

VNFP Ltd: using holistic marketing in a small enterprise context

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The d-date was just about a couple of months away and P.S. Madhusudhan (Madhu), MD and Proprietor of M/s Vishal Natural Food Products (I) Pvt Ltd (VNFP), Bangalore was a bit apprehensive. Construction at a new state-of-the-art canning and bottling unit in the same premises was going on in full swing, and was expected to be commissioned by end of June 2012. With this packaging unit, Madhu hoped to gain a substantial competitive advantage over his rivals in canning and bottling of his products.

However, the commissioning of the packaging plant was among the least of Madhu's worries. The real problem lay somewhere else. Preliminary exploratory research suggested a genuine opportunity for one of VNFP's products in the Indian market among the burgeoning class of Indian IT professionals, with only Dabur[1], a name to reckon with in the home market, having a similar product in select markets. The questions uppermost on Madhu's mind was whether VNFP should introduce the product to the target segment at all and if yes, would the present organization structure able to handle the change from a "make and sell" orientation to a customer-centric marketing orientation. For Madhu it was a time of reckoning and he knew he only had to take the lead.

Company background

Based in Bangalore, the IT capital of India, VNFP was primarily an export-oriented company with its product portfolio consisting of processed vegetables such as gherkins[2], jalapenos, cherries, banana pepper, chilies, tomatoes, baby corns and white onions, with gherkins being the largest contributor in the portfolio. As of 2012 the major importing countries for VNFP products were North America, Spain, Sri Lanka, Italy, France, and Russia (Exhibit 1). Initially the company started with customers in the North America, Spain and Sri Lanka, and then gradually added more customers from the remaining countries. The sales figures and corresponding profit margins from 1999 to 2012 are provided in Exhibit 2. VNFP also came to be known as the "chili company" because of the supply of various kinds of chilies overseas.

The creation of VNFP in 1998 was not an obvious resultant of the prior business experiences of Madhu and his ancestors. As part of the family business, Madhu was into desktop publishing from the period 1985-1993 subsequent to which he explored other avenues to diversify the business. Sensing a demand for computerized machine embroidery[3] he contacted a large Indian conglomerate, the Hinduja Group[4], who were more than eager to subcontract embroidery designs to him. The new business required an investment of about Rs 2 million for which he went to an investor friend, who however, felt that computerized embroidery business was more of a fad and would fade away in due course, and advised Madhu to go into a business which would never be extinct-foods. The friend was then financing a company manufacturing and supplying drums to a Sri Lankan firm who packed gherkins in them and exported the canned gherkins to other countries. On his friend's advice and sensing a demand for processed gherkins, Madhu entered into the gherkin-export

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business and gradually added jalapenos and other products in the product line. This business helped Madhu blend his passion for two things – agriculture and export.

Madhu keeps abreast with the latest developments in his area for which he has attended a program on entrepreneurship and small business organized by NSRCEL, the E-cell of IIM Bangalore and a program on supply chain management from IIM Ahmedabad. In order to access requirements of markets around the world, he tries to attend “food fairs” in various locations around the globe. Recently he has participated in a food fair in Bangkok, Thailand to get a footing as a quality supplier and in the Moscow, Russia under the auspices of APEDA[5], to make further inroads into the Russian market.

The basis for segmentation for VNFP's overseas target markets since inception has been primarily geographic in nature and related to the size of the product. Europeans in general, preferred smaller size of the products, while the US customers preferred larger ones. VNFP's USP has been in the fulfilment of all orders on-time every-time and as per the desired quality. VNFP had also invested a lot in quality testing to ensure that the products meet customer requirements. Periodically samples of products were sent to Madhu's restaurant-owner friends to get feedback on their quality.

The gherkin business

India has emerged as one of the world's leading producers and suppliers of gherkins, with production growing from virtually zero in the early 1990s to about 0.25 million tons per year presently. In India, gherkins are normally produced through contract farming for about four months per year in plot sizes ranging from 0.5 to 1 acre, and are processed in brine, acetic acid and natural vinegar as per requirement of consumers (source: www.agricultureinformation.com/mag/2010/03/gherkins-cultivation-and-exports).

Indian exports in cucumber and gherkin are categorized as “fresh”, “prepared/preserved” and “provisionally preserved”. Exports in “prepared/preserved” had registered the highest growth during the period 1991-2005. The “provisionally preserved” category dominated the export basket from 1993 to 2002, while during 2005 “prepared/preserved” category emerged as the largest contributor to exports with 58 percent share, followed by “provisionally preserved” (35 percent) and “fresh” (7 percent) categories. Therefore, although export from India has increased more rapidly of the processed products, they are still supplied in bulk containers[6].

As part of a typical business-to-business market transaction, VNFP supplied the pickled and preserved products in bulk to intermediaries in different countries, who took up the testing and bottling responsibility down the value chain, to finally deliver the end product to the customer such as Campbell Soups, who then retailed it through their outlets. The bargaining power lay with the intermediaries and VNFP had to fulfil orders as per their terms and conditions. Direct dealing with the intermediaries' customers was not feasible for VNFP because of their large quantity requirements, which was beyond the capacity of VNFP and similar individual suppliers.

In order to fulfill the food safety requirements of the customers VNFP had adopted HACCP[7] systems as per international norms and has quality certifications from SGS Group and Kosher, both of which are internationally recognized. In addition a dedicated team under the tutelage of Madhu himself ensures product-quality and safety throughout the process.

Looking inwards: an effect of the changing environment

In comparison to when VNFP came into being in 1998, competition had considerably increased in the last few years, more so because of the advent of knowledge economy, wherein customers had knowledge of good suppliers around the world which enabled them to squeeze prices (see Exhibit 2 for VNFP's downturn in sales performance). Gherkin suppliers from Vietnam, Thailand, Turkey, and Romania were providing stiff competition to VNFP and other Indian suppliers, mainly in terms of prices. To add to the woes of the Indian suppliers, the market for gherkins had reached a mature phase with the market growing at

a rate of about 1 per cent per annum. In fact, some of VNFP's customers had started asking for price reductions, which is making exports a less attractive proposition. Although he was passionate about exports, Madhu was now being forced to think of alternative business plans to take care of the decreasing foreign sales volumes and shrinking profit margins.

Madhu was aware that Indian's total production of gherkin, VNFP's major contributor in its product portfolio, was almost wholly exported as there is no domestic market for them. Hence the question uppermost in his mind is whether he should look at the Indian market for sales of gherkins, at all. Till now he was almost completely engrossed in finding alternative export markets for his products and had not given much importance to domestic markets. He had remained in touch with his restaurant-owner friends, but mostly for testing the quality of products meant for export markets.

Madhu also realised that there was a pressing need to change VNFP's image from a bulk supplier of preserved vegetable products to a processor (bottler or canner), which was deemed prestigious as it took direct cognizance of the end-consumer needs. Owning a bottling/canning unit could be advantageous to manage the product packaging aspect, which could help in shaping consumer preferences. Enquiries revealed that investment in such a unit would not require huge outlays of capital, and therefore Madhu decided to diversify into bottling/canning constituted as a separate company. The unit would be capable of manufacturing cans of different sizes and shapes, and is expected to be ready by June 2012.

But the larger question still remained unanswered: "If processed gherkin was for overseas market, how should VNFP look inwards?". Some exploration needed to be done on priority basis. Madhu dwelt at length on this issue and decided that the best place to start were his restaurant-owner friends. He renewed his visits to them, but this time with an added agenda for discussions – could they give him some ideas related to agriculture-based food products suitable for the domestic market. Since his friends were in constant touch with consumers preferring to dine out, Madhu was sure that some product idea would eventually emerge. He also provided them with samples of his present line of products in order to examine the feasibility of their acceptability in Indian markets. He also decided to make frequent visits to global food brands in India such as Pizza Hut, McDonald's, and Dominos to know their requirements and whether they would prefer to source some items locally.

The organization design of VNFP

However, VNFP's organizational design seemed to be the real stumbling block in the inward focus. Since its inception in 1998, VNFP has been a dominant export-driven company with domestic sales being a meagre 0.1 percent of the total sales in 2011 and 2012, the same coming from one customer only. Since all products were to be produced under strict quality control, the entire organization under Madhu was "product-quality" oriented (see Exhibit 3 for the existing organization structure) with centralization of decision making under him.

There were two general managers under Madhu, with one, general manager-field (GMF) entrusted the role of ensuring quality of the raw materials (i.e. vegetables). The GMF was responsible to locate and enlist farmers who would be able to provide the required quality and quantity of raw vegetables and to offer them with all possible help during the crop growing process. The second, general manager-administration (GMA) was overall responsible for procurement of the raw vegetables, performance of quality checks on the received vegetables, safe storage of them and finally processing them as per customer requirements. Laboratory tests to try out newer product concepts from the raw vegetables were also within his sphere of control. The obsession on quality is rooted so deep within the company that three levels of quality checks were performed in addition to the field checks.

The employee/customer ratio (Exhibit 4) gives an indication of the number of employees involved in servicing a customer requirement. However, the majority of them were just involved in the processing of VNFP's product lines. Madhu used the help of his office staff and on-line portals to find potential overseas customers and their requirements. He would then send them a profile of VNFP, providing details of its operations, product information and

quality certifications. If some buyer showed interest in VNFP products, more correspondence would follow, quotations provided, and samples sent if the customers so desired. Follow-up was maintained mostly through e-mails unless the customers wanted Madhu to visit them for further discussions. Since VNFP is registered with various B2B web-portals, Madhu also gets enquiries for VNFP products, which are dealt with promptly. The whole process is kind of reactive, with Madhu being the central figure in all transactions and interactions.

The VNFP staff also kept Madhu apprised with information on where trade fairs pertaining to food products were being held around the world and especially in the countries VNFP was dealing in. He also gets updates from various associations in India, such as the Indian Gherkin Exporters' Association (IGEA), of which he is a member. If he felt that visiting such fairs would create awareness of his products and generate probable sales, Madhu makes a visit to these fairs carrying with him samples of his products.

Conceptualization of the new business proposition

As part of its pickled/preserved product portfolio, VNFP also exported lime and lemon on a case-to-case basis, although the magnitude of such exports was significantly lower than that of gherkins. The company sourced the lime/lemon from farmers, processed and bulk exported them as per customer specifications. The vendor development team looking after the procurement of the two raw materials, however, noticed that although the farmers were required to supply the size of lemons as per specifications laid down by a foreign customer, many a times consignments with smaller sizes of the ordered product were received in addition to the sizes ordered for. Discussion with the farmers revealed that segregation at their end would entail much higher prices for VNFP, which would make the whole export proposition unviable. The option available at that moment with VNFP was to order a larger quantity of the lime/lemon, segregation at the warehouses and fulfillment of the export as per customer requirement. The real problem was about finding a suitable use of the left over materials.

The relatively small size of the organization and the closeness of the people at the lower levels to the top management was one of the main reasons why this problem came to the notice of Madhu. Although VNFP had a defined hierarchical structure (Exhibit 3), a lot of flexibility was allowed to facilitate communication. Madhu always encouraged his employees to come directly to him in case of any problems or for any issue where they needed help. Madhu planned to continue keeping this personal touch to every personnel in the organization.

The management of VNFP realized that there were three options available with regards to the leftover lemons:

1. selling them in the open market and (if possible) recover the cost;
2. pickling/preserving them and hunt for customers who would require such sizes; or
3. processing them and selling them in a different form altogether.

The first option did not excite the team as it involved doing something away from their normal line of work, and represented a wasted effort and resources. The second option seemed better but it was like groping in the dark and in addition would involve inventory-related costs. The third option was what interested Madhu and his team, but they had to come up with a differentiated value proposition which would be preferred by customers, either Indian or foreign.

One aspect at the moment in which VNFP had to decide on was whether to look at the international markets where they were presently operating, for its new line of products. Discussions revealed that three points were not in VNFP's favour in this respect: first, they were interacting only with the intermediaries and would not be able to get a fair idea of the likely market for the processed products. In fact, VNFP was just a bulk supplier of preserved vegetables and acceptability of the newly processed products was likely to be a problem;

Second, it would be costly for the company to even create awareness of their products in those markets, and VNFP was not in a position to do that; and finally, it would have taken a lot of time to establish VNFP's credibility, which when summed up with the likely competition from entrenched players, both local and global, could have affected VNFP's sustainability.

Having dismissed the idea of going overseas with the processed lime/lemon, Madhu went back to his restaurant-owner friends to ascertain what could be a viable product in the lime/lemon category. As a kind of informal market trials, he also requested them to try out some of the samples, churned out from the VNFP laboratory. Additionally the VNFP team started visiting big retail outlets such as Nilgiris and Metro to ascertain what their requirements and buyer preferences could be.

Assessing the market for the new offering

Over the past decade the information technology industry in India has gained a global brand identity as a knowledge economy mainly due to its IT and ITES sector. Since a significant portion of the output of this sector is foreign market-driven, an important consequent is acculturation, which explains the process of cultural and psychological change resulting from the union of various cultures. For example, the effect of acculturation has resulted in changes in certain elements of Indian culture and customs such as food habits, clothing and language amongst the population involved in this sector.

Being aware of this, Madhu believed that India is the market for canned and bottled products. According to him, a lot of Indian IT personnel are moving abroad at their company's behest and are exposed to the foreign culture and habits there. When they come back they bring back elements of the acquired culture back to India. Madhu related an interesting incident, wherein he had visited an IT friend of his, who had returned back from the USA after about three years. When the lady of the house was serving soft drinks to them, their five-year old daughter made a huge fuss about having a canned drink. This incident triggered a thought in Madhu's mind that if a five-year old was so conscious about consuming canned drinks after having consumed such drinks abroad, the present and upcoming generations could provide a tremendous opportunity to manufacturers of canned products. Presently it was juices, later it could be processed vegetables and fruits.

Since the offering of VNFP was planned to be different from competitive offerings, and the market was seemingly undeveloped, one thing was almost certain; the brand would have to start the concept selling at the at the local market level, preferably close to the place where the offering is being manufactured. Once the market was established, Madhu could think about investing in building additional capacities, advertisement and brand building activities and development of distribution networks. Being a small scale unit, the company needs to have an approach significantly different from that of well known brands when it approaches the marketing mix aspects.

Segmenting the market

In order to find the right market for its offering, Madhu realized that VNFP needed to identify the right segment, a segment that would appreciate the inherent attributes and benefits of the offering and spread the word of mouth in the locality. Always a believer of the maxim, "you are your bullets first and then the cannon balls", Madhu would like to build a distribution network initially in a particular locality (starting with Bangalore, where his manufacturing unit is located) and then cover more localities. In the segment identified, the crucial aspect from VNFP's perspective would lie in the creation of the primary demand for the offering rather than focusing on competitive performance measures. In fact, by offering better value than Dabur's Lemoneez, VNFP can take the lead and establish competitive performance dimensions in terms of the marketing mix elements.

Defining the target segment is of importance as the diffusion of the offering through word of mouth depends on this segment. The VNFP management therefore initially planned to target the IT personnel and their families who have stayed abroad for sometime and have returned back to India. The factors identifying such prospects' needs were time poverty,

convenience-seeking, the knowledge that canned products are not harmful and freshness of the contents, contrary to what conservative Indians perceived about canned food. The members of the target segment were described as: affluent and not averse to spending a little more for something that was convenient and time saving. They frequently visited malls and multiplexes to just have fun and to see the latest movies. They were also seen to pay visits to various furniture and lifestyle fairs and exhibitions that took place quite frequently in Bangalore, so as to keep abreast with the latest trends. They also wanted to show their "westernness" by consuming products (especially canned ones) with foreign labels on them. Their attires also reflected their inclination to the Western world.

The VNFP team felt that as far as limes/lemons (mainly lemons) were concerned, India being a country with a dominant hot climate, lemons were seen as "real" thirst quenchers and as possible energizers. Hence they agreed that a processed lemon product provided a good potential in the processed canned/bottled product category. Once the market for lemons scaled up to a certain acceptable degree, VNFP could go for processing of other agro-produces. However, looking at the present competition, if any, was also crucial.

Competition for VNFP

Madhu was aware that in the current scenario the market for fresh lime offering was rather nascent, with consumers preferring to use fresh lime instead of lime/lemon concentrates. Dabur Foods Limited (a subsidiary of Dabur India) was the only national-level brand trying to create a market for its brand Lemoneez, especially in institutional markets like hotels and juice shops (authors' observations as no documented data is available on this market at this point in time). Lemoneez was sold under Dabur's "Hommade" portfolio of food products which included paste combinations to suit the tastes of Indian consumers (e.g. garlic, ginger, ginger-garlic and tamarind), tomato puree and coconut milk. As per Economic Times (June 26, 2003), the sales turnover of Hommade in the financial year 2003-2003 was Rs 60 million with Lemoneez's contribution being Rs 15 million.

While the foods business of Dabur, registered a sales growth of about 20 percent during 2009-2010, the Hommade category grew by 30 percent. This was a result of major changes initiated by Dabur earlier in the Hommade category in the form of new packaging and introduction of new products in the category. At the same time, Dabur also invested in R&D in order to reduce the costs of its various products under the Hommade brand (Source: Dabur India Limited, Annual Report 2009-2010).

Freshness of the offering and price would be crucial for VNFP to be one-up on competition, the former due to local availability of processing aspects and the latter due to the fact that the company does not have overheads of a national brand.

The road map: which way to go

To be successful in the new product category identified, the entire organization structure needed to be revamped. A lot of planning was to be done to transform VNFP into a customer-focused organization. Madhu was aware that his role in the whole process would be crucial. Most importantly the mindset of his employees and suppliers had to be geared towards considering customer as the key to success. And that would not be easy for people who had so far been product-centred, and did not have to deal with the vagaries of marketing. A holistic marketing effort was required involving the suppliers, employees, distributors and customers for identifying, creating and delivering value. Also there was the issue of creating awareness in the market.

Madhu deliberated again. Should he take the plunge? Should he target restaurants or retail outlets? Competition in the export business was cut throat and sustainability was a question. On the other hand, where VNFP was planning to venture, there was a formidable opponent, Dabur. Would VNFP be able to differentiate its offering appreciably enough to be accepted by the market? Would he be able to design a suitable organization structure and lead his team towards something they had never experienced before? The management team was optimistic, but Madhu knew that the challenge ahead of them was enormous.

Madhu was mindful about the “law of sacrifice”; what should he give up in order to get VNFP into the top league. Probably he has to let go of his habit to personally look into everything, but at what stage. Anyway, he had to act fast.

Notes

1. Dabur India Ltd is the fourth largest FMCG company in India with revenues of US\$1 billion, with a heritage of over 125 years. Dabur operates in key consumer products categories like hair care, oral care, health care, skin care, home care and food.
2. The gherkin is a fruit similar in form and nutritional value to a cucumber. Processed gherkins are often served to accompany other foods such as in sandwiches.
3. Computerized embroidery machines are specifically engineered to automatically create a design from a pre-programmed digital embroidery pattern, by using varying degrees of user input to read and sew embroidery designs.
4. The Hinduja Group is a diversified Indian family-business group, commencing operations in the early nineties. Its present business includes banking and finance, transport, energy (oil and power) as well as the new economy of technology, media and telecom.
5. APEDA or Agricultural and Processed Food Products Export Development Authority is an initiative of Ministry of Commerce and Industry, Government of India, to assist Indian exporters.
6. Source: Kumar, N.R., Rai, A.B. and Rai, M. (2008), “Research note: export of cucumber and gherkin from India: performance, destinations, competitiveness and determinants”, *Agricultural Economics Research Review*, Vol. 21 January-June, pp. 1-138.
7. HACCP or hazard analysis and critical control points, is a systematic preventive approach to food and pharmaceutical safety that identifies hazards in production processes that can cause the finished product to be unsafe, and designs measurements to reduce these risks to a safe level. HACCP is referred as the prevention of hazards rather than finished product inspection.

Keywords:
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Exhibit 1. Country-wise distribution of VNFP’s customers

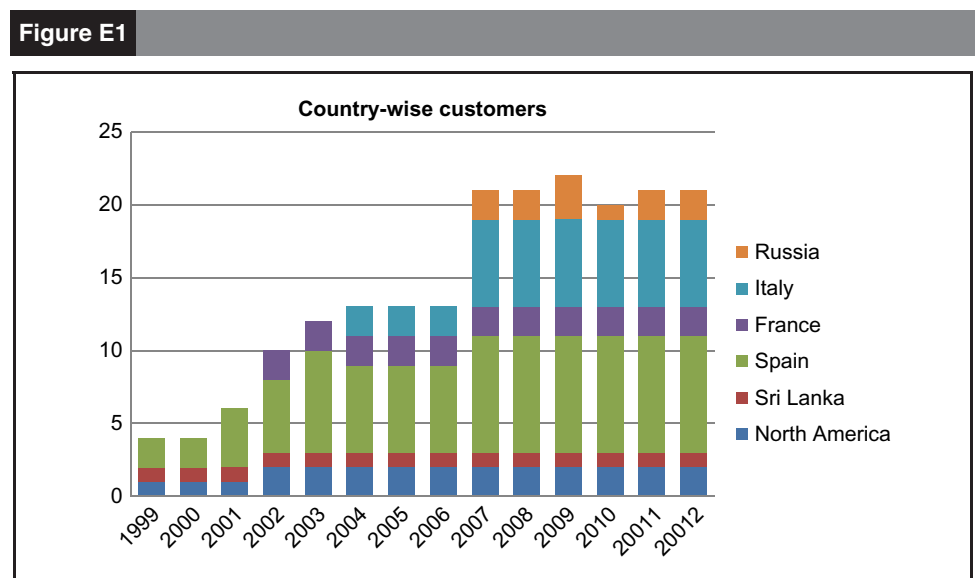


Exhibit 2. VNFP performance in terms of sales and profit margins

Figure E2

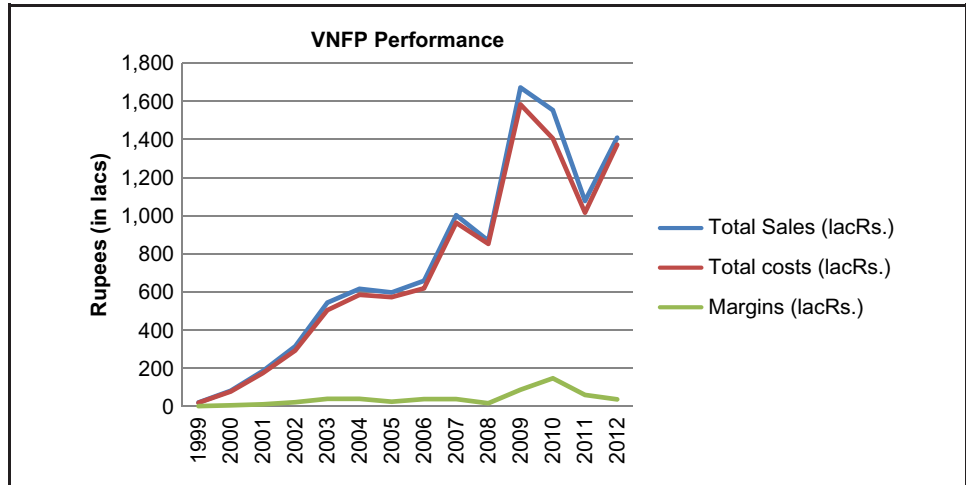


Exhibit 3. The existing VNFP organisation chart

Figure E3

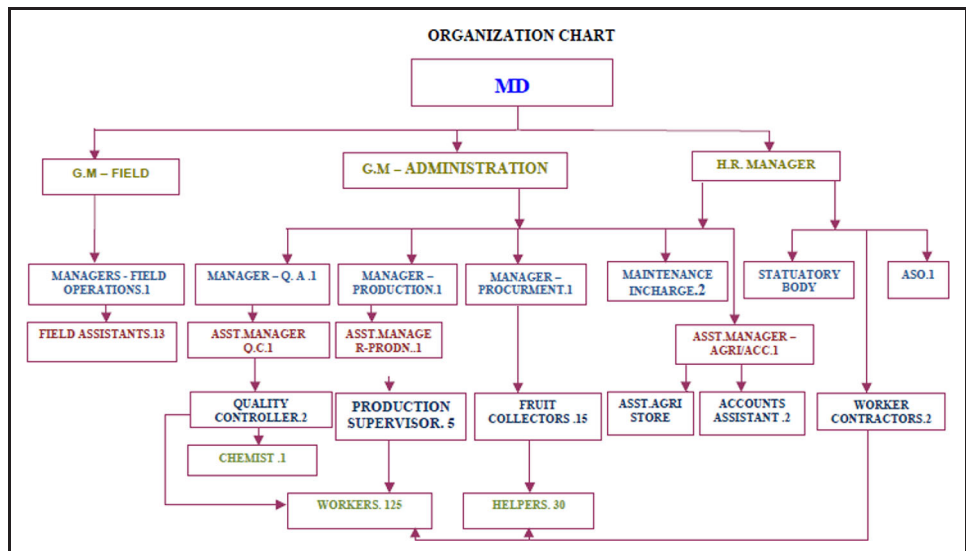
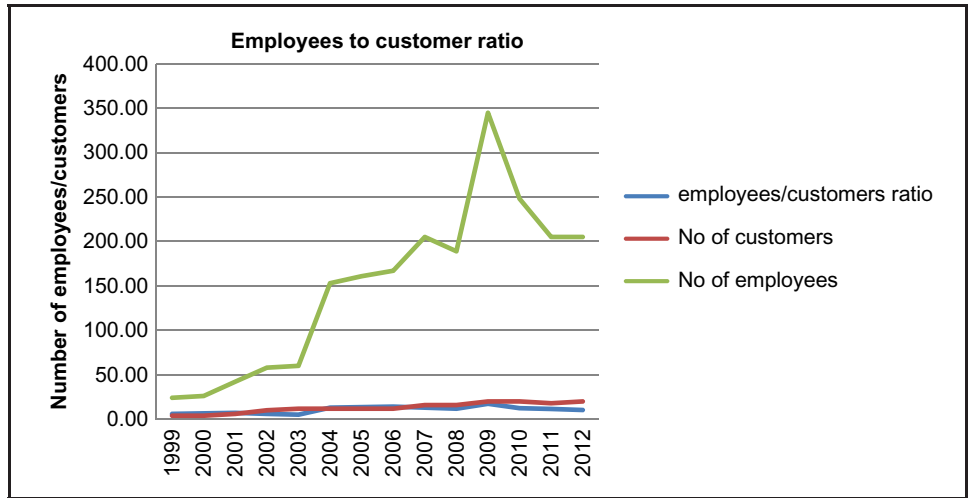


Exhibit 4. The ratio of employees per customer

Figure E4



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