While the pan-India average cement price remained almost stable year-on-year in 2010-11, it spiraled by around 14 per cent year-on-year in 2011-12. This growth was largely supported by the steep price rise in the south, to the tune of 23 per cent year-on-year, primarily led by supply constraints in the region. Ironically, despite clocking the lowest operating rate compared to all the other regions, the price increase seen in the south was the highest among all the other regions. This sharp rise in pan-India prices has helped protect the profitability of cement players and offset the downside arising from escalation in power and fuel and freight costs. Industry operating margins were stable at around 19 per cent in 2011-12.

In 2012-13, subdued demand along with excess capacities is likely to lead to capacity utilization falling further.

Crisil Research expects pan-India cement demand to grow by almost 8 per cent year-on-year in 2012-13. This growth is likely to be spearheaded by demand emanating from the west and the east, especially from the housing and infrastructure projects in urban areas. Moreover, demand growth in the south is likely to revive gradually over the year. On the supply front, Crisil Research expects almost 25million tonnes of pan-India cement capacity to get commissioned in 2012-13. Of these additions, a lion's share (almost 9 million tonnes) is set to be commissioned in the south, followed by the east (around 7 million tonnes). In view of the prevalent supply glut and the sizable quantum of cement capacities set to come on stream in 2012-13, Crisil Research estimates pan-India operating rates to bottom out around 72 per cent in 2012-13. Notable capacity additions in the south and the east in 2012-13 could lead to lower operating rates in these two regions, pulling down the pan - India capacity utilization. In 2012-13, Crisil Research estimates the operating rate to hover around 60 per cent in the southern region and around 67 per cent in the eastern region.

Crisil Research estimates the pan-India cement price to remain almost stable in 2012-13. While cement prices across most regions are estimated to remain flat during the period, prices in the north are likely to increase by around 4-6 per cent year-on-year.

Owing to the considerable distance between the regions,the north is expected to remain fairly insulated from the excess cement supply emanating from the south and the east. Hence, prices are expected to rise much more in the North, compared to other regions. On the profitability front, stable realizations combined with an increase in energy costs could lead to a marginal decline in industry operating margins, to almost 17 per cent in 2012-13.

Case Analysis

Schaum's entry strategy

Schaum should have realized that in India, cement business works in a cartel. It entered India dropping the prices substantially which did not go too well with the other players.

As a result, other players (mostly Indian) were wary of Schaum and ensured that Schaum never got to expand further.

Holcim, one of the largest global cement industry players, on the other hand established its presence in India by buying a major stake in two established brands of ACC and Ambuja Cements in a collaborative manner. Collectively, these companies have the largest market share in India, close to 50% of the total market size. As of 2012, Holcim has an annual capacity of 57 million tonnes, higher than domestic player Aditya Birla Group's UltraTech Cement's capacity of 52 million tonnes. Holcim is planning to raise its capacity by investing INR 1,800 crore in Ambuja Cements by the year 2013.

Schaum has an installed capacity of only 8 million tonnes against India's 330 which is around 2.4% making it a minority player.

Other lines of business that Schaum needs to consider

- Schaum needs to consider other businesses like aggregates and concrete and gypsum plasterboard where it has a substantial presence worldwide. It also needs to get into Ready-mix Concrete business which is fast catching up in India.
- India is set to emerge as third largest construction market in the world by 2017. Cement has been around for 200 years—no one has found a cheaper way to glue stones together yet. But the picture is very different for concrete, it can be improved a lot. It needs to be stronger, more durable and easier to use.

In its traditional market, the high-rise segment, Schaum in India has introduced products including a new highstrength concrete for high-rise buildings. But if most of the growth is likely to be in the low-cost segment, it is necessary to address it.

Schaum has rapidly adapted its supply model, including the supply of concrete in small quantities (buckets) that can be used in the repair and construction of buildings in low-cost areas. As the Schaum team looked further afield, to smaller towns in Bihar and West Bengal, they figured the real challenge was to reach out to price-sensitive markets in rural India. Studies showed that one way to find newer customers was to tap the affordable housing segment.

But can the poor afford the magic mix? If they see the advantages, and if Schaum can keep the costs low, they will see the value in it. The company currently has big concrete production plants at construction sites, for luxury housing builders. Margins need not be low at the opposite end of the market.

Should Schaum exit India Business Unit?

Schaum is still profitable in India. The eastern markets, including the seven Northeast sisters and Bangladesh are fast becoming a strategic hub for the entire cement play in the country and the neighborhood. Cement units in North East also enjoy tax breaks and subsidies ranging from excise, sales tax, income tax exemptions, and transport subsidies to incentivize industrial growth in the region. Hence consolidation in the Eastern part was a good entry point. However it needs to look at North and Central India where it can command higher prices. Transportation from Eastern part to these regions is ruled out due to higher transportation cost.

Schaum India needs to focus on executing projects in the pipeline as well as using innovation to drive growth.

The operating cost is Rs.1868 per tonne. Taking 1 tonne = 1000 kg and assuming a 50 kg/bag, each bag needs to be priced at Rs. 93.4 to cover the operating cost. Current cement prices are hovering around Rs. 200 per bag. Hence Schaum is substantially profitable in India. (taking into consideration fixed costs as well).

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Indian Premier League: Anything but cricket

Prof Dhananjay Singh

Cricket is the greatest game that the wit of man has yet devised. -- *Sir Pelham Plum Warner*
Quoted in Colin Jarman The Guinness Dictionary of Sports Quotations (1990).

Introduction

On November 2012, Pepsi won the title sponsorship of the Indian Premier League (IPL) for the next five years with a bid of Rs.396.8 crore. The league will now be called the Pepsi IPL from its sixth season. The Marketing Committee of the Board of Control for Cricket in India (BCCI) met in Mumbai on 21 November 2012 to open the tender for the rights to be title sponsor of the IPL for five seasons commencing 2013. PepsiCo bid at Rs.396.8 crore was higher than Airtel's bid at Rs. 316 crore. PepsiCo's bid is nearly twice the amount paid by IPL's previous title sponsor DLF, which ended its association with the event in August 2012. Rajeev Shukla, the IPL chairman, felt the value of the winning bid reflects the growth and success of the IPL. Commenting on the deal, Ms. Deepika Warrier, the Executive Director, Marketing of PepsiCo Beverages, said the company had a long history of association with cricket and IPL is a tremendous brand that rivals any other sporting brand across the world.With global FMCG major PepsiCo bagging the title sponsorship rights for the Indian Premier League (IPL), the brand value of the cricket extravaganza is expected to shoot up in the following seasons.

The advertiser interest remained lukewarm during the fifth season. Market watchers say PepsiCo's association will help tweak the tournament's brand imagery by establishing stronger consumers connect. According to industry estimates, IPL's valuation for the five seasons has remained close to an average of Rs 400 crore. Media buying agencies, however, say there has been a decline in the brand value of IPL as compared to the initial two seasons, primarily because investments were higher as compared to returns in terms of viewership and valuations. According to experts, the number of advertisers fell from 66 in season four to 58 in the fifth edition. Official broadcasting channel Set Max, which sold out nearly 100% of its advertisement inventories in previous seasons, was left with 20% of its inventories unsold during season IPL 5.

The brand value of IPL is estimated to be around US$2.99 billion in fifth season. The Premier League is generally considered to be the world's showcase for Twenty20 cricket, a shorter format of cricket consisting only 20 overs. Top Indian and international players take part in IPL, contributing to what is the world's "richest cricket tournament". However, the league has been engulfed by series of corruption scandals where allegations of cricket betting, money laundering and spot fixing were witnessed. IPL which follows the franchise model, where teams are run by business tycoons and Bollywood celebrities has failed in its vital role of unearthing talent and addressing the cricketing passion of its core constituent – The Indian Cricket Fan. IPL has brought some unknown cricketers like Paul Valthaty, Kamran Khan, Swapnil Asnodkar, Manpreet Gony, Parvinder Awana, Bhubhaneshwar Kumar, Manvinder Bisla, Ajit Chandila, Gurkeerat Singh, Debrata Das, Shahbaz Nadeem into the spotlight, but they all have been one season wonders and failed to accomplish anything beyond that. The Indian cricket team performance since the inception of IPL has been nothing to write about. On 9th December 2012, for the first time in 12 years since losing successive test in Mumbai and Bangalore against South Africa in 2000, India lost two test matches back-to-back at home against England. The brand IPL is on the wane. According to a latest study from the brand valuation firm Brand Finance, brand value of IPL has fallen from the high of US$ 4.13 billion in 2010 to US $ 2.92 billion in 2012. Brand Finance has valued the 'brand' IPL, using the Royalty Relief methodology (which is based on the notion that a brand holding company owns the brand and licenses it to an operating company. The notional price paid by the operating company to the brand company is expressed as a royalty rate and the NPV of all forecast royalties represents the value of the brand to the business).The decrease in brand value will certainly ring alarm bells for the Board of Control for Cricket in India (BCCI) which will be forced to take corrective measures, particularly in the wake of a sting operation by a India TV which blew the lid over spot fixing menace in the league and other unlawful transactions between the IPL franchises and players. The seemingly never ending series of governance and transparency lapses have contributed to the rapidly declining brand value of IPL. The brand value of nine IPL franchises has also plummeted by at least 15-20 per cent across the board. The brand valuation of last year's table topper Mumbai Indians has shrunk to $48.21 million from $57.13 million last year, while the brand valuation of India Cements-owned Chennai Super Kings, which had second best valuation, dwindled by $10.09 million to $45.28 million. Vijay Mallya-owned Royal Challengers Bangalore, which had a valuation of $47.58 million, has dropped to $41.15 million. Shah Rukh Khan owned Kolkata Knight Rider has been valued at

$39.03 million, compared to a $46 million in the year before period. If it fails to address its core constituent called cricket, IPL would find very difficult to sustain and increase brand value.

Background

The Indian Premier League (IPL) is a professional league for Twenty20 cricket championship in India initiated by the Board of Control for Cricket in India (BCCI), headquartered in Mumbai, Maharashtra and is supervised by BCCI Vice President Rajeev Shukla, who serves as the league's Chairman and Commissioner. It is currently contested by nine teams, consisting of players from around the cricketing world. It was started after an altercation between the BCCI and the ICL (Indian Cricket League). The ICL was a private cricket league funded by Zee Entertainment Enterprises that operated between 2007 and 2009 in India. Its two seasons included tournaments between four international teams (The World, India, Pakistan and Bangladesh) and nine domestic teams notionally located in major Indian cities as well as the champions Lahore Badshahs who were based in Lahore, Pakistan. The matches were played in the Twenty20 format. The ICL folded in 2009 as it lacked the support of the Board of Control for Cricket in India and International Cricket Council.

The ICL was started by Mr. Subhas Chandra, Chairman of Zee Television so that he can run his own cricket on his own satellite because he was not given the rights of telecasting India's cricket tournaments. Mr. Subhas Chandra wanted to create content for his own sports channel and generate revenue through advertisement in various forms. The timing of ICL launch was extremely well planned, as the Indian cricket team had just returned after a humiliating first round defeat in the ICC Cricket world Cup 2007. They quickly managed to attract some of the best Indian talent and a bunch of retired foreign players. Zee Entertainment Enterprises expected BCCI to endorse them, but BCCI refused and barred The ICL from using its stadium and also managed to ban foreign as well as Indian players who had associated themselves with the league from representing their national sides. BCCI introduced IPL because they did not want to lose their grip on Indian Cricket. Cricket is undoubtedly one of the most popular sports in India and the game is being played all over the country since its inception in 1848.

The Brand Value of IPL

Brand Finance has revealed that IPL brand value has suffered a 29 per cent drop in 2012 over the 2011 figures.

Year	Brand value(Billions of US Dollar)
2012	2.92
2011	3.67
2010	4.13
2009	2.01

Experts at Brand Finance have attributed the depleting brand value to failed cricketing excellence, marketing & commercial strategies and, in particular, corporate governance. There has also been a 4 percent drop in TV viewership, apart from a 30 percent reduction in advertisement revenues in the last one year. There has been considerable erosion at the individual team level as well. The combined trademark value of all the franchisees has come down to $321.12 million from $355.22 million in 2011, and all of them (barring Team Pune) have seen a depreciation of 15-20 per cent in their value since last year. "The seemingly never-ending series of governance and transparency lapses have contributed to the rapidlydeclining brand value of IPL," says M Unni Krishnan, global strategy director of Brand Finance.

After the fifth edition, of IPL in April 2012, Sun TV network bought the Hyderabad franchise, Deccan Chargers' for Rs 85.05 crore per year. The Sun TV group bagged the franchise after previous owners Deccan Chargers' contract was terminated by the BCCI for failing to furnish bank guarantee. Deccan Chargers had originally bought the Hyderabad franchise in 2008, before the inaugural season for Rs. 42.8 crore per year. Now, with Sun TV network paying 85 crore per year, compared to Deccan's 42 crore per year, paid five years back, the BCCI has got double the value for the Hyderabad franchise in five years. But rewind to two years back -- when Sahara India Pariwar bought the Pune franchise for roughly Rs.190 crore per year. Does the decrease in IPL brand valuations and team valuations point to the IPL bubble bust? What has contributed to the initial success of brand IPL?

The Essence of Brand IPL

IPL brand has been contributed by three factors. Firstly it is a brand whose essence is the game of Cricket. Secondly it is a factor of the advertisement expenditure that is made on the brand. Thirdly, IPL is a replica of ICL which had a popular launch. The IPL brand can be analyzed as a combination of these three components. Brand "Cricket" is created by the Indian Cricket fan and hence a big part of the credit for IPL success belongs to the Indian Cricket Fans. For those who have followed cricket over a generation, it is evident that the brand "Cricket" got a boost in India first with the successes Indian Cricket team had when it beat West Indies and England in successive series in the 70's. Before this, Hockey was India's major sport and had a following which was bigger than cricket. Slowly, as India started losing its position in world Hockey and achieved stray successes on the Cricket field, Indian sport lovers switched their love from Hockey to Cricket. The single most important factor that catapulted "Indian Cricket" into a "Religion" or "Brand" was the unexpected success of India in 1983 when India became the first country to displace the awesome West Indian team as the World Cup kings. The credit for this went completely to Kapil Dev who saved India through a critical record breaking knock of 175 during the earlier stage and went on to lead the side to victory. This win reinforced the Indian fan's belief that Indian Cricket had finally arrived. Since then Cricket was adopted as a "Religion" and its popularity kept on growing until it took a beating in the world cup loss in 2007 when India lost to Bangladesh and was eliminated very early in the competition. Fortunately, Indian Cricket was saved from a loss of fan following since India notched up another unexpected World Cup win in T20 under Mahender Singh Dhoni immediately after the World Cup (one day) loss. With this win, the Indian fan quickly restored his faith in the Indian Cricket brand now in the T 20 format. This enormous fan following is the primary reason why IPL got off to a good start and also got good TV sponsorships. The large advertisement spends during the IPL matches obviously added to the brand value. It is known fact that advertisement can build a brand only if the brand has an essential strength and not otherwise. Since brand Cricket was strong, advertisement spend could build the IPL brand further. The third important factor behind IPL brand success is the fact that ICL itself was a grand success. It was ICL which created the concept which was adopted by IPL. It is a different matter that BCCI killed the ICL venture. This created a void in the minds of the Indian public which started with a liking for T20 league only to find that they were suddenly deprived of the same. Hence when the alternative came up as IPL they simply adopted it as an alter ego of ICL. The credit for the success of the IPL brand goes to the Indian fans who were impressed by the heroics of Kapil Dev and his contemporaries. The initial take off achieved by IPL 1 was also due to the carried over popularity of the Indian cricketers including Sachin Tendulkar, Saurav Ganguly, Rahul Dravid ,VVS Laxman and Anil Kumble besides the new generation Dhoni and Sehwag. In the coming days the current generation of iconic players will fade out of IPL and it has to sustain only on the basis of the new generation players. If India continues to succeed in Cricket either at test level or one day level or T20 level then only the brand IPL will get nourishment. Otherwise the brand would be on the decline. The decline in IPL brand will be accelerated if India's performance in cricketing competition declines and IPL becomes anything but cricket.

Anything but Cricket: Shifting Priorities

The Sri Lanka and West Indies cricket board have decided to drop two Test matches from their bilateral series that were to be played in April-May 2013 and instead have decided to play a three-national ODI series involving India as the other team. According to the schedule, the dates would have clashed with the IPL beginning April 3 to May 26 next year. This means that both the boards have admitted that players would prefer IPL or clubs over country and no amount of talk would be enough to convince them from changing their stand. The Sri Lankan board has reasoned that the ODI tri-series would be more lucrative instead of Test cricket. The development portents a grim picture: falling support for Test cricket and more than over-enthusiasm for the shorter versions of the game. This will be the second time in four years that the Sri Lankan cricket board has decided to forego a Test series because of its clash with the IPL. In 2009, they declined to replace Zimbabwe in England, when the former were unable to tour on political grounds. The phenomenon is not confined to Sri Lanka. Kevin Pietersen, the flamboyant England batsman, is the biggest casualty of IPL lure. He has made it clear that he prefers the IPL money over the country's fame and respect. West Indies opener Chris Gayle has never hid his preference for IPL. Further, Virendra Sehwag, Gautam Gambhir and Zaheer Khan all were ruled out of New Zealand series in India after they picked up injury over-stretching themselves for their respective franchises in IPL 5. The BCCI has hardly been bothered about the goings-on as long as the other boards are happy to dance to its diktat. After all, the national boards receive 10 % of the players' fee from IPL. However, for the sake of cricket, an ardent lover of the game would ideally like Test matches to be restored to their original glory. They provide the glorious uncertainties that the game is about, besides, of course, help a cricketer perfect his technique and earn his flannels through sheer hard work in the domestic circuit and not walk into the field in coloured clothing, and walk out of it a millionaire.

Bookies' Paradise

There has long been a suspicion that IPL is a breeding ground for bookies. Days before the start of the fifth edition of the IPL, CID officers of Mumbai Police traced a conference of bookies from all over India huddled inside a five-star hotel room in Mumbai to plan their strategy. On May 17, 2012, when Chennai Super Kings was taking on Kings XI Punjab, Arun Chavan, head of Mumbai Police's Property Cell, arrested two well-known bookies from a Lokhandwala flat. Devendra Kothari, 42, and Sonu Jalan, 30, were taking bets on the crucial match. Both were arrested immediately and 20 mobile handsets, a dozen SIM cards, two laptops, two voice recorders and an LCD T recovered. They led the police to another bookie, Mohammad Feroze Ansari, 38, from Nagpada in Mumbai. On May 19, the police arrested him too.

Ultimate Secret Society

Cricket is hardly the primary activity in IPL. The large, growing and dark circle around the field includes a secret society of franchise owners, pretty party girls and men of unknown means. Presiding over this is the BCCI, which has ensured lack of transparency. BCCI is a registered society completely autonomous from the Government. It only started paying income tax in 2007 after authorities decided that it wasn't simply a charitable organisation "promoting the sport of cricket". In the effort to become successful, IPL has cut corners. Interpol wanted to investigate the bookie phenomenon and asked for Rs. 90 crore as expenses, just as it had asked FIFA when it set out to investigate football sleaze. FIFA paid. The then International Cricket Council (ICC) President Sharad Pawar refused. Very conveniently, ICC's Anti-Corruption Unit was hired to complete the investigation and give them a clean chit.

Evading the Tax Net

All nine IPL franchises have been under the scanner of the Income Tax Department after a report of the Parliamentary Standing Committee of Finance in July 2011 instructed tax officials to scrutinise the accounts of all IPL teams. What aroused the suspicion of the Standing Committee was a wide discrepancy between the annual financial returns statements for the assessment year 2008-09 and the assessment year 2009-10. For the year 2008-09, also the first year of IPL, three of the eight franchises, Mumbai, Chennai and Deccan Chargers, showed nil loss. The remaining five showed minor losses-Rajasthan Rs 6 lakh, Punjab Rs 14 lakh, Kolkata Rs 50 lakh, Bangalore Rs 79 lakh and Delhi Rs 2.92 crore. In 2009-10, each franchise reported huge losses-Rajasthan Rs 35.5 crore, Punjab Rs 65.68 crore, Kolkata Rs 11.85 crore, Mumbai Rs 42.89 crore, Chennai Rs 19.3 crore, Bangalore Rs 5.58 crore, Deccan Rs 87.09 crore and Delhi Rs 47.11 crore. There was no particular reason why losses should have mounted so steeply. The player auctions had been conducted before IPL-1. The cost of players would be the same for IPL-2. The revenue streams would have been greater-the success of IPL drew more advertisers and spectators to the second edition. The only reason for higher costs was the move to South Africa, but that alone could not explain the wide discrepancies. There are several other issues of apparent financial irregularities red-flagged in the report of the Standing Committee. At least four teams-Rajasthan Royals, Kolkata Knight Riders, Kings XI Punjab and Mumbai Indians- received investments from abroad from tax havens such as Mauritius, Bahamas and British Virgin Islands. BCCI, in its reply to the committee, put all the blame on former IPL commissioner Lalit Modi. Even if Lalit Modi is proven guilty, how does this exonerate the franchise owners who got the money from questionable unnamed sources?

Players Don't Have Level Playing Field

IPL has created irregular incentives for players. In 2010, allrounder Ravindra Jadeja was banned from season 3 of IPL for trying to negotiate a contract entitled to a salary of Rs 25 lakh, not more, set by the IPL Governing Council. Already a rising star in his franchise, Rajasthan Royals, Jadeja believed he deserved more money. This perverse rule on pay caps for Indian players who have never represented the country has made them vulnerable to the lure of illegal negotiations with franchises and offers from bookies. Curiously, no such cap is applicable to foreign players who have not represented their countries. A recent TV sting operation on five Indian players who have never represented India revealed the dangerous consequences. The players - TP Sudhindra (Deccan Chargers), Shalabh Srivastava (Kings XI Punjab), Mohnish Mishra (Pune Warriors), AmitYadav (Kings XI Punjab) and Abhinav Bali - were caught on camera either offering to indulge in spot-fixing or ready to negotiate with other franchises or admitting that their franchises paid them significantly more than the official figure, in cash. An underground economy is clearly thriving in IPL.

Politics of Cricket

IPL would not have survived its serious flaws were it not for a strong cross-party political alliance lending its weight. The IPL commissioner, Mr. Rajeev Shukla is a prominent minister.

Arun Jaitley, leader of the Opposition in the Rajya Sabha, is on IPL's Governing Council and heads its legal and disciplinary committee. The cricket establishment of BCCI and its regional components are packed with powerful politicians. Three are members of the Union Cabinet- Nationalist Congress Party chief Sharad Pawar (ICC president), Congressmen C.P. Joshi (president, Rajasthan Cricket Association), and Farooq Abdullah (president of the J&K Cricket Association) of the National Conference. The cross-part political alliance has successfully stalled the Union Sports Minister's attempts to legislate a sports bill that will force BCCI to be more accountable. BCCI and IPL can count on some support from outside the Government. Apart from Arun Jaitley, Anurag Thakur, a BJP MP and son of Himachal Pradesh Chief Minister, Prem Kumar Dhumal, is president of his state's cricket association which hosts IPL games at its stadium in Dharamshala.

Glorifying Slam Bang And Masculinity In Cricket

There is not much one can watch during IPL matches, except the sexy cheerleaders. Most of the cricket quality is so poor. If IPL was really about providing a competitive platform for budding cricketers to flourish, why has it not produced a single Indian player of late at national level? The complete whitewash against England and one of the most disastrous Indian tours ever in Australia in 2011-12 proves the point. None of the stars of the IPL in any of the previous five seasons of the IPL managed to make an impression on the world stage. IPL portrays a distinctly one-dimensional mode of playing cricket. The players who succeed are the ones who hit, hit and hit; the only variance is whether they hit during 70 balls or 10, but as long as their strike rates are high, they will win praise and results. The format demands it, but it does reduce the models of masculinity on display. In Test cricket, there is space for Shivnaraine Chanderpaul, FafduPlesis, and Cook, men who show that the patient accumulation of success is a viable road to success. Ducking the ball, leaving it, defending against it - that's not only viable but praise-worthy. By contrast, in Twenty 20, there's basically just Gayle. A Twenty 20 cricketer is there to murder the ball, take the risk, and swear like a sailor upon arriving at his century.

The Hype Machine

Test cricket is about seeing Shivnaraine Chanderpaul batting the whole day to save a match for West Indies, or an Anil Kumble batting with broken jaw to avoid defeat for his country. It is about the steely resolve, and determination of the players and the intense battle between the bat and the ball over five days. After the advent of twenty 20 the smart batsmen realize that there just isn't enough time in the IPL to grind and show their steely resolve. All you need to deliver is a quick 20 runs, in one game, against one bowler and you become an overnight hero till another batsman scores a quick 25 runs the next night to win a match for his team. Cricket is getting caught in a vicious inflation spiral. The batsmen have successfully stared down required run rates above 15 in the last 5 overs - shows that the asking rate doesn't mean much anymore. Pan-flation has hit cricket. The basic currency of cricket is runs. Not long ago, a score of 250 would have bought you a more than reasonable shot at victory; now, anything below 280 or 290 is considered okay. Like inflation in the economy, run-flation affects expectations, which explains why batsmen now see the sky as the limit in the final overs. But what are the dangers in such a trend? Will there be a “devaluation” of cricket if strike rates continue to rise? Or will we see a “new normal” so that only a certain type of batsman - Yusuf Pathan, Sehwag, Pollard - begin to corner the market?

Conclusion

The Indian Premier League is decidedly on the crony rather than creative side of the ledger. The original auction for teams was shrouded in secrecy - the allocations were not made on the basis of bids transparently offered and assessed. Player prices do not accurately reflect cricketing worth either. Foreign players are paid a fraction of what Indian players of comparable quality are paid. The most egregious form of cronyism, however, is the ownership of an IPL team by the current president (and former secretary) of the Board of Control for Cricket in India. The famous former cricketers who cover Indian cricket on television have been consultants to the IPL. Other commentators have accepted assignments from IPL teams. To put it bluntly, their silence on this (and some other matters) has been bought.

The IPL is exclusive; the Indian team inclusive. Notably, they do not live in separate worlds; rather, they are connected, with the former having a decided impact on the latter. Had the Indian cricket team taken six weeks off after the 2011 World Cup, they may not have lost four-nil to England in that summer's Test series. Two of India's leading batsmen and its leading bowler were carrying injuries sustained by playing in the IPL, which was held immediately after the World Cup. The weariness and the exhaustion carried over into the Australian series, likewise lost four-zero, and into successive one-day tournaments, where the World Cup champions were humiliated by such sides as Bangladesh. The future of IPL brand is most certainly related to Team India's performance. The BCCI and the IPL Governing Council need to take responsibility for the tainting of the IPL brand. In fact by defining "Cricketainemnt" as the focus of IPL, BCCI is taking a big risk. The foundation created on the basis of cricket success has been diluted and the present image of IPL in the viewer's mind is not the Cricket action but it is the vulgar dances of the Cheer Girls as well as the presence of Bollywood during the IPL parties. This culture is destroying the discipline in the cricket field and its adverse impact is being seen on regular cricket matches in the test and one day arena. Advertisers are unlikely to continue support unless the "Brand" reflects a "Desirable Personality". If the IPL personality is one of arrogance, cheating, the brands associated with the IPL will also suffer in association and they will be quick to retreat. It is therefore necessary for BCCI to shed its complacency and ensure that the "Clean Image" of Cricket and "Cricket as a Game without the vulgar entertainment" is nurtured in the coming days to re-build the brand image. The performance of Indian Cricket Team under the captaincy of Mahender Singh Dhoni has been very bad since India's triumph in the ICC cricket World Cup in 2011 and if there is no improved performance, it will become very difficult to restore the faith of Indian public in cricket as a game to be supported.

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Management Success Secret

"What's the most important qualification for management success? Super Vision."

Davod R Yale (BestPlus.com)

Appendix
Official logo of IPL in the first five editions

IPL – A snapshot

Year of formation	2008
Season	April-may
Number of franchises	10
Number of matches	74
Location of games	Night matches on home and away
Brand value in 2012	$3.67 billion
TV rights (including overseas rights)	$ 1.92 billion (for 10 years by Sony-WSG) + $ 10-15 million by Network Ten
Prize money	$15 million
Governed by	IPL council, BCCI
	Source: Wikipedia

Revenue distribution of IPL

Media rights	To be shared equally among franchises after removing IPL's share
Sposorship rights (IPL sponsors)	60% of the amount collected to be distributed equally amongst the franchise
Local sposorships	Team sponsorship revenues
Gate recipts	Anticipated to be a major source of revenue, 20% of tickets are to be allocated to IPL
	Source: Collated by author

Key IPL Milestones

Year	Events
2007	IPL established by BCCI
2008 – Season 1	**January:** • Franchise auction fetched US$ 723.59 million (Mumbai Indians for $111.9 million, Bangalore Royal Challengers for $111.6 million, Hyderabad Deccan Chargers for $107 million, Chennai Super Kings for $91 million, Delhi DareDevils for $84 million, Kings XI Punjab for $76 million, Kolkata Knight Riders for $75.09 million and Rajasthan Royals for $67 million. • A consortium consisting of India's Sony Entertainment Television network and Singapore-based World Sport Group secured the global broadcasting rights of the Indian Premier League. The record deal was for ten years at a cost of US$1.026 billion. Later, the deal was revised in the second season because of a controversy. **February:** • DLF bags the title sponsorship rights for IPL for five years at a cost of Rs. 40 crore per annum, making the deal worth Rs. 200 crore. **June:** • IPL – 1 reached out to 10.24 crore viewers. • Kolkata KnightRiders (KKR) and Rajasthan Royals (RR) were the only franchise to make profits. KKR made a profit of Rs. 8 crore and RR of Rs. 5 crore. • BCCI emerged as the most successful marketer with a profit of Rs. 350 crore. • The TV advertising revenue was Rs. 300 crores. Overall, 482 hours of advertising (in stadia, screen and commercial breaks) • Aircel, a well known telecom brand first started advertising at IPL 1. It sponsored Chennai SuperKings. The IPL eyeballs made the brand a household name.
2009-IPL Season 02	**February:** • IPL season 2 began with controversy. SET MAX, the official broadcaster signed on-air deal with Airtel Digital TV as a presenting sponsor for DTH broadcast. Big TV, which paid Rs. 137 core as the ground sponsor for IPL, protested the Sony-Bharti deal and called off its own deal with the broadcaster. The controversy aggravated so much that Multi Screen Media, CEO Kunal Dasgupta resigned and later Sony had to revise its $1.026 billion deal to $1.6 billion in order to keep the broadcast rights. **April:** • The then IPL commissioner Lalit Modi decides to take the league to South Africa. • Fake IPL Player blog started the same day the IPL 2 tournament. According to digital agency Pinstorm, the fake IPL player blog had at its peak, on 26 April with 1.5 crore visitors which is quite good considering that celebrity blogs like Amir Khan was at its peak garnering 1.7 crore visits. The blogger remained anonymous for this season. • This was also the season where once again marketing won over the game and thus strategy breaks were introduced after 10 overs of game in each inning to incorporate more advertisers who were keen to get associated with the event. • One of the most popular mascot and campaign was launched in IPL season2 which became a huge success in taking the brand further that was the Vodafone ZooZoo campaign. **June:** • IPL season 2 added Rs. 500 crore to the TV advertising pie in 2009. Overall, 625 hours of advertising (in stadia, screen and commercial breaks) were there in IPL 2. • Reached out to about 12.27 crore TV Viewers.
2010- IPL Season 03	**March:** • The Fake IPL Player released a book – 'The Gamechangers' which was loosely based on the contents of his blogs. The book marketed as a work of fiction and written anonymously. The June 7, 2010 issue of India Today put The Gamechangers at ninth position in the list of Top 10 national bestsellers. • Vodafone ZooZoo which became a rage in IPL 2 returned for a new innings in IPL 3. The game crossed another milestone when leading tyre brand MRF paid Rs. 15 crore to become blimp sponsor of the tournament. It was the first time in India that a blimp was deployed in a sports event. The brand value of IPL reaches $4.13 billion, according to Brand Finance Report. **April** - IPL Chief Lalit Modi's suspended. **June:** • IPL 3 has been estimated to add Rs. 700 crore to the TV advertising pie in 2010. In absolute viewer terms, IPL season 3, viewership reach was 14.37 crore. **August:** • The Fake IPL Player identity was revealed. He was a marketing professional named AnupamMukerji based in Bangalore.
2011- IPL Season 04	**January** • IPL Players auction goes live on TV. For the first time a sports auction is shown live on TV. Marketers pay Rs. 50,000 for a 10 second slot, which is five times more than the usual rate for a day time slot. **April** • The IPL Season 3 controversies about transparency and match fixing in the league and suspension of IPL commissioner LalitModi, led to a fall in brand IPL and its value stood at $3.67 billion (Source: Brand Finance Report). Top 3 franchise with highest brand values were Mumbai Indians with a brand value of $57.13 million, followed by Chennai Super Kings with $55.37 million and Royal Challengers Bangalore, with a brand value of of $47.58 million **June** • There are about 70 sponsors on board for IPL Season 4 which is a good number considering that many marketers spent a huge chunk on the World Cup which was won by India. • Vodafone, Pepsi and Coca-Cola were the most recalled brands on IPL 4 as revealed by a study by Ormax Media. • IPL Season4 added about Rs. 1000 crore to the TV advertising pie in 2011. • For the first time IPL matches streamed live on Internet by Times Internet Limited (TIL), in partnership with YouTube, which resulted taking online viewership of sports to a record 72 million in India. **Source: Indiatelevision.com**

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Catamaran Water base Solutions Private Limited: A Winner's Journey and Vision

Dr.Andal Ammisetti

It is 8.00pm on November 22, 2012. Mr.Ravi Yedavalli, CEO of Catamaran Waterbase Solutions Private Limited, was talking to other delegates of TiE-ISB Connect[27], in the lounge of Hotel AVASA Hyderabad. His mind was preoccupied with one thought, the result of Biz-Quest'12[28]. He was sure of his business idea. But, he did knew, panel would have its own criteria. There were around 200 participants for the Biz- Quest 2012 competition, vying for the angel investors' and venture capitalists' vote and funding. Ravi's Catamaran was one among 15 finalists. He was waiting for the result. November 24, 2012, 6.00pm. It is time for Biz-Quest 2012 result. Ravi was eager and anxious, so are the other finalists. Mr.Loganathan, Hyderabad Angels Member, came on to the dais and delivered a brief speech addressing the participants of Biz Quest 2012, all the other aspiring entrepreneurs and delegates who took part in the 3-day conference. Then he announced the much awaited result,. Ravi, the most confident young entrepreneur, was least surprised that Catamaran won the competition along with two other start-ups. After the announcement, the meeting went on for one more hour. Ravi. though physically present over there, was lost in his own thoughts of 'how much can I generate, how do I expand, what is my immediate target and task on hand….' so on and so forth. What is that Catamaran has that made it a winner among 200 contestants? What contribute to the attractiveness of the industry, they are in? Who are their target customers and what are their strategies? What are the company's big plans for future? How can they expand? These are some of the interesting questions to dwell upon the success story of Catamaran, the winning start-up.

Fisheries Industry in India

Fisheries sector in India, in the form of different facets such as marine fisheries, coastal aquaculture, inland fisheries, freshwater aquaculture and coldwater fisheries have been contributing considerably to food, health, economy, exports, employment and tourism of the country. It transformed from subsistence fishing to the status of a multi-crore industry during the last six and a half decades. The share of marine fisheries in the total fish production for 2010-11 was around 50% and was skewed around that level during the last few years. The fisheries sector has made valuable contributions to economic development of coastal areas and generating employment opportunities, especially in remote and marginal areas. Furthermore, fish export has been the major contributor to foreign exchange earnings to the tune of more than Rs.10,000 crores during the past five years, i.e since 2007.(Refer to Exhibit 1)[29].

The fisheries sector in India engaged about fourteen million people in different activities. The country has witnessed continuous and sustained increments in fish production since independence. India has diverse resources ranging from deep seas to lakes in the mountains and more than 10% of the global biodiversity in terms of fish and shellfish species. Constituting about 4.4% of the global fish production, the sector contributes to 1.1% of the GDP and 4.7% of the agricultural GDP. The total fish production of 6.57 million metric tonnes presently has nearly 55% contribution from the inland sector and nearly the same from culture fisheries[30].

Indians from all regions do consume fish to a large extent. For the year 2010-11, Indian fish production was 80.29 lakh metric tons. Of which 7.52 lakh metric tons of fish and shell fish products valued at Rs.12,100 crores, were exported[31]. The rest of the production, comprising of nearly 90% of the fish production was utilized within the country. From these figures, it is evident that huge demand exists for fish production in India.

National Fisheries Development Board (NFDB)

Government of India realized that there was a large untapped potential in fisheries and aquaculture, which can contribute remarkably to improved livelihoods and empowerment of women. During XI Five Year Plan, the planning commission had set a target of 9 million tonnes, considering the huge untapped aquaculture resources in our country. Towards that end, National Fisheries

[27] The TiE-ISB Connect is a joint initiative of The Indus Entrepreneurs (TiE), Hyderabad and Indian School of Business WCED (Wadhwa Centre for Entrepreneurship Development). It is a forum that brings entrepreneurs, venture capitalists and academicians together to interact and help build successful enterprises. The Conference has been very popular since 2006, the year it was initiated.

[28] BizQuest: Business venture competition for early and growth stage companies with finalists presenting to investors at the conference and the winner awards include Rs. 1 Crore investment, incubation facilities and other business acceleration support.

[29] Vision 2030, Central Marine Fisheries Institute (Indian Council of Agricultural Research)

[30] http://nfdb.ap.nic.in/pdf/Legal%20Consultant.pdf

[31] http://nfdb.ap.nic.in/pdf/Legal%20Consultant.pdf

Development Board (NFDB) was set up at Hyderabad, Andhra Pradesh in 2006. The primary motive of NFDB was reaching people with fresh and good quality fish under a hygienic environment that provides an opportunity for establishing domestic marketing networks. And it also extended its role, by being a platform for public-private partnerships and a mechanism for an end-to-end approach for ensuring efficiency in the process of fish production to consumption in the country.

The NFDB which was established to work towards a blue revolution had some specific outcomes on its agenda. It realized that the future development of aquaculture depends on the adoption of new and innovative production technologies, management and utilization of less utilized water resources and proper market tie-ups. NFDB observed the following phenomenon in Indian Fisheries Sector[32] .

1. Reservoir fisheries offer a major opportunity to enhance fish production in the country.
2. In the marine sector, while the coastal fisheries have been fully exploited, deep-sea fisheries resources are yet to be harnessed.
3. Diversification and high value produce could add new dimensions to the sector.
4. Proper post-harvest handling, reduction of losses and hygienic primary processing are important to realize full potentials of the sector.
5. Simultaneously, effective marketing arrangements are to be made to ensure adequate returns to the fishers and the farmers as also make available good quality fish at affordable prices to the consumers.

NFDB's Vision, Mission and Objectives[33]

Vision: To develop aquaculture in a big way by adapting new and innovative production technologies, management and utilization of less utilized water resources and with proper market tie-ups

Mission: To increase present level of fish production from 6.57 million tones to10.57 million tonnes, contributing to food, health, economy, exports, employment and tourism in the country

Objectives

1. To bring major activities related to fisheries and aquaculture for focused attentions and professional management
2. To coordinate activities pertaining to fisheries undertaken by different ministries, departments in the central government and also coordinate with the state and union territory governments.
3. To improve the production, processing, storage, transport and marketing of the products of capture and culture fisheries
4. To achieve sustainable management and conservation of natural aquatic resources including the fish stocks
5. To apply modern tools of research and development including biotechnology for optimizing production and productivity form fisheries.
6. To provide modern infrastructure mechanisms for fisheries and ensure their effective management and optimum utilization.
7. With these objectives in view, National Fisheries Development Board was established to work towards blue revolution.

NFDB has taken initiatives to develop domestic marketing facilities throughout the country by assisting various state government departments and local bodies for construction and modernization of hygienic wholesale and retail fish markets. So far, NFDB has sanctioned an amount of Rs.100.00 crores and released an amount of Rs.56.00 crores for construction and modernization of 41 wholesale fish markets, 33 retail fish markets and 37 retail fish outlets[34]. NFDB also aims at increasing India's per capita fish consumption to match international standards.

Catamaran Water base Solutions Private Limited (CWSPL)

CWSPL is a start-up, which is into fish procurement and delivery to major hotels, saw almost three-fold growth in turn over from 2009 to 2011[35]. When asked about the genesis of Catamaran, Ravi explained: “In July 2009, the National Fisheries Development Board, which is an apex body under the ministry of agriculture, has organized a fish festival in Hyderabad. At that time, we (Ravi Yedavalli, Jai Challa, SridharYedavalli & Jagadeesh Bondada) were carrying on the business of restaurants in Hyderabad and one of our partners, Jagadeesh happened to attend the same. The said fish festival has received tremendous response and was highly successful. Realizing the potential, our partner,

[32] Annual Report 2007-08, National Fisheries Development Board

[33] http://nfdb.ap.nic.in

[34] “A Manual on Management and Maintenance of Hygienic Fish Markets”, from National Fisheries Development Board

[35] Business Standard, Dec 10, 2012.

Jagadeesh had met NFDB officials and understood that the board has multiple schemes that support interested private entrepreneurs in setting up business ventures related to the domain. Thus came into existence CWSPL". To understand the fundamentals of the trade Jagadeesh visited fish markets in Hyderabad and other fish retail outlets such as Spar, Hypercity and Metro. After talking to NFDB officials and various retailers, Ravi and his team realized that fish market is completely different from chicken or mutton. They also understood that price variation is huge between the local wholesale and retail markets. To improve their domain knowledge Ravi and Jagadeesh set out on an 8-day tour of Andhra Pradesh coast, covering places like Visakhapatnam, Pudimadaka, Krishnapatnam, Kakinada, Nizampatnam, Machilipatnam, Vodarevu, Anthravedi, Chirala and Inland aquaculture centers such as Kaikaluru and Bheemavaram. In each of the places they identified people who would be their contact points to supply fish to Catamaran based on their indent. In their journey they also met a most prominent prawns processor, Surya Mitra Exim Private Limited, who also processes Pungasius Hypothalamus fish. The tour helped them understand two things:

1. That there is a huge gap between the price at the ports and the price the end-customer pays
2. That the company requires a complex network of people with trust to be able to source and procure fish of one's choice

The First Step

Initially, the company was not very clear about the kind of business model they should follow. They were toying with the idea of setting up retail outlets. They were of the opinion that they have to have things like sourcing and logistics in place before they start off. As a precursor, in order to understand the strength of their supply chain, they registered with two of the up market retailers namely Spar and Hypercity and started to supply raw material, sourcing it from 4 different ports in Andhra Pradesh, with Jagadeesh stationed at Vizag and purchasing the raw material at the port auctions.

Novotel – The Game Changer

While the Spar and Hypercity business seemed good, the company started looking for markets whose intake would be higher and star hotels seemed to be a logical choice. In line with thought process, they approached Novotel and the price quoted by Catamaran being very competitive, Novotel agreed to the terms immediately. On an average, their purchase was around 5 lacs per month and this indicated the potential in the institutional market to Catamaran. On a comparative note in terms of investment and effort between a retail model and institutional model, CWSPL has chosen institutional market for the reason that it is less capital-intensive, as they do not need to set up outlets and incorrelated costs.

Initially, Jagadeesh was handling purchases and Ravi was handling marketing and delivery in Hyderabad. On every single delivery the margin used to be quite visible as they used to buy either for fixed rate from processors or sweeping auctions for a fish called as Black King Fish in Vizag resulting in low price procurement. Another advantage they had was, there were no issues in receiving their payments and thus the problem of bad debts was practically zero.

Initial Pricing and Product Strategy

Catamaran adopted a different pricing strategy as compared to the existing players. They told their customers that they would be able to supply at variable price depending on the prices at the sourcing point. This approach startled many customers, as yearly contracts were the norm in the industry, where the price committed by the supplier holds good for a year. Though customers accepted this variable pricing, Catamaran faced a big challenge in giving the fish the customers wanted. Giving product of the desired quantity and quality of the required specification was a big challenge. Quite an amount of business could not be made owing to unavailability of the desired fish at the time the customer wanted. As and when the summer was approaching, the number of non-deliveries and failed services were increasing.

When tried to develop business, by approaching other hotels in Hyderabad, Catamaran met with moderate success. The reason was almost all the hotels in Hyderabad were interested in buying only one fish called; Murrel and Catamaran did not have the sourcing capability to supply the same. However, they did not take the usual route of trying to get sourcing points for Murrel. Rather they tried to understand how they can meet the customer needs by making him buy a different fish other than Murrel with a win-win strategy, essentially involving lower price. For this, they had to comprehensively understand what their customer wants. (Table 1 depicts "What Do Hotels Want from Fish Vendors?")

Table 1: What Do Hotels Want?

Type of Cooking	Current Choice	Our Offer
Deep Fry	Murrel	River Salmon
Shallow Fry	Murrel	River Salmon
Curry	Murrel	River Salmon
Tikka(Tandoor)	Murrel	Sword Fish
Steaming	Murrel	Basa

(Source: As told by Mr.Ravi Yedavalli, CEO – Catamaran Waterbase Solutions Private Limited)

Ravi revealed his study findings of "what hotels want" as under:

1. There are only 6 styles of cooking that a chef does.
2. Murrel is the most acceptable fish in Andhra Pradesh.

Customer specifically asks for it. Hence, the chefs are serving the same

3. Murrel by design is a very good fish that would suit all kinds of preparations. It has good muscle strength and has no sea/fishy smell.
4. No vendor ever tried to offer the chef a choice
5. Food cost is a very critical metric for the chefs and they would be interested in taking on the opportunities of reducing it.

Reality Bites - March 2010

Sales went declining. Purchase managers stopped taking calls of Catamaran. The reason was all hotels issued tenders and started entering into annual contracts. There were new vendors who promised the best and hotels started buying from them. This was a moment of reconciliation for Ravi and his team. Primarily there was this issue of fish unavailability due to seasonality. Secondly, the company's inability to give at annual contracted rates due to varying prices at the sourcing point.

Considering the above uncertainties and also because of Catamaran's experiences with clients when material was unavailable, Ravi was already of the opinion that the model of trying to buy fish on indent and supplying was not the model to operate mainly for two reasons.

1. There was no innovation in the business
2. Secondly, it was not a scalable model by any measure, with uncertainty in terms of availability and relatively higher rejections on quality parameters as compared to other meats.

The only solution to this was offering frozen product line, where quality and consistency can be promised to the customer. For the very same reason, Ravi felt all those customers who stopped buying would come back to him when the current vendor fails.

Novotel Contract - Riding High

Ravi travelled to Bangalore and met 14 executive chefs of various 5 star properties and asked them one single question: "If we were to be a one-stop shop for all their sea food needs, offering them frozen, processed and ready-touse products, with cold chain logistics at a comparable price to that of what they are currently buying, would they be interested." Every one answered in affirmative.

Once Ravi was convinced of the new business model, he visited the Novotel purchases office and offered them the new value proposition. Novotel issued Catamaran an interim contract for all their seafood products and started buying from them. When approached other hotels with the new product-line, Ravi received good response. He said: "The height of supply chain efficiency was when Novotel wanted to do a seafood festival in Feb 201. We planned it in such a manner that their requirements were assessed a month ahead and supplied 38 different species of fish and shellfish".

Catamaran's Targeting, Branding and Positioning

After thorough understanding of the market, and some ups and downs, CWSPL decided to focus on B2B segment, comprising hotels, restaurants, caterers and institutional retailers. They started serving these customers in the brand name called Shoal. Shoal is live, chilled and frozen fish meant for B2B market. These markets are served with processed fish as per the customer specification and ready to use state. Ravi believed in adhering to HACCP compliance and he promised consistent availability throughout the year, delivered using state of art cold chain solutions.

When Ravi was asked about the factors that drove success of Shoal in B2B segment, he said: "what started as an effort to test our procurement capability and strength turned out to be a scalable business idea. Shoal happened because, I did not want to do what everyone else who is in the fish business was doing. I started with visiting the fish landing ports and fish culture centers and export processing units and tried to understand the dynamics of that part of the value chain. Then I came to the customer and tried to understand his problems. Just connected the dots and that is Shoal. It did not happen in one day, every day was a learning process and we applied whatever we learned in the business. We started with chilled whole fish and today you will not find one single whole fish product in our offering. We have evolved, had our fair share of goof ups and continue to, but the most important thing is we did not stop learning".

Catamaran has plans to enter in to retail segment with brand name - Goodfish. Under this brand name, they plan to reach retail customers with live, chilled, frozen and dry fish. They would like to offer at least 50 varieties to the customer to choose from. The value proposition CWSPL offers to their retail customers is wide variety in fish, processed in front of the customer in the most hygienic environment, with accurate weight and compelling daily price. The third segment the company plans to cater to is again in B2C segment, through Quick Service Restaurants. The brand name Ravi picked for this QSR segment is Pescetarian. These exclusive cooked fish outlets would offer 12 items in menu, representing India's rich legacy of fish cuisine from the coastline as well as terrain lands. The company's go-tomarket strategy for B2B segments is reaching them through direct marketing teams. To reach retail customers they would like to rely on print and electronic media advertisements and large presence in digital and web space.

Future Outlook

Domestic fish market in India, though holds a huge potential, is still very much unorganized and unregulated. For various reasons, marketing of fish as compared to its production has been long neglected in our country. Serious efforts have never been made in this sector. Betting big on this untapped segment, the CWSPL plans to start two divisions-fish retail stores and exclusive fish-food takeaway outlets over the next three-five years. It would set up 360 retail outlets of Good Fish in the next five years across 22 cities. Each outlet will be spread across 450-500 sft and come up with an investment of around Rs 12 lakh. It also plans to have 227 exclusive fish takeaway Pescetarians across major metros in three years[36].

When asked about the big picture he foresees for Catamaran, Ravi explained: "Current per capita fish consumption in India is 5.9 kgs, international average is 16.6. US at 20, China at 30 and Maldives at 187 kgs. It is currently valued at USD 24 Billion and in our attempt to improve the per capita consumption, this industry will grow to USD 86 billion in the next 10 years. 98% of fish trade is unorganized with the industry characterized by unavailability, inconsistency, lack of reachability, unhygienic, lack of cold chain solutions. Clearly, a good strategy, compelling product and a winning team can make a difference. CWSPL is looking at raising Rs 6.5 crore early-stage funding in the next two months. "We are in the final stage of raising the fund. We have approached a couple of angel investors and venture capitals including Hyderabad Angels and Indian Angels. It should happen over the next one - two months," Ravi, Chief Executive Officer, Catamaran Waterbase, says very optimistically and confidently.

Can Ravi realize the big vision he has for his Catamaran? Who can compete with them and how? What strategies would help CWSPL in establishing the company as a key supplier in B2B segment? How can he implement his growth plans for B2C segment - in retail and quick service restaurants successfully? These are some of the intriguing questions that would emerge, when anybody goes through the 'journey of Catamaran - so far.'

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[36] Business Standard, Dec 10, 2012.

Book Review 2

10X rule
The Only Difference between Success and Failure

Grant Cardone

Reviewer: Prof Siram Shveta Bahadur

In the world of gaming, be it on PC, PlayStation or Mobiles, every game has 1 thing in common - an increasing order of difficulty and rewards with the subsequent levels. Though this seems preferred by a novice gamer, an experienced gamer gets impatient while trying to reach the higher levels and in bargain aims only at clearing the given level than giving his best to it.

Grant Cardone urges his reader to keep in mind that most human limits are self-imposed. He says that for most people, the average thinking, the average goal setting and average action is killing their dream. In other words, many people become committed to a negative self-fulfilling prophecy: consciously and/or unconsciously, their self-defeating attitude ensures that they will either fail or fall far short of what they could have achieved. And more often than not, they see themselves as victims of circumstances over which they have little control.

In striking contrast, peak performers are committed to a positive self-fulfilling prophecy: consciously and unconsciously, they consistently achieve great success because they are absolutely convinced they not only can but WILL.

Grant Cardone in his book explains that the 10X Rule is based on two separate but interdependent assumptions. First, if you set a 1X goal or target and then increase it by a factor of ten, you may not reach that but you will achieve far more than you originally intended. Also, if you set a 10X goal or target, you will make a corresponding investment of resources (especially time, energy, and focus) far greater than you would have invested to achieve a 1X goal or target. The place to be, therefore, is at the 10X level both in terms of setting a goal and efforts to achieve it.

To those who are willing to take a step further, Cardone imparts excellent advice in a chapter 'Getting started with 10X'. He emphasizes that getting to and then operating on a 10X level is a journey, not a destination. Like failure, success tends to feed upon itself and thus one must be prepared to increase the level of difficulty of a given goal that will then increase the degree of success when achieving it.

It is a great book for business students, entrepreneurs, managers, and anyone else in the business world, but it can work for anyone. The content and advice offered through the book can be applied to any life situation. The book preaches the essentials of success--the ability to set goals, the courage to try, the elimination of procrastination, and the need to work to achieve.

'Instead of behaving like everybody else and settling for average results, take Massive Action with The 10X Rule, and as a first step to success, Dream Big' is the essence of the book.

Author's Profile: Grant Cardone is an American entrepreneur, motivational speaker, New York Times Best-Selling author, host of the National Geographic television show, Turnaround King and the "Cardone Zone" talk radio program in which Cardone goes into struggling businesses to “turn them around” (i.e., to restore it to profitability and high productivity.)

Reviewer's Profile: Prof Siram Shveta Bahadur (Dhruva College of Management) holds BE (Mechanical) from VTU, Belgaum and has completed her MBA (International Business) from Manchester. She had 2 years of corporate exposure before she moved into teaching 4 years ago. She is Infosys certified Soft-skills trainer and actively forms the bridge between the students and the placement department.

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Prof N Sai Kiran

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Who are losers?

“Losers are not those who fail in their attempt, but those who fail to attempt.”

Good to Great

“Managing your problems can only make you good, whereas building your opportunities is the only way to become great.”

Jim Collins (Good to Great: Some Companies Make the Leap and Others Don’t)

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- facilitating cross-fertilization of ideas from wide across - through seminars, symposia
- encouraging research into vast oeuvre of Indian scriptures and treatises to unearth indigenous management models relevant to contemporary context
- disseminating of the knowledge of Indian Management Systems - thru journals, webzines, conventions and conferences etc
- fostering environment for developing integrated management models drawing on the principles

“An anthropologist proposed a game to children of an African Tribe. He put a basket of fruit near a tree and told the kinds that the first one to reach the fruit would win them all. When he told them to run they all took each others hands and ran together, the sat together enjoying the fruits. When asked why they ran like that, as one could have taken all the fruit for oneself , they said, "Ubuntu, how can one of us be happy if all the others are sad?” 'UBUNTU' is a philosophy of African tribes that can be summed up as " I am because we are.”

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