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Somany ceramics: recruitment challenges

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After meeting the top executives of the company in December 2016, Hrishikesh Kumar, director of human resources (HR) at Somany Ceramics Limited (SCL), was both excited and troubled: he was excited about the growth prospects in the ceramic tiles industry, but uncertain how he could meet the company’s challenges in getting the most from this growth. With a compound annual growth rate (CAGR) of 8.5 per cent, the market for ceramic tiles was expected to grow from its current demand of 12.3 billion square metres of tile to 21.8 billion square metres by 2020.[[1]](#endnote-2) Anticipating this increase in demand for ceramic tiles, the company wanted to expand rapidly and grab the maximum share of the increasing market. Management needed Kumar to increase the company’s labour resources so it could keep pace with the growth expected in the industry, but there was an acute shortage of industry-ready technical labour in the market, affecting the entire ceramic tile industry. How could Kumar hire and sustain a workforce of trained labourers over the next five years sufficient for meeting the company’s plans for expansion? What would be both sustainable and cost-effective?

The Company

SCL began in 1969 as Somany Pilkington—a collaboration with Pilkington Tiles in the United Kingdom. The Indian promoters bought all equity shares from their U.K. partner in 1994, and in 2007, the company was re-named Somany Ceramics Limited. In 2016, the company founder, H. L. Somany, was serving as chairman emeritus; Shreekant Somany was chairman and managing director, and Abhishek Somany was joint managing director. The company’s vision was to be the most sought-after tile and allied product in India and the best employer in the tile industry. It aimed for customer delight with business innovation and cost effectiveness while pursuing the latest fashion trends in ceramics and allied products.

Headquartered in Noida, in India’s northern state of Uttar Pradesh, SCL manufactured a range of tile and related products, such as floor and wall tiles, including those made from imported tiles; sanitaryware[[2]](#endnote-3) and chrome plated fittings; and tile laying solutions (see Exhibit 1). The company’s manufacturing plants were located in Kassar, a village in the state of Haryana, and in Kadi, in the westernmost state of Gujarat. These plants and other joint ventures had a combined annual production capacity of 41 million square metres. In 2016, SCL’s market capitalization was approximately ₹31.02 billion (US$462.98 million).[[3]](#endnote-4)

In 1996, with its research and development facility, SCL became the first in India to produce ceramic tiles of 45 by 45 centimetres, the largest tile size produced in India.[[4]](#endnote-5) In 1999, the company was accredited with the quality management standard ISO 9001, and accredited with ISO 14001 for its environmentally friendly manufacturing facility in Kadi.

In an industry with numerous product designs and brands, SCL strongly believed that its singular differentiator in the industry was the quality of its labourers. Characterized by an uncommon blend of youth and experience, SCL had a vibrant team of 2,130 staff and workers in its two plants (see Exhibit 2). The company’s average age of employees dropped from 40 in 2008–09 to 34 in 2014–15, making SCL a youthful organization.

The company had been expanding consistently, and over 2015–16, it increased its manufacturing capacity from 21.55 to 25.55 million square metres per year at its Kassar plant, and, during the same period, increased its capacity at its subsidiaries and associates from 20.97 million square metres to 25.70 million square metres per year.[[5]](#endnote-6) SCL operated with a network of 1,490 dealers, 8,000 sub-dealers, and 146 retail showrooms across India.[[6]](#endnote-7) With its expansion and a growing network of dealers, the company posted a net profit of ₹610.6 million with revenue of ₹17.3 billion during fiscal year (FY) 2015–16.[[7]](#endnote-8)

The Ceramic Tile Industry in India

Globally, the market for ceramic tiles was valued at $76.81 billion in 2015 and forecasted to reach $178.1 billion by 2024.[[8]](#endnote-9) In India, the ceramic tile market was estimated to be ₹270 billion ($4.03 billion) as of March 31, 2016.[[9]](#endnote-10) However, the per-capita consumption of ceramic tiles in India was low, at 0.59 square metres. Although consumption had been increasing, the per-capita consumption in India was still much lower than that in Brazil, China, and Vietnam at 4.12, 3.33, and 2.8 square metres, respectively.[[10]](#endnote-11) Thus, the market had potential for growth.

Growth in the Indian tile market was fuelled by government programs such as Swachh Bharat Abhiyan (Clean India Mission), which endeavoured to provide household-owned and community-owned toilets for all, smart cities, and a thrust towards urbanization. Forecasters predicted the Indian market would grow at a CAGR of 12–15 per cent—a notably faster rate than the estimated 9.8 per cent CAGR of the global market.[[11]](#endnote-12) According to the Indian Council of Ceramic Tiles and Sanitaryware, the apex body of manufacturers of ceramic tiles, India was the third-largest producer and consumer of ceramic tiles, and with the latest technical upgrades, the quality of Indian tiles matched international standards.

Indian ceramic products included ceramic tiles, sanitaryware, and crockery items. The major manufacturers in the Indian ceramic industry were Kajaria Ceramics Ltd. (Kajaria Ceramics), HSIL Ltd. (HSIL), Cera Sanitaryware Ltd. (Cera), Roca Sanitaria SA, and SCL (see Exhibit 3). In the tiles space, almost 45–50 per cent of the market was dominated by multiple unbranded players.[[12]](#endnote-13) A total of over 550,000 people were employed in this sector: 50,000 were directly employed and 500,000 were indirectly associated with the industry.[[13]](#endnote-14)

Competition in Tiles Space

Kajaria Ceramics

Incorporated in 1985, Kajaria Ceramics was the largest ceramic tile manufacturer in India. The company offered more than 1,200 options in ceramic wall and floor tiles, designer tiles, and vitrified tiles.[[14]](#endnote-15) It exported products to 20 countries and had many reputed real estate developers in India as its clients, including Unitech Ltd., DLF Ltd., Parsvnath Developers Ltd., Magarpatta (a privately owned gated community in Pune), Sobha Ltd., DSK Developers Ltd., Mantri Developers Pvt. Ltd., Prestige Group, Ansal Buildwell Ltd., Hiranandani Developers Pvt. Ltd., and Raheja Developers Ltd. By 2016, the company had received the Superbrands India[[15]](#endnote-16) title seven times for its quality products. During FY2015–16, the company reported net sales of ₹24.48 billion ($365.37 million).[[16]](#endnote-17)

HSIL

Founded by the Somany family in 1960 in collaboration with the U.K.-based Twyfords Ltd., Hindustan Twyfords Ltd. introduced vitreous China ceramic sanitaryware in India. The company changed its name to HSIL Ltd. in 2009.[[17]](#endnote-18) HSIL had the reputation of being the first Indian company in the building materials industry to have received ISO 9001, ISO14001, and OHSAS 18001 certificates, [[18]](#endnote-19) all awarded in 1962.[[19]](#endnote-20) In the ceramics tile space, the company increased its strength by acquiring Krishna Ceramics Ltd. in 1989 and Raasi Ceramics Ltd. in 1999.[[20]](#endnote-21) Previously limited to the production of sanitaryware, the company entered the tiles segment with the launch of its Hindware Italian collection in 2010.[[21]](#endnote-22) HSIL reported net sales of ₹19.44 billion ($290.19 million) in 2016.[[22]](#endnote-23)

Cera

Started in 1980, Cera was a pioneer in this segment, introducing a wide colour range, bath suites, and innovative and water-saving designs to India. It had a sales network of 400 distributors and 4,000 retailers.[[23]](#endnote-24) In addition to manufacturing a wide range of showers, kitchen sinks, wash basins, and taps, the company manufactured a range of tiles, including floor tiles and intricately designed wall tiles. The company also had a tie-up with Rondine Group SpA, an Italian tile maker, and marketed Rondine Group SpA’s designer products in India. However, even though Cera seemed to be serious about its tiles business, tiles only contributed 12 per cent of its total turnover for FY2014–15; in contrast, sanitaryware contributed approximately 60 per cent.[[24]](#endnote-25) In 2016, the company posted revenue of ₹9.34 billion (US$139.35 million), an increase of 13.63 per cent over the previous year. Cera’s profit had also increased, by 23.34 per cent since 2015, and stood at ₹834.6 million ($12.45 million).[[25]](#endnote-26)

Hiring Challenge: Tug or Train

Under Abhishek Somany’s leadership, SCL had grown consistently since its foundation in 1969. But the managing director wanted the company to grow faster, and for such aggressive growth it needed competent talent with appropriate technical expertise in ceramics. However, over the years, the industry had been challenged in hiring workers ready for deployment. Ceramics technology was evolving day by day, but job seekers showed a lack of interest in the field.

Preference for jobs in this industry was relatively low among diploma and degree holders, and even lower still among those with graduate degrees.[[26]](#endnote-27) Skilled and semi-skilled workers preferred attractive alternative employment opportunities available in the information technology (IT) and construction sectors. Approximately 780,000 engineers entered India’s job market every year; 150,000 of them were IT engineers but they all seemed to prefer the IT sector because of the glamour and benefits associated with the industry.[[27]](#endnote-28) Nielsen’s Campus Track Technology School survey in 2012 revealed that IT was the most preferred sector among students graduating in 2013, with 63 per cent of students showing a preference for IT services or products.[[28]](#endnote-29) To add to the woes of the other industries, IT companies would hire fresh graduates irrespective of their specialization and provide them with three months to one year of training to prepare them for the company’s objectives.

IT employees earned much better salaries than their counterparts in other sectors, especially those in the manufacturing sector (see Exhibit 4). In addition to offering better salaries, IT jobs were perceived as superior because they offered better career opportunities, work environment, lifestyle, status, and transferable skills, as well as flexible work schedules. In contrast, a career in the ceramics industry was perceived as unconventional. Further, in addition to the challenges of attracting and retaining employees, the ceramics industry required many more workers than the IT and construction sectors. Making the situation even worse, it was estimated that only 7–10 per cent of new engineers were employable for core engineering jobs.[[29]](#endnote-30)

Even once ceramics companies had hired workers, the companies struggled to maintain their technical labour force. Workers could not be retained for long without incremental salary increases; the turnover rate was 3 per cent. Recruiting people for technical jobs on the shop floor was especially difficult—because of IT sector growth in India, most technical labourers (engineers) were interested in joining IT companies rather than any shop floor job in manufacturing. Traditional methods of acquiring talent proved to be of little help for ceramics companies.

Kumar and his recruitment team at SCL were considering two possible options for managing the company’s demand for workers: hire from the competition or train non-ceramic professionals. Attracting talent from the competition required SCL to pay the workers far more than they were currently being paid by their employers. However, poaching the competitor’s workers would disturb the equilibrium in the organization and industry; SCL even had to guard its own skilled workers against poaching attempts by competing firms. Also, paying new employees a higher salary to attract them would create discontent among the existing staff. The company’s labour costs were already increasing as the company expanded—they had increased from ₹963.6 million ($15.05 million) in 2015 to ₹1.12 billion ($16.66 million) in 2016 (see Exhibit 5).

The second option Kumar’s team considered was identifying and hiring suitable jobless candidates from non-ceramic backgrounds. A shortlist could be compiled of candidates unable to find jobs in other sectors because of the candidates’ lack of technical skills. Provided these potential employees showed interest in making their careers in the ceramics industry, SCL could train them and make them industry ready. This way, a continuous supply of talented and trained workers with the right technical skills could be maintained. However, the HR executives were concerned that at the end of a long training program for potential candidates with little or no background in the ceramic industry, the candidates could still be unsuitable for the industry. If that were the case, the costs and time incurred would be lost. The costs would be significant because, as a practice, SCL would be expected to pay trainees a full salary while they underwent the training program.

SCL knew it could beat its competitors to grab the largest chunk of the increased market only by increasing its production in a timely manner. Salaries were in tune with the average salaries offered in India’s ceramic tile industry, but hiring and retaining skilled talent was a problem. The majority of Kumar’s team favoured training unskilled workers with the hope that retaining these workers would be easier. The minority, however, felt that identifying and training such individuals could take a great deal of time and prove to be a costly affair. SCL needed to arrive at a cost-effective and sustainable decision if it wanted to obtain the competitive edge it desired.

EXHIBIT 1: Somany Ceramics Limited, Major Products and Services

|  |  |
| --- | --- |
| **Product/Service Category** | **Subcategories** |
| Floor Tiles | Ceramic Tiles  Durastone  GVT/Duragres  Polished Vitrified  Slip Shield  VC Shield |
| Wall Tiles | Tiles  Wall Claddings |
| Chrome Plated Fittings | Accessories (e.g., towel bars and soap dishes)  Allied Products (e.g., faucet fittings and drains)  Faucets  Showers |
| Sanitaryware | Accessories (e.g., seats and covers)  Basins  Cabinet Basins  Cisterns  Toilets  Urinals |
| Tile Laying Solutions | Ezy Fix  Ezy Grout  Tile Master |

Note: GVT = Glazed Vitrified Tiles.; VC = Veil Craft.

Source: Company documents.

EXHIBIT 2: Somany Ceramics Limited, Workforce (2016)

|  |  |
| --- | --- |
| **Employment Mode** | **Number** |
| Staff (company roll + outsourced) | 432 |
| Permanent workers | 492 |
| Outsourced workers | 0 |
| Contractual workers | 880 |
| Casual workers | 326 |
| **Total workforce in both plants** | **2,130** |

Source: Company documents.

EXHIBIT 3: Major Companies in the Ceramics Industry, India

|  |  |  |  |
| --- | --- | --- | --- |
| **No.** | **Company Name** | **No.** | **Company Name** |
| 1 | Aro Granite | 16 | Neelkanth Rock Minerals Ltd. |
| 2 | Asian Granito India Ltd. | 17 | Nitco Ltd. |
| 3 | Cera Sanitaryware Ltd. | 18 | Orient Bell Ltd. |
| 4 | Divyashakti Granites Ltd. | 19 | Oriental Trimex Ltd. |
| 5 | Elegant Marbles & Granite Industries Ltd. | 20 | Pacific Industries Ltd. |
| 6 | Euro Ceramics Ltd. | 21 | Pokarna Ltd. |
| 7 | Glittek Granites Ltd. | 22 | Rajdarshan Industries Ltd. |
| 8 | Himalayan Granites Ltd. | 23 | Ravileela Granites Ltd.\* |
| 9 | HSIL Ltd. | 24 | Regency Ceramics Ltd. |
| 10 | Inani Marbles & Industries Ltd. | 25 | Restile Ceramics Ltd. |
| 11 | Kajaria Ceramics Ltd. | 26 | Schablona India Ltd. |
| 12 | Madhav Marbles & Granites Ltd. | 27 | Solid Stone Company Ltd. |
| 13 | Midwest Gold Ltd. | 28 | Somany Ceramics Ltd. |
| 14 | Milestone Global Ltd. | 29 | Sri Vajra Granites Ltd. |
| 15 | Murudeshwar Ceramics Ltd. | 30 | Vertical Industries Ltd. |

Note: \*Ravileela Granites Ltd. was removed from Money Control’s list of top companies in December 2017; however, it is still in business.

Source: “Top Companies in India by Net Profit—BSE,” Money Control, December 29, 2017, accessed May 29, 2018, www.moneycontrol.com/stocks/marketinfo/netprofit.php?optex=BSE&opttopic=&group=All&sort=sc\_comp&order=&indcode=19.

EXHIBIT 4: ENTRY-LEVEL SALARIES OF ENGINEERs IN VARIOUS SECTORS, INDIA

|  |  |
| --- | --- |
| Sector/Jobs | Average Entry-Level Salaries (₹ thousands) |
| Civil/Construction | 325 |
| Software Engineer | 408 |
| Ceramics | 210 |

Note: ₹ = INR = Indian rupee; the average exchange was ₹67.17 = US$1 in 2016

Source: Ceramic Engineers: Company Sources; “Civil Engineer Salary,” PayScale, accessed August 1, 2018, https://www.payscale.com/research/IN/Job=Civil\_Engineer/Salary; “Software Engineer Salary,” PayScale, accessed August 1, 2018, https://www.payscale.com/research/IN/Job=Software\_Engineer/Salary/3d540d01/Entry-Level.

EXHIBIT 5: Somany Ceramics LImited, Statement of Profit & Loss (₹ millions)

|  |  |  |
| --- | --- | --- |
| **For the year ended** | **March 31, 2015** | **March 31, 2016** |
| Revenue from Operations | 15,410.00 | 17,307.00 |
| Other Income | 78.34 | 92.06 |
| **Total Revenue** | **15,489.00** | **17,399.00** |
| **Expenses** |  |  |
| Cost of Materials Consumed | 1,699.70 | 1,646.20 |
| Purchases of Stock-in-Trade | 8,504.00 | 9,528.40 |
| Change in Inventories of Finished Goods |  |  |
| Work-in-Progress and Stock-in-Trade | (−350.78) | 62.07 |
| Employee Benefit Expense | 953.61 | 1,116.30 |
| Finance Cost | 163.07 | 163.33 |
| Depreciation and Amortization Expense | 222.68 | 205.69 |
| Other Expenses | 3,641.50 | 3,724.00 |
| **Total Expenses** | **14,834.00** | **16,446.00** |
| Profit before Exceptional and Extraordinary | 655.07 | 953.05 |
| Items and Tax |  |  |
| Exceptional Items (Net) |  | 44.29 |
| **Profit before Tax** | **655.07** | **908.76** |
| **Tax Expenses** |  |  |
| Current Tax | 202.86 | 248.40 |
| Deferred Tax Charge/(Credit) | 71.62 | 40.26 |
| Income Tax for Earlier Years | 12.34 | 9.52 |
| **Profit after Tax** | **443.83** | **610.58** |

Note: ₹ = INR = Indian rupee; the average exchange was ₹67.17 = US$1 in 2016

Source: Company documents.

ENDNOTES

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