

## **The Big Cookout: The Heat on BPO**

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### **The Company**

Aneez Dastoor, 47, is the CEO of the company called Delicas, a Western India based company which is into confectionery and bakery products with 2 factories, in Mumbai and Dahanu. Delicas is a family run organization in existence for the last 40 years. It is only in the last 15 years since Aneez has taken over as the CEO that the organization has grown leaps and bounds and is now one of the most recognized players in the Western India region. It has 34 retail outlets, owned by Delicas, spread over 5 states, including Maharashtra, Gujarat, Goa, Rajasthan and MP. It has a turnover of Rs.65 crores a year, growing handsomely from 20 lakhs in 1988.

Delicas has three main line of products –

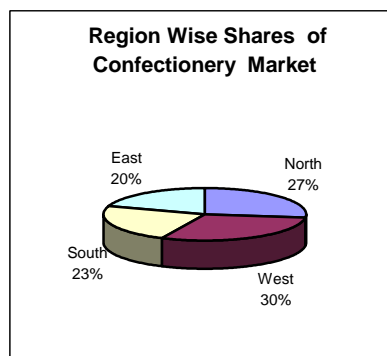
Cakes and Cookies

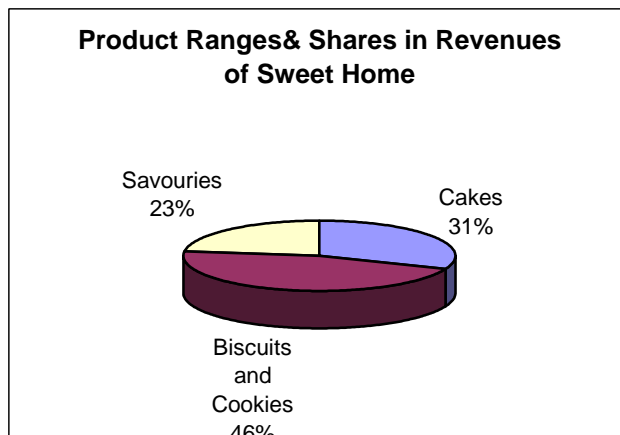
Biscuits

Savory products

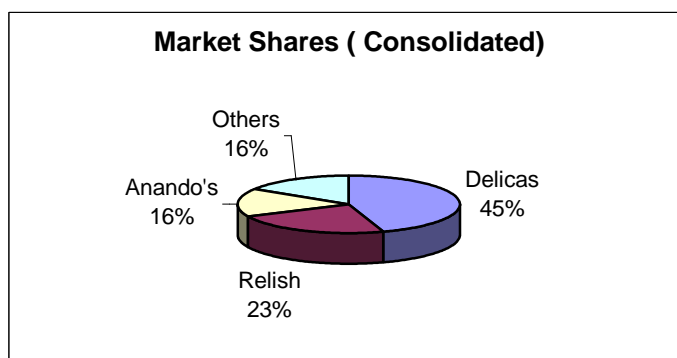
The company enjoys a reputation for high quality, tasty and fresh products. Consumers have been buying some of the company's brands for many years and there are many young children who have virtually been brought up on the cakes, cookies and other products of the company.

Delicas is a market leader in Western India region in all the three product categories with an overall market share of 26%. In all the organized players have a share of 74% and the rest is with the unorganized players. Western India is the largest market with a total market of size of 30% , with North 27%, South 23% and the East 20% making up the rest.





In the Western Region, there are three main players in this segment including Delicas which garners about 45% of the market share. Relish, an all India leader is second with 23% of the Western India market share and Anando's a Gujarat based company has 16%. Other players have the balance shares.



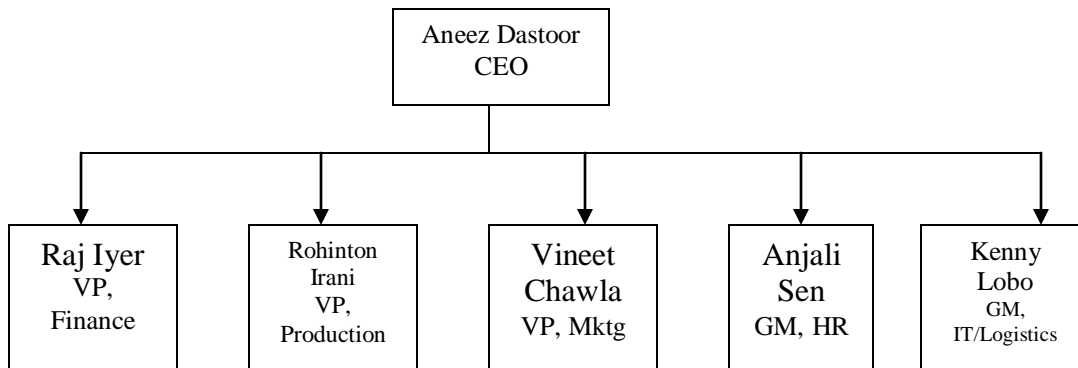
Delicas has in the last 5 years faced stiff competition with Relish in particular cutting prices and the unorganized players making a mark. Another competitor Anando's is almost certain to get into a joint venture with an MNC entering India. There is some threat from the large MNC and Indian confectionary companies who traditionally operate in an all-India mass marketing context.

Still in the last 5 years the PAT has grown at a steady and strong CAGR of about 24.5% as compared to the industry average of 19.3%. Some of this growth can be attributed to the outsourcing exercise undertaken by the company.

Aneez had planned a major expansion exercise with a new plant at Nasik, that would cater to the Central India region and even make some inroads into Uttar Pradesh and parts of Northern India. However, he was in two minds whether to set up this new facility or not. If he could look at a third party manufacturer to take on the job, it would make things a lot simpler.

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## The Team



Raj Iyer, a CA is the VP, Finance at Delicas. He is a traditional and hard working professional with 20 years of work experience out of which 7 are at Delicas. He is a prudent man who likes to go in to details of everything he undertakes.

Rohinton Irani, VP Operations, a typically Type A personality. Action-oriented, hyper tense and very charged, he often has a lot of complaints about the way the system works. An engineer by profession, Rohinton has 15 years of work experience, of which he had been with Delicas for the last 5 years.

The VP Marketing at Delicas is Vineet Chawla. He is a flamboyant management graduate from one of the IIM's. He is an intuitive, dynamic and ambitious guy who has big ideas but doesn't believe in too many details. In fact, he introduced the idea of BPO to Aneez and the management of the company.

Anjali Sen is the General Manager HR. She is a calm and laid back person who does things by short cuts. Anjali started her career 7 years ago with Delicas.

Kenny Lobo is the GM, IT and Logistics at Delicas. He is a creative but matter-of-fact sort of person who loves computers more than people. His mind is always engaged with future possibilities of IT and strongly feels that Information Technology can provide a solution to most organizational problems. Kenny has been working in the IT industry for almost 7 years Kenny joined Delicas only 3 months ago after his dot com venture failed to take off.

## The Leader

Aneez was known to be a 'peoples' man. Over the years he had built up a capable team of managers that had worked well and respected others. The organization culture was informal and open with most major strategic decisions being made by consensus. Aneez had a dream of making Delicas a major player in the Western Region. On the anvil were plans to set up at least 25 more retail outlets within the next three years and to upscale the productions in the existing manufacturing units, with a possible addition of one more manufacturing unit in Nasik. He knew that the plans were ambitious, but he was driven by the forces of the market and competition, and needed the quick expansion to keep his market share from eroding. He also knew that he could not achieve such quick growth organically, but needed to take a critical look at what processes

could be outsourced to business partners. His philosophy was that the team should think like business strategists who could help him achieve these plans and not get bogged down with day to day operations of their departments.

For the last few months, Aneez had been getting to know about BPO in some of the national and international conferences, business magazines and general networking with other CEO's. Personally, he was of the opinion that quick growth can be achieved through effectively outsourcing some of the business activities. Not only was the growth achieved at a faster rate, but also there were cost savings and no hassles of labour relations and he could take advantage of economies of scale of the suppliers. He could also free up the time of his team members to do other more productive and critical tasks.

Aneez Dastoor was aware that it was an important day in the journey of Delicas that he had inherited from his father 15 years ago. Today was the day the Executive committee of is meeting to take an important decision on the future plans of the organization. The decisions that would be taken could prove to be a turning point in the history of the organization and could be critical in making a quantum jump in the operations. You see, it was all about Business Process Outsourcing.

### **BPO at Delicas**

Over the years, Delicas had been appointing third parties for various operations. Each department head had been responsible for bringing in some vendors or the other. A select list of the critical outsourcing activities undertaken by Delicas are described in the next paragraphs.

#### **FINANCE & ADMINISTRATION - Outsourcing Partner: Finpay Services.**

The Finance and Administrative vendor, Finpay Services is headed by Ilyaz Hussain, a sincere and hardworking entrepreneur. He has 5-6 other clients apart from Delicas. Raj Iyer appointed Finpay 6 years ago as the vendor for managing accounts, payroll, P.F. and other administrative jobs of Delicas. Delicas had been the first client of Ilyaz when he was struggling to set up his business. At that time, he had been willing to sign up a contract which was not too profitable because he was more interested in getting the prestigious business from a company like Delicas. The work was routine in nature and the arrangement worked fine because of the very detailed contract worked out by Raj Iyer. Of late, Ilyaz had been making noises about raising the contract fees as his profit margins were squeezed, costs of operations were going up and Ilyaz was planning a significant upgradation of his hardware and software.

#### **OPERATIONS – Outsourcing Partner: Hommade Kitchens**

In the Operations functions, Delicas had always found vendors for supply of packaging materials and transporting. However, one year ago Rohinton had looked to outsourcing to Hommade Kitchens, the manufacturing and packaging of their Cream Cookies range of cream filled biscuits. Hommade Kitchens is a startup of Neena Mehta who operates out of a small industrial gala. Neena is very conscious of her costs and knows that Delicas is her only big client. Her startup is having few teething problems too. The turnover of employees is very high and recently her star chef quit after a tiff with Neena. Neena is somehow managing to meet quality parameters laid down in the contract by Rohinton who is extremely fastidious and quality conscious, but each day is a huge effort and at times, does not seem to be worthwhile. For Rohinton, this was a

big barrier, as the R & D department had come up with some new recipes for Lemon Cakes which needed to be brought to the market this summer itself. It was too late to look for another vendor for manufacturing this product, and he had planned to ask Hommade Kitchens to take on this job as well. But looking at the kind of problems she was having, he had second thoughts about the idea of making this product at all.

**HUMAN RESOURCES - Outsourcing Partner: Ace Personnel Services.**

Sales girls at Delicas outlets are contract employees being temporary employee services provided by Ace Personnel Services, the Indian arm of Ace Personnel Services based in Boston, USA. They have a good track record with excellent services. In fact Anjali had been pleasantly surprised with the ease with which Ace was managing the staffing services and she had no complaints at all. Recently, it had come to her notice that Ace Personnel Services was planning to wind up its operations in India, and this had got her worried. Ashish Gupta, who was the head of Ace in India, had mentioned to her that he might be selling out the business after Ace withdrew and that Delicas could continue working with the new proprietor.

**MARKETING INFORMATION SERVICES – Outsourcing Partner: ProData Management Services Limited.**

For the last six months, ProData was responsible for collecting detailed sales and stock data on a daily basis from each of the retail outlets. Vineet had entered into a partnership with high flyer Ajay Chopra who had recently returned from a seven year stint in US with an organization in a similar line of business. Ajay would take the data from the retail outlets and do a supply chain forecasting that would predict the likely demand for different food items in different retail outlets. The modeling would generate daily/weekly reports from each of the outlets to assist in supply chain management and production planning. The new marketing information system had been giving some initial troubles. Ajay would often find that the daily data collection from the retail outlets was either delayed or incomplete. The staff at the retail outlets would often forget to follow the system of daily reporting, or would take it too casually. For Ajay, the result was that it was a daily job of following up with each retail outlet to see if they had given in their sales information or not. This invariably resulted in delayed reports to Vineet who did not really understand that the root cause of the problem lay within Delicas itself.

### **The Executive Council Meeting**

It's the fourth Monday of the month, and that's the day when the EC meeting is usually scheduled. At Delicas, most of the EC members make it a point to schedule their travel plans and appointments to come for this meeting. The meetings have in the past, sometimes been very cordial, sometimes been very analytical, sometimes tempestuous. By and large, Aneez has taken all major decisions about the company through consensus in the EC. On the agenda today are some of the actions that are to be taken in order to meet with the growth and expansion plans for the Nasik unit, that were chalked out a few weeks ago.

Vineet Chawla had volunteered to make a presentation in the EC meeting on franchising and outsourcing as a strategy for growth and expansion.

“After having seen these impressive results of our company’s performance, I would like to draw your attention to what the future may hold for us. As you are well aware, the demand for our products are growing with the changing lifestyles of our consumers who are turning more and more towards readymade processed foods. The activities of the competition are driving us to expand our markets and operations. Growth, today, is an imperative, which if we do not undertake, we may not survive. I would like to remind you of our plans to start up 25 more retail outlets within the next three years and to upscale the productions in the existing manufacturing units. We are also planning the launch of at least one or two new products this summer and also to enter markets in the North of the country. If we are to meet the demands of the customer and the pressures of the competition, we might have to consider consolidating our plans for the addition of one more manufacturing unit in Nasik.”

“As most of us sitting here would agree, in the past, our outsourcing initiatives have yielded excellent results. To take a quick view at the cost savings, I present a summary of the cost savings incurred in the last one year of process outsourcing to various partners along with the huge potential of following the strategy for our expansion plans in the north.”

Process/ Function	Share in total Cost of Products	Potential for Savings (FUTURE /PROBABLE)	Savings achieved from Outsourcing (WESTERN REGION)
Materials and Manufacturing	40- 45%	20 -25%	2 % ( only 1 range of products outsourced)
Finance and Administration	7-10%	45 -50%	4%
Human Resource	7-10%	30 – 35%	3 %
Marketing	20%	N.A.	N.A.
Distribution and Logistics	20%	80%	4 %
TOTAL	100 %	30 -35 % Of Total Cost	13%

“In the next year, we aim to capture at least 10% of market shares in Biscuits and about 5% in cakes and savories each. Through outsourcing, Delicas can dump operational headaches of entering a new market and consolidating present ones, capture immediate cost savings and avoid labour conflicts.”

“Many organizations across the world have used BPO as a critical strategic tool that has given them a competitive edge. Take the example of world leader in hamburgers- McDonalds’. Their business model is one of outsourcing various functions to different business partners while the managers in the company concentrate on the overall strategy, brand building and new product development. They have done it all over the world and also in India. So it is nothing new. My bet is that Relish and Anando’s are also reworking their blueprints in order to come out with more cost effective products and quicker response times in the market. We ought not to be left behind in this race.”

Rohinton Irani, seemed to have been critically analyzing all that Vineet had said in the last 30 minutes did not even take a moment to shoot questions at him, “Vineet, have you tasted our new range of Hommade Cream Cookies introduced 4 months back. Many new flavours have come and gone within this time, but surely what has been consistent is the complaint of frequent stock outs and bad quality.” And this is all thanks to a fad called outsourcing.”

Kenny was trying hard to curb the cynic in him “Old man – can’t do his job well and blaming others as usual!”

Vineet who is a little perplexed says, “What do you mean Rohinton?”

Irani explains, “The cream cookie range is the first product to be outsourced by Delicas but invariably the range has failed to generate a positive response from the customers. To start with the favorite flavour, chocolate was not available for at least a month. I received calls from irate outlet managers that customers are complaining of a bitter taste in a few batches. How am I responsible for a product that I have not manufactured? The deliveries are never on time, reports suggest and every third cookie is of same size and texture! To top it all I hear about all these problems for days on end. I am sure Kenny would agree. What reports will I get when the product is not in stock only?”

“And look, last year, I had planned to put in some more dough mixing machines and a new electric oven system. But we saved on this expenditure by outsourcing to Hommade Kitchens. This year, the R & D department and Marketing want to bring Lemon Cakes to the market before summer. We do not have the capacity to make this in house, nor do I think that Neena of Hommade Kitchens will be able to take on the task. She lost her main chef last month and has not been able to find a replacement. The Nasik plant is still at least a year away. Now where do I go for a last minute search for a new third party?” Rohinton shared his dilemma.

Aneez interrupted to say, “Rohinton, I’m glad you have brought this issue out now. I wonder how it did not emerge clearly in our MIS? I thought Kenny had sorted it all out and put the new MIS in place.” Kenny immediately jumped in and said, “Well, since I’ve joined only three months ago I am trying my best to address these issues and complaints. There are some problems like delayed reporting and inaccurate forecasting. I am speaking to Ajay Chopra of DataPro and we are working to find out the loopholes in the system and mend them. But once these issues have been addressed, the cost savings that Vineet has spoken about will be real.”

“In fact,” added Vineet, “Outsourcing is not new to Delicas, Raj can vouch for its benefits in Finance and administration which have been outsourced for the last 6 years to Finpay.”

“Yes, you are absolutely right Vineet but off late we have started to have a lot of problems with our oldest partner too,” said Raj Iyer. “Ilyaz Hussain although being a nice man and a good friend too, is not able to deliver accounts and reports on time. Changes in the policies etc are not incorporated. As his business is expanding too he often struggles to meet our deadlines. Lately, he has been asking for a hike in the contract fees because he wants to update his computer systems. These IT fellows want to change their systems every year. It worked beautifully for the first four years, but now it’s not so easy to handle these guys anymore. I wish Anjali could

sanction some more manpower to our department and we would do it all ourselves. That way, at least, I am accountable for the key result areas of my department”

At this point, Aneez looked at Raj Iyer and said “Raj, that outsourcing job to Finpay was supposed to free up your Assistant Manager – Payroll for doing some of the loan management work with the bankers. You were supposed to give me a proposal for restructuring of the financial debts of the company, but that has been delayed. Everytime I look into the Finance Department, I find that all the people are busy with the accounts preparation and cash management. After this meeting, do let me know when we can sit to discuss the proposal.”

Anjali Sen who had been listening all this while, adds, “Even the staff is getting de-motivated because of delayed confirmations, salary cheques and P.F. settlements etc.”

‘Anjali, what about the Ace Personnel Services? Do you think they could provide more temporary manpower to us? The sale girls at the retail counters are pretty good aren’t they? Let’s see in what way we can expand their role in our organization. We could lay off some of the clerical and secretarial staff and hire temps instead.”

“Yes sir,” promptly answers Anjali. “We partnered with the internationally reputed Ace Personnel Services. But things are not as easy as they seem. The company is finding it hard to maintain its quality standards and attracting and retaining trained personnel is difficult when they all leave for permanent jobs. Even Ashish Gupta is planning to sell the MNC stake in Ace to some private local party. He cannot take the headaches on account of his clients anymore. We have no clue as to who the new buyer will be and whether he will be able to keep the quality standards of Ace or not. So, there is more uncertainty.”

At this point, Aneez came in to say “When I started off today, I felt that outsourcing was a good and easy solution to many of our problems. Our marketing plans for launching Lemon Cake this summer, and entering markets in Uttar Pradesh and Northern India, are hugely dependent upon third party manufacture. I am still fully convinced that we need to manage our BPO contracts better so that we may all get some time to focus on larger issues.”

Privately though, Aneez seemed to have some doubts about whether or not it has worked so far. He thought that with BPO, the time of his highly paid executives would get freed up to take the company to the next higher level of operations and make them a truly national player in the market. However, there were many things that he also needed to consider. Rohinton needs to look at establishing linkage with the foreign partner for technology, Raj has to do his magic at restructuring the finance and debt for the new project, Anjali has to get new manpower into the new outlets we are planning, and Vineet has to plan his new retail outlets launch and also bring Lemon Cake and other new variety of products to the market.”

Aneez came out of the meeting with several questions running inside his head. Now all the decisions were up to him. He was still in two minds about the Nasik expansion plans. It would take a lot of financial restructuring to bring in the funds to set up this unit, but Raj had not yet focused his attention on this issue. He had wanted Rohinton to look at a technical collaboration with a well known international bakery for supply of baking and packaging technology solutions



for the plant, but Rohinton was too occupied with the day to day operational matters and a lot of his time went into resolving quality problems with Neena of Hommade Kitchens. Manning of the retail outlets was going smoothly till now, but suddenly there was uncertainty with Ace Personnel Services pulling out of the country. This was an important part of his plan for quick expansion, too.”

How would he sort out the issues that Delicas was facing?

The assignment for the team that solves the case study, is

- a) To recommend a strategy for each of the BPO contracts of Delicas.
- b) To examine the universe of problems that the company is facing and then to recommend a course of action for Aneez for
  - a. Managing the BPO contracts better
  - b. Making a decision linking the BPO strategy with his plans for expansion of manufacturing base and expansion to newer territories.
- c) To recommend a set of skills and competencies needed in the managers of the company to be able to make them more strategic thinkers than doers. How do you think Aneez could make this transition happen?