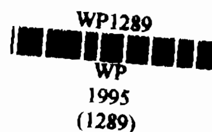
Working Paper

ENTRY AND GROWTH OF ENTREPRENEURS IN EXPORT BUSINESSES: A STUDY OF INFLUENCES AND STRATEGIES

By

Sanjay Prasad Thakur
(Fellow)

W P No.1289
December 1995


WP1289
WP
1995
(1289)

The main objective of the working paper series of the IIMA is to help faculty members to test out their research findings at the pre-publication stage.

INDIAN INSTITUTE OF MANAGEMENT
AHMEDABAD - 380 015
INDIA

PURCHASED
APPROVAL
GRATIS/EXCHANGE
PRICE
ACC NO.
VIKRAM SARABHAI LIBRAR
I. I. M, AHMEDABAD

CONTENTS

Topic	Page
Context	1
Internationalization of Business	3
Entry into Exports	3
Barriers to Entry	4
Case 1	5
Case 2	12
Case 3	19
Case 4	23
Case 5	28
Issues in the Strategic Management of Exports	35

ENTRY AND GROWTH OF ENTREPRENEURS IN EXPORT BUSINESSES: A STUDY OF INFLUENCES AND STRATEGIES*

Sanjay Prasad Thakur

CONTEXT

The expansion of industrial manufacturing capacity outside the developed countries of the west is a major feature of economic development in the decades after the Second World War. In this period flows of capital, technology and information have also become highly mobile. Together these have brought an increasing variety of products of different regions with their distinctive features into the vortex of international economic transaction. This has meant profitable opportunities for many, but also painful adjustments for others, across industries and nations. Policy interventions in this process, have ranged from protective tariff and non-tariff barriers, export promotion efforts, the formation of regional trading blocks and combinations thereof.

In India, an inward looking strategy of industrialisation based on import substitution meant a neglect of exports and the foreign trade sector of the economy in general. By the mid-1980s however, there was a realization that such a strategy was not yielding the desired rates of economic growth. This was precipitated by balance of payment difficulties in the wake of the oil price shocks of 1973 and 1979.

---

* Seed Money Research Project, Indian Institute of Management, Ahmedabad

There was also a growing appreciation of the need to integrate trade policy with the overall strategy of development.

The concept of self-reliance was re-defined to include the capacity to pay for essential imports through export earnings. An export thrust was to be part of a strategy to enhance the competitiveness of industry and improve the performance of India's economy through a closer integration with the world economy. For reasons of political economy, however, across the board structural reforms had to wait till the 1990s.

From the mid-1980s, the government initiated and augmented a number of policy measures and fiscal incentives to encourage exporters. A depreciating rupee exchange rate and an increasing number of incentives linked to FOB realization were coupled with exemption of export profits from income tax. This encouraged a large number of big businesses to begin exporting in the later half of the last decade.

Policy measures can induce entrepreneurs to turn export oriented. These inducements however, are mediated through the perception of the entrepreneur and the response capacities of the enterprise itself.

Thus the attributes of (a) the entrepreneur; (b) the enterprise; and (c) the environment - particularly the policy regime, together induce the entry and growth of firms in the export sector. Research literature on enterprise level influences and strategies for exports with regard to India, however is scanty.

Internationalization of Business

A firm can engage in various forms of international activity: importing, exporting (direct to user or through foreign import agents, indirectly through merchant exporters, etc.), franchising, foreign production, joint ventures, etc. Research literature in the developed countries suggests that direct exporting is the most widespread international activity engaged in by small and medium enterprises. It also appears that the process of internationalization is a sequential one whereby a firm gradually increases its export commitment. There is a continuum of internationalization ranging from the unwilling and uninterested firm to the experienced large exporter. Along the line are the interested, the experimenting and semi-experienced firms. In India there appears to be variation across firms and industries with regard to both (a) direct or indirect exporting, and (b) occasional, partial, predominantly exporting or dedicated 100% exporting units. Indeed there could be movement from 100% export commitment to entry into the home market.

Entry into Exports

In small and medium enterprises (SMEs) the entrepreneur is a crucial variable in the decision to export. Much research has tried to identify the characteristics that differentiate exporters from non-exporters and influence success in exporting. These attributes are of two kinds (a) the objective, and (b) the psychological. The first includes factors such as external contacts of the entrepreneur, foreign travel and its frequency, language facility, greater export marketing knowledge etc. The

seccond includes a more positive attitude towards exporting, perceived higher export profits, assessment of exporting costs to be less, greater aggression, dynamism, flexibility, creativity, innovativeness and self-confidence.

Enterprise characteristics influencing export behaviour could be categorized into (a) factors external to the firm, and (b) internal. The first could include better opportunities (profits) in export markets, home market saturation or recession, unsolicited order or query, mandatory requirement under licensing, fiscal incentives, concessional credit, etc. The internal factors could include unique product, technology, excess capacity, export obligation against imported inputs, etc. apart from the inclination of the entrepreneur. These could also be conceptualized as push and pull factors. Size of the firm, in terms of number of employees has also been reported often as influencing the propensity to export. A firm with less than 20 employees is unlikely to export. When the number is 100 or more there is a dramatic increase in the percentage of firms exporting.

Barriers to Entry

Constraints on exporting internal to the firm frequently reported include: not enough information on foreign opportunities, limited capacity of the small firm, difficulties in distribution and export/international marketing, lack of qualified staff, lack of language knowledge, lack of capital, and lack of management time. External constraints cited include lack of perceived demand abroad, too high costs, trade impediments,

problems in collecting money, documentation and red tape.

Case 1

Rekha Baijal

M/s. Akarit Limited, Jaipur

Since her childhood, Rekha was inclined towards the fine arts. This did not however, necessarily guarantee economic independence. After experimenting with many ventures over several years, Rekha started her own export business. But this too is not the end of her search for self-expression and development opportunities. Rekha was born in 1950 at Jaipur to a Maheshwari family belonging to the traditional trading caste of Rajasthan. She studied at the prestigious Maharani Gayatri Devi Girls School at Jaipur, completed her BA (Hons.) from Miranda House, Delhi in 1972 and went on to obtain a Masters in Sociology from the Delhi School of Economics, University of Delhi. After completing her studies, Rekha had no clear direction except that she did not want to get into teaching as a career. In 1974, she went to Nagpur, where her father, a former employee of the Birla Industrial Group, had an agency and retail business in steel ball-bearings.

In Nagpur, Rekha did a number of training course such as in beauty culture, languages such as Bengali and Urdu, etc. She still did not have a clear career focus or direction. Between 1972, and 1982, apart from doing various courses, Rekha held a

number of exhibitions of her art work: embroidery and cloth painting. In 1985 she visited the United Kingdom where her sister was a medical Doctor. Rekha wanted to explore the art market in England. She had taken some of her art work along and even held one or two small exhibitions there. Interestingly, she attended a short course in Soft Toy-making and another course on How to Start Your Business, at a local polytechnic while in England. Rekha returned to India with the business idea of making toys on a big scale. But back in India she could not identify any concrete buyers or markets.

Rekha always wanted to generate money from art. She wanted to be self-supporting, but more than in merely a business sense. In 1984, she decided to start a boutique in Nagpur. Meanwhile, her father suffered a tragic stroke and became paralysed. He was being helped in the business by Rekha's younger brother who is an engineer. Rekha took a loan of Rs. 10,000 from her father and rented a small room with one helper to start the boutique. This business had a turnover of Rs. 30,000/- to Rs. 40,000/- and Rekha earned enough to pay back the loan from her father.

A year and a half later, in 1986, the family shifted to Jaipur, their place of origin. Rekha now took up a job as a part-time school teacher. She was teaching half a day and looking after her father in the other half. Around this time, she thought of starting a small boutique again with two machines. Rekha applied for a loan but was not sure of that big a market in

Jaipur. She did not want to get stuck with a loan. Her brother had recently been through a bitter experience of taking a loan to manufacture Black and White television sets. He was unable to market these locally, in competition with the bigger companies. He had to give up the project after having taken a big loan. Rekha registered her unit as an SSI, and applied for a loan. Unfortunately, her father expired in 1987. The boutique was closed thereafter for 6-8 months.

After one year, an importer friend of Rekha's sister contacted her from the England, enquiring about what could be supplied from Jaipur. By December 1988, Rekha began serious correspondence and the business started. Rekha was not sure if she could handle the large volumes required to meet export orders. The buyer was helpful. Rekha was assured of steady orders and some advance money if necessary. A place was rented out in a far-off locality as there was hardly any money to pay for even salaries. Rekha had to be very careful. Her brother's TV unit was already sick.

During a factory visit, Rekha had seen a unit engaged in garment fabrication work for a big exporter. Rekha contacted this fabricator for material suppliers, when the export order came. Rekha could get their help as this was her maiden order and the first consignment had to somehow get through. These people taught Rekha cutting, stitching, and packing. According to her this is not a difficult job to get done, if you can coordinate through

people with due regard to time and quality. For this first order, Rekha was unable to get raw materials, or cloth on credit. She asked the importer for some advance to pay for fabrication and packing. But the buyer did not open a letter of credit with the bank. They wanted the delivery first. Rekha wanted some payment and vice versa. Before executing the order the importer came down to Jaipur with his buyer, a garment wholesaler in the UK. The first consignment was worth Rs. 7 Lakhs. Rekha now dragged her brother into the export business. She needed help. He could take care of the paper work as he had been in business with his father for 8-10 years.

Rekha describes this phase as a coincidence of many things happening suddenly. Akarit enterpries was soon doing regular monthly business worth Rs. 1.5 Lakhs. A bigger workshop was rented out across the road from the residence. The unit now employed 8-10 people. Two in the office and 4-5 in the production. Only cutting and packing is done in-house, all other work, including stitching is done outside. Thus the business involved very little investment. Payments were assured through an irrevocable letter of credit with the bank.

For the first 2-3 months, Rekha worked with several fabricators. One or two clicked well, one or two failed. After some time matters stabilised. The fabricators depend on exporters for continued work and there are lean times as well. Thus they will not blackmail the exporter when urgent work is required. At

peak times a fabricator can dictate terms, but only once a while. The UK importers wanted larger quantities than what Akarit Enterprises could supply. This was required on very short working cycles too: 10,000 to 20,000 pieces per month was the output of large factories. Akarit Enterprises has been mainly exporting rayon ladies skirts, with paisley prints based on UK designed combinations. Soon another UK buyer came. They had heard of the quality of Akarit's products.

In 1989, the unit attained a sales turnover of Rs. 19 Lakhs. This went up to Rs. 18-20 Lakhs in 1990-91. There is a profit margin of about 25%. If beyond a certain length, skirts could be classified as ghaghras - a handicraft item. This got around the problem related to garment quota restrictions in the importing country. Orders had to be executed in a month's time against detailed firm order in hand: 15 days after the one month cycle. Rekha was able to smoothly organise production and despatch goods within the 1.5 months period. The raw material was synthetic powerloom cloth produced in Bombay and Gujarat. After getting established, Rekha could get one month's credit from cloth wholesalers in Jaipur. After the first consignment, 60% packing credit could also be obtained as credit support for export against letter of credit deposited in the Bank by the UK importer.

On the labour management front Rekha discovered that a skilled person is very expensive. A good cutter-master has to

paid at least Rs.2000/- to Rs.3000/- per month. So Rekha learnt and did the cutting herself, as the product is not a very intricate one. She has preferred to employ raw recruits and train them up herself. They do the cutting before her eyes. The incentives offered are mainly non-monetary, as these inexperienced workers are simpler people. Experienced workers know various rules and quote them - hours of work, minimum wages, to avoid work. Younger workers cooperate more with each other and are flexible. This is most important in exports where one may be required to work on Sundays as well. When a cycle of work is done, Rekha gives them four days leave in a row. The workers have been paid in the lean spells as well.

Around the time of Gulf War, Rekha's brother Ashwin got back to the agency business as a source of maintenance, as they sensed some trouble for the export business. In 1992-93, business has been lean, mainly due to the recession in the West. Rekha is however hopeful that it will pick up again.

Rekha is fond of reading and gardening but the export business does not always leave her much time for this. She has a few good friends. But she is not very social, as there are so many things she wants to do by herself. Rekha did not want to end up as a mediocre housewife. In life, Rekha believes that one must make a success of everything. She has nothing against marriage but felt that she would have to make compromises for it. With her desire to do so many things what was the probability of

success for marriage, she asks? Rekha is a self-sufficient person and feels no need to lean on people. In fact people depend on her. She has no regrets. Rekha mentions that she is not in business for money alone, she has enough to get by now, but wants to do something more. Rekha is interested in Vedantic philosophy.

In 1991, Rekha attended a course on Export Marketing of Handicrafts organised by the PHD Chamber of Commerce and Industry at New Delhi. She has been interviewed as an entrepreneur in the Financial Express daily. For entry into exports an assured buyer is the most important factor. Selling is the main act in business which brings in the money. Once money is there, you do anything - hire accountants, get machinery - whatever it takes to get on with the business. This is Marwari wisdom which she admits she has inherited. The printers and fabricators have become very rich, but they have not become exporters as they are not educated and get stuck in the paper work. Exports require a lot of alertness and running around. Her advise is that one should be clear about the one thing that one wants to do - there should be focussed efforts even within a business.

Case II

Anil Barot

M/s. Transcon Fabrics, Ahmedabad

Anilbhai and his three brothers belong to a traditional business community of India. They started a garment fabrication business from scratch. This was at a time when the family was in deep financial trouble. The unit went on to register spectacular growth and is one of the lesser known rags to riches stories in garment exports in Ahmedabad. The family originates from Phalodi village in Jodhpur district of Rajasthan. Speculating in commodity futures was the main activity of the forefathers. Anil's father Mr. Madan Chand ran away from home at the age of fourteen or fifteen and in 1959 began working with a jeweller in Southern India. He then began working as an assistant to a tea trader in Conoor. Meanwhile one of the brother shifted to Bombay. The family started their own tea trading venture with one chest of tea obtained on credit. Joined by a third partner who looked after accounts, the business grew to a turnover of Rs. 3-4 Crores. There was a portfolio of shares also, worth about Rs. 1 Crore. The family owned three flats in Bombay.

After studying in some of the best schools in South India, the four sons of Mr. Madan Chand came to Bombay for their college education. By 1983, the two eldest brothers, Raju and Dinesh, had entered the tea trade.

Meanwhile an uncle's son was set up for a career in the share market. In family competition, it was decided to groom Anil for the stock market also. When he finished college in 1985, Anil was deputed as an understudy with a sharebroker in the Bombay stock exchange. Meanwhile, with lavish parties in five star hotels and poor handling of investments, the family lost the entire portfolio of shares worth Rs. 1/- Crore.

Between 1985-88, the family came to a hand to mouth situation. The Bombay flat was sold for Rs. 14/- Lakhs and they planned to shift to Ahmedabad into a house purchased from mother's cousin for Rs. 6/- Lakhs. Anil generated some day to day income from the share market, through speculation and forward trading. In these two years Anil used to visit a friend's factory in the evenings for a drink. This was a fabrication unit with 15-20 machines doing job work for Double Bull Garments. A chance visit by Dinesh lit a spark for setting up a unit. This was put up in 1986 with two ordinary sewing machines installed in borrowed premises. At the end of six months no business had come their way. Around this time their father finally went bankrupt with liabilities of more than Rs. 10/- Lakhs. Goodwill also ran out with the owner of the factory premises who was not charging them any rent till now. The brothers removed the machines overnight and left for Ahmedabad. Mr. Madan Chand owned a tea warehouse outside Ahmedabad and one of the uncles had also purchased a flat in Ahmedabad as a safe investment.

In 1987 Dinesh convinced the Sales India people, a consumer durables chain store, into letting them put up a garment counter called "Lajawab". This did not yield any results. Anil continued to generate some income from speculation in the forward market for shares. At this time Reliance Industries decided to set up Legacy garments. Mr. Madan Chand's former partner was a friend of Vimal Ambani, the brother of the entrepreneur behind the Reliance group. At this time, Rajat, the youngest brother, a commerce graduate from the prestigious Sydenham College, Bombay, joined the business. Rajat convinced the State Bank of India at Vatva Industrial Estate to extend a term loan of Rs. 6/- Lakhs against the tea warehouse. Over the next one and a half years more than 50,000 trouser pairs were fabricated for Legacy. This was business worth Rs. 40-50 Lakhs. The brothers could manage to payoff father's debts.

The eldest brother Raju had earlier spent time in Delhi looking after the tea business. Through a friend of Anil he got to know a person connected to a well known textile processing house : R.J. Wood and Company, doing job work for Goculdas and Inter-Shoppe, one of the garment export pioneers in India. As Raju was alone in Delhi, he spent his time picking up all aspects of textile printing and processing. Rajat a brilliant student throughout, could handle all the paper work, accounts and dealings with the bank.

Along with job work for Legacy, business was also being

explored with the export division of Cira Limited, part of the M. Birla group. In fact, the brothers were told by their banker that there was a party looking for a job worker. About Rs. 3 Lakh worth of crinkled rayon skirts were supplied to them. But the entire export consignment was rejected. The export division of Cira itself went bust after some time. The manager of the export division, Ravibhai, had plans to launch exports on his own. He saw the four brothers as a viable team and was training them for his own plans. But this was at a bitter cost. Samples were taken from them but orders went elsewhere. They were asked to buy garment quotas in anticipation of an export order. Six months passed, the market price of the quota went down by more than 60% of the cost. But no orders, no letter of credit appeared in sight. The bank which had extended packing credit, began to scream. With the onset of the Gulf War the price of the quota went up by 50% of the original cost. Suddenly an export order appeared and a letter of credit was opened. Dinesh tore up the letter of credit and sold the quota. He realized that Ravibhai was an undercutting agent. It was a hard training but Dinesh learnt all the tricks of the trade. Feeling foolish and cheated he now ran away to Bombay. Meanwhile, with the entry of Tina Munim as a daughter-in-law into the Ambani family, Legacy Garments also folded up.

While doing job work for Legacy Garments, Transcon had built up a good relationship with their production manager. This gentleman, an Indian jew, had very good contacts abroad. He knew

the purchase managers of some of the largest retail chain stores in the U.S.A. He gave a chance to the brothers to execute a trial export order directly. He then gave a contact with the purchase manager of one of the largest U.S. retail chains. This contact and Dinesh clicked very vell and they remain the best of chums even now.

Thus by the end of 1987, exports began in earnest. Initially, Transcon exported rayon and cotton fabrics printed according to the buyer's designs. They were able to meet all the requirements of quality, dependability and schedules. If there were defects, all claims even to the tune of lakhs of rupees were accepted. Repeat orders steadily flowed. Interacting with Ravibhai, the brothers had gained a good grasp over textile products, purchase of raw materials and its processing, various producers, locations etc. By 1989-90 they had exported nearly Rs. 1/- Crore worth of garments.

Some time in 1992-93 Transcon, ran into labour trouble at the factory. By this time they had imported seven Japanese machines which were fully automatic. They employed 20 workers. There was a case filed in the labour court, instigated by the outside trade unionists. This year many consignments were also rejected. Transcon decided never to have a factory again. They complain that in the U.S.A., if there are no orders you can close the factory. Whereas here there are factories with 100 to 200 machines lying idle. Mobility of capital is also impossible. Plus

there are unions which insist on local labour. For a year and half this lull in the business continued. Transcon then decided to shift their production base to Bangalore. They would now give job work to garment export quota holders and share profits on a 50 :50 basis. But they would not operate a factory. Here they were helped by a runaway boy, twenty years old and a defaulter on the Ahmedabad stock exchange: Amar. He could manage production in five factories with 500 machines each. Earlier, the problem of country quotas was circumvented by routing consignments through a non-quota country in the Middle East. Excessive trade credit is a serious problem in the domestic market for small start-up firms. Transcon is now tying up with an established brand name in the domestic market to help them achieve growth and also enter into exports in a big way. Transparency of business transactions and income tax relief has also been a major factor in trying for and staying in exports.

By 1992-93, Transcon had an export turnover of Rs. 15/- Crores. At this time, the brothers pooled together about Rs. 1/- Crore and speculated in primary public issues in the stock market. The investment was turned around seven times in the space of one and a half years. All the brothers have now bought property in Bombay and have a portfolio of safe investments.
Anil has turned to spiritualism and reading books by Osho: Bhagwan Rajneesh. The other brothers are contemplating what to do. The firm is now worth about Rs. 25/- Crores and could mobilize an equal amount from the capital market.

The initial investment was Rs. 10/- Lakhs in land and building and Rs. 7/- Lakhs for machinery. Transcon enjoys a working capital facility of Rs. 55/- Lakhs and export packing credit of Rs. 35/- Lakhs with the Bank. The quality standards are as per SGS, Paris. They rate their technology as good and it was all developed by themselves. The main markets have been the USA, Canada and the United Kingdom. The workers employed, now 10 only, are all semi-skilled and un-skilled. The brothers carry out all the managerial tasks and there is a full time accountant. The products are rayon shirts, skirts and kaftans. Cotton night gowns, stonewash printed shirts and yarn dyed-woven flannel checks. Some of these products can be seen worn by music stars on the MTV channel. Though late entrants on the garment export scene, the brothers are proud that they could make it big in a short period of 4-5 years.

VIKRAM SARABHAI LIBRARY
INDIAN INSTITUTE OF MANAGEMENT
VASTRAPUR, AHMEDABAD-380015

Case III

Dinesh Shah

Dintex Dyechem Group, Ahmedabad

Dinesh Shah graduated in Chemistry with a first class. The family business had limited scope for his involvement. Dinesh joined a dyestuff manufacturing unit. But this job did not pay well and was also located in a riot-prone area. When he asked his father for a Rs. 5/- Lakh loan to start a business on his own, it was refused. Father felt that he had no experience nor proven capability in any field. It was not easy to get such an amount together either. He then convinced his mother to loan him Rs. 500/- to experiment with the production of dyestuff. A drilling machine in the family owned foundry was converted into a stirrer. Glass containers and instruments like pipettes were borrowed from a friend. Dinesh managed to produce a dye which was tested and certified by the Ahmedabad Textile Industry Research Association (ATIRA). This convinced the family about the seriousness of his intent.

Dinesh then applied for a bank loan of Rs. 1/- Lakh. He could get only Rs. 50,000/- as he was unwilling to be a party to corruption. Dependence on external funds was discouraged by the family as well. In actual production, the high quality dye could not be replicated. At the experimental stage Dinesh admits that he succeeded due to chance factors. But bulk production was a

different matter. For several months the unit suffered losses. Luckily in 1977, the Government of India announced 100% excise exemption for units with a turnover upto Rs. 5/- Lakhs. This was a considerable advantage against the organised sector and the business grew. By 1980 production was in full swing and brought reasonable returns. Excise duty was once again imposed in 1982. All small units downed their shutters for two months and the government relented. To guard against such policy changes Dinesh started an agency business in dye intermediates.

With the business doing reasonably well, Dinesh decided in 1987 to start an ambitious new unit for H.Acid. This resulted in a substantial loss as Dinesh discovered serious technical gaps in his knowledge. This was the most severe crisis and he almost gave up. A chance enquiry through the Gujarat State Export Development Corporation, brought an order for the supply of black dye to the Soviet Union. This was for 340 metric tonnes of dye, worth Rs. 3/- Crores which had to be met within four months. His capacity was only 10 M.T. per month. Dinesh now mobilized the workers, his friends and the family : "we either sink or swim together". Some of the production was farmed out and the H. Acid plant was converted to meet this order.

Dinesh and his team actually lived in the factory in this period. There were no holidays and no working hours. The order was executed at the end of three months and repeat orders came for the next year. This was for Victoria Blue R Dye which was

based on the dangerous phosgene gas of "Bhopal gas tragedy" fame. To the surprise of the buyers, Dinesh managed to produce this dye without using phosgene. Around this time, he was selected for a sales cum study tour abroad by the CHEMEXCIL. Being from a business background, Dinesh grabbed this chance to make direct contacts abroad and never looked back. With the government's incentives for encouraging exports, he concentrated fully on exports. After the first trip to South East Asia, Dinesh has visited nearly all the continents as a member of delegations and also on private marketing tours. By 1992, nearly 75% of production was for exports. The group is exporting to nearly 30 countries i.e. wherever there is textile, paint, leather, ink and printing industries.

Dinesh promoted four units : Dintex Dyestuff Industries, Dintex Dychem Industries, Dintex Dyechem Private Limited and Dispo Dye-chem. The sales turnover has grown from Rs. 70,000/- in 1977 to Rs. 25/- Crores in 1991-92. There is a profit rate of 10%-15% in manufacturing. One of the units is a 100% export oriented one. The public issue call for Rs. 4.3/- Crores in 1992 was a success. The plant for this had already been set up and production was on. The workforce has swelled from 5 workers at the start to 60 full time and 60 casual labour. With the new unit fully functional there would be 300 workers.

The competition from South East Asian countries and China in the international market was stiff. Not only had a producer to be

cost conscious but also develop new products and non-toxic substitutes. As export markets were "slippery" new markets and buyers had to be continuously identified. The loss of the Soviet market has brought a lull in the exports at present. The business in 1995 is now equally balanced between the domestic and the international market. Dinesh does not agree that it is for environmental reasons alone that the chemicals manufacturing base in shifting to countries like India. Dyes and dye intermediates involve batch production processes. These are not easy to automate as there are too many parameters and interoven reactions. It is not a continuous process and even a small batch can take up into 14-15 days. And economies of scale are not significant. Thus it is expensive. The Dintex group has its own research and development cell in which about Rs. 50/- Lakhs have been invested. Dinesh also sponsors Ph.D. students in Gujarat University for research in Chemistry, particularly non-toxic substitutes. The dyestuffs industry is broadly divided into two groups. One feeding synthetic textiles consisting of larger firms producing reactive, disperse and vat dyes. While cotton textile are fed by smaller units making direct dyes.

Dinesh's father has been a guide in all the struggles and looked after office administration till recently. One brother looks after the works and another, a practicing Chartered Accountant, looks after finance. Dinesh admits that only a combination of technical knowledge and managerial skill could help retain the initial advantage of belonging to a business

family. He has attended various courses to make up for his deficiency in Accounts etc. His major strength is his deep knowledge of chemicals and dyestuffs in particular. He constantly updates himself on the technical side and takes close interest in new products and orders. He feels that employees have to be treated as an asset rather than as a cost. The business revolves around a core of highly motivated and committed workers. Dinesh works seven days a week and goes on a holiday once a year with his wife and two children.

Case IV

Ashish Janmeja

Graffitti Exports Private Limited, New Delhi

Ashish was born in 1968 in Shimla. As his father was in the army he studied in Central Schools all over India. After graduation he completed a Masters in International Economics from Indore University between 1988-90. From his childhood itelf, Ashish always had it in mind to work for himself. He admits that he was always bad at taking orders. The allure of money was always there and Ashish has been a firm believer in materialism. Throughout his educational career Ashish did well in all sports - he reached the nationals in horse riding. For sometime in 1989-90, he worked in a tea garden in Assam. In 1990 he came to Bombay and for six months worked in a computer software firm. In 1990

he came to Delhi and with six youngsters, started an exhibition firm called "Invest India". This was the first financial or consumer finance exhibition in India. This firm continued for three years visiting various cities and attained a turnover of Rs.40/- Lakhs. Ashish however, quit after a few months as the group contained a few "bad fish". In this phase, he met his wife Sabina, who was to become a business partner in the initial years of exports. All along he was gaining exposure to international business: tea exports, software exports. Ashish felt that exports did not require much investment to start.

In December 1990, Ashish and Sabina started Graffitti exports with a combined savings of Rs. 7,000/-. In 1991, after marriage Ashish borrowed a sum of Rs. 30,000/- pooled together from both his father and father-in-law. This amount would cover purchase of samples, and an air ticket to Europe. He carried with him semi-precious jewellery and stones, silk scarves and costume jewellery. The countries visited were Hungary, Germany, Poland, Czecheslovakia and the Netherlands. He managed to get orders for two small consignments of semi- precious stones. Except for a person who worked in the Indian Embassy in Hungary, Ashish never really had any contacts.

Returning to India after a month, in April 1991, Graffitti now decided to just "be present" in the market. They contacted buying agents in India and firms already in exports. They offered to become a local suppliers to those who had export

orders in hand. Several small consignments came their way : leather brief cases, silk scarves, semi-precious stones and metal items. They would entertain enquiries about any kind of product. Even if they were unable to supply it, enough research would have been done to execute it, if there was a second such enquiry. In this period, from mid-1991 to mid-1992, Ashish and Sabina travelled extensively in India identifying products, sources of supply and reliable suppliers.

Around this time, one person by word of mouth from London, sent an enquiry for slate. This was the first real order that Graffitti obtained. Now the Haryana Mineral Development Corporation, which owned major quarrys around Delhi, claimed that only they were authorised to export building materials. Ashish now turned to other local suppliers. Credit became a problem. The banks said we can extent credit only after you have executed your first order. Ashish and Sabina argued that after executing an order they will not need bank credit. Ashish then managed to get some credit from the slate suppliers. Some advance was also negotiated against the letter of credit. Though Graffitti is now exporting granite and marble in a major way, they still do not enjoy bank finance for it. For the next six months Graffitti exported several consignments of slate. Alongside, smaller local supplies to established exporters continued.

Now Ashish received an offer from a non-resident-Indian group based in the United Kingdom, to help start their

international trade division. This group had considerable financial strength. Directorships were exchanged between the two firms. But things did not work out as Ashish did not feel comfortable with interference in his style of work. While on trip to London, Ashish obtained an enquiry for silver plated candle holders and other decorative brass vessels. These items have picked up in a major way and are also being re-exported from the UK.

Graffitti had always been interested in leather goods. A a big demand was perceived to exist for this in Eastern Europe. Ashish had been looking around for a unit to purchase. In June 1993, they began exporting shoe uppers to Eastern Europe. In July 1995, Graffitti has entered into a joint venture with a Hungarian individual, whom Ashish met on his first visit to Europe. This unit is going to manufacture leather goods. Since November 1994, marble and granite are being exported to the Middle East and Europe on a continuous basis. Somewhere along the way, Ashish decided not to get into products which have a pre-determined price, such as fabric or foodgrains. He has always tried to work with products which have no set price - its value lies in the eye of the beholder alone - such as jewellery, decorative items etc. While Ashish would do the running around, Sabina took care of the office work. To understand taxation laws Sabina attended a course in export management organised by the Punjab Haryana Delhi Chamber of Commerce and Industry.

Ashish was always reluctant to enter manufcturing due to labour law problems and the fear of investment getting stuck. But now he wants to backward integrate into manufacturing. A marble and granite cutting unit is already functioning in NOIDA. Graffitti also plans to have offices overseas in partnership with individuals who are already in business in the U.S.A., Bahrain and Hungary. In 1993-94 Graffitti also started imports : pigs hair bristles sold locally at 10% above CIF value. But there were always problems with customs and custom duty. And it would take as much as six months to get the goods released. Besides there was no facility to open a letter of credit abroad. To import Rs. 20/- Lakhs worth of goods, the banks want a deposit of Rs. 20/- Lakhs first. If all the enquiries Graffitti has received were to materialise, they would have done business worth Rs. 2000/-to-Rs.3000/- Crores. Of this less than 1% actually comes through: Rs. 20/-Crores. According to Ashish, Exports is easy to leave. But earning money is not easy. It requires perseverance and an ability to take ups and downs: a strong body and heart. A thorough knowledge of the business through experience and reading or study is also important initially.

Case V

Amarnath Sahgal

Classic Needles Private Limited, Delhi

Mr. Sahgal was born in Amritsar in November 1940. His grandfather was a civil engineer. His father was studying for his graduation, but due to chronic ill health could not continue. He tried farming for some time. In 1944 the family migrated to Dehradun where the joint family owned a house. Grandfather left government service after quarreling with the British boss. With his pension, a small chemist shop and some income from investments, the family could somehow manage to make ends meet. Mr. Sahgal studied in St. Joseph's Academy and finished school in 1954 with Physics, Chemistry and Maths, topping the merit list. He got a scholarship to study in D.A.V. College. He was an electronics hobbyist, repairing radio sets in his spare time. His scholarship was supplemented by Maths tuitions to students from the old school. After completing his B.Sc. in 1958, Mr. Sahgal set his sights on engineering. But family resources were meagre. He then thought of the special class railway apprenticeship scheme. This way he could have a job and education would also be paid for. He completed engineering studies in 1963 with honours and second rank in the merit list. In 1965, he was selected to help set up and commission the Varanasi Diesel Locomotive works, since he had some background in electronics. Sophisticated machinery had been bought, but no one was trained

to set up the electrically controlled equipment. Till 1969, he continued as Works Manager and Design Engineer at the Varanasi plant.. He was then selected for a scholarship to a post graduate degree in Diesel Engine Design at Rugby College, in the United Kingdom. But the railways insisted on a five year bond and Mr. Sahgal rebelled against this. He now joined Johnston Pumps India Limited, part of the MacNeill group. Mr. Sehgal set up and managed a plant for them in Ghaziabad. This being an MRTP house, they could not go ahead for expansion, except through the export oriented unit route. Thus they took over a stainless steel cutlery making unit in Gurgaon. Mr. Sahgal managed both the units till 1976-77.

A series of unexpected developments now occurred. The Gurgaon plant was allowed to be taken over by the MRTP company on the condition of a 75% export obligation. In 1975 a Bombay based company was caught claiming duty draw back on non - existing exports. The government now imposed 350% duty and duty drawbacks were reduced by 75% on all units in this industry. The company therefore became totaly unviable. They were now looking for a non-MRTP buyer. In 1976, the firm was sold to a Calcutta group. Mr. Sahgal would continue as Chairman and held dual charge of MacNeill's domestic trading operations also.

At this juncture Mr. Sahgal began feeling a bit restless. He wanted to do something more in life and felt he was becoming complacent with a cushy life. He happened to meet a person

manufacturing surgical blades in Kanpur, who was looking for a co-promoter to start a new unit. Soon after the unit started Mr. Sahgal discovered that though he was a minority share holder he was a guarantor of a liability of Rs. 1.2/- Crores. The co-promoter had no money of his own. But he managed to show bank money as his own equity. The bank loan was also being siphoned off for personal consumption. This was to the tune of Rs. 35/- Lakhs. In two years it became clear that the unit could not get off the ground. Mr. Sahgal went to the financer: the Industrial Development Bank of India, to made a clean breast of things. But it became a very complex task to be free of his liability and to even quit the company. Protracted legal wrangling and manouvering with his partner and the banks now started.

At this time, 1982-83, Mr. Sahgal came to know about a sutured needles unit in Sahibabad, financed by the Bank of India. This unit was running into losses. Sahgal made a deal to buy out the plant and machinery and set it up anywhere. He felt he could revive the unit. Luckily the Bank of India gave a loan with nil margin money as a special case. A shed was now rented in NOIDA. Within 3-4 months of setting up Classic needles, it started generating profits. Now Sahgal's former co-promoter demanded payment of Rs. 4/- Lakh of the guarantee or equity shares in the new firm. Sahgal at this time some how kept the home fires burning through consulting assignments. Money was also borrowed from a blade dealer. After further manouvering and legal hair splitting, circumstances finally caught up with the ex-partner.

Sahgal was now able to get out of the guarantee.

Commercial production started in the second half of 1984. It was soon discovered that the domestic market could not sustain the growth of the firm. The product being a reusable kind, there was limited demand beyond a point. World over single eye needles were being phased out. These use two sutures, causing greater tissue trauma. The world appeared to be switching over to eyeless needles. But here there was fiece competition from a multinationals which controlled 75% ofthe the global market. Besides there was a problem of technology. Import of know-how was ruled out because of the huge cost involved. A Hungarian company asked for $ 50,000/- for spring eye needle knowhow. The eyeless needle was available from France for Rs. 55/- Lakhs. Given the high interest rates ther was no way the business could be viable through the bank loan route. Thus these products had to be developed in-house. Not only the products, but also the machinery for producing them had to be designed locally. The other dilemmna was either to become a sub-supplier to the multinational in India or enter exports. The former was risky, as the multinational was known to have ruined small start-ups by rejecting their products after confirmed orders. The earlier blade unit being an export oriented one, Sahgal had trade contacts and had dealt with merchant exporters also. Surgical needles is a highly restricted technology but many have tried their hands at it. By 1991, 2/3's production was for exports. This was divided 50:50 between direct exports and merchant

exporters. Often they find their own products routed back to India as imports in various hospitals.

Globally, independent needle manufacturers are being taken over by large companies. Classic does not export under its own brand name. In India, there is a third manufacturer in South India. The medical products line is a small part of their overall business. Trade contacts with domestic distributors helped considerably in the initial stages. Orders came, payments were prompt and credit did not have to be extended for long periods. Classic Needles cannot confront large companies directly, in the domestic market or abroad. Instead it is tying up with suture manufacturers as a sub- supplier. The cost of purchase of a suture attachment machine was prohibitive given the high interest rates. So it was developed by the company itself. Some of the overseas buyers are now asking for this machine also to be supplied along with the needles.

Production is looked after by Mr. Joshi who joined Mr. Sahgal as a draftsman in the original blade company. The original machine came without the main tooling. In the initial stages there were hardly 2-3 employees and everybody had to do everything. Expenditure ws avoided and efforts were made to utilise men and machines to the maximum. Things were repaired and improved to be usable. Even a wooden table was to be purchased only after some sales had been registered. Customers also cooperated by not demanding credit. Mr. Sahgal also kept up

his consulting work part time, visiting the factory on 3-4 days in a week.

There is an incentive scheme against targets on a piece rate basis plus there is a group achievement incentive. The processes are interlinked and thus limit individual performance. Workers have been encouraged to supervise each other. They know that one's mistake will affect others. If management had adopted a disciplinary approach, everyone would unite in opposition, regardless of any mistake. But with self- administration there is group pressure to fall in line. There are now 80-85 employees. The unit practices multi-skilling, each worker knows 3-4 operations for which they have been trained in the spare time, according to aptitude. The mix of automation and manual processes is a combined consideration of costs, volumes and quality. There are cumulative attendance bonuses also. Mr. Sahgal is himself a "hands on" entrepreneur and the employees have respect for him but do not fear him. He is lenient to a fault and if he gets angry, it must be something very serious. Only 1-2 employees have been turned out and the rest have remained with the company since 1985. Expansion plans proceed keeping in view strength and managability. Only helpers are recruited and trained up over 5-6 months in anticipation of orders in the pipeline. Many of the processes have been automated in-house. The workers come forward with technical suggestions without fear, as they know that the company is

growing.

In 1985, Mr. Sahgal had employed a works manager from another industry but this was a disaster. He found himself spending too much time on day to day problems. Therefore he did two things. One, he took on Directors in the company to advise him. Secondly, he took a gamble on Joshi, who had the potential to be groomed as a manager. Joshi on his part has stuck to Mr. Sahgal as a lot could be learnt from his technical expertise. Besides he developed a personal sense of attachment to Mr. Sahgal.

Initially, there was a secretary but he demanded a salary hike and left. Sahgal then purchased a computer in 1989. By this time, it was difficult to keep track of the product mix which had increased from 70 to 1200 types of needles. A second computer and a programmer was brought in 1990. Stores and accounts have been computerised. With a view to achieving ISO 2000 quality standards, the entire operation is proposed to be computerised through a local area network (LAN). About six months supply of raw materials - 0.001 accuracy - of Japanese stainless steel wire is kept in stock. It takes two months by sea and delivery can take six months. Export orders have to be executed in six weeks. Liberalisation, since 1991 has meant that no import licence is required for the raw materials.

In 1991-92, the sales turnover was Rs. 52/- Lakhs. In 1993-

94 it reached Rs. 1.8/- Crores. The breakthrough in exports came from Australia in 1986. Another watershed was 1989, when they were able to commercialise the technology for spring eye and channel needles. There is a gross margin of 45% and the gross block fixed investment is a little more than Rs. 1/- Crore.

Issues in the Growth and Strategic Management of Exports

1. Industry Structure: whether the domestic market comprises of a few large firms and large number of small firms, regional market boundaries and linkages; whether an industry consists of direct/indirect, partial/dedicated or merchant exporters - is an important part of the context within which strategy can be examined.

2. Long range (market) planning - But overplanning can be counter-productive for SME's due to capacity (time, resources, survival) constraints. "Do business today instead of planning for tomorrow"

3. Focus vs. Spread - product groups and countries - Those firms which distinguish profitability by country and products are likely to be more successful.

4. Small is not always beautiful in exports. Critical Mass - International marketing for entry itself is an expensive

proposition for SME's. But large unwieldy slow reacting firms may not find the going easy either.

5. Export markets come and go. Creating strength and sustainability in the business - choice of markets, choice of unique products/technology based on geography or natural endowment.

6. Relevant managerial resources and international business culture : Entrepreneurial organizations.

7. Balance between risks and rewards as you go along the value chain: investment decisions. Trading has less risk but the margins are also lower.

8. Exporting usually means "sell and then manufacture". Formidable commercial and logistic skills are required: zero response time, zero lead time, 100% on time, delivery report - everything must be right the first time. Supply chain management is critical. In this, information technology and networking - strategic alliances / partnerships, all along the value chain have a crucial role.

9. Matching Critical Success Factors and your capabilities - logistics driven (cut flowers), managerial/technocrat driven (software), labour driven (garments - shoes).

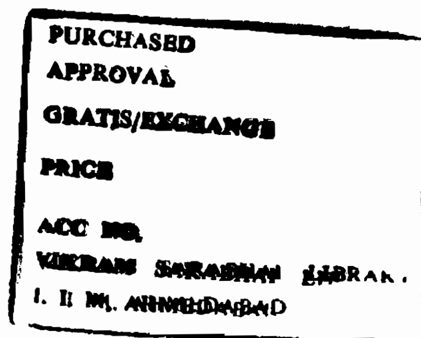
10. Developing markets, marketing and distribution, establishing brands - Largest part of India's export basket: trading and manufacturing exports.

11. Creating International Business specialists - for markets where you need trend analyzers or decoders due to cultural and language barriers, continuous analysis of developments in all countries and their economic and business implications.

12. Product development and design - continuous quality improvement and cost management, vis-a-vis competitors.

13. Building international relations, not merely international business.

****


PURCHASED
APPROVAL
GRATIS/EXCHANGE
PRICE
ACC NO.
VIKRAM SARABHAI LIBRARY
I. I. M. AHMEDABAD