****

9B18A023

AJANTA packaging: KEY ACCOUNT MANAGEMENT

Sandeep Puri and Rakesh Singh 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.

This publication may not be transmitted, photocopied, digitized, or otherwise reproduced in any form or by any means without the permission of the copyright holder. Reproduction of this material is not covered under authorization by any reproduction rights organization. To order copies or request permission to reproduce materials, contact Ivey Publishing, Ivey Business School, Western University, London, Ontario, Canada, N6G 0N1; (t) 519.661.3208; (e) cases@ivey.ca; www.iveycases.com.

Copyright © 2018, Ivey Business School Foundation Version: 2018-04-17

Offer good quality products at a reasonable cost and provide exceptional customer service,

and the customers will remain loyal.

Pushpak Agarwal, managing director, Ajanta Packaging

On October 18, 2017, during festival season in India, Ajanta Packaging (Ajanta) shifted base to a new, modern office in New Delhi, India. At that time, Pushpak Agarwal, the managing director of Ajanta, was pleased with the company’s growth over the past five years—Ajanta had reported revenue of US$302 million[[1]](#footnote-1) in 2016, a growth of 21.3 per cent over the previous financial year. Agarwal seemed positive about the company’s future and was planning for the next five years. His positive mood dissipated, however, when his son Deepanker, a director at the company, walked into his office seeming extremely concerned. Agarwal asked his son, “Why do you look worried, Deepanker? Is anything bothering you?”

Deepanker’s reply acquainted his father with a problem he had not been anticipating. “Have you seen the rate quotation from our biggest client, S.F. Foods [SF]? The company is offering a $25 million order with profit margins of less than 7 per cent. They want us to supply the goods by December 1, 2017, but have set the payment period for 60 days. Our key account management needs to be reworked.”

In addition to SF’s order, Ajanta had $45 million worth of orders from other customers that had profit margins of more than 10 per cent and that were to be supplied on December 15, 2017. Supplying to SF with a 60-day payment period risked jeopardizing other orders, which could result in higher customer dissatisfaction and the possible defection of customers to competitors. Ajanta had good customer-management practices in place, with more than 80 per cent of its revenues coming from repeat customers. One cause of concern for the company, however, was its over-reliance on SF, which accounted for 15 per cent of Ajanta’s business, and 10 other customers who made up almost 50 per cent of the company’s total revenue.

Deepanker was aware of the worth of a company such as SF—and of the consequences of defaulting on the other orders with a higher profit margin. He wanted to retain business with SF as well as keep his company’s commitments to its vendors and other customers. Now that he had a larger buyer base of 1,700 customers, and realizing the importance of doing well by all of them, Deepanker had to consider some serious questions: Would it be wiser to accept the order on SF’s terms, or renegotiate the price, payment date, and delivery schedule to favour Ajanta? What processes could Ajanta adopt to prevent such a situation in future?

COMPANY BACKGROUND

Deepanker joined Ajanta in 2005 after completing his MBA as a gold medalist from the Institute of Management Technology, Ghaziabad. He wanted to lead the change in the three-decade-old company set up by his father. Ajanta, which began with an initial investment of $500 and only three employees in 1981, had over 100 employees and a net revenue of $302 million in 2016 (see Exhibit 1), and was among the top glass bottle suppliers in India.

The company began by supplying bottles, vials, and jars to pharmaceutical companies and manufacturers of fast-moving consumer goods, and glass bottles to large liquor and wine companies. Over time, it diversified and changed with the times. Soon after Deepanker joined the company, he effected some rapid changes in the business model to attract new customers. An authorized stockist and distributor for Hindusthan National Glass & Industries Ltd., Ajanta became the first company in the Indian bottle-trade industry to become fully computerized. Although Ajanta’s customers still preferred glass bottles and 90 per cent of its business came from glass bottles, the company began offering polyethylene terephthalate (PET) bottles, crown caps, and glass bottle printing services.

Ajanta’s success was driven by sourcing service contracts with various global manufacturing companies. The idea was to put in place strong procurement and supply-chain systems and a diverse supplier base to eliminate operational risks. Having warehouses in multiple locations gave Ajanta a strategic advantage over competitors in that it was able to offer its customers lower freight costs, resulting in higher sales for the company. Ajanta could also capitalize on the location advantage it gained from its four marketing offices across northern India by offering flexible, just-in-time service to its customers because of lower lead times.

By October 2017, Ajanta was a niche supplier of glass bottles in India and had 1,700 customers. Not only was it a quality-focused and cost-effective company, but it also offered its customers prompt and customized glass-packaging solutions. Wide-ranging quality products and professional expertise gave Ajanta muscle power to negotiate with its suppliers and customers, and forge successful and profitable collaborations.

Deepanker was a stickler for commitment and quality of service. Because more than 80 per cent of Ajanta’s revenues came from repeat customers, Deepanker knew that his business triumphs depended on customer loyalty. Thus, he worked to enhance Ajanta’s customer-relationship management practices, as this augmented the company’s use of resources when providing customized services.

Deepanker also introduced many innovative packaging materials to serve the growing hotel, restaurant, and catering segment. Although the company had no presence in the food segment until 2015, by October 2017, 40 per cent of its business came from that segment (see Exhibit 2).

**INDIAN PACKAGING INDUSTRY**

The global packaging industry saw an annual global turnover of around $550 billion in 2015, of which India’s share was around $16.5 billion. The Indian packaging industry was ranked 11th in the world, and its turnover was projected to reach $32 billion by 2020.[[2]](#footnote-2)

In the five-year period between 2016 and 2021, the Indian packaging industry was expected to grow at a compound annual growth rate of 9.2 per cent as opposed to the 6.2 per cent growth registered between 2011 and 2016. Factors such as rapid urbanization, a surge in middle-class consumers, an organized retail sector, and the e-commerce boom were all key drivers of growth in the Indian packaging industry. Growth was also fuelled by innovations such as the development of lighter packaging with better barrier properties. These changes increased the demand for new packaging formats, such as different sizes, materials, and strengths. The projections for 2016–2021 expected the soft drink and food industries to capture the highest packaging market share by units, with a share growth of 3.4 per cent and 1.3 per cent, respectively. Glass and rigid plastic packaging material were expected to be the major share gainers, with market share growth of 0.7 per cent and 0.6 per cent, respectively, during the same period.[[3]](#footnote-3)

GLASS BOTTLE INDUSTRY

The global glass packaging market, which was worth $57.22 billion in 2017, was estimated to grow at a compound annual growth rate of 4.5 per cent and reach $108.3 billion in 2025.[[4]](#footnote-4) In 2015, the Asia-Pacific (APAC) region led the market with a market share of 33.7 per cent, followed by Europe with a share of 28.5 per cent. Factors such as a rise in disposable income and greater acceptability of alcohol consumption fuelled increased demand for glass bottles in the APAC region. The growing beer industry in India was expected to increase sales and market share in the region. While the industry was losing its share in regions such as the United States and Western Europe, it was gaining share in India because of greater penetration level availability. Cost advantage, lighter and thinner glass products, and sustainability were important factors aiding industry growth: glass bottles were about 30 per cent lighter than they had been in the past decade, which resulted in better profits for manufacturers because of reduced raw material costs. Yet, glass packaging was facing rising competition from other materials that were stronger, lighter, and cheaper to manufacture and transport.[[5]](#footnote-5)

Its recyclability, non-corrosive nature, non-permeability, and zero rate of chemical interaction made glass a suitable packaging material for beer, soft drinks, beverages, and pharmaceuticals.[[6]](#footnote-6) Glass packaging ensured that the products inside the bottles retained their strength and/or aroma and flavour. It also helped preserve food and beverages for a longer time, and prevented contamination. Packaged glass was trusted to safeguard not only people’s health and taste, but also the environment because it was 100 per cent recyclable and had neutral reaction.[[7]](#footnote-7)

The introduction and growth of the organized retail market led to both competition and innovation in the Indian glass bottle-packaging industry. Considerable upgrades, and research and development led to newer designs and technologies in glass production. While narrow neck press and blow process technology helped increase the productivity of lighter and thinner containers, which made glass packaging cost effective and consumer- and ecology-friendly, distribution was improved by a well-developed retail network. Because of these promising factors, the industry was expecting immense growth potential through to 2021.[[8]](#footnote-8) Because of consumers’ view of glass as a premium packaging medium, Ajanta’s promotional campaigns emphasized the benefits of glass packaging (see Exhibit 3).

The glass bottle industry was characterized by large buyers in each segment, and the demand for glass packaging had become highly seasonal, especially for products such as soft drinks, cosmetics, and beer.

Challenges Facing the Indian Glass Packaging Industry

Although glass was viewed as a premium packaging medium, the Indian glass packaging industry faced some serious challenges.

Rising Prices of Raw Materials

The price of raw materials was always rising, which put immense cost pressures on the glass packaging industry. As a result, glass bottles became costlier, driving smaller buyers to look for other packaging options such as plastic and Tetra Pak cartons. For Ajanta, this meant spending more money on raw materials. Moreover, increased warehouse rentals costs, interest, and freight costs put immense pressure on profitability.

Price Wars

The number of companies selling glass packaging in India had risen since 2014, leading to increased competition, price wars, customer poaching among suppliers, and clients renegotiating purchase costs. All of these problems considerably reduced profit margins in the industry. In light of the slashed prices of competitors, many of Ajanta’s customers wanted the company to revise prices before they placed their orders.

Increased Use of PET bottles

Light, clear, tough, sustainable, and an excellent barrier to oxygen and carbon dioxide—the many positive attributes of PET made it the most opted-for packaging medium among several industries that had previously favoured glass. This had helped PET gain market share at a rapid rate and even replace a considerable portion of glass bottles, which, in contrast, were extremely fragile, prone to breakage, and costly. While consumers chose PET plastic for its convenience, ease of use, lightness, and sturdiness, marketers were attracted to the material because of its light weight, cost effectiveness, product safety, and pliability for their execution of innovative package designs; retailers found the unbreakable PET packages easy to stack. PET was the packaging of convenience for companies in the soft drink, mineral water, fast-moving consumer goods, pharmaceutical, agrochemical, wine and liquor, and food sectors.

KEY ACCOUNT MANAGEMENT AT AJANTA

Deepanker maintained a near-obsessive focus on Ajanta’s key customers because 80 per cent of its revenues came from repeat customers. The company had two sales teams for customer management—one managed the key accounts and the other catered to the other customers. Deepanker knew that developing and maintaining solid relationships with key accounts was critical to the company’s success in the hyper-competitive market. While Ajanta’s churn rate[[9]](#footnote-9) for 2016 was 4.5 per cent, which was quite low compared to the competition, the defection rate[[10]](#footnote-10) was 11 per cent.

Until 2014, the company’s focus was big clients. It also supplied to around 400 customers, some of which were major accounts. Most large deals were based on price and quantity, so when many of its bigger customers delayed payments, Ajanta’s profitability was severely dented. Deepanker wanted to reduce this severe dependence on the company’s larger customers, so it began encouraging smaller orders to increase its customer base. This strategy paid off, and by October 2017, Ajanta had 1,700 customers. Many of its small-order customers wanted unique packaging, and were less price sensitive than its larger customers were. For example, the first order placed by one small-order customer in May 2015 was for only 35 bottles, but by 2017, that customer had begun to buy around a million bottles.

Until 2015, the company assigned new designs to manufacturers after the receipt of orders, but beginning in January 2017, it began maintaining an inventory to cater to new and old customers.

Key Accounts

Ajanta had many renowned, revenue-generating customers, including Patanjali Ayurved Limited, G.K. Dairy and Milk Products Private Limited (famous for the brand Gopaljee), Veeba Food Services Private Limited, Amrit Food, Coffee Day Global Limited (also known as CCD), Carnation Hospitality Private Limited (famous for the brand Barista), Super Milk Products Private Limited, SF, and Akums Drugs & Pharmaceuticals Limited.

S.F. FOODS AND AJANTA PACKAGING

SF was a leading manufacturer in India of sauces, pickles, jam, custard powder, instant mixes, noodles, and baking powder. The company was also a leading exporter of these products to the United States, Europe, and the APAC region. SF reported net revenue of ₹15.5 billion[[11]](#footnote-11) in 2016 and registered year-over-year growth of 23 per cent over 2015. Its expansion plan included launching new products and increasing its footprint across Australia and Africa by 2018. Purchase decisions at SF were made by a purchasing committee comprising a member each of the marketing, quality assurance, finance, and procurement departments. The decisions were based on price, quality, previous experience, capacity, delivery period, and payment terms. SF had good logistics management practices in place, and initially had a good delivery time—of 45 days—to Ajanta. This time frame was sufficient for Ajanta to procure the required material from the manufacturer and supply it to SF. SF bought bottles from three companies, but the majority share (of 60 per cent) went to Ajanta.

SF had been Ajanta’s customer since 2001. It was one of Ajanta’s oldest and most important customers, and constituted around 15 per cent of Ajanta’s business. However, although Ajanta received good business from SF, the profit margins were very low. Also, over time, SF had begun making payments after 60 days and sometimes even as late as 90 days. This did not work well for Ajanta, as it was expected to pay its suppliers within 30 days. While this affected Ajanta’s profitability, Deepanker continued to compromise because of the volume of SF’s business.

THE DILEMMA

During 2015–2017, Deepanker made many changes in the business model, shifting away from Ajanta’s heavy reliance on its large customers and particularly on SF. Deepanker could see the need for a new customer-management system to service the company’s customers more effectively, but was still unsure about how to segment the customers. He struggled with his company’s relationship with SF—although it promised sizeable business, its arm-twisting on payment dates and deliveries made it increasingly difficult to manage. SF’s large $25-million order came with very low profit margins, and accepting the order with a 60-day payment period and a short delivery turnaround was certain to jeopardize Ajanta’s payments to its vendors, in turn affecting the supply of orders to its other customers. Wanting to retain SF’s business while keeping his company’s commitments to its vendors and other customers, Deepanker had to decide whether to accept the order on SF’s terms, or renegotiate the terms to suit Ajanta. He also wondered what processes he could follow to prevent such a situation in the future.

Sandeep Puri is an associate professor at Asian Institute of Management, Manila; Rakesh Singh is a professor at Bennet University, India.

Exhibit 1: SELECTED FINANCIALS FOR AJANTA PACKAGING (in Us$ millions)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2012** | **2013** | **2014** | **2015** | **2016** |
| **Sales Turnover** | 102.0 | 153.0 | 198.0 | 249.0 | 302.0 |
| **Other Income** | 6.1 | 11.2 | 16.2 | 21.3 | 28.3 |
| **Total Income** | 108.1 | 164.2 | 214.2 | 270.3 | 330.3 |
| **Total Expenses** | 82.2 | 109.4 | 121.6 | 149.7 | 173.6 |
| **Operating Profit** | 25.9 | 54.8 | 92.6 | 120.6 | 156.7 |

Note: Figures have been changed to maintain confidentiality.

Source: Company documents.

EXHIBIT 2: BUSINESS FROM DIFFERENT SEGMENTS

|  |  |  |  |
| --- | --- | --- | --- |
| **Category** | **% Share in 2015** | **% Share in 2016** | **% Share in 2017** |
| Food | 0 | 15 | 40 |
| Pharmaceuticals | 80 | 75 | 50 |
| Others | 20 | 20 | 10 |

Source: Company documents.

**EXHIBIT 3: AJANTA PACKAGING PROMOTION POSTERS**



Source: Company documents.

1. All currency amounts are in U.S. dollars unless specified otherwise. [↑](#footnote-ref-1)
2. Jagdish Kumar, “Indian Packaging Industry Turnover to Reach $32 Billion by 2020,” Packaging World, March 2, 2015, accessed October 8, 2017, https://www.packworld.com/article/trends-and-issues/global/indian-packaging-industry-turnover-reach-32-billion-2020. [↑](#footnote-ref-2)
3. “Trends and Opportunities in the Indian Packaging Industry 2017: Analysis of Changing Packaging Trends in the Food, Cosmetics and Toiletries, Beverages and Other Industries – Research and Markets,” BusinessWire, May 9, 2017, accessed October 8, 2017, www.businesswire.com/news/home/20170509006321/en/Trends-Opportunities-Indian-Packaging-Industry-2017-Analysis. [↑](#footnote-ref-3)
4. “Global Glass Bottle Packaging Market Size, Market Share, Application Analysis, Regional Outlook, Growth Trends, Key Players, Competitive Strategies and Forecasts, 2017 To 2025,” Acute Market Research, October 2016, accessed October 29, 2017, www.acutemarketreports.com/report/glass-bottle-packaging-market. [↑](#footnote-ref-4)
5. “Global Glass Bottles and Containers Market to 2020,” Glassonline, May 24, 2016, accessed October 8, 2017, https://www.glassonline.com/site/news/topic/Markets--trends/id/26170/Global-Glass-Bottles-and-Containers-Market-to-2020. [↑](#footnote-ref-5)
6. “Glass Packaging Market Analysis by Application (Food and Beverage, Beer, Pharmaceuticals) and Segment Forecasts to 2020,” Grand View Research, May 2014, accessed October 8, 2017, www.grandviewresearch.com/industry-analysis/glass-packaging-market-analysis. [↑](#footnote-ref-6)
7. Ibid. [↑](#footnote-ref-7)
8. Ibid. [↑](#footnote-ref-8)
9. Churn rate was calculated as the number of customers who left a business in a year’s time divided by the number of new customers in the same period. [↑](#footnote-ref-9)
10. Defection rate was the rate at which existing customers left a business and switched over to a competitor. [↑](#footnote-ref-10)
11. ₹ = Indian rupee; ₹1 = US$0.0153 on October 10, 2017. [↑](#footnote-ref-11)