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KUMAR FOOD CORPORATION: PRODUCT AND MARKET GROWTH STRATEGIES

Prashant Salwan, Shailesh Pandey, and Milind Marathe wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

It was May 2017 when Neeraj Kumar, the owner of Kumar Food Corporation (KFC), held a brainstorming session with his marketing and sales team to find ways of increasing the value of his company to ₹200 million[1] by the end of 2018. The company specialized in processed spices, papads, and pickles (see Exhibit 1), which it sold under the brand name Shagun. Some suggestions that came to the fore included improving company visibility, adding new distribution channels, launching new products, widening the product lines, and developing the market. The company was planning to increase its investment based on loans from financial institutions and subsidies offered by the Government of India (GoI) for such ventures (see Exhibit 2).

The GoI had launched a series of initiatives, such as Start-Up India and others, to provide subsidies, interest-free loans, and training to help promote entrepreneurship. While these initiatives would help KFC gain access to funds, they would also increase the competition, with new players joining the market. Keeping all these factors in mind, Kumar was unsure of how to go about his expansion plans. Should he introduce a new product category or expand the company's geographical presence to strengthen its brand?

OVERVIEW OF THE INDIAN FOOD INDUSTRY

In 2017, India had the largest population of domesticated animals—512 million—and had the second largest area of arable land on the planet. Its 46 soil types made it the second largest producer of fruits and vegetables and the largest producer of milk in the world. In 2015, consumer spending amounted to US$1 trillion and was predicted to rise to $3.6 trillion by 2020, which led to an increase in the import and export of processed foods. The processed food industry registered a growth of $258 billion in 2015 due to several factors, such as an increase in disposable incomes, constant urbanization, and a rising younger population. The country had also profited from its substantial agri-business segment, the inexhaustible domesticated animal population, and its cost aggressiveness, all of which led to increased investment in contract farming and food infrastructure. The food processing industry was expected to attract $482 billion of consumer spending by 2020. The GoI was also aggressively promoting the rationalization of tariffs and duties and setting up a national mission on food processing[2] to further push development in this sector. The food processing industry in India included the following six sectors:

[1] ₹ = INR = Indian rupee; US$1 = ₹68.7 in 2017; all dollar amounts are in US$ unless otherwise specified.
[2] India Brand Equity Foundation, "Food Processing," IBEF, January 2017, accessed February 7, 2017, www.ibef.org/download/Food-Processing-January-2017.pdf; GDP = gross domestic product.

Fruits and Vegetables

As the second biggest agricultural producer, India delivered 86,283 million tons (MT) of agricultural food products in 2014–15 and had plans to improve this percentage by 25 per cent by 2025.

Milk

The country was the world's largest producer of milk, generating 146.3 MT in 2015.

Meat and Poultry

India was the largest producer of bison meat (1.4 MT in 2015); the second largest producer of goat meat (0.91 MT in 2015) and eggs (78.4 billion); and the third largest producer of grill meat (3.8 MT).

Marine Products

Andhra Pradesh state was the largest producer of fish, at an estimated total of 1.9 MT, which had grown to 10.06 MT by the end of 2015.

Grain Processing

In 2015, India produced 252.68 MT of various food grains.

Consumer Food

This sector included packaged food, aerated soft drinks, packaged drinking water, and alcoholic beverages.[3]

TRENDS IN THE FOOD-PROCESSING SECTOR

People equated healthy life with proper nourishment, so extensive farming, the easy availability of livestock, and cost aggressiveness created a strong foundation for the population's health and well-being. The Indian consumer was becoming more health-aware than ever, resulting in a growing demand for healthy snacks.[4]

The world's four great foreign-processed food brands—Danone, Nestlé Kraft, Mondelez International, and Heinz—saw a huge opportunity in the Indian food market and already had a strong presence in the country. Increasing consumer incomes, increasing urbanization, and an increase in the number of nuclear families were some factors that worked in favour of the foreign brands. In the face of foreign competitors, some home-grown brands, such as Haldiram's and Bikanervala, made their presence felt not only in the country but also in more than 70 countries worldwide (see Exhibit 3). These brands were supported by local advantages such as easy access to fertile and arable areas for farming.

[3] India Brand Equity Foundation, "Food Processing," IBEF, January 2016, accessed February 8, 2016, www.ibef.org/download/Food-Processing-August-15.pdf.
[4] Ibid.

FOREIGN DIRECT INVESTMENT AND EMERGING OPPORTUNITIES

Foreign direct investment (FDI) in agriculture and food processing in India had increased by $11.98 billion in the last decade (2007–2017), leading to an increase in both the demand and the supply of processed food. The government took several steps to facilitate the supply chain–related infrastructure, including cold storage, abattoirs, and food parks. The 12th five-year plan (2012–2017) saw an increased focus on food processing infrastructure development, food safety, research and development (R&D), promotional activities, and venture capital funds[5](see Exhibit 4).

KUMAR FOOD CORPORATION

Neeraj Kumar, a young entrepreneur from Ranchi, Jharkhand, moved to Maharashtra to complete his master of business administration degree at the University of Pune and then joined a multinational company dealing in fast-moving consumer goods. During a five-year career, he worked as a sales officer and brand manager, responsible for sales throughout the state of Maharashtra. Motivated by the constant demand for spices across the state, he decided to set up his own company to capitalize on this market.

He realized there was a great demand for pickles and papads: the taste for pickles varied from region to region, and there was constant demand for papads. In 2010, he founded Kumar Food Corporation (KFC) in partnership with Jain Food Products (Jain). Jain was responsible for manufacturing the products, while KFC was responsible for the marketing and sales in the city of Pune in Maharashtra. This partnership was very fruitful in Rajasthan, which was well-known as one of the most popular tourist destinations in India. The majority of people in India preferred snacking on pickles while they travelled. Even students going to schools and colleges preferred to have pickles with their lunches and snacks. One of the largest customer segments for KFC was passengers travelling by train; according to Indian railways, approximately 23 million passengers travelled daily via railway.[6] Pickles were also part of combo packs designed by sweet shops selling other snacks like samosas and kachori. Sweet shops needed to avoid pickles being mixed with other food, so they required small sachets of pickles that could be added separately in their combo packs.

KFC added other food products, such as papads and spices, to its product portfolio. India had a few national brands, but the market was predominately driven by local brands.[7] Though the company's first launch was pickles, papads took precedence in the market by 2017, and the demand for papads increased from 10 to 15 per cent during the winter season.[8] The company also entered into a strategic partnership with Shri Rajlaxmi Agro Industries, which manufactured and sold high-quality food products such as soya sauce, green chili sauce, and tomato sauce. This partnership would enable category expansion and distribution of KFC products in other parts of the country, as Shri Rajlaxmi Agro Industries had a strong foothold in a few other Indian states. Established as a tiny firm with an investment of a few million rupees, KFC had come a long way and was now planning to invest ₹100 million to expand its business.

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[5] Ibid.
[6] Sudheer Pal Singh, "18 Interesting Facts about India Railways," *Business Standard*, February 16, 2015, accessed September 2017, www.business-standard.com/article/beyond-business/18-interesting-facts-about-india-railways-business-standard-news-115021600404_1.html.
[7] "Papad Manufacturing, Market Potential," Entrepreneurship Development Institute of India, accessed May 17, 2016, http://industries.sikkim.gov.in/wp-content/uploads/2017/05/PAPAD_MANUFACTURING.pdf.
[8] Ibid.

MANAGING THE DISTRIBUTION NETWORK

The distribution network managed the way a product was made available to consumers, either through nearby convenience stores or some other channel. The type of distribution network a manufacturer chose depended on both the nature of the goods and the buying process by which consumers sought them out.[9]

Kumar followed a hybrid approach to deliver his products to his customers. The company operated from Pune and supplied its products to Western Maharashtra, Marathawada, and Khandesh,[10] using direct and indirect distribution channels for its business-to-business (B2B) customers. He also appointed some strategic suppliers[11] for business-to-consumer (B2C) customers. The company had 16 distributors who were responsible for delivering its products to canteens across the cities and states and another 14 distributors for delivering to 500 retail outlets in Pune City (see Exhibit 5).

Kumar also appointed an exclusive distributor to deliver his products to modern trade retailers. The company also had some seasonal distributors who worked during the winter and wedding seasons when there was an increase in the demand for his products, and this contributed substantially to its profits.

In January 2016, the company added 16 more dealers to its Mumbai market, even though product distribution had not started. The Marathwada region had 22 distributors catering to 11 districts. Kumar was also about to launch ₹2 and ₹5 sachets of pickles to attract travellers, students, and office staff. To strengthen the KFC distribution channel and promote its upcoming small sachets of spices, Kumar was in discussions with a few well-known franchisees who sold non-vegetarian food like chicken and mutton in Maharashtra, as 59.4 per cent of Maharastrians and approximately 70 per cent of Indians preferred non-vegetarian food (see Exhibit 6).

QUALITY CONTROL

Quality and taste were prerequisites at KFC, and the company was determined to maintain both at all costs. While the company had technical parameters to measure quality, it also mandated taste checking: every lot of papads was tasted by Kumar and his team. The company had tie-ins with some restaurants that used KFC spices in their preparation, and after every new production lot, Kumar and his team visited these restaurants to sample the foods prepared using KFC spices. Suppliers for raw materials were also managed for quality. For example, pulses such as lentils formed the prime raw material for papads; however, an increase in the price of lentils did not lead to a decrease in product quality. Kumar also placed great emphasis on hygiene and ensured that all the company's products were manufactured in a clean environment, meeting high standards at all times.

SHAGUN: A BRAND IN THE MAKING

According to Kumar, "A standout amongst the most important elusive resources of a firm is its brand."[12] He believed that "brands are not worked by publicizing. Clients come to know a brand through a scope of

[9] Thomas V. Bonoma and Thomas J. Kasnik, *What is Marketing?* (Boston, MA: Harvard Business School Publishing, 1989), 10. Available from Ivey Publishing, product no. 590007.
[10] The state of Maharashtra had around 35 districts, divided into subdivisions.Marathwada, one of the five Maharashtra regions, contained the Aurangabad division. Khandesh was a region of Maharashtra located toward Central India and took up a major part of the state's northwestern region.
[11] Strategic suppliers were very small entrepreneurs targeting a tiny cluster of customers. Women running beauty parlors and selling jewellery from their homes mostly supplied Shagun brands in their catchment areas. Though product demand was created by Kumar Food Corporation through promotional activities, the push was created by these very small entrepreneurs.
[12] "Philip Kotler and Kelvin Keller, *Marketing Management,* 14th ed., (Hoboken, NJ: Pearson Education, 2012), 263.

contacts and touch points,"[13] and he strove to create all such touch points. Deriving brand names from founders' names was a common branding practice followed in the spice segment, for example, MDH, Pravin Spices, and Ravi Spices. Diverging from this practice, Kumar wanted a brand name that would be universally accepted by all his consumers. After several brainstorming sessions with his team, he arrived at the name Shagun, which translated to "an auspicious start for any occasion." The company's red logo further strengthened this meaning (see Exhibit 6).

The name and logo were carefully designed to cater to Indian sensibilities and to create a positive impact. Kumar followed best practices to improve the visibility of his brand—using three-foot banners, stickers, exhibitions, and free samples. The company initially adopted the tagline "Swadhar pal k liye," which translated to "Taste in every moment," but later changed it to "Real spice, real taste" for its papad products and "Where quality is tradition" for its pickles (see Exhibit 6). The company recently planned a 12.5-foot billboard advertisement as a new brand-building tool. It also launched promotional schemes like discounts for buying combo packs and buy-one-get-one-free offers on papads during festivals.

UNDERSTANDING BETWEEN PARTNERS

Though KFC was a first-generation partnership firm, it still managed its finances manually. The profit-sharing ratio between the partners was usually determined and recorded in the partnership deed, and profits were shared accordingly. In the absence of such an agreement, there was no indication or provision for how profits would be shared between partners. In all such cases, profits were usually shared equally. Profits were also shared by partners according to the ratio of their capital contribution, and the same ratio that was determined for profit sharing also applied to losses.

It was not compulsory for all partners to contribute capital—one partner could enter into a partnership with a minor capital contribution but with excellent technical or managerial capabilities and stand to share equal profits if it was so determined in the partnership deed. Kumar possessed strong professional and managerial capabilities, and he was determined to steer the Shagun brand from a new market entrant to an established brand in the spices and pickles category. His partners were only responsible for contributing capital and took no part in the management and control of the business.

ROLE OF THE GOVERNMENT

In the present business scenario, the food processing industry was a key territory for the GoI. The industry's significance was further upgraded because more than 70 per cent of the population relied on agricultural activity for its livelihood.[14] In addition to some time-limited assistance measures, the government had defined and executed a series of policy measures that gave financial help to those setting up and modernizing food-processing plants, created infrastructure, and provided support for research and human resources development.

Under a new Income Tax Act, the GoI allowed considerable relief to new food processing businesses that were packaging and preserving fruits and vegetables; this included a deduction of 100 per cent of profit for the first five years and 25 per cent of the profits in the subsequent five years. With the exception of the small-scale sector and alcoholic beverages, most prepared-food items were exempted from the authorizing domain under the Industry (Development and Regulation) Act, 1951. In 1999, the food processing industry

[13] Ibid.
[14] ASA and Associates, *A Brief Report on Food Processing Sector in India* (New Delhi: n.p., February 2015), accessed May 20, 2016, http://gcpcenvis.nic.in/Thesis/Food-Processing-Sector-in-India.pdf.

was one of the priority sectors for issuing bank loans. Compensation of 100 per cent was allowed for loss and capital. Full duty exemption was allowed on all units in the export-processing zone (EPZ) and 100 per cent duty exemption was allowed in the EPZ for imports.[15]

On India's Independence Day, August 15, 2015, Prime Minister Narendra Modi introduced the Start-Up India initiative with the aim of providing financial help to enable budding entrepreneurs like Kumar start up their own ventures to create wealth and new employment opportunities.

COMPETITION FACED BY KFC

Competition was high, given that the Indian food market was flooded with established brands producing papads and pickles. The government's Start-Up India initiative further added to the competition, with many new ventures entering into the market. These included the following:

Everest Spices

Everest had beena trendsetter in the market for more than 45 years and was the most preferred spice brand in India. The company had a domestic presence in almost 1,000 towns and, with almost 400,000 outlets, it reached around 20 million households. Everest also had a strong overseas presence in the United States, the United Kingdom, the Middle East, Singapore, Australia, New Zealand, East Africa, and many other countries and regions.[16]

Mahashian Di Hatti Private Limited (MDH)

With a legacy spanning 88 years, MDH was known for its uniform taste and quality. The company used fully automated processes and machines to manufacture its products. These machines had a daily capacity of 30 tons of powders, pressed into packs of various sizes from 10 grams (g) to 500 g. The company sold its products through 1,000 stockists and 400,000 outlets. MDH also distributed its products in the United States, Canada, the United Kingdom, Europe, Southeast Asia, Japan, the United Arab Emirates (UAE), and Saudi Arabia. MDH also had production facilities in London, England, and Sharjah, UAE.[17]

Pravin Masalewale

Established in 1962 as a small home-based enterprise, Pravin now catered to around 120 million customers worldwide. The company also sold spices under the brand name Suhana, using 1,250 distributors with over 200,000 retailers servicing India and 21 other countries.[18]

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[15] Ibid.
[16] "About Us," Everest Spice, accessed April 13, 2016, www.everestspices.com/.
[17] "About Us," MDH, accessed April 16, http://mdhspices.com/about-us.
[18] "Pravin Masalewale," Indiamart, accessed August 26, 2019, www.indiamart.com/pravin-masalewale-pune/aboutus.html; "History," Suhana, accessed November 6, 2019, www.suhana.co.in/history.aspx?id=24.

Catch Spices

The Dharampal Satyapal Group entered the spice industry in 1987 under the brand name Catch.[19] The group had a turnover of ₹65,000 million per year and dealt in the food and beverage (F&B), hospitality, mouth fresheners, tobacco, packaging, agro-forestry, rubber thread, and infrastructure sectors. With 24 manufacturing facilities, the company expanded its F&B sector by entering into dairy and confectionery processing. Catch was perceived as the highest premium F&B brand in the country. By 2001, it had expanded its product range and produced kitchen spices: Sprinklers, Pure Spices, Whole Spices, Blended Spices, and more.[20]

Others

There were several local players that posed competition for KFC. Their products were placed in local stores and benefited in terms of the lower prices they offered.

RECENT PLANS

Kumar wanted to make Shagun a national brand and increase its value to ₹200 million. A vision of this magnitude would require a well thought out strategy to overcome the growing competition from emerging start-ups and the existing competition. What should be the way forward for KFC? Should it increase its geographical presence or add new product categories? Should Kumar re-strategize KFC's distribution model to achieve his ambitious aims?

[19] "About Us," Catch, accessed August 26, 2019, www.catchfoods.com/brands-history/.
[20] "Overview," DS Group, accessed April 13, 2016, www.dsgroup.com/aboutus-overview.aspx.

EXHIBIT 1: ABOUT PAPADS AND PICKLES

Papad: A very well-known and tasty flatbread that had been part of the Indian diet for many centuries. It was essentially a wafer like-product**,** a fresh circle moulded from the dough of powdered pulses (lentils), spices, and powdered chili**.** In India, papad (or papadam) had a significant place in every meal. It was served separately or accompanied main courses as a snack.

Pickle: Ambiguity shrouded the exact origins of the Indian pickle, but it was connected to the ancient art of preserving food by curing it with salt or sugar. Long before refrigeration and canning made it possible to preserve foods for a long time, ancient civilizations discovered that the secret to increasing the durability of perishable foods was to dry them in the sun and cure them with salt or immerse them in brine. The *Oxford English Dictionary* defined pickles as "vegetables or fruit that have been preserved in a vinegar sauce or salty water." No Indian meal was complete without a smidgen of pickle.

Kumar Food Corporation started marketing its food under the brand name Shagun, a very traditional Indian name meaning either

- a good omen, augury (favourable); or
- an auspicious moment for beginning any activity or a good omen to begin an enterprise; or
- presents or gifts (in the form of money or sweets) given on an occasion like an engagement or marriage or birth of new born.

Shagunkarana meant to begin an activity.

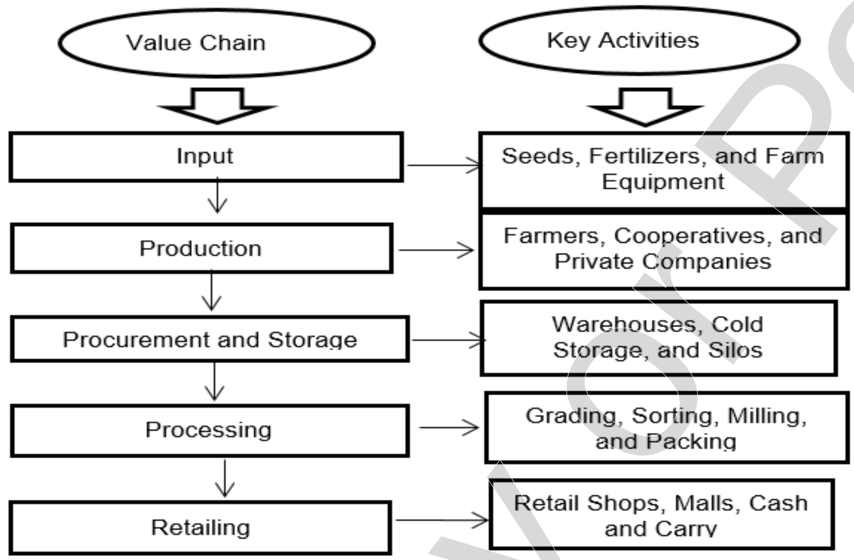
Source: "Papad Manufacturing Market Potential," Entrepreneurship Development Institute of India, accessed April 11, 2016, May 17, 2016, http://industries.sikkim.gov.in/wp-content/uploads/2017/05/PAPAD_MANUFACTURING.pdf; Vidya Balachander, "Sunday ET: Pickle Making, An Age-Old Ritual Still Prevalent in Indian households," *Economic Times Magazine*, August 19, 2012, accessed April 2016, http://economictimes.indiatimes.com/magazines/et-magazine/pickle-making-an-age-old-ritual-still-prevalent-in-indian-households/articleshow/15547764.cms.

EXHIBIT 2: DETAILS ON GOVERNMENT INITIATIVES

	Borrowing Unit	Max. Quantity of Loan for Eligible Project Expenditure	Tenure of Loan	Rate of Interest (% per Annum)	Security
1	State governments	95%	7 years	Currently, it was applicable for rural infrastructure development fund lending (Bank Rate – 1.50%)	An endeavour such that the state government would reimburse the credits, with enthusiasm, in time, and there should be sufficient budgetary arrangements to make the reimbursement commitments
2	Institutions encouraged by state governments (with government guarantees)	95%	7 years	As decided by RBI from time to time. Presently, it was applicable for RIDF lending (Bank Rate – 1.50%)	Primary security, government guarantee, and collateral security as acceptable to NABARD
3	Institutions encouraged by state governments (without government guarantees)	95%	Up to 7 years	PLR* + Risk Premium	Primary security and collateral security as acceptable to NABARD
4	Institutions encouraged by the Government of India, joint ventures, SPVs, cooperatives, federations of cooperatives, farmers' producer firms, corporate, companies, entrepreneurs	75%	Up to 7 years	PLR* + Risk Premium	Primary security and collateral security as acceptable to NABARD

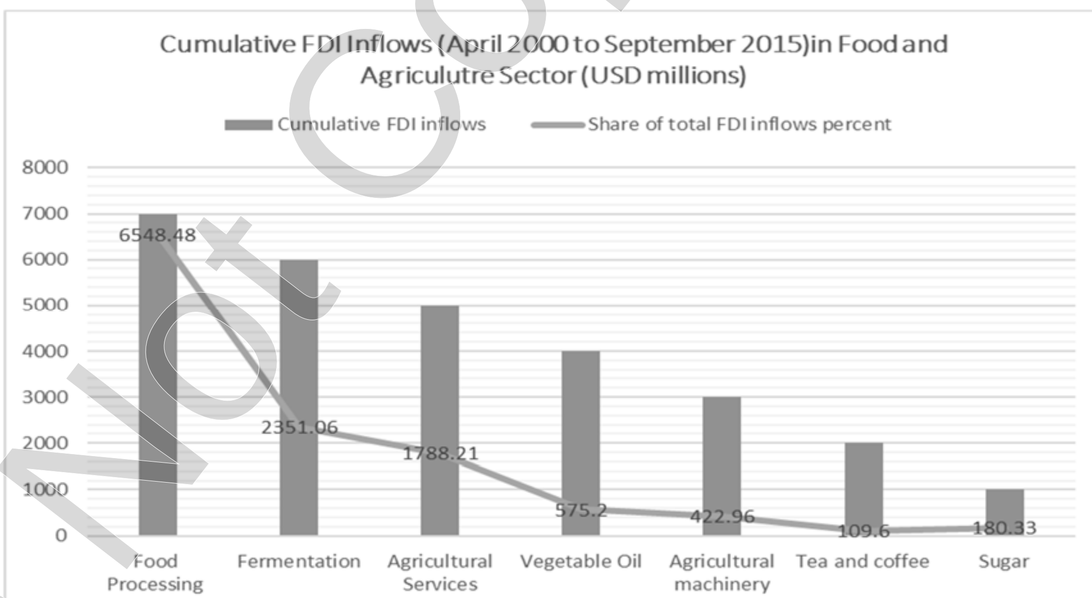
Note: *Prime lending rate of National Bank for Agriculture and Rural Development (NABARD), as decided by NABARD from time to time; RBI = Royal Bank of India; RIDF = Rural Infrastructure Development Fund.
Source: National Bank for Agriculture and Rural Development, Functions, "Food Processing Fund: Operational Guidelines, 2014–15," accessed April 2016, www.nabard.org/demo/auth/writereaddata/File/FPFOperationalGuidelines040216.pdf.

EXHIBIT 3: VALUE CHAIN IN THE FOOD PROCESSING SECTOR



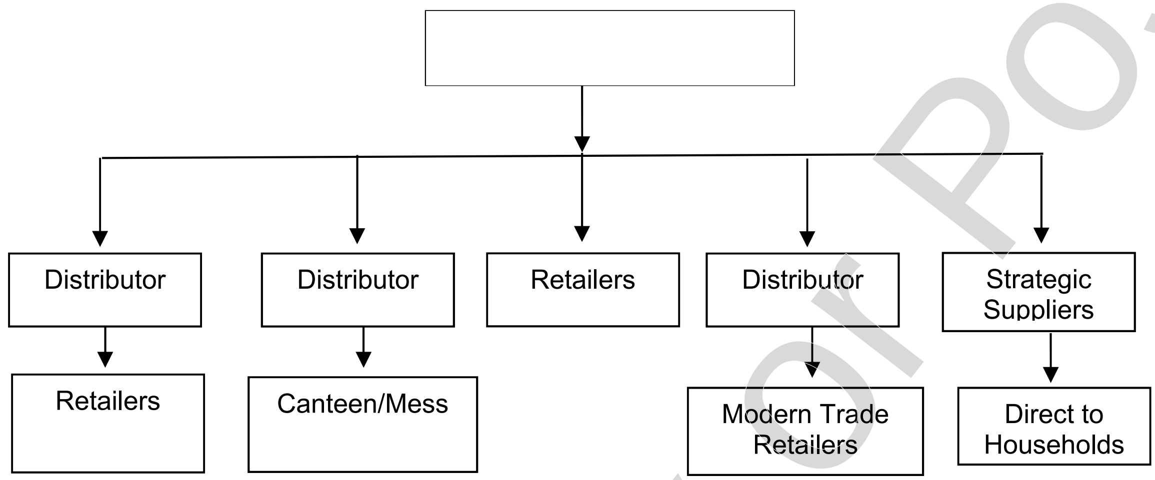
Source: India Brand Equity Foundation, "Food Processing," 9, August 2015, accessed April, 2016, www.ibef.org/download/Food-Processing-August-15.pdf.

EXHIBIT 4: FDI FLOW IN THE FOOD PROCESSING SECTOR



Source: Adapted from India Brand Equity Foundation, "Food Processing," 32, August 2015, accessed November 6, 2019, www.ibef.org/download/Food-Processing-August-15.pdf.

EXHIBIT 5: DISTRIBUTION CHANNELS



Source: Prepared by the case authors.

EXHIBIT 6: VEGETARIAN AND NON-VEGETARIAN FOOD CONSUMPTION IN INDIA

Sr. no.	States of India	Vegetarian (%)	Non-Vegetarian (%)
1	Jammu and Kashmir	31.45	68.55
2	Uttarakhand	27.35	72.65
3	Assam	20.66	79.34
4	Delhi	39.50	60.50
5	Uttar Pradesh	47.10	52.90
6	Jharkhand	3.25	96.75
7	Bihar	7.55	92.45
8	Orissa	2.65	97.35
9	West Bengal	1.40	98.60
10	Madhya Pradesh	50.60	49.40
11	Chhattisgarh	17.95	82.05
12	Telangana	1.30	98.70
13	Andhra Pradesh	1.75	98.25
14	Tamil Nadu	2.35	97.65
15	Kerala	3.00	97.00
16	Karnataka	21.10	78.90
17	Maharashtra	40.20	59.80
18	Gujarat	60.95	39.05
19	Rajasthan	74.90	25.10
20	Haryana	69.25	30.75
21	Punjab	66.75	33.25

Source: Adrija Bose, "Vegetarian India A Myth? Survey Shows Over 70% Indians Eat Non-Veg, Telangana Tops List," *Huffington Post*, June 14, 2016, accessed October 28, 2016, www.huffingtonpost.in/2016/06/14/how-india-eats_n_10434374.html.

EXHIBIT 7: KFC PRODUCTS

Source: Kumar Food Corporation, "Ourbrands," accessed April 2016, www.indiamart.com/jain-food-products-pune/.