



Proceedings of GLOGIFT 09
November 12 – 14, 2009
National Institute of Industrial Engineering
Mumbai, India

Product Flexibility: A Case on Goel Canvas Private Limited, Ghaziabad

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Abstract

*Flexibility plays a central role in the survival and success of organization in today's fast changing environment, which has been recognized by many authors in management theory like Aaker and Mascarenhas (1984), Peters (1991), Pasmore (1994), Volberda (1998), Edward Stohr and Michael Muehlen (2008). This case is developed, based on the primary information provided by the owner of the company Goel Canvas private limited, Ghaziabad. The company struggled through different phases and emerged as survivor in this competitive market by using flexibility as strategic tool in its decision making. The case is unique in its approach because it has used the SAP-LAP model (Sushil 2000), which is simple but apt technique for analyzing the problem areas. It takes into account the **situation, actors and processes** involved in the case to derive the **learning, action and performance** needed to improve the present situation in this case. The variables and parameters thus derived will be used for further research to find out the correlations between them. The model of SAP-LAP linkages will be applied in the next part of this study to prove that learning, action and performances thus derived are significant. This paper is useful for management students, management teachers from the area of strategy and flexibility, management consultants and entrepreneurs who would get an insight into how SAP-LAP technique can be used in any case/situation to identify the real problem and derive a solution for it.*

Introduction

Flexibility plays a central role in the survival and success of organization in today's fast changing environment, which has been recognized by many authors in management theory like Aaker and Mascarenhas (1984), Peters (1991), Pasmore (1994), Volberda (1998), Edward Stohr and Michael Muehlen (2008). This paper delves into the phases of a company to understand the problems which an entrepreneur faces when doing a business for the first time because of having a non-flexible approach in decision making. It discusses the implications for the managers who will face similar challenges in taking decisions. The case is unique in its approach because it has used the SAP-LAP model (Sushil 2000), which is simple but apt technique for analyzing the problem and deriving a solution for it. It takes into

account the situation, actors and processes involved in the case to find out the learning, action and performance needed to improve the present situation in this case.

The paper is useful for management teachers from the area of strategy and flexibility, management students, management consultants and entrepreneurs who would get an insight into how SAP-LAP technique can be used in any situation to identify the real problem. The case may prove to be helpful in gaining insights into the real problems faced by managers in a small scale manufacturing unit like 'Goel Canvas Private Limited' and how to deal with such situations in similar circumstances in future. It also shows how flexibility can be used as a better strategy while planning in such situations.

Background

Rashtriya Proofing Bhavan (RPB) was established in 1965 in Acharaya Niketan Delhi, with investment of Rs.25000 in plant and machinery. The firm was into the manufacturing of water-proof canvas (wpc). During those days their main competitor was Baggadia Canvas Store (BCS), who was enjoying the maximum market share at that time. RPB took an inverse path and started selling the same product at lesser price as compared to BCS while maintaining the quality, from a shop hired in Azad Market (also known as Canvas Mandi) to support the sales. In 1997 RPB took a new avatar by registering a new venture 'Goel Canvas Private Limited' (GCPV) company as its trading wing. In the beginning there were five different variants of the wpc in the market, which increased to 35 variants by 2000, but slowly reduced to 15 variants by 2004. There were several reasons for this fluctuation of demand in the market.

The main reasons were:

1. Substitute's availability in the market like polythene and synthetic material.
2. Growing urbanization in the Delhi – NCR market.
3. Changing life-style of the customers.
4. Government regulations and environmental laws.
5. Growing Competition in the near-by markets.

Under the changing environmental conditions and demand, GCPV realized in 2004, that it will be difficult to sustain profitability in the future with only one type of product in their portfolio, i.e. wpc. GCPV came to a conclusion that they have to expand their operations in orders to survive in the market.

They thought of three strategies as their options for future:

1. Upgrade Process
2. Allied Work
3. Shuttle-less Loom

Upgrade Process: The Company thought of manufacturing cotton poplin (It is a type of medium to heavy weight durable fabric that is most frequently made of cotton or a cotton/polyester blend.) by investing small amount in machine and equipment.

But they had to drop the idea because of two main reasons – high competition from the Chinese products, and low returns on the investment due to market saturation.

Allied Work: The Company then thought of entering into the manufacturing of woven fabric and mats, which were basically the end products or finished goods of wpc. It was thought as peripheral activity and of very low returns, which was basically used as a tax evasion activity by similar companies, and therefore the idea was dropped.

Shuttle-less Loom: This option was the most appropriate one for two main reasons. first as it will provide fine quality of grey cloth for the existing canvas range, and second for manufacturing fine quality of grey cloth which was in high demand in the market because of so its diversified use as basic raw material. In a way it was nothing but a back-ward integration strategy of GCPL, which ultimately was opted for future expansion.

Problems faced by company in installing and operating shuttle less looms:

There were series of problems that the company had to face in order to reach it's present position-

Stage I- The company had applied for loan under technology Upgradation scheme (in which 5% of tax subsidy is provided), the loan was shared by Small Industries Development Bank of India (SIDBI) and State Bank of India (SBI) (50:50). The rate of interest charged was high due to the low profits shown in the balance sheet of the company (contrary to the TUFs scheme), which increase the cost of production.

Stage II- unavailability of good supplies of the yarn (raw material) was another problem which company faced after starting its operations. The uniqueness of the machine is in its quality production, which required only specific grade of yarn (>1700 cc). The market was full of unreliable touts and agents who were able to supplied poor quality yarn due to less experience of the management in manufacturing of grey cloth.

Stage III - The main profits in this business was from exports (bulk buyers in foreign). But being new in the market it became difficult to win the confidence and trust of the big export-houses for bulk sale orders. The unorganized approach of doing the business was one of the main reasons for this.

Context

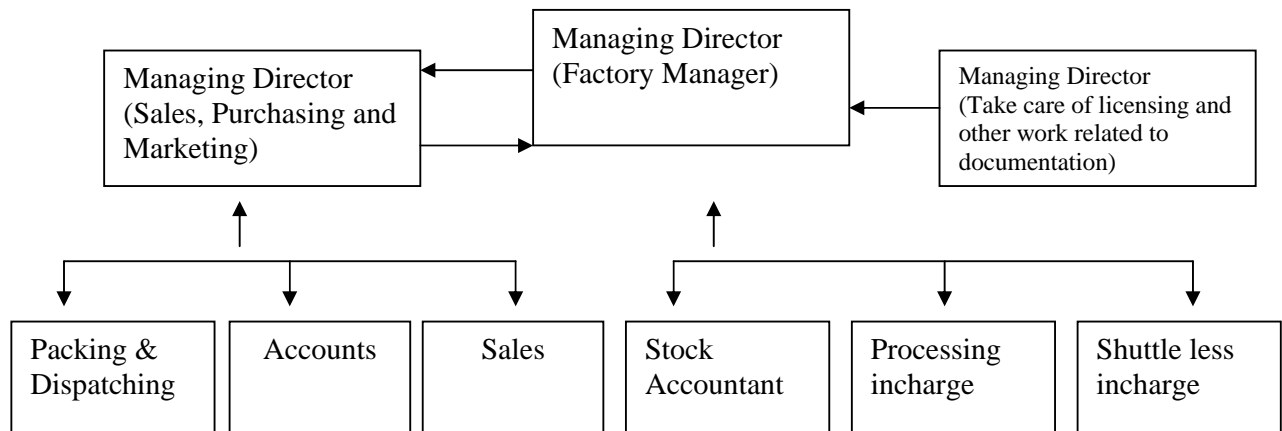
The main purpose of the study is to analysis the journey or the stages which the company GCP has passed through in reaching the present form which include the environmental conditions both external as well as internal to the company like market size, consumer demand, government politic and competitor etc. The actor or the people who were involved since the inception of GCP and what role that each one played in achieving the present status of the company, which include both the direct as well indirect people involved in bringing the change. The process includes what is being done in GCP in the present situation and environmental condition. It will include various variables/ parameter which will change themselves or bringing change in the present status or form of GCP. Process will also include why it is being done and how is it being done in GCP.

The analysis of Situation-Actor-Process (SAP) will lead to the understanding of the key issues related to situations –Actors-process in GCP. Recommendation will

be made on the basis of the learning of the key issue like what action should be done which can improve the situation or the overall condition and process in GCP. Conclusion will include the expected impact of the recommendation made for GCP. It will also try to cover the effect on the actors and overall performance of the process in GCP.

Situation

In the Financial year 2008-09 had a turnover of 6 crore, out of which 3.5 crore is from grey cloth and 2.5 crore from canvas. It has 30 employees including three managing directors. The organization structure is as under:



The company purchased the raw material for canvas from Pilkhuwa and sold in different variant as per the demand. And for distribution channel one shop was taken on rent in Azad market. The demand was high and business was thus flourishing due to high demand and less competition. The present owner was having a rich experience of this business and along with the other key member in the team which gave a boost to operation of GCP.

In 2004, by comparing balance sheets of previous two years it was found that now the time has come to expand the product portfolio. It was analyzed that their various quality has enter into the Dog stage (Last stage of product in BCG Matrix). The number of qualities was reduced from around 35 to 15 variant from 1990 to 2004. The directors made the list of three new works that company can do in order to survive in the market. After the experienced survey, the company Choose third option i.e. to enter into the manufacturing of grey cloth. For this, six shuttles-less looms were imported in 2005. And the operation was started from October 2005.

But all things did not go as per plan. The company faces a series of problem. The main reason for not getting the appropriate order was the cost of production was high as compared to their competitors. After analysis, it was found that the reason for high cost was due to the raw material (Problem Stage I). Then the market was analyzed and the yarn manufacturer which provided a good quality of yarn at reasonable price was found, with the help of market/supplier survey and information from agent . But after finding the yarn manufacturer the problem of shortage of order(Problem Stage II) was still there. Another problem was that the company is new in this area and was not known by the exporters (Bulk order, Stage-III) who are their

main consumers. Then every effort has been made to reach them and tried to fulfill their demand. The cloth market had undergone a tremendous change. But slowly and slowly company has understand the need of the market and has changed it product portfolio to survive the competition. The company was only manufacturing cotton cloth, but as per needs the company also manufacture polyester cloth, and add more light variant to its product portfolio. The company now understands that it has to set-up a process unit where the grey cloth manufactured by the company can be bleached, make fire-proof and anti ultra-virus (Options). But during whole transformation process the company follows no credit policy very strongly (Brand Building & Consumer Confidence). This helps the company in concentrating more towards understanding the market.

Actors

Mr. Ravindra Kumar, Mr. Vijay Goel and Mr. Rupendra Goel are the managing directors of the company, who are behind all the development taking place in the company. All the decisions regarding the human resource management, operation, finance and marketing taken by them. Government (TUFS policy) plays a key role in the functioning of GCPL. If we take into account the present condition of textile industries it is into very bad shape. The government has shown a keen interest in providing support to the industries.

There is large domain of freedom of choice that companies have in the present scenario. The biggest assets of the company are the wide experience of managing directors, land and employees. The company can set up a processes unit so as to wider its reach and make an end product. There is also a completely new field that has emerged in textile that is technical textile [which includes textiles for automotive applications, medical textiles (e.g., implants), geotextiles (reinforcement of embankments), agrotexiles (textiles for crop protection), and protective clothing (e.g., heat and radiation protection for fire fighter clothing, molten metal protection for welders, stab protection and bulletproof vests), and spacesuits].Over all, global growth rates of technical textiles are about 4% per year greater than the growth of home and apparel textiles, which are growing at a rate of 1% per year. The company can think of this new field.

The competitors of the company were the manufacture of synthetic cloth and the power-looms companies. GCP fight competition from power-loom sector, by providing cloth at the same prices and of better quality. They used penetration marketing strategies.

Process

After conducting the survey, the company chooses a project of installing twenty four shuttles less looms and a sizing plant. But to see whether the company would be able to handle such a big project, it was decided to first install six shuttles less looms and sees how efficiently company is able to use its resources. The company was focusing on the quality. As the company wants to provide a good quality product a separate team was formed for checking the quality. And the cloth passes through two stages of quality test before it is finally go for packaging. As the company wants to provide cloth at low price, the company knows that there are only

two ways of reducing cost- one is labor and other is fuel. So company installs that machines that require minimum labor and consumes less fuel.

The company make every effort to reach to its final consumer i.e. Exporter. The address was taken from internet but the result was not very satisfactory.

Learning

Within a year of installing machines, the canvas market was badly hit by the competition from china. And still today it is in the bad shape. It was analyzed that if the company did not install new machines, the company may be out of the business. The main advantage the company got was in house consumption of shuttle-less grey cloth. This improves the quality of canvas and helps the company in sustaining its market share.

Mr. Ravindra Kumar has an experience of running power-looms but not of these machines (Shuttle-less looms). But still with the help of consultant and with his experience he was able to deal with every problem related to the operations. The Sulzer Company (in Switzerland), manufactures of shuttle less looms helped the GCP in dealing with the problems related to machines.

During the course of transformation from the manufacture of water-proof canvas to the manufactures of grey cloth and canvas cloth, the company follows the adaptive strategy. But now the company is full of confident and has make a plan which the company will implement during the course of time. The main focus of the company is technology Upgradation, to install the machines which will help the company to make cloth for foreign market. The company did an experience survey before installing the machines. But survey was not conducted properly. The question was asked about the current position of the market, but they did not asked about what they think about future trends. And also company asks from agents who supplied cloth to exporters rather than asking exporter what they think will be market scenario. The canvas market is unorganized market. The company can do trading of grey cloth to get the understanding of market, what is the current scenario and may be in the better position to run a new unit. The company did not forecast the problem that may occur between the labors of both canvas and grey unit. There was a clash between the labors of different unit, as the salary of the grey unit labor was higher than the others. But these problems were solved, but it affects the working of company.

Actions

The Company can make its website for wider reach. The company can display its products on website and can have the option of online ordering to facilitate and promote it to exporters, which otherwise is difficult. The company should focus on its core competencies that is processing. The company can setup its processing unit for manufacturing of fire-proof cloth, anti-ultra-virus cloth etc. as these are the new emerging needs in International markets. The organization chart of the company is not very clear. The company does not have proper reporting systems. It lacks departmentalization and division of work, which is the fundamental management principle. The company can form a proper systematic reporting structure for proper administration of the same. The company may set up a processing house to increase its customer base and its products portfolio. For improving the process the company

can purchase software for Inventory management and speedy billing. The company may form a sales team for improving its turnover, and targets should be given to each sales person and proper incentive or penalization should be in place in order to keep checks and balances in control. The state government provides electricity subsidy to all the textile units consuming a particular units. The company may also apply for this subsidy for increasing profit margins. Company may purchase software for managing inventory. GCP should be flexible in its operation. The company should take into consideration the new trends emerging in the market. Like technical textile is a new field which company may take into consideration while taking decision about expansion.

Performance

The recommended actions like having a proper organizational structure and division of labors or departmentalization, the MD may be able to have better analytical understanding of the ups and downs due to continuous fluctuations in the demand and supply. He will have a better consumer understanding and control on its operations. By installing a proper IT infrastructure in place it may help in speedy operations, which will help in time saving, cost reduction and higher margins. Proper sales team will facilitate the product penetration in the market by having a proper distribution channel and dealers network in place. The company by selling products at low price and good quality would be able to fight competition and will be able to capture more market share. The electricity subsidy will give an additional saving of around Rs. 60000/- per month. Now due to the fall of demand from US market, the exporters are exploring the new market in Japan, South Africa and other foreign countries. So there are chances that the demand of grey cloth will increase within 3-4 months and the company will be able to capitalize the opportunity.

Conclusion

The above case shows the flexibility approach applied by the company in facing competition. The company changes its product portfolio as per the feedback given by the customer. The company in phase of low demand also takes a job work like laminating and bleaching of grey cloth from outside and selling it. The company faces a series of problem after starting a new venture but the hard work and the positive attitude of Directors helped the company in maintaining its position in the rough weathers. Although the evidence shows that the company lacks proper leadership and management skills on top level, the management should hire a professional consultant, which provides them updated and current information from time to time, which should be implemented regularly to avoid losses in future. The flexibility approach followed by the company helped in reaching its position where it is today, and the same approach will help the company to develop into an organized corporation in this sector.

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