NITIE presents
a PGDITM initiative...
LITMUS '10
13th August, 2010

SYNC QUEST
Case Study Competition

A live case by:
technopak
CASE STUDY - XYZ FROZEN FOOD COMPANY

BACKGROUND

XYZ was set up as a marine export company in the late 90’s. Over a period of time with growing competitive intensity in marine exports and shrinking market share, XYZ decided to enter into Indian frozen food segment with the aim to tap the increasing number of NRI’s and growing convenience needs of Indian consumers. The company primarily makes Frozen Indian Ethnic Foods like Indian Curries, Indian Breads (Roti, Paranthas, Naan) & South-Indian delicacies like Idli, Dosa etc. XYZ is a family owned enterprise with different members of the family responsible for manufacturing, marketing & distribution.

Some key strengths of XYZ include:-

1. Strong market share in the Indian Ethnic Bread Segment (more than 40%)
2. Strong brand perception in East India
3. Skilled manpower in Ethnic Breads Segment: Preparation of Indian Ethnic breads require highly skilled manpower and XYZ has trained manpower.

The company operates under 3 divisions namely:-

1. **Domestic Retail Division**: Catering to the domestic retail market.
2. **Institutional Division**: Catering to hotels, restaurants and fast food chains.
3. **Exports Division**: Catering to exports market targeted at large supermarkets in US and Europe which offer food products to Indian Diaspora.

The company has revenues of ₹ 100 cr where domestic retail division accounts for 70% of the revenues, institutional division caters to 25% of the revenues and exports contribute to the remaining. The turnover growth rates are 25%, 30% and 10% respectively.
MARKET SCENARIO

The market for Frozen Foods in India is estimated as below:-

1. **Domestic Retail:** ₹ 800 cr growing at 35% per annum. The domestic market has been growing on account of increasing penetration of organized retail. The key to growth in the domestic market is the increasing freezer space.

2. **Institutional:** ₹ 700 cr growing at 35% per annum. The market is growing on account of increasing expansion by the fast food chains.

3. **Exports:** ₹ 500 cr growing at 40% per annum. The market is growing mainly on account of increasing popularity of Indian cuisine in UK and US, increasing NRI population and increasing outsourcing by the Indian Ethnic Frozen food manufacturers which till now used to manufacture in UK and US only.

ISSUES FACED

Despite their best efforts, XYZ is growing slower than the market primarily due to following reasons:-

1. **Domestic Retail Division:**
   a) **Limited product portfolio:** Chicken and Green Peas which is the largest pie of the market, is absent in XYZ’s portfolio due to absence of backend infrastructure.
   
   b) **Inappropriate plant location:** Logistics is an important cost element for frozen foods and XYZ’s plant is not located suitably from procurement and logistics standpoint. The company has its plant located in East India whereas 60% of the market for the frozen food products is in North and West India. The logistics cost of XYZ is almost 1.5 times its competitors for the domestic market. The cost of setting up a plant at any new location is close to ₹ 30 cr (including ₹ 10 cr required for certification)
   
   c) **Limited distribution:** XYZ’s distribution is limited to few large retailers whereas the competitors have a strong distribution network.
2. Institutional Division
   a) **Limited product portfolio**: Chicken, which is the largest pie of the market, is absent in XYZ’s portfolio due to absence of backend infrastructure.
   b) **Limited Business Development**: The company is doing limited business development for its existing customers.
   c) **Limited Product Development**: The company has limited product development capabilities and is slow to respond to the requirements of the customers.
   d) **Quality Issues**: The company has faced some quality issues with their regular customers.

3. Exports Division
   a) **Lack of export Certification**: UK is one of the largest markets for Indian Ethnic Foods (₹ 350 cr) however XYZ does not have the necessary certification to export to UK. Getting a certification would require investment of ₹ 10 cr.
   b) XYZ, due to lack of certifications, is supplying to other countries in Middle East, Africa and South Asia
DISTRIBUTION

The distribution network of the company for retail division is as below:

![Diagram showing distribution network: Company → Own Warehouse → Retailer]

The benefit of the above distribution network is that XYZ has a higher control over the channel and the company is able to pass on higher margins to the retailers. The disadvantage of this distribution system is that reach is limited as the company has limited potential to set up warehouses in all the cities.

On the other hand the competition does its distribution as below:

![Diagram showing competition's distribution network: Company → Distributor → Retailer]

The competition gives 8-10% margins to distributors and lesser margins to retailers. The advantage of this system is that it gives higher distribution reach to the companies. The competition is growing at a much faster rate than XYZ. Competition is also getting stiffer with the entry of large multinational players.

To improve the distribution system and provide more flexibility to their customers, XYZ is considering purchasing an online ordering system “RapidBuy” from vendor ABC. The cost of the system is estimated at ₹ 1 cr (including maintenance cost for 2 years). There is a difference of opinion about this venture in the higher management due to the poor financial condition of the company. Some feel that it will only add to the woes of the company. 3 years ago, one of their competitors tried to implement such a system which showed initial benefits but failed in the long run due to ineffective maintenance. This led to glitches in the system resulting in...
in customer dissatisfaction and loss of market share.
Others feel that as the business grows, this step will provide the necessary thrust and a differentiating factor required to compete in the current market. They are sure that they can learn from the mistakes of others and can avoid them to reap the benefits of emerging technology.

Some other issues with the company include:-

1. Financial losses due to poor margins as most of the margins are lost in distribution and central overhead costs like salaries etc.
2. Lower plant efficiencies
3. Limited brand recognition
4. Low skill of manpower in some segments

In addition to the above information, you should also consider the data given as a part of annexure at the end of this case.
QUESTIONS

XYZ aims to reach a turnover of ₹ 500 cr in the next 5 years and turn profitable in the next 2 years. The company has recently decided to appoint a management consultant to help them achieve the above mentioned objectives. The key questions that the company needs to answer to include:-

1. Which segment should XYZ focus on - domestic, institutional or exports?
2. How should XYZ revamp their distribution set up? Should they appoint distributors? Given the scenario for online ordering package “RapidBuy”, advise the management on the decision stating all the pros and cons of the decision.
3. Given the poor financial health, how should XYZ increase its brand awareness?
4. Given the inappropriate plant location, should XYZ set up a new plant elsewhere?
5. What would be roadmap for XYZ to achieve its objectives?
ANNEXURE

Annexure 1: Financial Summary of XYZ Limited

<table>
<thead>
<tr>
<th></th>
<th>2008-09</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>80</td>
<td>100</td>
</tr>
<tr>
<td>Gross Margins</td>
<td>20</td>
<td>25</td>
</tr>
<tr>
<td>Logistics Cost</td>
<td>12</td>
<td>16.5</td>
</tr>
<tr>
<td>Advertisement Spend</td>
<td>1</td>
<td>1.5</td>
</tr>
<tr>
<td>Employee Cost</td>
<td>6</td>
<td>6.2</td>
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<tr>
<td>EBITDA</td>
<td>(7)</td>
<td>(10)</td>
</tr>
</tbody>
</table>

Annexure 2: Product Portfolio and Share of Revenue

<table>
<thead>
<tr>
<th>Product Categories</th>
<th>Share of Revenue</th>
<th>XYZ Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indian Ethnic Breads</td>
<td>45%</td>
<td>42%</td>
</tr>
<tr>
<td>Frozen Vegetarian Snacks</td>
<td>25%</td>
<td>5%</td>
</tr>
<tr>
<td>Frozen Non Veg Snacks</td>
<td>15%</td>
<td>2%</td>
</tr>
<tr>
<td>Frozen Vegetables</td>
<td>5%</td>
<td>1%</td>
</tr>
<tr>
<td>Others</td>
<td>10%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Annexure 3: Benchmarks against key competitors

<table>
<thead>
<tr>
<th></th>
<th>As % of Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Margins</td>
<td>31%</td>
</tr>
<tr>
<td>Logistics Cost</td>
<td>10%</td>
</tr>
<tr>
<td>Advertisement Spend</td>
<td>3%</td>
</tr>
<tr>
<td>Employee Cost</td>
<td>3%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>8%</td>
</tr>
</tbody>
</table>
Rules & Guidelines:

Sync-Quest will be held in two stages:

Stage 1: Submission of Case Solution

- No prior registration is required for the event. Teams can download the case details from the website from 28th July.
- The teams should clearly mention all the assumptions made on a separate slide.
- The solution for the case study (Stage 1) should be in ppt/pptx format and should not exceed 15 slides exclusive of all assumptions, exhibits, appendices and the cover page.
- The cover page should contain – Team Name, College Name and Team Details (Name, Email Id and Contact No.). The details of the participants should appear nowhere else in the solution.
- All entries should be mailed to litmus10.nitie@gmail.com with the file name as “SyncQuest_<CollegeName>_<TeamName>” and subject line as “SyncQuest_<College Name>_<Team Name>”.

Stage 2: Final Presentation

- Stage 2 will be held in NITIE campus. The shortlisted teams will have to present their solutions in front of the esteemed jury.
- The shortlisted teams (four confirmed and three waitlisted) will be informed by email. Teams need to send their confirmation regarding participation within 24 hours, failing which, the teams in the waiting list shall be invited.

Guidelines:

- The competition is open only to B-school students.
- A team can consist a maximum of two members.
- Both the members of a team should be from same college.
- No person can be part of more than one team.
- Each team can submit only one entry.
- Multiple entries from an institute are permissible.
Individual participation certificates will be awarded to all finalists

The decision of the organizers of the contest and the panel of judges will be final and binding

For any queries, contact

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Important Dates:

Launch of Case         28th July, 2010 - 0000 hrs
Submission Deadline    31st July, 2010 - 2359 hrs

Stage I Results        4th August, 2010
Stage II Finals        13th August, 2010
Stage II Results       13th August, 2010

Prizes Worth:

First Prize:          ₹ 20,000
Second Prize:         ₹ 10,000