



ANNEXURE 3

CASE STUDIES WITH SUGGESTED SOLUTIONS

Englishfone reentry into India

(A case on acquisition)

“Englishfone’s Chief Executive Values Hongkongfone at \$18.8 billion”.

In January 1999, UK based Englishfone made its maiden entry into India when it merged with US based USAfone. At that time, USAfone had a 49 per cent stake in Madhya Pradesh SI Cellcom and 20 percent in SI Cellular in Chennai. However by 2003, Englishfone exited India. After all, with just 1 per cent mobile penetration, the country was not yet a hot telecom destination.

Two years later, when the subscriber base started shooting up, Englishfone returned. In October, 2005, it picked up a 10 percent stake in leading mobile operator Indiafone Tele-Ventures for \$1.5 billion (Rs.6700 Crores). In its third avatar, the \$54.8 Billion Englishfone has bagged Hongkongfone, India’s fourth largest mobile operator, by paying \$11.08 billion (Rs.49.860 Crores) for a 67% stake. In the process, it has edged out Hongkongfone’s 33% partner, the Group.

Englishfone offered to pick up’s 33% stake at the same evaluation. Now, Englishfone will have a presence in 16 of India’s 23 Circles, plus licenses for another six. Ironically, the only circle missing in Englishfone’s India bouquet is Madhya Pradesh where it had made its India debut.

The real gainer, no doubt, is Hong Kong based, Hongkongfone Telecommunications International, which has netted a neat \$8.48 billion by exiting the Indian Operations. Sources close to HTIL say it exited since it got enough value for the \$2.6 billion odd investment it had pumped into the Indian venture.

The Indian acquisition fits into Englishfone’s focus on the EMAPA (Eastern, Europe, Middle East, Africa, Asia Pacific and Affiliates) markets. India is a critical cog in that plan. That’s because mobile revenues already account for 57% of the \$ 22.5 billion (Rs.1,01,250 crore) Indian telecom market. By 2010, it is expected to account for 76% of an estimated \$43.6 billion (Rs.1,96,200 crore) market.

Bankrolling the buy-out

Englishfone’s successful bid for Hongkongfone’s 67% stake in Hongkongfone may have been driven by its compulsions to enter the High-growth Indian Market, but what clinched the deal for the UK based company was the enormous booty of cash at its disposal.

Englishfone was probably the least leveraged of all the bidders and this helped them bid aggressively. It already had \$5 billion from the sale of its Japanese Unit for \$15 billion in 2006 (the remaining \$10 billion is expected to go back to shareholders). It also got \$1.62 billion cash from its 5.6% stake sale in Indiafone. This \$6.62 billion may go towards funding the \$11.1 billion price tag for the 67% stake.



In addition, Englishfone had free cash reserves (for the first six months of 2006) in excess of \$3 billion. It had also sold its 25% stake in Swiss Mobile and exited Belgium. Therefore, the debt component in the deal was lower.

Investment Bankers in India too, have underlined Englishfone's advantage, thanks to its access to cash and its capability to strike the least leveraged deal.

Immediate challenges

It is going to be a tough battle ahead as the World's largest mobile operator (by revenue) tries to woo the price-conscious Indian Consumer. The CEO says "We are the fourth largest operator in India. We intend to be No.1 in India. So would Indiafone, Let's see". Englishfone is targeting 100 million Indian Subscribers in three years (Hongkongfone has 24.41 million at present). That's half its subscriber base in 27 countries. But getting there means adding between 1.5 million and 2 million subscribers every month.

While Hongkongfone has been adding around 1 million subscribers a month, market leader Indiafone has been adding 1.75 million. Englishfone needs to exceed Indiafone's net subscriber additions to be the leader in three years. Second, it needs to tap rural India in a big way. Englishfone has earmarked an investment of \$2 billion over the next couple of years to strengthen its presence here.

Discussion Questions

1. Why Englishfone chose Hongkongfone?

Fourth largest mobile operator in India with 24.41 million subscribers.

16.41% share of the Indian mobile market.

Present in 16 of 23 circles. Has license for six others barring Madhya Pradesh.

Average Revenue Per User (ARPU) at Rs.374 as against the national average of Rs.335.46.

Hongkongfone Mumbai ARPU at Rs.609.36, the highest in India, but yet to be integrated.

Accounted for 41% of Hongkongfone Telecommunication International's Revenues.

Revenues of \$908 million in H1 2006 as against \$1.29 billion in 2005.

Operating profits of Rs.1,017 crore, EBITDA margins at 32.7% in H1 2006.

Fits into Englishfone's focus on increasing presence in emerging markets.

2. Now the question arises is: Has Englishfone paid too much?

The answer is not really.

The Englishfone scrip rose 1.34% on the London Stock Exchange between 9 February and 12 February. The total valuation of Rs.\$18.8 billion is below the \$20 billion level that was considered a major issue with Englishfone investors. Englishfone paid \$11.08 billion for the 67% stake. After one factors in the \$ 1.62 billion it will receive over the next 18 months by selling its 5.6% stake in Indiafone, the net outgo is \$9.46 billion. Add to that debt of \$.1.96 billion.

While that has to be paid, what could bring a lot of succor to Englishfone is the Memorandum of understanding that it has with Indiafone on infrastructure sharing.



The immediate impact will be that it will be in a position to start services quickly in uncovered areas.

Englishfone seems to have pegged its valuation based on India's mobile growth story. After all, there is no other country that is adding over 6 million subscribers every month. The increasing subscriber based has also mean that while average revenues per user are falling, revenues are on the rise. The Cellular Operators' Association of India data clearly shows that though ARPU fell by 10.6% in the July-September 2006 quarter over the same period last year, revenues went up by 57.85%. That's the clear indication of the potential of the Indian Market.

Also, mobile penetration at 13% is well below China's 41% and Brazil's 54%. It is expected to touch 40% mark by 2011-2012. By then Englishfone expects to control 20-25% of the market as against 16% now. Obviously, revenues will be higher.

The enterprise value per subscriber that Englishfone paid at \$770.2 is much lower than \$1,066 it valued each Indiafone Subscriber in 2005.

Englishfone will have to bid for 3G spectrum. However, Englishfone seems to be focusing more on expanding the 2.5 subscriber base for now. But the experience that it has in deploying 3G in Europe will be a great advantage when it gets down to rolling out services in India.

3. What can one expect from Englishfone?

Englishfone said it in as many words. So, look out for a major ramp up of the existing Hongkongfone network. That means more business for global telecom vendors.

First, it changed the pink Hongkongfone logo with its own red logo. It is something which company does globally. CEO (EMAPA), Englishfone says "We believe in the Englishfone brand, and the migration will be done in a seamless way. That's because we have experience of Re-branding in over 20 markets. And yes, will be consulted in the Re-branding exercise".

Next, you can expect low cost handsets with the Englishfone logo. That's quite on the lines of what an Indian mega telecom company has already done in the CDMA space. Englishfone has recently struck a deal with China's ZTE to source handsets. Expect such deals for vendors who are already manufacturing in India.

This could lead to lower tariffs, though it remains to be seen how much lower it can go from Re 1 a minute. But be prepared for services like Englishfone simply for the low end user, Englishfone Live for multimedia and Englishfone Passport for cheaper global roaming calls. Being on the Englishfone network means that roaming will be a lot cheaper.

4. Was the acquisition a success or a failure?

It was a success

Just six months ago, the London based group sold their 5.11% stake in Hongkongfone to Hongkongfone Telecommunications for \$450 million. That worked out to \$502 per



subscriber. The \$18.8 billion valuation by Englishfone means that it has offered \$770.2 per subscriber, a 53.4% increase. In contrast, way back in 1999, Indiafone acquired JT Mobile at \$117 per subscriber. The soaring valuations are a clear indicator of where the Indian Telecom market is headed.

The advantage that Englishfone has is that Hongkongfone has the highest average revenue per user (ARPU) in India at Rs.374. This is a despite a 19.3% fall in its ARPU since September 2005. But the key advantage is that during 2006, Hongkongfone added 10.67 million subscribers. That's an average of almost a million new subscribers every month. Given that the industry is adding over 6 million subscribers every month, this figure should only rise.

The sharply rising subscriber base ensures that revenues will keep increasing. While during 2005, Hongkongfone had revenues of Rs.5,800 crores, it notched Rs.4086 crore in the first half of 2006. The deal with Indiafone will also keep capex costs in check for Englishfone. Considering that chief executive of Englishfone is not too keen on 3G services in India immediately, the focus will be on getting a national coverage. Now it is time for Englishfone to justify the valuation to Englishfone's shareholders.

Global population is 6.6 billion and India's population is 1.2 billion. A mobile phone user globally is 2.3 billion and in India it is 205 million users. So therefore one can see the potentiality of the Indian market.

The Cellular Operator Association of India (COAI) data clearly shows that ARPU went up by 57.85% in 2007 2nd quarter as compared to the 2nd quarter in the last year. India's mobile industry to touch 40% mark by 2011-2012 and Englishfone expects to capture 20-25% of the market share.



IB group rediscovers itself

(A case study on Strategy formulation and implementation)

Indian breweries vision is to become the No.1 Company in all our Core Businesses through Customer Focus and Teamwork. To realize this dream the Company has developed its mission statement as follows:

We constitute a large, global group based in India. We associate with world leaders in order to adopt technologies and processes that will enable a leadership position in a large spectrum of activities.

- We are focused on assuming leadership in all our target markets.
- We seek to be the most preferred employer wherever we operate.
- We recognize that our organization is built around people who are our most valuable asset.
- We will always be the partner of choice for customers, suppliers and other creators of innovative concepts.
- We will continually increase the long-term value of our Group for the benefit of our shareholders.
- We will operate as a decentralized organization and allow each business to develop within our stated values.
- We will be a major contributor to our National Economy and take full advantage of our strong resource base.
- We commit ourselves to the ongoing mission of achieving Scientific Excellence.

Quality statement

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We will be a major contributor to our National Economy and take full advantage of our strong resource base.

We commit ourselves to the ongoing mission of achieving Scientific Excellence.

The Chairman of IB said, “The success of IB Company is measurable by the steady increase in the market capitalization, which has grown dramatically. We have marked the occasion with a bonus issue in the ratio of 1:1 and a cash dividend after an extended period of time. The primary role of Indian breweries [Holdings] Limited is to promote and incubate companies to which we bring both financial and management resources, so as to grow these investments as quickly as possible, to profitable leadership in their respective lines of business.

Not so long ago IB was a multi divisional conglomerate with interests in many different lines of business. Over the last several years, there has been a distinctive shift away from this approach in favor of greater focus. We have chosen to remain and invest resources in business where we have not only clear market leadership domestically, but also a global relevance. We pride ourselves on being a consumer goods company, with expertise in building lasting brands. With this philosophy, we have sharpened our vision and focused our resources in three major sectors, viz., Brewing, Spirits and most recently, Aviation.

Beer

Indian breweries have gone from strength to strength during a year, which commenced with Scottish & Newcastle cementing the joint venture and consequent induction of Rs.464 Crores into the company. In a market that grew at an average rate of 15% for Lager and 11% for strong beer our company has significantly outperformed, gaining 50% market share in the process. Hummingbird Lager has crossed the 20 million case mark and Hummingbird Strong has become India’s leading Strong Beer during the year. Aggressive growth and close watch on costs has resulted in Indian breweries increasing profit margins by 245%. The gradual beginning of deregulation has resulted in explosive growth during the early part of the current financial year. Improving economic conditions and the demographic imperatives will ensure sustainable growth for many years to come. To take advantage of this energizing growth, our company plans to make significant growth in capacity over the next few years.

Spirits

It has been a watershed year for our Spirits Division post the spate of acquisitions including SW, and the remnant shares of T and H. The management integration of the business has gone extremely well, thanks to close attention to detail and professional management of the process. I am pleased to report to you that respective High Courts have granted permission to complete the legal consolidation of all the spirits companies of the group into John’s to create Indian spirits Ltd. The market cap of Indian spirits has crossed the US \$ 1 billion mark on a normative basis.

The business is growing strongly and the company has drawn up a three year strategic plan which envisages continuous improvement of profitability, growing “premiumness” of our product offerings and the opening of new lines of activity such as exports and wines.



Airlines

Hummingbird Airlines is our newest venture and all of you who have experienced the service would recognize that this company is re-writing the book on service levels in the aviation industry, not just in India but with plenty of international recognition and accolades as well.

We have brought to bear on this business, our deep insights into consumer behavior and needs, helping us to create a product, which truly sets new standards. With 17 aircraft performing 104 flights a day in 15 months since commencement of operations, I believe that Hummingbird has got off to an aggressive start which is well placed to take us forward to market leadership in coming years.

Hummingbird Airlines is expected to break even by FY 07-08. However, the airline is well respected and consequently able to lineup funding required to meet all its requirements till that time.

FERTILIZERS

Chennai Chemicals Ltd. has had another productive and successful year having produced 4 lakh tonnes of urea and 1.94 lakh tonnes of Di Ammonium Phosphate (DAP). From a situation of heavy losses and extensive debts at the time that the IB Group acquired it, this company has now been making profits for the last several years and is now debt free. We at IB are proud of this turn around and the active contribution that CC makes to farm production in Karnataka. CC also rewarded its shareholders with the declaration of a dividend for the first time in 18 years.

IB city

IB CITY is rising fast in the heart of Delhi, reshaping forever the skyline of the city. Located, as it is, on one of the most valuable pieces of real estate in Delhi, the one million plus sq.ft multi use development comprising a luxury hotel, high tech commercial space and super premium shopping mall will create a landmark in the city. Occupation will commence by the end of the current FY and the entire project will be completed by autumn 2007. Renting of our share of the developed premises will generate a recurring and healthy cash flow.

From the foregoing, you will see that our company is on the verge of cashing in on the growth that will accrue from our high quality products, brands and exceptional service levels, addressing needs of a resurgent India, where the youthful population will contribute not only to rapid economic growth, but also to a significant expansion in consumption. The IB Group's family of products and services anticipate and cater to these needs and I truly believe, my friends, THE GOOD TIMES WILL CONTINUE TO ROLL!

This leaves me with a very pleasant duty of recording my appreciation and the appreciation of my colleagues on the Board, to all for having contributed to this happy state of affairs, including staff, managers, suppliers, customers, financial partners and above all, you, my dear shareholders."

Discussion questions

What is the relationship between vision and mission of Indian breweries



Indian breweries vision is to become the No.1 Company in all our Core Businesses through Customer Focus and Teamwork

To become a number one company IB has formulated a strategy at the functional level to identify its core competence, improve quality, build up on the customer focus and develop structure in organization in such a way that cross functional relationship has been strengthened. Over the last several years, there has been a distinctive shift away from this approach in favor of greater focus. IB has chosen to remain and invest resources in business where IB have not only clear market leadership domestically, but also a global relevance.

The mission statement very clearly reflects the importance attached to development of the core competences for which quality, customer focus, team work, etc. have been given great importance

From a conglomerate IB group moved towards specialization. Discuss.

IB group as a conglomerate had with in its control breweries, fertilizers, aviation and real estate development. At this point of time though the company was moving ahead the rate at which it was growing was not satisfactory especially as the core competencies in different areas have not been give their fillip they required. As a managerial acumen crystallized restructuring the group has been very successful. Breweries and spirits had been brought under John's so that the brands could be built and nurtured globally with specific focus. In the same manner, Chennai chemicals and fertilizers which had already the necessary professional expertise have to be supported through financial measures. The aviation company Hummingbird is also been developed separately on professional lines looking for new opportunities and acquisitions.

The top management of the company very clearly knew that developing IB group in the various spheres of activity would require heavy dose of investment. Towards this cash flow and cash accretion became important and forays into real estate development have provided the necessary cash flow in a regular manner.

From this case study what are the level strategies formulated and implemented by IB group?

Regrouping the company's activities according as the distinctive core competencies, customers focus and quality excellence, the strategy conceived has been at the functional level.

Identifying the requirements of resources for each activity through as SWOT analysis the company developed a business level strategy by identifying the target markets domestically and investments required there for. Chennai chemicals and Hummingbird aviation fitted well for this strategy.

Redefining markets, development of brands multi-nationally for the brewery products and spirits required steps based on global level strategy. This global level strategy now has come in as a catalyst for Hummingbird aviation becoming an international airline.



Seashore at Risk

(A case on risk management)

The BL 250 Hotels and Resorts Index, a constituent of the Broad – based BL 250 index, is rundown during the early years of 2001- 2003. The stock of Hotels in India did not fare well even when they were operating on a chain. The sentiments were no different with companies operating single hotels. Primarily, two factors contributed to the dumping of hotel stocks – a substantial fall in earnings and bleak prospects of revival in the near future.

Earnings

The earnings growth for hotel companies is a function of occupancy levels and the average room rates (ARR). While a hotel does generate stand-alone revenue from its restaurants, bars and conference hall, a substantial portion stems from guest check-ins and related revenues, such a food and beverages (F & B). Typically F&B-to-room-income ratio ranges from 0.80 to 1 in cities such as Chennai and Kovalam; and 1:1 in Goa and Bangalore. That is, every one rupee earned in room revenue generates F & B income of 80 paisa in Chennai, and one rupee in Chennai. Hence, occupancy levels play an important role in determining the pre-tax profits of hotel companies.

As over 50 per cent of the total guestrooms are located in Chennai and Goa, it would be just as well to study the occupancy levels in these two cities to determine the overall trends. Luxury Hotels in these cities have two characteristics. First, they derive more than 60 percent of their income from foreign guest check-ins and, second, these hotels depend primarily on business travelers for revenues.

Hotel Seashore

The Chennai based Hotel Seashore owns and operates a chain of premium hotels under the 5 Star deluxe categories. Its 4 properties are located in Chennai, Bangalore, Goa and Kovalam with the Chennai and Bangalore properties accounting for majority of the revenues. It is presently in an expansion mode, which will more than double its room inventory to over 2520 rooms in the next 2 – 3 years from the present levels of 1086 rooms. It is also developing an IT Park in Pune, which is expected to generate an annuity income of Rs.24crs. The wide gap in the demand and supply of rooms in the areas where Seashore presently operates and is expanding augurs well for its future growth leading to increased ARRs and Occupancy Rates (OR). The increase in ARRS and ORs in most of these locations will more than offset the decrease in ARRs in Bangalore. Taking into account the buoyant industry conditions, expansion of rooms in high growth markets, the brand pull of Seashore and its tie-up with Temposki we expect the company to better its performance going forward. The stock is presently quoting at 17.5x its FY08E EPS of Rs.3.20.

Discussion questions

- Identify the type of risk faced by hotel Seashore?

They derive more than 60 percent of their income from foreign guest check-ins and, second, these hotels depend primarily on business travelers for revenues. These two segments depend on the macro lead indicators for the economy and



as such trade cycles also affect the hotel industry. This results in lower occupancy rate and lower room rent. This is clearly a case of business risk.

- How has Seashore managed the business risk?

The fluctuation in average rates and occupancy rates brought about a fluctuation in cash flows and operations below the break even level. So any measure for managing this risk would be to identify an avenue which is totally unrelated. To compensate for the crests and troughs of the cash flow, a regular stream of cash flow would take care of the standing charges. Towards this hotel seashore is developing an IT Park in Pune, which is expected to generate an annuity income of Rs.24crs.



An acquisition with a difference

(A case on Mergers and Acquisition)

According to the Europeshoes and Americanshoes International acquisition

- Agreement under which Europeshoes AG would acquire all of the outstanding shares of Americanshoes for US \$59.00 per share in cash.
- The offer price represents a premium of 34.2% over the closing price of Americanshoes's stock on August 2, 2005.
- The transaction value is approximately **₹** 3.1 billion (U.S.\$3.8 billion) including the assumption of net cash of **₹** 69 million (U.S.\$84 million).
- The combination of Europeshoes and Americanshoes accelerates the Europeshoes group's strategic intent in the global athletic footwear, apparel and hardware markets.

Based in Europe, Europeshoes is the second largest sporting goods company in the world with its core brands Europeshoes TaylorMade-Europeshoes GOLF. With 14,217 employees it reached sales of **₹** 5.9 billion in 2004. The Group's net income attributable to shareholders from continuing and discontinued operations reached **₹** 314 million in 2004.

Americanshoes International Ltd. (NYSE: RBK), headquartered in Canton, MA, is a leading worldwide designer, marketer and distributor of sports, fitness and casual footwear. Sales for 2004 totaled approximately **₹** 3.8 billion.

What is in the deal?

Today's announcement represents a major strategic milestone for our Group," said Europeshoes Chairman and CEO.

What is in the store?

Opportunity to combine two of the most respected and well-known companies

Europeshoes and Americanshoes are energetic and growing companies with a shared commitment to innovation, sport performance and sport lifestyle.

Expand our geographic reach, particularly in North America, Create footwear, apparel and hardware offering that addresses a broader spectrum of consumers and demographics.

With Americanshoes, we are advancing our position on the playing field of the sporting goods industry, improving our financial strength to drive increased shareholder value.

Strategic perspective

Extended geographic reach and more balanced sales profile.

World-class and talented employees

Broader portfolio of world-renowned brands

A more complete product offering in key sports categories



Stronger presence across teams, athletes, events and leagues
Enhanced R & D capabilities and cutting-edge technology.

Financial perspective

Accretive to earnings.
Return in excess of cost of capital
Strong operating cash flow
Substantial operational synergies
Financing and Capital Structure

Management and headquarters

Europeshoes will maintain its corporate headquarters in Europe and its north American Europeshoes headquarters in Portland, Oregon.

Old CEO will remain as chief executive officer of Americanshoes international Ltd. And will continue to lead the Americanshoes team.

Americanshoes will continue to operate under its name and will retain its headquarters in Canton, Massachusetts.

This transaction is about growing the combined entity, and Europeshoes does not anticipate significant workforce reductions.

Approvals and Timing

The transaction is subject to customary closing conditions and regulatory approvals as well as approval by Americanshoes shareholders

Two shareholders collectively own approximately 17% of Americanshoes's outstanding shares and have agreed to vote their shares in favor of the transaction.

The companies believed that the transaction will close in the first half of 2006.

Discussion Questions

1. What are the redeeming features Europeshoes – Americanshoes alliance?
 - a. To avoid competition and enhance the range the two companies came together with the following strategic perspectives:
 - Extended geographic reach and more balanced sales profile.
 - World-class and talented employees
 - Broader portfolio of world-renowned brands
 - A more complete product offering in key sports categories
 - Stronger presence across teams, athletes, events and leagues
 - Enhanced R & D capabilities and cutting-edge technology.
 - b. More than these perspectives Europeshoes understood the tremendous brand equity of Americanshoes and allowed to continue its independent existence. Americanshoes



International also continues its brand Americanshoes. It will continue to operate under its name and will retain its headquarters in canton, Massachusetts. The combination of Europeshoes and Americanshoes accelerates the Europeshoes group's strategic intent in the global athletic footwear, apparel and hardware markets.

2. How did Europeshoes acquire Americanshoes international? What strategy it adopted?
 - a. EuropeshoesAG would acquire all of the outstanding shares of Americanshoes for US \$59.00 per share in cash.
 - b. The transaction value is approximately **1** 3.1 billion (U.S. \$3.8 bn) including the assumption of net cash of **1** million (U.S.\$84 mn).
 - c. Europeshoes adopted the strategy of acquisition through corporate control. A substantial stock holder's ownership is purchased at a premium that is above the market price called Greenmail. In this particular case the offer price represents a premium of 34.2% over the closing price of Americanshoes's stock on August 2, 2005
3. What sort of a strategic alliance can this acquisition be identified with?
 - a. Though Europeshoes acquired Americanshoes essentially it is born out of a strategic alliance approach. This is an alliance of two strong and complementary partners that will continue to remain strong. This strategic alliance is known as "alliance of complementary equals".



Risk management in Hanman

(A case on risk management, corporate governance and social responsibility)

Type	Public (<u>BSE</u> : HANMAN, <u>NSE</u> : HANMAN)
Founded	1981
Headquarters	India
Industry	Automotive
Products	Hanman
Revenue	~\$2.5 billion (2005)
Employees	3,000

Vision

“The Leader in The Indian Automobile Industry, Creating Customer Delight and Shareholder’s Wealth; A pride of India”

Core Values

Customer Obsession
Fast, Flexible and First Mover
Innovation and Creativity
Networking and Partnership
Openness and Learning

Mission

“To motorize India...”

Major objective

The main objective behind formation of Hanman Limited was to meet the growing demand of a personal mode of transport caused by the lack of an efficient public transport system.

Downstream Business

- Hanman Finance
- Hanman Insurance
- Service
- Hanman True Value

This company which was started as a public – private partnership developed itself as a role model, both as a corporate entity and as an employer. The company was operated on the four corner stones of profitability, solvency, growth and sustainability. Towards this the company identified various risk factors namely, Business Risk, Commodity Price Risk, Exchange Rate Risk and Financial Risk.



Business risk arose because the automotive industry faces trade cycles, mainly because that the purchases of automobiles depended on the purchasing power of the public. Commodity price risk arose due to the Japanese collaboration and consequent import of many components from Japan for the assembly of automobiles. With the Japanese Yen strengthening against Indian Rupee, the exchange rate risk required careful monitoring and control. Financial risk arose due to sale through hire purchase segment and the default risk that could arise. The company has successfully been managing these risks and is evidenced by the following financial results - 2005:

Growth of 21% and PAT increased by 31%

EPS Increased from 51 Rs. to 63 Rs.

ROCE increased by 35%

Profit After Tax of Rs.15,620 million

Highest Sales of 674,924 vehicles

Under the SEBI guidelines a corporate entity has to adhere to the principles of corporate governance to take care of the share holders interests, provide transparency to its activities. Towards this it developed its corporate governance to take care of the following factors:

- a. Rights and equitable treatment of shareholders
- b. Interests of other stakeholders
- c. Role and responsibilities of the board
- d. Integrity and ethical behavior
- e. Disclosure and transparency

Arising out of this approach the social responsibility of the company transformed itself into taking the following steps:

The new institute Driving Training and Research (IDTR)

Along with two suppliers has adopted 4 Industrial Training Institutes.

Hanman Driving School (MDS)

Construction of Fly over.

As a model employer it developed good relations with all its employees and inculcated in them values of ownership, loyalty and productivity. It ensured compliance with standards of business conduct & ethics and also with regulatory requirements and emphasized on honesty, integrity & ethical conduct.

Discussion questions

- How has Hanman delivered Corporate Social Responsibility?

Social responsibility of the company transformed itself into taking the following steps:

The new institute Driving Training and Research (IDTR)



Along with two suppliers has adopted 4 Industrial Training Institutes.

Hanman Driving School (HDS)

Construction of Fly over.

- What are the risks faced by the company? How would have they managed it?

Business risk arose because the automotive industry faces trade cycles, mainly because that the purchases of automobiles depended on the purchasing power of the public. This risk was managed by the company by taking back second hand Hanman cars from the customers on exchange basis. Besides they offered it again after adding value to these second hand vehicles by overhauling and reengineering at affordable prices to public.

Commodity price risk arose due to the Japanese collaboration and consequent import of many components from Japan for the assembly of automobiles. Over a period of years Hanman had indigenized components by developing many Indian suppliers. With the Japanese Yen strengthening against Indian Rupee, the exchange rate risk required careful monitoring and control. This was de risked through hedging.

Financial risk arose due to sale through hire purchase segment. To overcome this risk Hanman floated its own financing company that had securitization as its concept.

- How can corporate governance be part of risk management?

All the stakeholders namely, customers, investors, employees, creditors, suppliers have their stakes in the company, which is in the form of financial risk as also operating risk.

Under the SEBI guidelines a corporate entity has to adhere to the principles of corporate governance to take care of the share holders interests, provide transparency to its activities. Towards this it developed its corporate governance to take care of the following factors:

Rights and equitable treatment of shareholders

Interests of other stakeholders

Role and responsibilities of the board

Integrity and ethical behavior

Disclosure and transparency



Supplying oil for India

(A case on strategy formulation)

Vision

A major, diversified, transnational, integrated energy Company, with national leadership and a strong environment conscience, playing a national role in Oil security & public distribution

Mission

- To achieve international standards of excellence in all aspects of energy and diversified business with focus on customer delight through value of products and services, and cost reduction
- To maximize creation of wealth, value and satisfaction for the stake holders
- To attain leadership in developing, adopting and assimilating state-of-the-art technology for competitive advantage
- To provide technology and services through sustained Research and Development
- To foster a culture of participation and innovation for employee growth and contribution
- To cultivate high standards of business ethics and Total Quality Management for a strong corporate identity and brand equity
- To help enrich the quality of life of the community and preserve ecological balance and heritage through a strong environment conscience

Values We Nurture

Country Oil nurtures the core values of Care, Innovation, Passion and Trust across the organization in order to deliver value to its stakeholders.

Objectives and Obligations

Objectives

- To serve the national interests in oil and related sectors in accordance and consistent with Government policies
- To ensure maintenance of continuous and smooth supplies of petroleum products by way of crude oil refining, transportation and marketing activities and to provide appropriate assistance to consumers to conserve and use petroleum products efficiently.
- To enhance the country's self-sufficiency in crude oil refining and build expertise in laying of crude oil and petroleum products pipelines.
- To further enhance marketing infrastructure and reseller network for providing assured service to customers throughout the country.
- To create a strong research & development base in refinery processes, product



formulations, pipeline transportation and alternative fuels with a view to minimizing / eliminating imports and to have next generation products.

- To optimize utilization of refining capacity and maximize distillate yield and gross refining margin.
- To maximize utilization of the existing facilities for improving efficiency and increasing productivity
- To minimize fuel consumption and hydrocarbon loss in refineries and stock loss in marketing operations to effect energy conservation
- To earn a reasonable rate of return on investment
- To avail of all viable opportunities, both national and global, arising out of the Government of India's policy of liberalization and reforms
- To achieve higher growth through mergers, acquisitions, integration and diversification by harnessing new business opportunities in oil exploration & production, petrochemicals, natural gas and downstream opportunities overseas.
- To inculcate strong 'core values' among the employees and continuously update skill sets for full exploitation of the new business opportunities
- To develop operational synergies with subsidiaries and joint ventures and continuously engage across the hydrocarbon value chain for the benefit of society at large

Obligations Towards customers and dealers

To provide prompt, courteous and efficient service and quality products at competitive prices

Towards suppliers

To ensure prompt dealings with integrity, impartiality and courtesy and help promote ancillary industries

Towards employees

To develop their capabilities and facilitate their advancement through appropriate training and career planning

To have fair dealings with recognized representatives of employees in pursuance of healthy industrial relations practices.

Towards community

To develop techno-economically viable and environment-friendly products To maintain the highest standards in respect of safety, environment protection and occupational health at all product units

Towards Defense Services

To maintain adequate supplies to Defense and other Para-military services during normal as well as emergency situations



Financial objectives

- To ensure adequate return on the capital employed and maintain a reasonable annual dividend on equity capital.
- To ensure maximum economy in expenditure
- To manage and operate all facilities in an efficient manner so as to generate adequate internal resources to meet revenue cost and requirements for project investment, without budgetary support
- To develop long-term corporate plans to provide for adequate growth of the Corporation's business
- To reduce the cost of production of petroleum products by means of systematic cost control measures and thereby sustain market leadership through cost-competitiveness
- To complete all planned projects within the scheduled time and approved cost

Financial review

Amalgamation of erstwhile East India Petroleum

Consequent upon the merger of East India Petroleum with Country Oil, the financial statements of Country Oil for the year ended 31st March, 2007, have been prepared by including the financials of erstwhile EAST INDIA PETROLEUM as a separate Division. Since figures for the previous year 2005-06 do not include the financials of erstwhile EAST INDIA PETROLEUM, the same are to that extent not comparable with the figures for the current year.

Turnover

The turnover (inclusive of excise duty) of Country Oil for the year ended 31st March, 2007 was Rs.2,20,779 crore as compared to Rs.1,83,172 crore in the previous year. The total sales of petroleum products (including natural gas) for 2006-07 was 57.92 MMT as against 49.61 MMT (excluding EAST INDIA PETROLEUM sales) during 2005-06.

Profit Before Tax

The Corporation's Profit Before Tax was Rs.10,485 crore during 2006-07 as compared to Rs.6,706 crore in 2005-06. The profit for 2006-07 include a profit of Rs.3,225 crore on sale of 20% equity holding in Oil & Natural Gas Corporation Ltd. (ONGC) and provision of Rs.1,319 crore for diminution in investments in erstwhile in EAST INDIA PETROLEUM, which is vested in a Trust formed consequent to the amalgamation, while the profit for 2005-06 included a profit of Rs.438 crore on sale of 50% equity holding in GAIL (India) Ltd.

Discussion questions

Discuss relationship between Vision and Mission.

a. Vision

- i. A major, diversified, transnational, integrated energy Company, with national leadership and a strong environment conscience, playing a national role in Oil security & public distribution


b. Mission

- i. To achieve international standards of excellence in all aspects of energy and diversified business with focus on customer delight through value of products and services, and cost reduction
- ii. To maximize creation of wealth, value and satisfaction for the stake holders
- iii. To attain leadership in developing, adopting and assimilating state-of-the-art technology for competitive advantage
- iv. To provide technology and services through sustained Research and Development
- v. To foster a culture of participation and innovation for employee growth and contribution
- vi. To cultivate high standards of business ethics and Total Quality Management for a strong corporate identity and brand equity
- vii. To help enrich the quality of life of the community and preserve ecological balance and heritage through a strong environment conscience

How has COUNTRY OIL translated their obligations to stakeholders?

a. Towards customers and dealers

- i. To provide prompt, courteous and efficient service and quality products at competitive prices

b. Towards suppliers

- i. To ensure prompt dealings with integrity, impartiality and courtesy and help promote ancillary industries

c. Towards employees

- i. To develop their capabilities and facilitate their advancement through appropriate training and career planning
- ii. To have fair dealings with recognized representatives of employees in pursuance of healthy industrial relations practices.

d. Towards community

- i. To develop techno-economically viable and environment-friendly products
- ii. To maintain the highest standards in respect of safety, environment protection and occupational health at all product units

e. Towards Defence Services

- i. To maintain adequate supplies to Defence and other Para-military services during normal as well as emergency situations

f. Towards shareholders

- i. To ensure adequate return on the capital employed and maintain a reasonable annual dividend on equity capital

Identify the type of strategy adopted by COUNTRY OIL for achieving their vision and mission.

- a. Achieving transnational status through global level strategy
- b. Achieving diversification through business level strategy
- c. National leadership as an integrated energy company through functional level strategy



Managing risk in oil supply to India

(A case on risk management)

Risks and concerns

In contrast with the experience of the 1970s, the significant increase in crude oil and petroleum product prices since 2003 appears to have had only a muted impact on the global economy thus far. The impact of higher oil prices has been limited largely because of a significant increase in consumption, rather than exogenous supply shock. Further, there has been a substantial decline in the oil intensity of the economy since early 1980s. Subsequently during 2007-2008 crude oil prices showed a spurt to USD 100 per barrel and has cast enormous burden on Country Oil industry. Especially, 70% crude oil requirements are being imported.

Under the erstwhile Administered Pricing Mechanism, the Indian economy was shielded against the global oil price spikes and any sharp increase in oil prices was dissipated by spreading it through smaller, incremental hikes over a period of time. This is not the case anymore. With crude oil prices stabilizing above the US\$ 90 per barrel mark being increasingly viewed to be permanent in nature, high oil prices are likely to result in higher subsidy costs. In this context, the Government's policy on subsidies necessarily needs a review.

Country Oil has been suffering losses due to price control on the four principal petroleum products. The subsidies received from the Government discounts from upstream companies, reserves, and the Oil Bonds issued by the Government only partially offset these losses. As a result, the Country Oil continues to be mired by a huge financial burden of net under-realization. This in turn, has adversely affected the financial performance of the Corporation. However, Country Oil continues to pursue its Cap-Ex programme with increased market borrowings. To maintain the flow of funds for investments, the Corporation has been selling the Oil Bonds issued to it at a discount.

With the rising competition in the petroleum retailing business, the density of retail outlets in the country has gone up substantially, which in turn has reduced the per-pump product throughput, thereby raising concerns about the profitability of individual retail outlets and the viability of dealerships. The rising competition in the institutional sales business has prompted the OMCs to resort to heavy discounts, which in turn has trimmed their marketing margins.

Natural gas is becoming the preferred fuel and feedstock for the fertilizer and power sectors, displacing liquid fuels thereby eroding to some extent the growth prospects in petroleum refining and marketing, which is the core business of Country Oil. With the anticipated increase in the availability of natural gas in the immediate future from recent gas finds in the Indian basins, there is little doubt that the new fuel will play a major role in the Indian energy market.

Without having linkage with a major supply source for natural gas, the challenge in the gas business is to establish short, medium and long term supply linkages in a market constrained by non-availability and increasing prices. Within the natural gas business, city gas distribution is seen as a focused area for rapid growth. Country Oil entered the city gas distribution business during this year, with the formation of Green Gas Ltd., a joint venture company



with GAIL, which has become operational in Lucknow and Agra, with plans for expanding to other cities in Uttar Pradesh, Country Oil also signed a Memorandum of Understanding with Great Eastern Energy Corporation Ltd. (GEECL) for establishing city gas distribution networks in West Bengal based on CBM from GEECL's CBM blocks. A separate joint venture company is also being formed with GAIL for city gas distribution in West Bengal and subsequently in other eastern states.

The Indian Bio-fuels programme has become a reality with the progressive initiatives and mandates given to the OMCs to include Bio-fuels in the oil & gas supply chain. Bio-fuels business is poised to create a silent revolution in the energy market and address the concerns for energy security. In keeping with the above mandate, Country Oil has taken the initiative of venturing into the entire value chain of Bio-diesel through a definitive business plan.

As regards business in neighboring countries, recovery of outstanding dues from Nepal Oil Corporation remains an area of concern, although some progress has been made on this front, with the beginning of a process of monthly payments.

The long-pending issue of subsidy payment by the Government of Sri Lanka to the Corporation's subsidiary, Lanka COUNTRY OIL Ltd., has been settled after protracted negotiations. This has led to a renewed thrust on the business priorities of the subsidiary after a fairly long spell of uncertainty.

The manpower recruitment scenario has undergone significant changes over a period of time and it is becoming increasingly difficult to induct desired talent from the premier institutes and other campuses of the country due to higher compensation packages being offered by the private sector players in the growing economy.

Discussion questions

- What are the types of risk faced by COUNTRY OIL?

Business risk

With the crude oil price zooming alternative sources of energy explored. Natural gas as an alternative has emerged on the scene and oil refining industry is facing a threat that may transform into a risk

Dependence on import of raw materials for 70% of its requirements, threat of reduced or non-availability of crude oil from abroad in times of conflicts has become another threat that may transform into a risk

Financial risk

Raw material price risk: Increasing crude oil prices are not being offset in finished product prices

Subsidies from the Government not revised

Exchange rate risk due to more than 70% of requirement of crude oil being imported

Default risk: Credits offered to customers are facing slippages and are turning doubtful

- How has COUNTRY OIL mitigated risks being faced?



COUNTRY OIL is obviating the businesses by integrating their operations with natural gas production and supply. Reducing raw material risk by reducing consumption of crude oil by substitution of bio fuel blending from sources within the country

Exchange rate risk is being mitigated with hedging and recently with rupee getting stronger against dollar has become a compensating factor

Country Oil continues to pursue its Cap-Ex programme with increased market borrowings. To maintain the flow of funds for investments, the Corporation has been selling the Oil Bonds issued to it at a discount.

Outstandings on subsidies from Sri Lanka and Nepal Governments have been settled after protracted negotiations

The subsidy policy of GOI is under review. In the meantime the COUNTRY OIL and other oil companies are increasing prices of those oil products which are not affecting the common man, e.g., Aviation petrol, premium petrol.



Premium computation for motor vehicle insurance

(A case on insurance)

Automobile insurance is very specialized in that the tariff rating goes by the experience of various insurers regarding settlement of claims. The variables involved are the insured value, age of the vehicle and age of the driver. Premium computation can vary due to the change in the three variables mentioned above. Two specific cases have been discussed in this case study for computation of premium.

If we consider the value of the car to be insured is INR 3 lakhs and if the various rating parameters are the 1) age of the vehicle and 2) the age of the driver.

Rates are typically per thousand of sum insured unless otherwise specified. Sometimes, the rates could also be per hundred of sum insured.

- 1) The rates for the age of the vehicle are as follows:

If age of vehicle <5 years, then rate=.5

If age of vehicle >5 years, then rate=.8

Premium 1 = $.5/1000 \times 300000 = 150$

- 2) The rates for the age of the driver are as follows:

For driver age 30 years, rate = $7.5/1000$

For driver age 35 years, rate = $7.9/1000$

So the premium for a vehicle with age less than 5 years and age of the driver is 35, the premium can be calculated as

Premium 1 = $.5/1000 \times 300000 = 150$

Premium 2 = $7.9/1000 \times 300000 = 2370$

Total Premium = Premium 1 + Premium 2 = $150 + 2370 = 2520$

Discussion questions

- What are the variables considered for computation of premium?

The variables involved are the insured value, age of the vehicle and age of the driver.

- Tariff rates as indicated by the insurance company vary with the age of vehicle and age of driver. Why?

Tariff rate varies according as the experience of the insurers companies in regard to claims settlement. If there have been too many accidents and the claims have been a large loss, then the premium rates will have to take into consideration the following:

Cost of payment for losses

Cost of operation and maintenance of insurance pool

Reserve for contingencies

Return on Investment.

Increase in age of the car and increase in age of the driver are directly proportional to increase in risk. Again a change in model also brings in obsolescence and this will lower the insured value.



Funds with Hedging Capability

(A case on risk management)

Fund Managers pick stocks with a view that the stock will appreciate in value adding to the fund growth. Imagine a scenario where the fund manager has taken 95% exposure in equities and the market crashes. This is what normally happens in equity funds, where the fund returns also take a hit when the market corrects sharply.

So why not have a fund that is exposed to the equities markets and also protects from a sharp fall. This is where funds with hedging capabilities come into picture.

Performance of Funds with Hedging Capability

Scheme Name	3 Months	6 Months	1 Year
ABS Hedged Equity Fund-Growth	30.50	45.45	60.08
Balanced Equity fund - Growth	20.34	35.30	50.30
Hello Equity Management Fund - Growth	11.50	15.50	25.55

Investors looking for capital protection and capital appreciation at the same time should look for funds with hedging capabilities. These funds invest in only those equities on which futures and options trading is also allowed. This enables the fund to hedge the equity exposure with an equally opposite exposure in the derivatives market. Any rise or fall in the cash market will be taken care by the derivatives exposure and reduce the volatility in the fund.

Funds with hedging capability work in both bullish and bearish markets because the fund manager depending on his views on the market takes an equal and opposite position in the derivatives markets to hedge the portfolio.

Discussion questions

- How is hedging done by mutual funds in their products?

Dictum runs that high returns go with high risks and an investor who is risk adverse doesnot invest in purely equity funds which are prone to high financial risks. The introduction of balanced funds where the low risk bonds are balanced by high risk equity investments with proper weightage taking the relevant beta of individual scrip into consideration.

- How the high risk in equity fund can be hedged otherwise?

Investors looking for capital protection and capital appreciation at the same time should look for funds with hedging capabilities. These funds invest in only those equities on which futures and options trading is also allowed. This enables the fund to hedge the equity exposure with an equally opposite exposure in the derivatives market. Any rise or fall in the cash market will be taken care by the derivatives exposure and reduce the volatility in the fund.



A cross border fiasco- An acquisition fiasco

(A case on acquisition and turnaround)

Acquisition of US based Pictures Entertainment in, 1990 was done through payment of \$27 for \$12 per share of the company and 22 times more than the company's annual cash flow

Electro

Founded on 1948 with an initial capital of - 1,50,000. During the mid 1960's, Electro entered the European Markets, and in 1970 set up manufacturing units in U S and Europe. The great success for Electro was introduction of Walkman. Electro retained rights to its entire film library and 2700 movie titles by acquiring Pictures Entertainment.

Pictures Entertainment

Founded in 1900 is an American film and television production company. It produced short films and low budget movies, concentrated on B pictures segment.

Reasons for acquisition

To merge electronics with entertainment – a good business sense (led Electro to acquire Pictures Entertainment Records)

Losing to Matsushita in VCR

Controlling software in the era of globalization would speed up the acceptance of an innovative (hardware) product.

Acquisition was not accepted by Americans

Post acquisition blues

- Analyst felt wide difference between the Japanese and American management cultures
- Electro said that they have no intention to dominate Hollywood through the studio
- Benefits that both the companies will gain through the synergies of Electro hardware and Picture Entertainment's software
- Electro allowed American managers complete control
- Manage like the American company
- Analyst felt that the decline of Pictures Entertainment's revenue was because Electro played the passive role
- Electro's decision not to interfere in the movie business, which accounted for more than 20% of its total revenues, went for a loss
- Giving an American CEO the movie business, the president of Electro's US operations who hardly knew about the operations.
- He himself said that producers can run the studio much better than professional managers



- Just because CEO and President of a Pro production company were personal friends he was allowed to manage Pictures Entertainment until 1994
- Purchasing Pro production company was a real mistake as Electro had to pay them hefty amount and they didn't had any experience of managing the studio before
- Under Pro production, production cost shot up and movies made by his production were mostly a flop show
- CEO with Pro productions extravagant spending and also renegotiating employment contract of this totally neglecting Electro's interest over here
- New clauses in the contract after his termination said that Pro production will be paid \$2.9 mn for three years after this termination, which proved to be the financial crisis.
- Authorizing millions of dollars to Pro production for buying antique furniture, fabulous parties and other luxuries
- Hardly any management controls at Pictures Entertainment during Pro productions president tenure
- After Pictures Entertainment president left, Pro productions president became the chairman of Pictures Entertainment
- He changed the studio name to 'EPE' but still analyst criticized his lack of management control
- With more flops that hit movie studio was losing money at a rate of \$250 mn per year
- However Electro recovered some losses by consolidating the performance of its movie business with its most profitable music business
- Finally Pictures Entertainment realized new Chairman's inability and relieved him of his duties in EPE

The revival efforts

- In 1994, there comes a new Chairman
- Electro wrote off \$2.7 bn of investment
- Disclosed \$510 mn operating loss
- Combination of unusual items such as Abandoning large no of under –development project and settling numerous law suit and contract claims
- Led to sharp decline of Electro share price
- Severe effect on Electro financial statement write off net loss of \$3.1 bn for next six months
- Senior executives were held responsible being asked to quit
- During that time their was no accountability of its heavy expenditure
- Reduced Vendors from 14000 to 800



Some other facts about acquisition

Hardware and Software did not gel as synergy at that point of time

Synergy from a combination of Electronic and Entertainment

Electro was banned from owning a TV Network

Increasing lists of joint ventures made quality and innovation questionable

Discussion questions

- Why Electro of Japan did go for an acquisition of Picture Entertainment in USA?
To merge electronics with entertainment – a good business sense (led Electro to acquire Pictures Entertainment Records)
Controlling software in the era of globalization would speed up the acceptance of an innovative (hardware) product.
- What are the reasons for the failure of the acquisition of Picture Entertainment (USA) by Electro (Japan)?
Acquisition was not accepted by Americans
Analyst felt wide difference between the Japanese and American management cultures
Electro said that they have no intention to dominate Hollywood through the studio
Benefits that both the companies will gain through the synergies of Electro hardware and Picture Entertainment's software
Electro allowed American managers complete control
Manage like the American company
Analyst felt that the decline of Pictures Entertainment's revenue was because Electro played the passive role
Electro's decision not to interfere in the movie business, which accounted for more than 20% of its total revenues, went for a loss
Giving an American CEO the movie business, the president of Electro's US operations who hardly knew about the operations.
- How was the turn around effected by Electro?
In 1994, there comes a new Chairman
Electro wrote off \$2.7 bn of investment
Disclosed \$510 mn operating loss
Combination of unusual items such as Abandoning large no of under – development project and settling numerous law suit and contract claims
Senior executives were held responsible being asked to quit
Reduced Vendors from 14000 to 800
Reducing head count, cost reduction as mentioned above reflected denominator management approach.



Dr. India restructures itself

(A case on restructuring strategy)

Pharmaceutical scrips are treasures rediscovered. The market has virtually rediscovered the unique set of conditions that make investment in this sector perhaps the least risk, and, in the process, driven the valuation, across-the-board, to new highs.

The rediscovery of the pharmaceutical industry is not confined to the fickle equity investors; even the Union Government has placed the industry on a pedestal promised many a sop. And among the pharma stocks, the ones poised to sustain the high levels of valuation are those in formulations, or the finished dosage form, at the higher end of the value chain.

Potential for Growth

The determinants of growth for the pharmaceutical industry are still in the nascent stage, a factor that makes the industry and the investors optimistic about the future. For instance, an oft-repeated example to highlight the future potential is the low coverage of healthcare among the population.

In a population of about one billion, only around one-third is believed to have access to medicines. Given this limited coverage, the industry potential is enormous. While other industries may be similarly placed, the sensitive and critical nature of drugs increases the possibility of this industry's potential being fulfilled.

The nature of the products has largely insulated the industry from the vagaries of business cycles. At the macro-level, the industry grew about 15 per cent over the last few years.

Dr. India

Dr. India is a mid-sized pharmaceutical company in India. The key business segments are domestic formulations, CRAMS (Contract Research and Manufacturing services) and Lab Services. The domestic formulation business of the company contributed around 50% of its revenues and the CRAMS segment contributed around 30% of revenues. The contribution from CRAMS business which was around 8% in FY07 has increased four fold and has emerged as the second largest contributor. The company has recently divested its NCE (New Chemical Entities) research business and plans to list the company in CY08. The company has recently entered into contracts with foreign collaborators, for marketing Diagnostic products, mainly Self-Monitoring Blood Glucose System in India and global drug major for drug discovered and development agreement for the molecules provided by the latter. This deal has potential to generate USD 100 Mn (Rs.400 Cr) in royalties and milestone payments if the drug reaches the market. Given the company's healthy growth in formulations and contract manufacturing and domestic formulations businesses the company would be able to maintain healthy OPM and savings of Rs.60 Crore from the R & D expenses due to demerger will add Rs.3.10 to the EPS and taking it to Rs.15.5.

Discussion questions

How has Dr.India repositioned itself in regard to product portfolio?

Originally Dr.India had a strong range of domestic formulations. And among the pharma stocks, the ones poised to sustain the high levels of valuation are those in formulations, or



the finished dosage form, at the higher end of the value chain. With this in view, the company has chosen introduce diagnostic products also.

With the importance of contract research growing in the recent years, what has Dr.India done as part of its strategy?

Dr.India has restructured itself to de-merge the R&D division and hopes to float it as a wholly owned subsidiary. At a latter date, they will go for an IPO. For this de-merged division for R&D new contracts for research have been obtained representing major overseas partner in the frontier areas of research. This will allow the R&D division to grow faster and independently and as group Dr.India will develop its core competency for the strategic business units separately.



May the best in breed solutions grow!

(A case study on strategy formulation and implementation)

“Aspiration is the main fuel for progress. Aspirations transform a set of ordinary people into extraordinary achievers.”

“I would urge ITIndia to choose a worthy dream, to go after it confidently, and to play a role that will make all of us proud in the years to come.”

-NRN MURTHY

Itindia today:

Global Headquarters: Mumbai, India

Founded: 1981

India IPO: 1993

ADS Offerings: 1997, 2001 & 2003 (Secondary)

Global Presence: 43 Sales Offices, 45 Development Centers, Operating in 22 countries

Employees: 80,600+

FY 07: Revenue / 5 Year CAGR: \$3.60 billion / 43%

FY 07: Net Income / 5 Year CAGR: \$1,010 million / 42%

Expand addressable markets

Geographical Footprint	Vertical Footprint	Services Footprint
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Build relationships and trust

Client Relationships	Trusted Brand	Operational Excellence
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Develop competencies and capabilities

Expanding the Global Delivery Model	Best-in-class People	World-class Infrastructure
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**Itindia' vision:**

“To be a globally respected corporation that provides best-of-breed business solutions, leveraging technology, delivered by best-in-class people”

Itindia' mission statement

“To achieve our objectives in an environment of fairness, honesty, and courtesy towards our clients, employees, vendors and society at large”

The values that drive itindia:

Customer Delight: A commitment to surpassing our customer expectations

Leadership by Example: A commitment to set standards in our business and transactions and be an exemplar for the industry and our own teams

Integrity and Transparency: A commitment to be ethical, sincere and open in our dealings

Fairness: A commitment to be objective and transaction-oriented, thereby earning trust and respect.

Pursuit of Excellence: A commitment to strive relentlessly, to constantly improve ourselves, our teams, our services and products so as to become the best.

Ethics bring business:

Performance leads to recognition

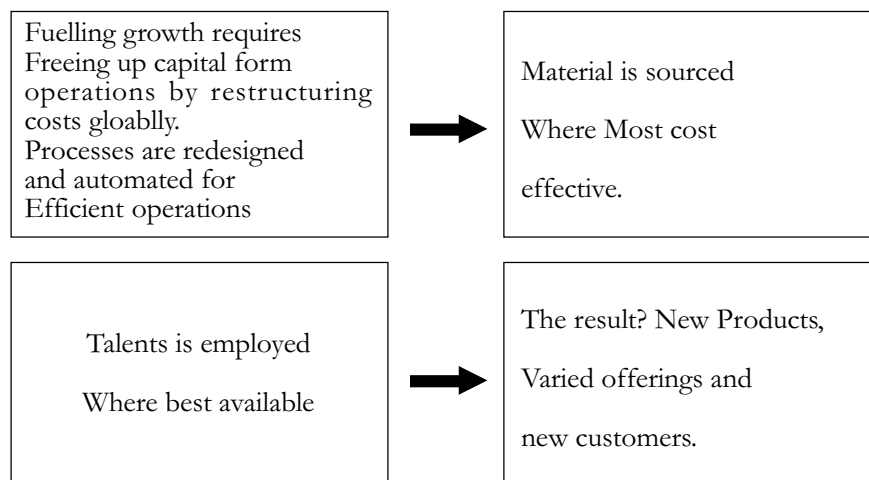
Recognition brings respect

Respect enhances power

Humility and grace in one's moments of power enhances the dignity of an organization

Itindia & corporate governance

ITIndia focus on corporate governance not only brought global visibility to the company, but also created pressure on other Indian firms to raise their governance standards.





Winning customer

ITIndia, recognized globally as a leading technology solutions company, has been a driving force behind this trend.

1. Fuel Growth by becoming a globally efficient co-effective producer.
2. Create customer loyalty through faster innovation.
3. Make money from information
4. Win in the turns

Competitive strengths

Innovation and leadership

Proven Global Delivery Model

Comprehensive and sophisticated end-to-end solutions

Commitment to superior quality and process execution

Long-standing client relationships

Status as an employer of choice

Ability to scale

ITIndia strategy

Increase business from existing and new clients

Expand geographically

Continue to invest in infrastructure and employees

Continue to enhance our solution set

Continue to develop deep industry knowledge

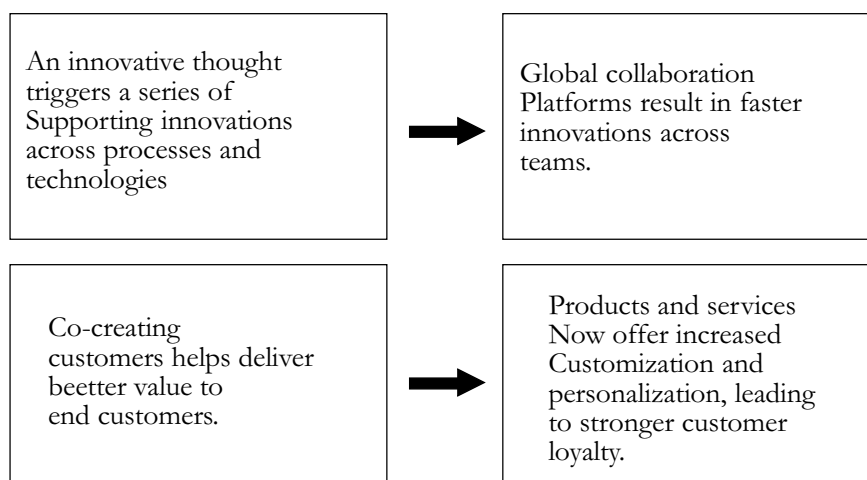
Enhance brand visibility

Pursue alliances and strategic acquisitions

High quality delivery

Significant cost benefits

Abundant skilled resources





Future Potential

ITIndia has the potential to become a major player in the worldwide outsourcing market with its Global Delivery Model, providing its target market of Global 2000 companies can accept using suppliers with IT delivery centers off-shore

Discussion questions

What exactly ITIndia mean by “best-of-breed business solutions, leveraging technology, delivered by best-in-class people” in the Vision statement?

Best of breed business solutions imply continued excellence from the employees of the company who have been chosen as the best in class people from the large reservoir of talents and develop solutions which transcend levels and time (Best Breed)

What are the various types of strategies perused by ITIndia for becoming global company?

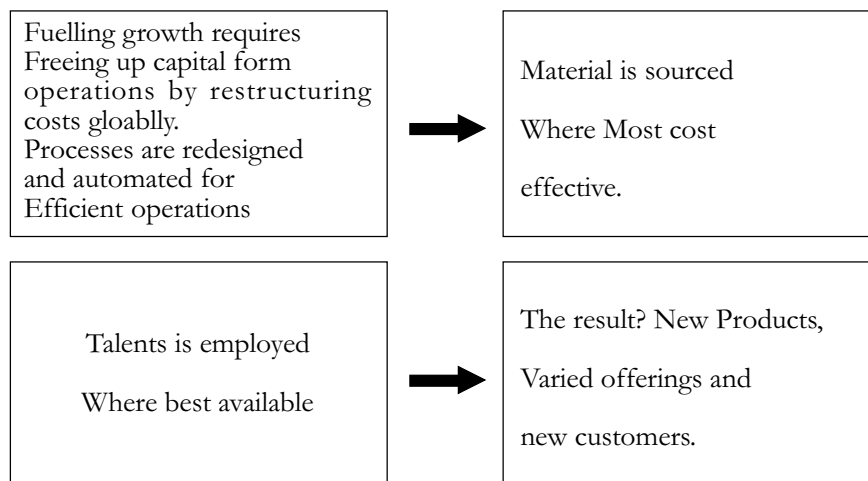
Functional level strategy for producing best of breed solutions by best in class people

Application of global strategy through

Expanding the global delivery model and world class infrastructure

How has ITIndia become a role model for discharging as far as corporate governance and social responsibility?

ITIndia focus on corporate governance not only brought global visibility to the company, but also created pressure on other Indian firms to raise their governance standards.



From the scenario presented what do you feel should be strategy for future of ITIndia?

ITIndia has three competitive advantages:

Global delivery model

Best in class people

World class infrastructure



However, these three competitive advantages can be replicated by competitors and they may not continue to be sustainable competitive advantages. Again with Rupee becoming stronger, maintaining best in class people may become a problem with other countries offering lower cost services to clients. There fore it's necessary that ITIndia develops more products which they have embarked upon and emphasis should be more in this sphere. It is also necessary that ITIndia turns inwards to develop domestic market which at present represents only a single digit percentage of the total market.



A Conglomerate way of balancing core competencies

(A case on core competency and integration)

Textile Industries Limited, a flagship company of the Fusion Group ranks among India's largest private sector companies with consolidated net revenues of Rs.141 billion (FY 2007). Its net consolidated turnover at Rs.14,095 crores, up by 38%, with a net profit of Rs.1,968 crores reflecting a sharp growth of 89% starting as a textiles manufacturer in 1948, today Textile's businesses comprise Viscose Staple Fibre (VSF), Cement, Sponge Iron, Chemicals and Textiles – in all of which the company holds a dominant position.

Industry: Diversified-Mega

Core Business of the Company: Cement and VSF (viscose staple fiber)

Market Capitalization: Rs.25,350.45 Crores

Group has been adjudged as the Best Employer in India in 2007 and amongst the top 20 Best Employers in Asia in the Hewitt-Economic Times and Wall Street Study of 2007.

Vision

To be a premium global conglomerate with a clear focus on each business

Mission

To deliver superior value to our customers, shareholders, employees and society at large

Values

Integrity, Commitment, Passion, Seamlessness and Speed

Business strategy for growth (VSF)

Aggressive capacity expansion plan

Focusing on value added products and market enlargement

Backward integration in pulp being strengthened

Strategy for profitable growth (For cement):

Capacity addition of 9.5 Mn. TPA through new projects

4 Mn. TPA in Ultra Tech Tadipatri, A.P. with split grinding unit, by end of FY08

Total Capacity to reach 45 Mn.Tones, by June 2008.

Aggressive Growth planned for Textile from 17 to 44 plants by FY 2008

Capacity will expand three fold to 12.3 Mn.Cu.Mtrs

Enhancing cost competitiveness

Supply chain initiatives

Focus on service differentiation to strengthen brand



Corporate governance

The Fusion Group is committed to the adoption of best governance practices and its adherence in the true spirit, at all times. Our governance practices stem from an inherent desire to improve and innovate and reflect the culture of trusteeship that is deeply ingrained in our value system and form part of the strategic thought process. Our governance philosophy rests on five basic tenets, viz., Board accountability to the company and shareholders, strategic guidance and effective monitoring by the Board, protection of minority interests and rights, equitable treatment of all shareholders as well as superior transparency and timely disclosure.

In line with this philosophy, Textile Industries Limited, a flagship of the Fusion Group, continuously strives for excellence through adoption of best governance and disclosure practices. Your company is fully compliant with all the provisions of Clause 49 of the Listing Agreement of the Stock Exchanges.

Discussion questions

Textile as a conglomerate has been able to develop its core competencies. Discuss.

Textile's businesses comprise Viscose Staple Fibre (VSF), Cement, Sponge Iron, Chemicals and Textiles

These are both unrelated and related diversifications

There has been some backward integration in certain areas

Traditional areas continue with the company

However, this conglomerate mix has been developed on divisional strategy and separating decision centers, core competences have been developed by decentralizing decision centers. Consolidation of core businesses has been evidenced through mergers, e.g., Cement so that competitive stature can be built to world class and economies of scale can be obtained to compete with cross border giants.

What is the redeeming feature of the Vision?

While the Corporate world has been singing in praise of core competencies and divesting investments which belong to unrelated diversification, here is a company which has enshrined its desire to continue as a conglomerate, that too as a premium conglomerate in the world. The beauty of Vision is that the conglomerate will operate on the decentralized mode giving independent focus for each line of activity.



Blazing trails of hope

(A case on strategic alliances)

India Formulations Laboratories at a glance

Global pharmaceutical company with presence in over 35 countries and operations in over 115 countries worldwide.

First pharma company in Asia-Pacific (outside Japan) to be listed on NYSE.

Research specialization in diabetes, cardiovascular, anti-infectives, inflammation, cancer.

First Indian company to out-license molecules to global majors for clinical trials.

World-class manufacturing facilities conforming to GMP and SHE standards.

Vision

To become a discovery-led global pharmaceutical company

Core Purpose

To help people lead healthier lives

Mission

To be the first Indian Pharmaceutical company that successfully takes its products from discovery to commercial launch globally.

Values Quality

Respect for the Individual

Innovation & Continuous Learning

Collaboration & Team Work

Harmony & Social Responsibility

Integrated Pharmaceutical Company

Founded in 1984

Produces and delivers innovative, safe and high quality:

Finished Dosage Forms

Active Pharmaceutical Ingredients and

Biologics

The company conducts NCE drug discovery research in the areas of Metabolic Disorders, Cardiovascular Indications and Cancer.

Global Company

Wholly owned subsidiaries in US, UK, Russia and Brazil.

Joint Ventures in China and South Africa.

Representative offices in eleven countries worldwide

Markets pharmaceutical products in more than 100 countries.

Partnerships with global pharmaceutical companies:

Novartis

Novo Nordisk



Par Pharmaceuticals

Leiner Healthcare and

Pliva

NCE drug discovery research centers in Atlanta, US and Hyderabad, India

Strong Product Portfolio

Manufacture and market over two hundred and fifty formulations (medicines) targeting a wide range of therapies.

Manufacture and market a wide range of anti-cancer drugs

Over 100 molecules (API) developed.

Six new chemical entities (NCEs) under various stages of clinical development.

Research Driven & Global Talent

NCE drug discovery research on Metabolic Disorders, Cardiovascular Indications and Cancer.

Expertise in developing innovative formulations.

Proven skills in synthetic and analytical chemistry to develop innovative cost effective manufacturing processes

Eighty one patents filed with the US PTO of which 41 have been granted. Eight one patents filed with PCT. (as of FY 05)

One hundred and nine one patents filed in India, of which 35 have been granted. (as of FY 05)

About 6120 employees worldwide

A 1750 strong sales team worldwide

About 951 scientists worldwide

Around 323 scientists dedicated to new drug discovery research

Sustainability Formula

Economically, generating surpluses that can be re-invested for the sustainable benefit of all our stakeholders – shareholders, employees, government, suppliers, customers and lenders.

Socially, creating a positive impact through business and voluntary initiatives for the benefit of the local and international community.

Environmentally, adopting a proactive approach towards a discovery led global pharmaceutical company

Our Journey of Excellence

1984

Set up with an initial outlay of US \$50,000.

1986

Goes public; commences exports

1987

Obtains first USFDA approval; begins formulations operations.

1988

Acquires B Labs, expands Bulk Activities Business

1993



Establishes India Formulations Research Foundation; commences drug discovery program.

1994

Makes GDR issue of US \$48 million.

1995

Sets up a JV in Russia

1997

Licenses an anti-diabetic molecule, becoming first Indian pharmacy company to out-license an original molecule

2000

Sets up research centre in US to conduct target-based drug discovery

2001

Becomes first Asia-Pacific Pharma Company (outside Japan) to list on NYSE; launches first generic product in US market.

Becomes first Indian pharma company to obtain 180-day exclusive marketing rights for a generic drug in US market.

Sets up Drug Discovery to augment post-genomic drug discovery effort.

2002

Acquires two companies in (UK), the first overseas acquisitions. (March)

2003

Launches first generic product under 'India Formulations' Label in US

2004

Acquires a company and gains access to drug delivery technology platforms in dermatology.

2005

Forms a India's first integrated drug development company. (*September*)

Enters into first-of-its-kind co-development / commercialization deal with an European company. (*September*)

Acquires an API manufacturing unit in Mexico. (*November*)

Launches unique partnership with India Venture for commercialization of ANDAs.

2006

Acquires the fourth-largest generics company in Germany (*March*)

Care for Environment & Society

All API manufacturing units have facility for zero-liquid discharge and total recycle of industrial effluent

All facilities comply with Current Good Manufacturing Practices (CGMP)

OHSAS 18001 certification for environmental management

Publishes an annual independent Sustainability Report based on the Global Reporting Initiative (GRI) guidelines

We endeavor to give back to society in innovative and impactful ways under the aegis of India Formulations Foundation



The Foundation has successfully rehabilitated over 21,000 children and has trained 27,000 un-employed youth so far

Discussion questions

How did India Formulations implement its Vision strategically?

Acquired the necessary expertise and knowledge through acquisitions apart from obtaining product range.

Instituted joint ventures specifically to obtain drug delivery technology as also newly patented products.

Set up research centers in various places to simultaneously discover new molecules such as anti-diabetic molecule.

What is the sustainability competitive advantage formula pursued by India Formulations?

India Formulations developed an integrated approach by a judicious combination of financial objective with social responsibility and environmentally proactive approach as below:

Economically, generating surpluses that can be re-invested for the sustainable benefit of all our stakeholders – shareholders, employees, government, suppliers, customers and lenders.

Socially, creating a positive impact through business and voluntary initiatives for the benefit of the local and international community.

Environmentally, adopting a proactive approach towards a discovery led global pharmaceutical company



Credit Where Credit's due

(A case on successful customer outcome)

* Reproduced with permission from Mark Mc Gregor, Author of Thrive

Imagine you're running a credit card business. Turnover and profits are growing year after year, your staff are very satisfied (at industry leading levels in fact), and performance metrics are all looking great. Would you be happy? The management team of Capital One's UK business wasn't. They felt that the business wasn't working properly and set about finding out what was wrong.

Their analysis concentrated on how successful they were being in delivering what customers wanted. What they found was simple, striking and in real need of correction. This is the sort of conversation that the management might have listened in to:

Operator: Welcome to Capital One, Mr. Everyman. My name is Jody, how can I help you?

Tom: HI. I'd like to pay off my balance to-day, please. Can you give me a settlement figure?

Operator: I'm sorry; sir, but I can't give you that information over the phone.

Tom: Oh. So how can I get that figure then?

Operator: It will be in your next statement.

Tom: So I have to wait until that arrives to pay you?

Operator: Yes Sir. Would you like to know when your next statement is due?

Tom: I guess so.

Operator: That will be in two weeks time.

Tom: *Two weeks?*

Operator: That's right, sir. Is there anything else I can help you with today?

Tom Well: no.

Operator: Thank you for calling Capital One, Mr. Everyman. Goodbye.

Operational performance measures in the call center included two key components: call handling times and assessment of whether customers were being given the right answers to queries. By these measures this was a successful call: three accurately answered questions in a short space of time. Clearly the wrong things were being measured, and this was masking the shortcomings of the processes that were supposed to be delivering solutions for customers.

The measurement regime was soon changed to concentrate on Successful Customer Outcomes. Management responsibilities for fixing system and process limitations were sorted out and frontline staffs were enabled to deliver what customers really wanted.

Discussion questions

What is the lesson drawn from the above case study. Explain.



The lesson is clear – look beyond the numbers to understand what your business is really about.

While the company has been making profits and financial fundamentals were looking great, the top management felt was not working fine. The communication customers and the company service representative clearly showed that the requirements of customers for information were not met which left the customers dissatisfied. Again the early birds who wanted to pay off the dues could not pay on time for lack of information and this could in the long run affect the cash flows of the company. So the company felt that measuring the performance of the company only through financial figures does not suffice, but should include customer relations management for successful customer outcomes.

How will you recommend balanced scorecard as a strategic tool for this company?

The company has not been looking beyond figures and had no inkling as to how to develop customer relations management and measure the responses. The present system of call handling times and an assessment of whether customers were being given the right answers to their queries did not meet the requirement of the company for wrong things were being measured and this was masking the short comings of the process that were supposed to be delivering solutions for customers.

Introduction of a balanced score card as a tool will largely obviate the above disability. The customer response measurement in a balanced score card system is clearly linked to the financials as well as the monitoring of strategic inputs. Thus, measuring the wrong things will not arise in this case. On the other hand, the inputs from customer responses will go a long way for modifying existing strategies and improve their financials.



Winning Indian customers (A case study on marketing strategy)

Positioning itself as a complete digital imaging company Officeworld wanted to increase its market share. It consolidated presence in the Indian IT peripherals market and won the 'Challenger 2003' Award.

Officeworld Inc

Two entrepreneurs in 1933- Instrument Laboratory in Japan made High grade cameras. Later, with research by a scientist in 1934 first prototype and evolved the product under the brand name Officeworld. 1942 saw Officeworld's evolution into global company. In 1947 it became Officeworld camera Co Inc. It diversified to other imaging products (printers, photocopiers and digital devices serving home offices and industrial markets worldwide). It rediscovered itself at the beginning of the 21st century-global multimedia group with 195 group companies, 97800 strong employees in R & D, manufacturing and sales and distributions.

Officeworld Singapore

It was responsible in 1979 to supervise the operations in Asia-Pacific region. It played a major role for the formulation and control of sales and marketing strategies by managing and coordinating the region sales and distribution service and information networks. In 21st Century it is known as a leading IT digital imaging company in the world.

Officeworld in India

Established in 1997 (subsidiary of Officeworld Singapore), HQ in Delhi Cannon's target market segment was Government, small office home office (SOHO) and SME sectors. In 1998 it introduced cameras, 1999 it introduced fax machines, scanners and printers and began selling through national distributors.

In office automation area Officeworld faced severe competition like Modi XEROX and RPG Ricoh. In camera sector, the Gray Market was a big challenge. It wanted to concentrate in IT Peripherals business but Epson and HP were ruling this segment. Both had reduced entry level models and also better distribution system.

In 2001, the Director and General Manager of Consumer Information and Imaging Division (CIID) conducted market study to understand the overall industry scenario. The results were:

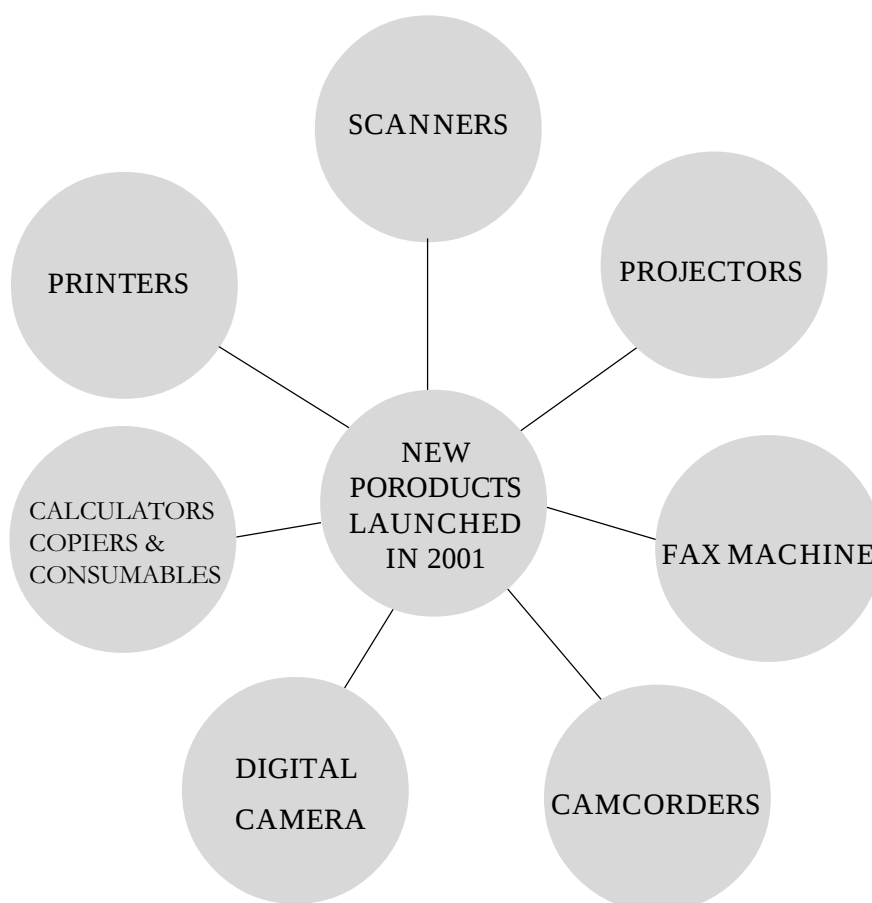
Dot matrix printer was phasing out and the demand for inkjet and laser was growing rapidly. The demand for copiers and cameras was growing (Officeworld segment was not picking up) Indians saw the company primarily as a camera manufacturer but Officeworld was a strong brand

IT Peripherals had huge potential in the near future

Looking at the results of the company was put up in the restructuring track. By 2001, Officeworld India had a network of 1000 assemblers, 50 retail partners, 30 resellers and 30 channel partners. It replaced its national distributional model with regional distributional model. It appointed 4 regional distributors and offered high margins to distributors and insured stock against price

fluctuations. In 2002 stabilized a regional distribution center at Noida and entered into agreement to transform 25 resellers in “Officeworld retail stations” in eight cities. By 2002 it established around 100 “Officeworld care points”.

PRODUCT STRATEGY



Some of the brand building and advertising initiatives taken were as below:

Leading digital imaging co

Adcompany – advertising agency

Emotional message rather than an functional message

Positioning statement – “use it the way you like it”

Rs.150 million budget

Cannon Corners

— In shop branding thrust

Service Edge

— Provide proactive support



Fun-Do inter school creativity contest

Give old take new' offer

Wings of Glory

Customer Service and Promotion

Road Show

Website

Cartridge online

In 2002 Officeworld had growth of 33% in revenues totaling to Rs.2.02 billion. In 2003 became the leading player and No.2 in 2 major segments, Inject printers,

Scanners and introduced 21 new products increasing total products offered to 110. Besides, Officeworld adopted a strategy of concurrent introduction of all the products in the Indian market when same were launched elsewhere in the world.

Discussion questions

When Cannon came into India in 1997 they failed to make impact on the market. Why?

Cannon came into India in 1997 and introduced cameras in 1998. Subsequently they also introduced office equipment where they had much strong competition from Modi Xerox and RPG Ricoh. In regard to cameras of Cannon, they were at the high price bracket and the practices in the gray market also affected their sales. Again they were perceived as a camera company though they had a range of products this affected their entry and performance in the office equipment range. Again both Modi Xerox and RPG Ricoh had held their practices and established themselves. Thus an invisible entry barrier for Cannon.

How did Cannon restructure themselves and succeeded?

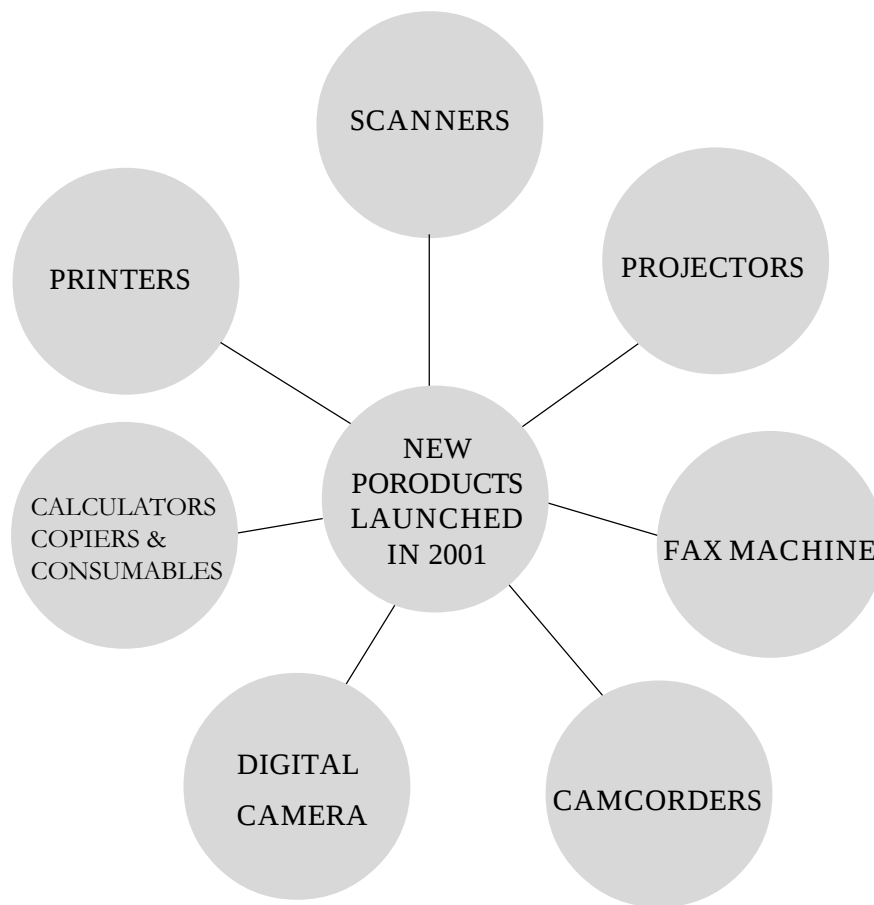
In 2001, the Director and General Manager of Consumer Information and Imaging Division (CIID) of Cannon conducted market study to understand the overall industry scenario. The results showed two distinct areas for restructuring where the company had to revamp their strategies:

Image building exercise

Product strategy

The study had identified the weakness in the public perception regarding the company as primarily as a camera manufacturer though Officeworld was a strong brand. Arising out of this, the company commissioned Adcompany, an advertising agency to build the image of the company. They wanted to build the brand of Officeworld and to erase the earlier perception of the public. Towards this they sent out an emotional message instead of a functional message "use it the way you like it". This campaign that cost the company around Rs. 15 Crores brought the desired results and the public became aware of the bigness of Officeworld and their network of distribution.

Second part of the revamping exercise was to develop a product strategy and the synergies and linkages that existed among the portfolio of products.



Having created awareness of the products and quality towards sustainable competitive advantage, Officeworld as a policy introduced all the new products simultaneously in India whenever a product is introduced elsewhere in the world. This put Officeworld ahead of its competitors in market place on a continuing basis.



Airlines Reach a New Service Altitude

(A case on successful customer outcome)

* Reproduced with permission from Mark Mc Gregor, Author of Thrive

We'll start with sickness bags! This may not sound like a promising place to begin, but bear with us for a while, easyJet, a European budget airline, continues to grow at the expense of many of its rivals. There include the large international monoliths who have until recently operated with some impunity towards passenger comfort and fears. In an environment of rising fuel costs, terrorists' threats, increasing competitive and inflexible organization structures, it is bottom line, cost performance that has become critical. This is even more pertinent for the budget carriers, where inexpensive items represent a large proportion of the ticket price. Many airlines have haphazardly reduced their offering to reduce the cost; easyJet has looked to innovate.

Taking an idea from Southwest Airlines, who advertise job vacancies on their sick bags, easyJet has gone a step further and removed the cost of the sickness bags by getting someone else to pay for them. Kodak provides the bags, which if unused (yuck!) can be employed as film enveloped for those vacation pictures. Even in this digital age many folks are wedded to their 35mm cameras. For the digitally liberated, Kodak also provides fast turnaround development services for photo media – you guessed it, right there in the arrivals lounge, easyJet of course can focus clearly on this type of opportunity because their Successful Customer Outcome, as articulated by their creator, Stelios, is “Buttocks on Seats”.

So what SCO-inspired survival tips can we propose that may help the troubled airline giants to survive, if it isn't already too late? Let's see what some customers think.

The Joy of Flying

Tom Everyman collapsed into the seat in the departures lounge of Anytown airport. His friends Dick and Harry appeared to be in a similar state of nervous exhaustion, having finally negotiated the assault course known as check-in.

“I sometimes wish you could send the kids on ahead,” he said to anyone listening. “You know, a large scale chaperone service. It would be so much easier – the airlines could clean up!”

Dick, who'd managed to get them all coffees, had different ideas. “I think there are a few more basic things they could do with getting right first.”

“Go on then,” said Tom, “we're all ears – anything to kill time until boarding.” He reflected on why there had to be such a long time between arrival and getting, on the plane. Perhaps that was one of the things. Dick had in mind.

“Okay, take the kids,” continued Dick. “You said you'd like to send them on ahead, but let's assume we're stuck with them.”

“We might actually want to travel with them!” interrupted Harry.

“You always were the softy, Harry,” said Tom.

“Anyway how about keeping them entertained?” Dick was pressing on. “Half of our hand luggage is taken up with stuff for the kids. I'd like more help with giving the kids something to do.”



Harry was dismissive. “There are a few music channels, the in-flight movie. What more do you want?”

Dick was on a roll now. “What, those screens that hang over the seats? You should have been behind some of the heads and hairstyles that I’ve endured. Seat-back video is the only way. I’ve heard that some of the airlines are actually thinking about taking *out* screens to save weight and money. Next they’ll be making us stand all the way!”

Tom was warming to Dick’s ideas and found he had a suggestion of his own. “They could give us some way of plugging in all the stuff the kids have got – the games, mp3 players and the like. If I have to suffer another attack of battery rage....”

“Yes, but why do we have to bring all of our own stuff into the cabin?” Dick continued. “These things are all digital now – why not have a big library on board? It doesn’t weigh anything.”

“Except for the server, the cabling, the screens ...” Harry, the IT expert, could always be relied on to plug the gaps in his friend’s knowledge.

“Okay, okay, but that lot doesn’t weigh as much as a couple of hundred Playstations and iPods, does it?”

“What about TV on-demand then, choosing which programs to watch? I might be able to keep an eye on what they’re watching for once.” Tom could barely contain his idea now.

Dick brought him back to earth. “Sounds like you need parenting lessons, not in-flight entertainment.”

What these guys are talking about would make traveling more than just a necessary burden: it would become part of the vacation itself. This is the market that airlines are in. Of course, price is of critical importance, but not at the expenses of everything else. Doing these things doesn’t necessarily mean radical change; it just means doing the current things better, more imaginatively.

The technology is not expensive so what stops the others following suit? It’s simple: focusing on the wrong things, having the wrong priorities, and clinging to the delusion that the current problems are just a temporary blip. In the same vein, here are two more ideas.

Reading is such a popular pastime on flights that a whole genre of fiction has developed – the airport novel. Easily read and soon forgotten these books ten not to find a permanent place on the bookshelf at home. Hey not bring these books on board? Rather than buy them, customers could browse, read, and leave behind whatever took their fancy. Condensed novels, chapter samplers and short stories could also come into their own as word length and flight time are aligned. Book retailing is a competitive business, so there is a commercial angle that could be exploited. Intelligent use of sponsorship, discounts for subsequent purchases and other promotions should make this at least a cost-neutral offering. Perhaps the airlines are just waiting to exploit the technology that already exists to make e-books available. Should they get the benefit of the doubt?

What springs to mind when you think of in-flight coffee? The smell of fresh ground beans wafting along the aisle! Perhaps not. The coffee may taste too bad because it discourages us from asking for it, keeping the aisles clear for the more profitable activities like the duty free



trolley. Sponsored coffee provision from the likes of Costa Coffee or Starbucks would raise the quality and cut the cost.

Of course it's not only the leisure traveler that airlines cater to. Business travel is big business, not that you would know it sometimes. While it can sometimes be a blessing for frequent fliers to get away from an always-on world, this should be a choice not an imposition. Most carriers take the imposition route and resist the straightforward step of services like in-flight Internet. Lufthansa did it in 2003 and offers full access to mail and the Web. That makes them the airline of choice for many who have little else to do as they traverse the skies of Europe. Some airlines insist that it's a large cost overhead and that regulation is an obstacle. Hogwash! With Teutonic efficiency the Germans are leading the way and will continue to win business as others procrastinate.

And don't try complaining about it by phone on the flight. Even the FAA isn't in the way of conversations at 35,000ft – they just carry the blame (quite wrongly) as airlines seek to protect their investments in hardwired back of the seat lumps of plastic that no one uses because of the expense. There are other areas ripe for improvement.

Fly me to the Moon

There are still thirty minutes to boarding and Tom's mind was still on making the flying experience a bit more rewarding. "Harry, how many miles do you fly for work? Must be quite a number."

Harry answered quickly enough to give away that he knew the answer without having to work it out. "150,000 in the last year."

"Wow, and you've been doing that for years," said Dick. "That's astronaut like mileage. You must have some views on business flying. Is there anything you'd fix?"

Harry thought .. for half a second. "Loads," Tom and Dick exchanged glances – the risk of spending the entire flight listening to Harry's litany of suggestions was great.

"What's your number one?" asked Tom.

"Easy." Said Harry. "Frequent fliers. I don't see why those of us who fly regularly should be treated as non-paying passengers rather than loyal customers when we use the points we've earned. What's the point only having access to off-peak flights for instances? I can understand the need to make individual flights profitable, but I'd say that inconveniencing your best customers is a strange way to run a successful business."

Tom had to agree, but could feel that Harry was working up a head of steam. He was right.

"You see, with a bit of imagination, frequent flier rewards could be used in-flight too: drinks, food upgrades, gifts. I don't mind being a walking advert for a loyalty program if I feel I'm getting the value I want. There's no harm in having other passengers asking 'how do I get those benefits, is there?'"

Dick started to answer the question. "Well, I..."

"And then there are upgrades," Harry wasn't to be stopped. "I tell you, for some airlines 'easy upgrade' is a contradiction in terms. I flew with a major national airline recently and discovered



what's called a non-upgradeable ticket. I was bounced between check-in and what was laughingly called the Customer Service Desk to be told that I 'had bought the wrong ticket' and 'didn't understand how these things worked"! The attractive choices were to pay again for a completely new ticket or accept my fate. I chose the latter, and I can't tell you what I was thinking during that flight looking at those empty Business Class seats.

Harry, you're with the wrong airline," Dick said. "A guy I know at work asked to upgrade recently using his loyalty miles, and they said 'that's okay sir, we'll upgrade you without taking the miles!' Now that's service."

Dick's story highlights one of the key points that emerge from this look at airlines. Some of the most striking experiences come from individuals being able to do the right thing (even the unexpected thing) when it matters. A Virgin flight attendant who apologizes for the fact that we are not flying on one of the brand new aircraft in the fleet (but which is still is better than most); the generous and immediate compensation for a mid-flight entertainment system failure. These responses come from liberated staff in customer-focused organizations. Successful Customer Outcomes come from, and are delivered through, people – they should be given the opportunity to innovate to be great.

Discussion questions

Airlines introduce or eliminate certain onboard services without actually responding to the customers' requirements. Discuss.

Many budget airlines have eliminated onboard services like offering lunch, coffee and snacks. Some of them have recently operated with some impurity towards passenger comfort and fares though some of the comforts are only inexpensive items. Actually, the flyers have certain common problems like accompanying children and their baggage which contain the stuff for kids for entertainment. If the airlines can engage the kids during the flight by offering entertainment from a library of games they could save on the weight also as individual passengers may not carry stuff for kids. Chaperones for kids on flight at a cost will also satisfy the customer while costs are taken care of.

How will application of IT help budget airlines?

Normally an aircraft has a big screen and films are projected on the screen. Many of the customers find viewing difficult when ever some body in the front seat can block their view. Again some of the customers find it as a nuisance when the picture comes on the screen as he cannot sleep. To avoid this application of IT can have small screens at the back of each seat with an earphone and a selection of pictures as per choice. This will obviate the weighty screen and the projection equipment and provide more space perhaps for seating additional passengers while satisfying all the customers without disturbing any one alone.

How the airlines can reward a loyal traveler?

Many airlines have schemes for offering a free trip on earning sufficient points but not always on the flights which the passenger would like to travel. Customers suggest that instead they can be given some special privileges compared to other casual passengers like drinks, food upgrades, gifts, etc. Again an up gradation from economy to business class can lead to greater customer satisfaction.



When ever airlines commit mistakes, how can they be corrected?

If the organization is customer focused, the behavior of the airlines staff towards customers can assuage the feelings of the customers whenever they are irritated or felt grieved. For example, the mid flight entertainment system fails, the staff on board offer generous and immediate compensation. In place of a new aircraft the airlines have to fly an old version, the flight attendant apologizes to the flyers in regard to that fact and engages them with an array of snacks and drinks.



Frustration in Hospitality

(A case on successful customer outcome)

* Reproduced with permission from Mark Mc Gregor, Author of Thrive

What SCO-inspired survival tips can we propose that may help the hotel industry to avoid customer frustration and deliver ever greater value to their guests? Let's start in a place that may be familiar to many of you.

Another Night Away

The hotel bar was in the quiet lull between after-noon meetings and pre-dinner drinks. Tom Every sat alone, browsing the menu for something both edible and claimable. A smartly dressed member of the hotel staff approached – it was the manager.

“Excuse me, sir. I hope you don't mind me asking, but I see you have a tag on your luggage, showing you've a Gold Card holder with another hotel chain. Have you considered registered for our card?”

Tom was happy to respond. “I don't actually spend enough nights with your hotels to make it worthwhile. I'm afraid. But that's very observant of you, and thanks for asking.”

“Well sir, if you don't mind me making a note of your room number, I'll arrange for Head Office to match the level of membership you have on your current scheme.”

The hotel manager took the number from Tom's key fob and left. Tom swapped the menu for a list of hotel locations. There would be no harm in trying out his new card, and it feels okay to be wanted.”

In the UK, at least, it is common practice for supermarkets to accept the competition's coupons, so why don't hotels take a leaf out of their book? As any frequent traveler knows, once you have gained Gold or Platinum status with one chain it is very hard to justify using other hotels unless you have to. If the others want your business they will have to work harder to get it.

Many frequent travelers also have changing travel habits: one year you travel a lot, the next not so much, the year after it picks up again. How frustrating is it to get great service as a Platinum member during your middle, less traveled, year, only to find that as your travel picks up you are downgraded again. In effect, regular customers are obliged to reconsider where to take their business and are open to influence. Why then don't hotels consider “lifetime” programs, with qualification over a period of years? Past customers are more likely to be future customers if you have a good product, so treat them like you want them to keep coming back.

In fact there are many ways that loyalty schemes could extend their benefits for the people they are aimed at.

Question: when are hotel guests not hotel guests? Well, when they're not staying at the hotel is the answer, certainly from the hotel's perspective. Is there any reason why that should be, though? The interaction is more than just staying the night. Much more could be done to entice regular customers to use a hotel's facilities, for meetings or a catch up on email and phone message over coffee. Free drinks and internet access would be a small price to pay for all of the additional business that would be encouraged. In recent years many hotels have made great



strides with creative use of the “Executive Lounge” concept, but there is still some way to go before they truly get it nailed.

On the subject of Internet access, isn’t it strange how the lower-cost hotels are increasingly providing free high speed connections, whereas the up-market brands in the same chains still assume that it is acceptable to charge large sums for the privilege? In today’s world it is not just the business traveler that relies on such niceties as high speed Internet – even leisure travelers are looking for this sort of service (especially as more and more people switch to using the Internet to make telephone calls).

And why charge for breakfast when the coffee shop across the street the street offers a better deal. Not only is the coffee better, but the café is probably a wi-fi hot-spot – more lost opportunities.

Surely the time has come for the up-market brands to realize that if they are to compete, this practice has to change. It is not longer acceptable to assume that people will pay a premium price for a hotel and then be expected to pay again when there are free or cheaper alternatives.

It is unfortunate that in the hospitality industry, with the volume of bookings made, things will go wrong sometimes. As customers, we actually do understand this, but it is the ability to resolve the problem speedily and to our satisfaction that will set the best providers apart. This is simply delivering on the promise, the promise that said we could have a room. If there is a problem then what we want to hear, at least, is that alternative accommodation will be organized locally and any addition costs will be met. Again, the place to look for inspiration is retailing – perhaps a variation on the guaranteed returns policy might be something to aspire to?

The final group of suggestions for improvement relate to getting suggestions for improvements! Have you ever seen one of those signs saying something like “as requested by our frequent guests” or “in response to customer demand?” Have you ever wondered who these helpful customers are? We have. A straw poll of regular travelers generated little evidence that this seasoned section of the hotel user market is tapped for feedback. Keeping in regular contact with your best customers is an absolute necessity for product innovation and customer retention. Perhaps management spends disproportionate amounts of time analyzing those guest questionnaires that are always left in rooms. They are mainly filled out by infrequent guest who had that one great experience and do as a thank you. Most of the business guests we have spoken to say they can’t be bothered. So perhaps the surveys are self-serving.

Compare this approach to that of top retailers, who frequently run events for their best customers, inviting them to previews, discount nights and other events. Customers are encouraged to keep coming back, and it’s an opportunity to talk on a one-to-one basis with them while keeping an eye out for change buying habits. It’s also a great way to pick up market intelligence on their competitors from the people who really know – the competitors’ customers!

This raises another critical factor for service improvement in hotels – pay more attention to the feed-back from front desk staff and less from middle management. The managers are aware of only the small proportion of issues that occur in the process, whereas front desk staff sees them all. In any situation the best source of pain points will be front line staff, and they will also usually have some good ideas on how to improve the situation, very often at little or no cost.



These examples are taken both from our own experiences and those of people we have traveled with and coached. The suggestions are not scientifically based but are the results of people looking from the outside in. In many of the instances where bad service occurred it was put right, rarely though by an employee working within the system, but by one who recognized the lifetime value of a customer and attached an importance to that value. Hopefully, if enlightened hotel chains take heed of at least some of the advice and ideas, then all of our future travel experiences might get a little bit better.

Discussion question

What the critical factors for improving service in hotel industry?

Inviting best customers to previews, discount nights and other events

Pay more attention to the feedback from the front desk staff rather than from higher ups in the management in the middle level

Introduction of internet access at free of cost as a privilege to the loyal customers

Take breakfast cost on the hotel as long as the guest stays for a full day

How a casual guest to a hotel be retained as a frequent guest?

A casual guest normally is not loyal to a particular hotel but stays at different hotels during his frequent visits to a city. However, an intelligent hotel manager develops a strategy to entice a casual guest to come more frequently by offering certain facilities even when they are not in the hotel. This can be through offering the hotels facilities for meetings or catching up with email and phone messages over a coffee in the restaurant. Internet access can also be provided at a small price while he visits the restaurant and not staying in the hotel. Such small ploys will help increasing the frequency of the customers.