XAVIER INSTITUTE OF MANAGEMENT

Bhubaneswar

INDIVIDUAL PROJECT

STRATEGIC MANAGEMENT – I

COMPANY – AGRO TECH FOODS LTD

Submitted to

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Session 1 – Assignment

1. The name of the company allocated to me is "Agro Tech Foods Ltd (ATFL)". It is a public limited company and is involved in marketing of food and food ingredients and caters to retail as well as institutional consumers. The major shareholder of this company is ConAgra Foods Ltd of USA which happens to be one of the leading food companies of the world.

   It was incorporated on 21st November 1986 and initially promoted by C.N.Balu. The company started its operations by entering into an agreement with ITC for technical and marketing consultancy services and was initially named as ITC Agro Tech Ltd. At a later point of time i.e. in the year 1997, ConAgra, USA became a majority shareholder of the company. The company was renamed as Agro Tech Foods Ltd in the year 200. The company boasts of range of products in its kitty which include Sundrop, Act II, Sundrop Snack Break, Sundrop peanut butter, Healthy World, Crystal, Sundrop 10 min yummeals.

2. The mission statement of the company is "We will develop and deliver value added products which exceed statutory requirements to satisfy our internal and external customers by creating a culture of continuous improvement".

3. The vision statement of the company is "To become the best performing most respected foods company in India".

4. The company has to a great extent lived by its mission. It launched Sundrop in 1989 as a sunflower oil in a marke(Indian) dominated by mustard and groundnut oil. It thus had a different offering compared to the seasoned players in the edible oil industry. It has also launched numerous variants of Sundrop oil over a period of time each incorporating something different from its previous variants. To substantiate the statement, Agro Tech Foods Ltd started out with Sundrop SuperLite followed by SuperLite Advanced, NutriLite, Heart, Gold Life, FreshLite, SlimLite with each variant differing in terms of the ingredient mix. It had also entered into technical collaboration with Pacific Seeds of Australia for manufacture of hybrid seeds. In addition it has also tied up with Apollo Hospitals (heart wing) and Narayana Hrudalaya. Such steps give an impression that the company has not only tried to add value with each subsequent offering but at the same time has tried to exceed the statutory requirements.

5. The edible oil market in India is the fourth largest in the world and can be divided into packaged and non-packaged (loose) segments. Packaged edible oil forms about 25% of the 15.5 million tonne domestic consumption. The competitors of the company in the edible oil sector are Saffola(Marico), Sweekar, Nature Fresh and Gemini (Cargill), Fortune(Adani Wilmar Ltd.), Dhara(National Diary Development Board) and other smaller players. The industry is dominated by palm oil, soyabean oil and mustard oil. The distinguishing aspect for Sundrop is that it offers edible sunflower oil and has still managed to create a significant foothold in the industry.

Session 2 – Assignment

1. Core competencies of Agro Foods Tech Limited:-

   a) It's ability to differentiate itself from its competitors in its product offering and also able to reap revenue from it. Sundrop and Crystal are primarily sunflower oils and operate in a market (Indian) which is predominated by palm oil, soya bean oil, mustard oil and groundnut oil. Despite the fact that competitors have diversified into different types of oil to offset the loss of margin Agro Tech has stuck to sunflower oil sending across a clear message that it has great trust in its offering and doesn't want to dilute it.

   b) Access to updated techniques of production. It is affiliated to ConAgra, a global giant in the foods category. By affiliating itself to a leading from the United States it has managed to gain access to the state of the art techniques at the disposal of ConAgra, something which other domestic players might be deprived off. Also affiliation to a leading global player helps in building a powerful brand , gaining critical insights into the industry and creates a greater awareness about the best practices followed in the developed world, some of which might be truly relevant and effective in the Indian scenario.

   c) Ability to leverage upon the marketing and distribution channels of ITC. Agro Tech had tied up with ITC for carrying out its marketing operations and its offerings were sold under the brand name of ITC. For a new firm to be marketed under the umbrella of a reputed firm, it provides a huge boost in terms of trust of the customers, reach, brand value etc. Had it operated alone which many of its competitors might have things could have been quite different and even undesirable.

2. The current socio economic scenario presents a formidable challenge for the firm. Though the edible oil sector is growing at CAGR of 4.43% from the period 2001 to 2011 and the market is still under penetrated (current per capita consumption levels of India at 13.3 Kg/year for 2009-10 is lower than the global average 24 kg/year) which presents a huge scope for expansion but few issues creep in which dampen the excited spirit:

   a) Large unorganised sector: It still forms about 75% of the total edible oil industry. The easy accessibility and availability gives this sector an edge over the branded players.

   b) Not so encouraging performance in the economy segment: A huge chunk of the edible oil industry is concentrated in the economy segment. Crystal (economy segment) is yet to attain a sizeable market share.

   c) Dominance of palm, soya bean and mustard oil in India: Agro Tech doesn't operate in any of these varieties and hence its market share enlargement plans seem to be in troubled waters.

   Its PBIT has also reduced by almost 5% (from 362 million on 2009-10 to 344 million in 2010-11) owing to rising prices of commodities. However given its strategy of product differentiation and its promotion of health (has tied up with Apollo Hospitals and Narayana Hrudalaya) as a key factor in determining the customer's choice of edible oil it seems that it will be able to offset some of its disadvantages.

Session 3 – Assignment

1. The firm – “Agro Tech Foods Ltd” seems to follow a process strategy. The firm became an affiliate of the global giant ConAgra Foods Ltd of USA. This happened way back in 1997. Analysing the shareholding pattern of Agro Tech Foods Ltd it can be observed that ConAgra has a stake of 51.77 % in the company. The residual stake is scattered between institutional and non institutional investors. The shareholding arrangement is such that ConAgra is at the helm of decision making. Given the fact that Agro Tech Foods Ltd operates as a listed subsidiary of ConAgra, it is likely that ConAgra lays down the basic structure within which Agro Tech Foods Ltd has to operate but the latter has the autonomy to manoeuvre within the structure.

   Agro Tech Ltd has ploughed back a sizeable portion of its net profit into creation of capital assets which is evident from its cumulative increase in gross block. To add to it, it has come up with a variety of offerings apart from edible oils and popcorn - Sundrop snack break (pudding), Sundrop Peanut Butter (bread spread), Healthy World (dried green peas), Sundrop 10 minutes yummeals (ready to cook items). These items can’t employ the economy of scope of the company’s manufacturing processes since those are predominantly for solvent extraction and refining of edible oil. These items can however utilise economy of scope of its distribution and marketing network. Despite a huge market available in the economy segment , the firm still believes in carrying the baton of health high and has hence come up with products which in the premium segment. This means that Agro Tech has been provided with adequate autonomy to toe its line of business but within the ambit of the broader diktat issued by ConAgra.

   Going back to the financial statements of Agro Tech Ltd it can be seen that a significant portion of its net profit (5 crores out of 25 crores in 2009-10 and 5 crores out of 31.78 crores in 2010-11) has been paid as dividends. Since ConAgra owns almost 52% of Agro Tech so it receives a continuous flow of cash year after year from its venture in the Indian foods company. Also comparing the share prices of Agro Tech Ltd with its peers it can be observed that it’s the highest for Agro Tech Ltd though it is much smaller than many other players in terms of sales turnover as well as net assets. This sends a signal that ConAgra aims to retain its majority stake in Agro Tech Ltd and also limit the influence of other share holders.

   The sales turnover has also declined over the last two years but still it has stuck to its core objective. This implies central monitoring with considerable autonomy in operations.

Session 4 – Assignment

1. The industry allocated to me is edible oil (solvent extraction). Extraction of oil from oil seeds has been an old practice but in terms of its commercialization it was Procter & Gamble which proved to be innovators in the field when they started selling cotton seed oil as a creamed shortening in 1911. Procter & Gamble acquired the technical knowhow to extract oil, refine it, hydrogenate it and can it under nitrogen gas.

   In India, edible oil has been a key component of our food habit. Historically India has been heavily dependent on imports to meet the demand. However with the inception of "Technology Mission on Oilseeds and Pulses" in 1986, India's reliance on imports has reduced and domestic players have come into prominence.

2. Edible oil industry of India has always failed to meet the demand thereby necessitating heavy imports. The primary reason for inability to meet demand has been inadequate production of oil seeds. Although large tracts of land have been utilised to sow oil seeds the output obtained is far from satisfactory. In addition cultivators do not stick to oil seeds and rather switch over to other crops. Most of the players in this sector started out with refining facilities.

   a) However to stay profitable they entered into backward integration like solvent extraction, seed processing, dewaxing etc. Some firms like K Soils and Ruchi Soya have even acquired palm plantations in Indonesia and in various states of India respectively.

   b) In addition owing to price consciousness of the Indian consumers and low value addition (resulting in lower margins) many firms like Ruchi Soya, K. S.Oils,Cargill etc. have diversified their portfolio of edible oil offered (groundnut,mustard,palm,soya,sundrop,canola etc.).

   c) Companies like Agro Tech Foods Ltd (Sundrop, Crystal) have affiliated itself to global foods giant Con Agra thereby gaining access to the technical knowhow and advanced technical resources at the latter's disposal thereby cutting on R&D costs which would have further dented its already limited margin.

3. There is huge potential in the national market. With a consistent CAGR of 4.43%, rising income level and underpenetrated market there seems to be a favourable demand growth outlook which is sustainable as well. Further taking into account the fact that the constraint is on the supply side rather than on the demand side which is evident from the fact that imports met a major portion of the edible oil demand in India, there appears a vast scope which is yet to be tapped.

   However the issue of supply side constraint still looms large despite various backward integration activities undertaken by the companies. To add to their woes, the imports are extremely competitive in terms of cost thereby further straining the profitability of the players operating in Indian market. So, to deal with the dual menace, companies should look forward to acquiring/adopting farm lands suitable for oil seed cultivation and sponsor cultivation using state of the art technology to improve upon farm productivity significantly. However taking into account the limited value addition and consequent low margins, it is volumes which will drive growth for individual firms. It is also essential to control the entire chain starting from seed cultivation to refining, given the low margins earned currently as it would help to reduce cost.

   In addition the firms can look up to expansion in developing economies where edible oil market is underpenetrated (as in India) , scope for oil seed cultivation is vast and it is possible to take control of the entire chain of events (from seed cultivation to refining of oil) .

Session 5 – Assignment

Analysis of Agro Tech Foods Ltd using Porter's five forces framework:-

1. Rivalry among competitors : Rivalry is quite high because:

    a) Huge untapped market: Given the vast scope of expansion every firm would try to garner as much market share as possible in the untapped segment and as early as possible.
    b) Low margins: Given the limited value addition which results in limited margins, every firm would try to increase its volume to sustain itself in the market.
    c) Much of the market is controlled by the unorganised sector. It implies fragmented market and hence would lead to cut throat competition.
    d) The fact that each company is continually adding to its list of edible oil variants further drives home the point of intense rivalry.

2. Threat of new entrants: It is somewhat moderate because :

    a) There is a huge untapped market which would appear attractive to any outside party.
    b) Current supply is unable to meet the demand which implies a great opportunity for new entrants.

    However

    a) The margins are low which implies it's a game of volume. With so many players (organised and unorganised) operating in the market it would be difficult to push the volume to the desired level.
    b) Given the low value of margin, backward integration seems imperative. So, it poses a formidable challenge for a new entrant.
    c) Low capacity utilisation. Since supply of oil seeds is constrained so, the utilisation of installed capacity is limited which can further deter new entrants.

3. Bargaining power of suppliers: It is limited because:

    a) Since the suppliers (seed cultivators) are unable to meet the demand which constrains the utilised capacity of the companies so, they are not in a position to bargain.
    b) Since the cultivators don't employ advanced techniques in cultivation so, they stand exposed to the vagaries of nature(rainfall scarcity) which undermines their bargaining capability
    c) However if the suppliers shift to cultivation of other crops instead of oil seeds it will adversely affect the fortunes of the companies so, there lies a contention for bargain.

4. Bargaining power of customers: It is quite high because:

    a) The customers have a lot of options to choose from.
    b) In addition there are options in various price categories which lead credence to the bargaining power of the customers.

5. Threat from substitutes: It is low because:

    a) Edible oil forms a key ingredient of our food habit (in India) and hence substituting it with something else seems farfetched.
    b) With various firms coming up with heart sensitive products substitution is diminished further.

Session 6 – Assignment

The major innovations in the edible oil industry are:-

1) Moving from the traditional oil seeds like mustard, groundnut to rapeseed, castor, sunflower, soya etc – It was realised to stay competitive and expand the customer base it was essential to come up with different varieties of oil seeds. Also few oil seeds can be more productively cultivated compared to others and it was essential to cash on it to reduce cost of manufacturing.

2) Cultivation of oil seeds in rabi season as well – Oil seeds were cultivated primarily in kharif season. However since the domestic players were unable to meet the demand leading to imports and thereby resulting in opportunity loss as well as underutilisation of capacity so, it was critical to increase produce and extending the cultivation cycle was one of the means to address the same.

3) Innovation in packaging - Since margins in edible oil industry is low owing to limited value addition coupled with increasing prices of commodities so; other avenues had to be explored to cut down on production cost. One such avenue was packaging. Several cost cutting measures were introduced in packaging without hampering customer satisfaction. For instance reducing the weight of the cap in order to reduce cost of packaging.

4) Innovation in technology resulted in increasing productivity, reducing raw material wastefulness, loss of film etc. For instance high degree of automation was introduced in filling and capping the containers (bottles) .This resulted in reduction in the processing time and increased the throughput. In addition employing advanced means to restrict the fat and bad cholesterol level in the final output.

5) Backward integration which in some cases spans from engaging in oil seed cultivation to final delivery- Most edible oil firms started with refineries but gradually realised that in order to stay cost competitive and mitigate supply side constraints it was essential to engage in as many phases of edible oil production as possible. So, the major players got into solvent extraction, oil seed processing and even plantation (of oil seeds).

6) Partnering with firms to come up with hybrid oil seeds which could alleviate the shortage of oil seeds. E.g. Agro Tech had tied up with pacific seeds of Australia to come up with hybrid, high yielding seeds.

Session 7 – Assignment

1. Agro Tech Foods Ltd follows the focus differentiation strategy. Its flagship brand Sundrop operates in the premium segment and offers a number of variants each offering a distinct ingredient mix then the other. In addition looking at the portfolio of products offered by it can be concluded that it offers value added products mostly in the premium segment. On digging further the products on offer - popcorn, branded green pea, ready to cook packets, bread spread it seems Agro Tech doesn't target the rural masses. Rather it targets the upper tier cities. So, on one end its positioning itself as a premium brand and at the same time it has targeted its prospective customer base, hence focus differentiation strategy seems to fit into its scheme of things.

   Regarding Marico which happens to be one of its competitors, if we take the edible oil division of it into account it also appears to follow focus differentiation strategy. Its flagship brand, Saffola also operates in the premium category and shares the leadership in the premium category with Sundrop. Even analysing the other offerings of Marico in the foods segment it can be concluded that it targets the urban markets.

   Ruchi Soya seems to focus on cost leadership. Its brands – Mahakosh and Ruchi Gold operate in the economy division. They offer products at comparatively low prices. Since such products suit both urban as well as rural areas so, they haven't left any particular type of geographical area untouched.

2. Upon analysing the financial statements it can be observed that:

   a) The gross block of assets has been continually increasing from 54 crores in 2007 to 69.81 crores in 2011. This implies that the firm is continually adding fixed assets.

   b) The sundry debtors form (35.11/273.24) around 13% of total assets which is quite high compared to previous years. This implies that in order to promote its new offerings it is willing to sell those on credit.

   c) Expenses form 93% (686.7/ 738.27) of the sales which implies high level of value addition and new offerings leading to enhanced expenses.

   These figures indicate that serious value addition is being undertaken to provide products with a difference.

Session 8 – Assignment

1. Agro Tech Foods Ltd was incorporated on 21st November 1986, and it obtained the Certificate of Commencement of Business on 9th January. It was promoted by C.N. Balu. It entered into an agreement with ITC Ltd., for providing technical and marketing consultancy services to the company.

2. From Nov 1986 till 1997, it operated in partnership with ITC. However in 1997, it was affiliated to ConAgra Foods Ltd, one of the leading food companies of the world. Currently ConAgra holds 51.77% of Agro Tech Foods Ltd. However during the early years of 2000, since ITC was also a prominent shareholder, ConAgra was not quite aggressive and was not that interested in bringing popular international offerings to Indian market through Agro Tech. This possibly could be because :

   i) Presence of ITC in its Agro Tech's management as it held around 17% stake in Agro Tech (through its investment arm, Russell Credit) at the time when ConAgra took over the controlling stake. At that time ITC tried hard to enhance its presence in Indian food market through the parent company itself. It then appeared that ITC itself was competing with Con Agra. Perhaps that is the reason for Con Agra's reluctance to introduce more products from their international portfolio of brands through a company in which a competitor (ITC) is a significant shareholder.

   ii) Secondly. Indian market was not ready to accept snack food type offerings at that time, which also limited its scope in India.

   However with the exit of ITC and the gradual maturing of the Indian market the scope of ConAgra to introduce its products through its affiliate i.e. Agro Tech has improved drastically. Given the huge consumer base in India and the rising income level of its citizens, ConAgra can't afford to ignore India anymore and will hence aggressively push its own products through Agro Tech.

3. Earlier Con Agra didn't push its products aggressively in the Indian market through Agro Tech. However of late it has introduced a number of products like Act II popcorn, "Lamb Weston" finger chips and "Hunts" tomato products in India. ATFL also recently launched two new products — Snack Pack (pudding) and Sundrop peanut butter — both currently being imported from ConAgra. The strategy has been to diversify into non edible oil items.

It appears to be a key strategy which will benefit both Agro Tech as well as Con Agra. Through Sundrop, Agro Tech has created a powerful brand name for itself, a brand associated with high quality and trust. So, offering new products in the foods category leveraging on its brand can help it achieve the desired results.

Session 9 – Assignment

1. The company Agro Tech follows a related diversification strategy. Its key products which drive profits the most are Sundrop and Act II popcorn which contribute within 40 – 70 % of the total revenue. If we analyse the offerings of Agro Tech –

   Sundrop (Slimlite, Heart, Superlite,Superlite advanced, Freshlite, Nutrilite, Goldlite)
   Act II popcorn
   Sundrop Snack Break
   Sundrop peanut butter
   Healthy World
   Crystal
   Sundrop 10 min yummeals

   It's in the foods segment. These items will be available in big retail outlets, retail chains, hypermarkets etc and in upper tier cities of India.

   So, it is undertaking horizontal integration whereby it is leveraging economies of scope i.e using its current marketing and distribution network for its new offerings. This suggests that it has adopted a related constrained strategy.

   In addition, it has also undertaken backward integration by building solvent extraction plants apart from refineries. This implies that it is trying to control as many phases as possible through which its product passes thereby reducing cost of manufacture. This implies that it has also adopted a related linked strategy.

   The company has its manufacturing plants spread across 14 locations. Its distribution network is spread across 3500 towns and 265,000 retail stores.

Session 10 – Assignment

The company Agro Tech Food Ltd has been able to successfully carry out many of its strategies. However few issues that have still crept in are:

a) Inability to increase the market share of Crystal, which operates in the economy segment. Its market base is predominantly restricted to Andhra Pradesh whereas Agro Tech planned to expand it across states.

b) Earlier, ConAgra was unable to push its products into an ever growing Indian market owing to presence of ITC in Agro Tech. This delayed the strategic plans of ConAgra with regard to capturing the Indian market.

c) It has projected itself as a brand with differentiation but faces issues in increasing its market share in the premium segment largely due to the presence of Saffola.

d) It faces issues in optimum utilisation of its installed capacity.

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