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BALAJI WAFERS: TAKING THE PEPSI CHALLENGE[[1]](#endnote-1)

Rajiv Agarwal and Ashita Aggarwal 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.

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In September 2017, the *Economic Times* stated that Gujarat-based Balaji Wafers Pvt. Ltd. (Balaji Wafers) ranked third among the top manufacturers of potato wafers in India. For the year ended September 2017, Balaji Wafers had a turnover of ₹21.22 billion,[[2]](#endnote-2) following the market leader, homegrown Haldiram’s Food International Limited (Haldiram) (₹42.24 billion), and global multinational corporation (MNC) PepsiCo India Ltd. (PepsiCo) (₹35.96 billion) (see Exhibit 1). Even though the Balaji brand had sold more than each of PepsiCo’s two brands (Lay’s and Kurkure), making it the second-largest individual brand, Balaji Wafers needed to address some concerns.[[3]](#endnote-3)

After operating for over three decades, Rajkot-based Balaji Wafers was the leading manufacturer of potato wafers in the western state of Gujarat. Balaji Wafers’ 60 per cent market share made it the undisputed market leader in that state,[[4]](#endnote-4) having continuously beaten global giant PepsiCo. PepsiCo had made numerous attempts to dislodge Balaji Wafers from its position, including proposing a buyout, but had failed in all of its efforts. Balaji Wafers had spurned offers for a complete takeover and was seeking investments for expanding operations.[[5]](#endnote-5) Though Balaji Wafers had publicly stated it was considering going national, in pursuit of growth, it had until then preferred to aggressively pursue high sales by expanding regionally into neighbouring states.[[6]](#endnote-6)

Balaji Wafers had two options for growth. It could leverage its competitive advantage by remaining a strong regional player and continue to focus on the factors that had made it successful over the years, or it could go national and compete with the likes of Haldiram and PepsiCo. The latter choice would require a robust business strategy, marketing acumen, and huge investments, which could be either raised from external sources or funded by its own cash flows. Would Balaji Wafers be able to sustain its lead over PepsiCo? What should Balaji Wafers do for its pursuit of growth?

HISTORY

The story of Balaji Wafers’ humble origins began in the 1970s. Chandubhai Virani and his three brothers, Meghjibhai, Bhikubhai, and Kanubhai, had come to Rajkot from Dhundhoraji (a small village in the Jamnagar district in Gujarat) with a dream of building a successful business. They had tried their luck in trading diamonds and agricultural kits, but without much success, losing the ₹20,000 capital their father had given them. Chandubhai and Meghjibhai then took up a job selling refreshments in the Astron Cinema in Rajkot. Thereafter, a dispute arose between the cinema’s management and the employees’ union, in which the two brothers did not participate (since they were not willing to risk losing their jobs). The theatre owner gained confidence in the two brothers and, in 1976, gave them the contract for managing the theatre’s food outlet on a revenue-sharing basis. By 1982, the Viranis had moved into the business of making homemade potato wafers, outsourced from different vendors.[[7]](#endnote-7)

OPERATIONS AT BALAJI WAFERS

As demand increased, the brothers started producing wafers at home and sold these to a few nearby shops. The demand for their wafers soon encouraged the Viranis to gradually increase production. The brothers handled all functions personally, since they did not have a team in that early stage. Their daily routine included purchasing 50 kilograms (kg) of potatoes, manufacturing the wafers at home, manually sprinkling on the spices, and then selling the wafers personally to each shop in the local markets.[[8]](#endnote-8)

Subsequently, in 1989, the brothers set up a 1,000-square-metre facility in the nearby industrial area Aji to manufacture 60 kg of wafers a day. In 1993–94, Balaji Wafers installed a semi-automatic plant, raising its production capacity to 180 kg of wafers per day. In 2000, it invested an additional ₹50 million in a modern automatic plant with the capacity to manufacture and package 450 kg of wafers an hour. At that time, Balaji Wafers produced 9,000 kg of banana and potato wafers and 7,000 kg of *namkeen* (a salty snack) per day. To meet the growing demand, the Viranis set up three new plants in 1999, 2003, and 2008 in Gujarat, and by 2013 Balaji Wafers had invested approximately ₹5 billion in operations.[[9]](#endnote-9)

By 2013, Balaji Wafers had grown from three employees to 2,500 employees; had around 500 suppliers; was present in the states of Gujarat, Maharashtra, Rajasthan, Madhya Pradesh, and Goa across 17 product categories; and was exporting its products to 35 countries worldwide. Namkeen comprised 60 per cent of the company’s total production, while wafers made up the remaining 40 per cent.[[10]](#endnote-10) In 2013, the Valsad (Gujarat) unit produced 2,200 kg wafers per hour, making it one of the largest units for making potato wafers in Asia.[[11]](#endnote-11) By 2017, Balaji owned four plants in India with a total processing capacity of 650,000 kg of potato wafers and 1,000,000 kg of namkeen per day, which included around 30 varieties of salty snacks and savouries in addition to potato wafers,[[12]](#endnote-12) achieving a turnover of ₹21.22 billion (see Exhibit 2).

THE VIRANI FAMILY

The Virani family was comprised of the four brothers who had founded Balaji Wafers, Bhikubhai, Chandubhai, Kanubhai, and Meghjibhai, and the next generation sons, Keyur and Mihir (Bhikubhai’s sons), and Pranay (Chandubhai’s son). By 2017, the family had divided the roles among them, and each family member was handling a specific function (see Exhibits 3 and 4). Bhikubhai was the chairman, Chandubhai was the managing director, and Kanubhai was the technical director. Chandubhai was also handling production, while Bhikubhai and Kanubhai looked after sales and marketing. Mihir was the marketing director, Pranay was the events director, and Keyur was the research and development director. Chandubhai and Keyur were also the spokespersons for Balaji Wafers.[[13]](#endnote-13) The family was close-knit and often had lunch together at the corporate office just outside Rajkot.[[14]](#endnote-14) The family defined a set of values for the company, which they used to drive their decisions. They wanted to build the business on traditional values of trust and quality without any compromise.[[15]](#endnote-15)

MARKETING BALAJI WAFERS

Balaji Wafers had the advantage of local market knowledge, and, like other regional players, it had inherent strengths—extensive distribution and low overheads—which allowed an aggressive pricing strategy, which had resulted in the tough competition the company gave to MNCs. According to a November 2014 report by the Nielsen Company on the snack market in India, increased disposable income, the need for convenience in a fast-paced lifestyle, and cultural traditions of snacking between meals had fuelled explosive growth in the salty and savoury snacks market, leading to six-fold sales growth in the category—from ₹80 billion in 2004 to ₹470 billion in 2013.[[16]](#endnote-16) Global researcher Euromonitor International stated in a 2016 study that Balaji Wafers was larger than Parle Products Pvt. Ltd. (Parle) and the Bingo! brand of ITC Limited (ITC), with about 60-per-cent market share in Gujarat, Maharashtra, Rajasthan, and Goa, and 15 per cent in Madhya Pradesh. Between 2013 and 2015, the market share of Lay’s dropped from 51.1 per cent to 49.5 per cent due to the growth of Balaji Wafers, which had steadily gained market share annually in a market estimated to be around ₹70 billion to ₹100 billion.[[17]](#endnote-17)

By 2017, the savoury snack market was a ₹295.4 billion market growing at a compound annual growth rate (CAGR) of 14.9 per cent (see Exhibit 5). This category was further broken down into many subcategories, of which salty snacks constituted the majority in terms of both sales and growth rates. Potato wafers was grouped with salty snacks within the savoury snacks category and was estimated to be a ₹3–4 billion market. Furthermore, salty snacks had a CAGR of 22.8 per cent between 2012 and 2017 and was forecasted to grow at 14.8 per cent for 2017–2022 (see Exhibits 6 and 7). According to Euromonitor International’s 2017 report, the year-on-year growth rate of the savoury snack market was 14.9 per cent (see Exhibit 6), with PepsiCo and Balaji Wafers having a CAGR of −1.2 per cent and 15 per cent, respectively (see Exhibit 5).

Since 2013, packaged namkeen had replaced Western snacks such as potato chips and finger sticks as the largest segment within the branded salty snacks market.[[18]](#endnote-18) Euromonitor International’s 2017 estimates showed that the industry was expected to grow at a CAGR of 9 per cent to reach ₹446.9 billion in 2022. Balaji Wafers had managed to control the erosion in its market share (as a percentage share of retail value), which had dropped from 8.5 per cent to 6.8 per cent in 2011–2017, while PepsiCo’s share dropped from 15.9 per cent to 8.1 per cent, in a market that had an average growth of 20 per cent (from 2014 to 2017) (see Exhibit 8). Balaji Wafers was very strong in Gujarat and Maharashtra and retained its leadership position by beating PepsiCo’s Lay’s. Nationally, it was third after Haldiram and PepsiCo.

In terms of brand shares of the savoury snack category (by percentage value), Balaji was ranked second after Haldiram (see Exhibit 9. Balaji Wafers saw a 14 per cent increase in sales growth in 2015–2016. The savoury snacks market had been declining since 2013, with all players facing declining sales, but Balaji Wafers was able to continue maintaining its year-on-year growth, even when PepsiCo was quickly losing its share (see Exhibit 5). According to Balaji Wafers, some of the secrets of its success were the efforts to keep overhead costs low, which ensured its products remained affordable, along with the introduction of healthier varieties and expanding into the neighbouring states of Rajasthan and Madhya Pradesh.[[19]](#endnote-19)

In 2016, 60 per cent of the Indian snack market was dominated by branded Indian salty snacks, while the balance consisted of branded Western salty snacks including potato chips. Balaji Wafers attributed its success in the Indian market to the critical factors of quality, price, last-mile distribution, and the right taste.[[20]](#endnote-20) Additionally, the contribution of branded Indian salty snacks such as *dal, chivra, bhujia*, and nuts within the overall snacks market was increasing, and the industry players, both multinational and domestic, were using attractive packaging and pricing to penetrate newer markets in smaller towns.[[21]](#endnote-21)

COMPETITORS

Balaji’s total turnover was about ₹21 billion by September 2017 (see Exhibit 1). Over the previous five years, it had earned a steady net profit, at 10–12 per cent of revenue. By 2017, Balaji had garnered 6.85 per cent market share by value in India’s sweet and savoury snacks market and was the third-largest company nationally after Haldiram and PepsiCo (which had multiple brands in its portfolio) (see Exhibits 8 and 9). The market’s continuous growth attracted multiple new players. The salty snacks market was dominated by PepsiCo, with Lay’s and Kurkure; ITC, with Bingo!; and Haldiram and Parle products, along with numerous regional brands.

* PepsiCo: PepsiCo, with its Kurkure and Lay’s brands, was the pioneer in the organized snacks market and the category leader. PepsiCo was focusing on the wafers segment and planning to leverage the Kurkure brand to extend into the pricier snacks segment to capture a larger share of the market. Its strategy was to focus on premium offerings and innovation by creating new demand spaces, consequently pursuing a premium pricing strategy.[[22]](#endnote-22) For Frito-Lay, PepsiCo bet on different pack sizes at different price points to improve penetration. It offered its smaller packs for ₹3, ₹5, and ₹10, and products for in-home consumption and family occasions at higher price points of ₹20, ₹30, ₹60, and ₹99. In 2011, PepsiCo launched a new brand, “Lehar,” which was 40 per cent cheaper than its flagship Lay’s.[[23]](#endnote-23)
* ITC: ITC was the largest tobacco manufacturer in India, but it had focused on the salty snacks segment after it gained more than 7 per cent market share in 2014. It launched 18 flavours, expanded its manufacturing sites to five from the earlier two locations, widened its distribution network, and revamped its packaging. ITC also introduced innovative formats based on multigrain pulses with distinctively better taste under its umbrella snack brand Bingo! to drive volumes.[[24]](#endnote-24)
* Parle: Parle, owner of the brand Hippo, decided to increase its research and development spending by 30 per cent to attract customers. It also started developing innovative products to drive volumes and proposed to roll out new products including potato finger chips, called *Aloo Lacha*. The company had also started promoting namkeen in ₹5 packs and had improved its distribution and infrastructure, having separate distributors for towns with populations of about 500,000, with the intention to increase its total distribution network by 15 per cent in 2014.[[25]](#endnote-25)
* Haldiram: Haldiram, another family-owned, homegrown business, was the leading player, with an 11.7 per cent share of retail value in 2017. The company offered the largest portfolio of snacks across all retail channels. It had grown from being a brand of north India to becoming a large national player. In September 2017, Haldiram finally overtook PepsiCo to regain the position of India’s top snack company.[[26]](#endnote-26)
* Prataap Snacks Ltd. (Prataap): Prataap, owner of the Yellow Diamond brand, saw a 30 per cent increase in retail value sales in 2017. It challenged PepsiCo’s brands through aggressive pricing, its distribution strategy, and the fact that it had raised pre–initial public offering (IPO) funding of ₹500 million from Malabar Investments in exchange for a 2.5 per cent stake. This was in addition to the ₹2.65 billion in funding invested by Sequoia Capital in 2011 in exchange for a 63.15 per cent stake. Faering Capital invested ₹450 million in June 2016. Prataap’s IPO in September 2017 was oversubscribed 47 times when listed. The company had famous Bollywood actor Salman Khan as its brand ambassador. Prataap had a distribution network of 205 super stockists, with over 3,400 distributors. It owned and operated three manufacturing facilities—one in Indore and two in Guwahati. It had two contract manufacturing plants, in Kolkata and Bengaluru, and intended to use the funds to penetrate the existing markets and explore new markets.[[27]](#endnote-27)
* Local brands: Local snacking companies such as Balaji Wafers, Prataap, Bikanervala, Bikaji Foods, and DFM Foods together recorded sales growth of 8–35 per cent in the year ended March 2016, at a time when major international companies like Mondelez International Inc., PepsiCo’s food division, and GlaxoSmithKline Plc were struggling to grow their businesses. Together, these five local firms had combined sales of nearly ₹37 billion, which was higher than Nestlé’s Maggi brand and Kellogg’s in India.[[28]](#endnote-28)

With numerous funds investing in Indian players, the competition among well-funded competitors was growing fast. Investment firm Lighthouse Funds had invested ₹1.25 billion in Bikaji Foods, while Westbridge Capital Ltd. had invested about 25 per cent in DFM Foods. These well-funded new-entrant competitors were potential threats to the existing players.[[29]](#endnote-29)

MARKETING COMMUNICATION

Balaji Wafers focused on understanding the native tastes of its customers. The potential for traditional snacks was immense, and smart companies were gradually converting traditional “eaten-at-home” products to packaged products that could be consumed on the go.[[30]](#endnote-30) Additionally, because of the hygiene factor, consumers’ preferences were shifting to packaged branded namkeen over unbranded products from local bakeries, thus increasing the market shares of local brands.[[31]](#endnote-31) Consumers also perceived traditional Indian snacks to be healthier, and preferred brands that contained commonly used ingredients often found in Indian kitchens.[[32]](#endnote-32) Indian consumers had discerning tastes, and existing local players like Balaji Wafers experimented with tastes to keep its brands relevant to consumers. This was one of the strengths of regional brands—they understood Indian tastes better and could offer variety at low operating and marketing costs.[[33]](#endnote-33) Furthermore, as the organized players increased the affordability and availability of their products, they experienced increased sales from consumers who shifted from the unorganized market to these brands. The increased reach and new product launches also contributed to the growth of all local players.[[34]](#endnote-34)

It appeared that Balaji Wafers understood the palates of its large regional customer base in India, stepping in with products with localized flavours that catered to these tastes. This strategy of balancing price, flavour, and distribution helped the group capture a 90 per cent share of the Gujarat wafers market and 70 per cent of the namkeen market. In Gujarat, the company’s product mix was just right, and it catered to the Gujarati sweet tooth by making its products less spicy. The company offered masala wafers to cater to the Gujarati palate, chaat masala for the Maharashtrian market, and a range of spicy snacks for the Rajasthan market.[[35]](#endnote-35)

Balaji Wafers spent negligible amounts on marketing and advertising. PepsiCo’s Lay’s, its nearest competitor, spent over 7–8 per cent of its snack revenue on advertising, including endorsements from Bollywood superstars such as Ranbir Kapoor.[[36]](#endnote-36) Even though Balaji Wafers did not spend much on advertising and communication, it had made inroads beyond its stronghold market of Gujarat into states such as Rajasthan, Maharashtra, Madhya Pradesh, and Goa. It relied more on word of mouth publicity. There were apprehensions about whether such minimal expenditure on marketing would work when Balaji went national, as local player ad spends could nearly double compared to those of global players, in line with international trends.[[37]](#endnote-37)

DISTRIBUTION[[38]](#endnote-38)

Chandubhai believed Balaji Wafers had to focus on distribution to achieve growth. By late 2016, it had a network of 10–12 sole distributors and 700 dealers in Gujarat, Maharashtra, Rajasthan, Madhya Pradesh, and Goa, covering over 2,000,000 retailers and reaching millions of final consumers. Balaji Wafers had a strong hold on the retail channel and could reach the depths of the market. It encouraged its dealers to provide their own fleet of trucks, which Balaji compensated for through higher margins. This not only reduced the role of intermediaries but also kept distribution costs low. Balaji Wafers wanted its product to speak for itself and ensured that it was easily available to the customer.

According to a 2017 Euromonitor International report, grocery store–based retailing constituted 99.9 per cent of the channel distribution for savoury snacks in India. Of this, 83.7 per cent were traditional grocery retailers and 16.2 per cent were modern grocery retailers. Of the traditional retailers, 70 per cent were independent *kirana* stores (local mom-and-pop grocery stores). However, the traditional independent grocers were declining in number and being replaced by the growing number of modern grocery retailers. The remaining 0.1 per cent of the channel distribution for savoury snacks was made up by Internet sales and non-store retailing, which was also a growing segment.

Balaji Wafers’ distribution strategy had given it a 70 per cent market share in Gujarat. Balaji Wafers had also displaced PepsiCo’s Lay’s in neighbouring Maharashtra to gain a huge 60 per cent market share in 2014, just five years after entering this market in 2009. External industry experts believed the Balaji brand name was restricted to Gujarat and Maharashtra and virtually unknown outside these two states, even though customers were extremely satisfied with Balaji products.

PRICING[[39]](#endnote-39)

Bhikubhai had stated that Balaji Wafers’ products were so affordable that even a school kid could buy them. He also believed that the products should be filling and their consumption should not cause concern among health-conscious parents. A ₹10 pack of Lay’s or Bingo! contained around 13 grams of chips, while a Balaji Wafers’ pack for the same price contained 20 grams of chips. Consequently, Balaji Wafers continued to sell its namkeen and wafers for as low as ₹1 and ₹5 per packet, respectively.

Chandubhai followed pricing for price-conscious buyers, an increasing challenge because of rising potato prices. The company used economy pricing coupled with low operations costs and an intensive distribution model. Its low overheads helped in passing on a greater value share to its customers. Erratic potato prices and consumers’ unwillingness to consume more of the product had affected sales of potato wafers. The contribution of potato wafers to Balaji Wafers’ revenues declined from 70 per cent to 40 per cent. Balaji responded by increasing its concentration on snacks, which also gave it higher margins compared to wafers.

Rolling out nationally would not only increase the company’s overheads, it would also lead to additional distribution, advertising, and marketing costs. If it went national, Balaji Wafers would have to consider whether it would be able to use its penetrative pricing strategy, which traditionally had given it a competitive advantage in Gujarat and Maharashtra.

MANAGING THE FAMILY BUSINESS[[40]](#endnote-40)

Balaji Wafers was hesitant to hire professionals, and most of its existing employees had been groomed by Chandubhai himself. These employees were loyal, unlike professionals, who Chandubhai believed would not stick around. His experience had shown him that the people who were trained by him did stay and were loyal to the company. The sole exception was the head of production, Nishika Bapat, who had formerly been with PepsiCo. The next generation was skeptical of this mindset to avoid hiring professionals, which had worked in the past. The new generation wanted to expand the skill base, especially with the company planning to grow nationally and even export its products outside India.

The next generation was involved in multiple initiatives within the company:

* Product Innovation: As consumer preferences were moving towards healthier snack options, the company invested ₹2.5 billion for new machinery in Rajkot to make baked multi-grain snacks, which were healthier. The challenge for Balaji Wafers was that competing products in the same category (PepsiCo’s Aliva and Parle’s Smart Chips) had failed in the past. The Viranis therefore wanted to ensure they could offer health benefits without sacrificing the taste of their snacks. They were also working on their traditional products, such as potato wafers and namkeen, to reduce the amount of oil used without compromising on taste.
* Market Expansion: Balaji Wafers invested in scaling up and upgrading the manufacturing unit at Indore to try and capture the northern India markets, not only for scaling up investments to build capacity but also for brand building.
* Strategic Investments: The next generation felt that it needed strategic investments to take the business to the next level. A strategic partnership could get the company access to global best practices and funds for expanding operations.

Chandubhai was not very keen on strategic investors, stating, “Strategic partners would only want profits. They will never grow the business with the same passion as we have done.”

THE stake-sale PROCESS

With a growth plan in mind, in 2013 Balaji Wafers started talking to private-equity investors such as the Blackstone Group L.P. and Actis Capital to raise US$100–125 million to fund its growth.[[41]](#endnote-41) These plans included investing ₹2 billion towards new manufacturing facilities planned over a three-year period, focusing on the northern and southern markets. Until then, Balaji Wafers had been a major player in only the western markets. It claimed that better management would be created by the stake sale. Keyur Virani, director of Balaji Wafers, said, “We are now planning to enter [the] North and South India market within [the] next two years and for that we are looking to have strategic partnerships with local players.”[[42]](#endnote-42)

Balaji Wafers appointed Ernst & Young to find buyers for the stake sale. By December 2013, the company was in talks with numerous investors including private equity funds and MNCs such as Kellogg’s, General Mills Inc., and PepsiCo.[[43]](#endnote-43)

* Kellogg’s: Kellogg’s, the multinational breakfast cereal giant, was one of the potential suitors. Kellogg’s was looking for ways to grow, as it was unable to establish a strong presence in the local Indian market. This was close on the heels of its recent US$2.7 billion buyout of Pringles, which gave it a global presence in the wafer business. Industry sources felt that Kellogg’s taking over Balaji Wafers could help the Pringles brand in Tier 2 cities, where the consumption of wafers was rising.[[44]](#endnote-44)
* Agro Tech Foods Ltd.: After conducting due diligence on all of Balaji Wafers’ brands and meeting the management, Agro Tech Foods Ltd., an affiliate of ConAgra Foods, Inc. USA, concluded that with Balaji Wafers’ operations restricted to a few states, it was too regional in nature.[[45]](#endnote-45)
* PepsiCo: PepsiCo launched its brand Lay’s in India in 1995. It had used Lay’s to spearhead its presence in the Western salty snacks segment and Kurkure for the Indian salty snacks segment. Both were losing market share to Balaji Wafers in the growing snacks market.[[46]](#endnote-46)

Around 2009, Pepsi and Haldiram saw that Balaji Wafers was offering tough competition in the Gujarat and western India region. They sent a team of executives to identify ways to respond to Balaji Wafers. The team visited Balaji Wafers’ plant and its potato farms and were impressed by the simplicity and efficiency of Balaji Wafers’ operations. When PepsiCo realized that it was helpless in meeting Balaji Wafers’ challenge, it turned around and offered to buy out a 51 per cent stake in Balaji Wafers, trying to convince Chandubhai for a sellout.[[47]](#endnote-47)

Media reports stated that the Viranis had asked for a valuation of ₹35 billion, three and a half times Balaji Wafers’ sales of ₹10 billion (the norm being two to three times the sales in the fast-moving consumer goods sector). Prospective buyers found the valuation too high, given that Balaji Wafers’ reach was restricted to a few states. One private-equity fund stated that since Balaji Wafers had a strong balance sheet and was internally funded, it was not in need of funds and, hence, could ask for a higher valuation.[[48]](#endnote-48)

Balaji Wafers had stated that it was not open to selling large stakes to the private equity funds, which would loosen the family’s control over the company. The family maintained that the stake sale was intended to create better management for Balaji Wafers. Finally, in June 2014, Balaji Wafers, on finding that the valuations offered by the private-equity players were lower than expected, gave up its plans of a stake sale or an IPO that year. Chandubhai commented on this, stating, “MNCs do not have the experience in the snacks category in India, but we did not need the money. Now the matter is closed.”[[49]](#endnote-49)

IPO Plans

In late 2015, Balaji Wafers again decided to sell 10 per cent though an IPO, from which it expected to raise ₹3 billion, valuing the company at ₹30 billion. The company needed the funds to expand into new markets in central and north India, branching out from its traditional, limited stronghold areas of Gujarat, Goa, Madhya Pradesh, Rajasthan, and Maharashtra. However, Balaji Wafers subsequently delayed this by about a year because it wanted to focus on setting up its new plants in Indore.[[50]](#endnote-50)

INDORE PLANT

In March 2015, Balaji Wafers announced a ₹4 billion investment in Indore, Madhya Pradesh, to tap into the north Indian market. Balaji Wafers had acquired land earlier, and construction had already started on a new production facility, which was expected to be completed in the next 18 months. This new factory was initially installed for the production of 1,500 kg of wafers and other salty snacks per hour. The output could be gradually doubled based on requirements. The factory was intended to manufacture all the products of Balaji Wafers and to cater to Madhya Pradesh, Rajasthan, Delhi, and surrounding areas in north India. Under the first phase of the project, the company invested ₹2 billion in the plant, with the balance of ₹2 billion to be spent in the second phase on other requirements.[[51]](#endnote-51) The plant was finally commissioned on October 11, 2016, increasing the company’s total capacity to 86.4 tonnes per day, from 62.4 tonnes earlier.[[52]](#endnote-52)

Financing by Loans

The company had raised a loan of ₹1 billion in late 2015 from creditors and banks to fund its expansion. It expected its financial requirements for 2017 to be about ₹2.25 billion, part of which it expected to fund from internal accruals.[[53]](#endnote-53) Balaji Wafers, at the end of 2017, had three plants—in Rajkot, Valsad, and Indore. It had invested ₹7 billion in these plants by funding them through bank loans. Chandubhai was quoted as saying, “As long as banks are willing to lend, there is no need to go public. There is no IPO this year although we have been thinking about it in the past.”[[54]](#endnote-54)

BALAJI wafers’ EXPANSION

In 2014, Balaji Wafers had 70 per cent market share in western India, with a presence in the states of Gujarat, Maharashtra, Goa, Rajasthan, and some parts of Madhya Pradesh. Management claimed that the company had over 85–90 per cent market share of the potato wafer market in Gujarat. With the intention to expand beyond western India in the future, Balaji had invested ₹500 million in doubling its production capacity in Valsad, South Gujarat, raising its hourly production of potato wafers to 1,200 kg in Rajkot and 2,500 kg in Valsad.[[55]](#endnote-55)

PRODUCT Diversification

In December 2014, Balaji Wafers announced that it would start manufacturing potato french fries by May 2015, taking on the largest seller of french fries in India, McCain Foods India. This project, costing ₹500 million, was to be set up through Iscon Balaji Foods Pvt. Ltd., who at that time manufactured ready-to-cook potato flakes. Chandubhai visited German machinery manufacturers for sourcing machines in late 2014. McCain Foods India was the market leader in the frozen potato specialty market with products like french fries, *Aloo Tikki*, McCain Smiles, and McCain Potato Cheese Shotz. The firm had a strong back end for sourcing potatoes and planned to start with french fries at its Ahmedabad plant before launching other products. The products would be sold directly to consumers at organized retail stores and would be made available for quick-service restaurants and institutional buyers.[[56]](#endnote-56)

THE WAY AHEAD

In 2017, Balaji Wafers had continued to make money, and its turnover was continuously increasing, compared to its competitors (see Exhibit 8). Chandubhai stated that his future plans were to go national and then, even, global. The company was planning a ₹1 billion potato wafers unit in London, England, and was considering setting up a unit in Dubai in the United Arab Emirates. He wanted to grow the brand to double its current size in the global markets. Chandubhai also wanted to sell Balaji Wafers’ goods internationally under its own label and had rejected offers from superstores based in the United Kingdom and the Middle East that wanted him to co-brand his products for the large Gujarati diaspora there. Balaji Wafers also aspired to enter the fast-food restaurant business by setting up a chain, starting from Gujarat and then launching it nationally.[[57]](#endnote-57)

The concern, however, was about the future of the Balaji brand. Balaji Wafers had been a strong regional player that had defeated an MNC giant, PepsiCo, on its home turf and had spurned offers from General Mills and Kellogg’s, its potential competitors in the national market. Additionally, it had also faced the onslaught of local players like Haldiram, which had grown from being a regional brand to becoming the leading national brand. Other regional brands, like Yellow Diamond, were also experiencing robust growth in their respective regions. The question before the Virani family was whether they should expand the Balaji brand nationally, or stay regional and strengthen it further in Gujarat and Maharashtra.

EXHIBIT 1: BRAND SHARE SALES

Sales for the year ended September (₹ billion)

|  |  |  |
| --- | --- | --- |
| **Brand** | **2016** | **2017** |
| Haldiram’s | 32.622 | 42.248 |
| Balaji | 17.739 | 21.218 |
| Lay’s/PepsiCo | 17.614 | 19.964 |
| Kurkure/PepsiCo | 15.014 | 16.005 |
| Yellow Diamond/Prataap Snacks | 7.893 | 10.586 |

Note: ₹ = INR = Indian rupee; US$1 = ₹63.8838 on September 1, 2017.

Source: Created by the authors based on data from Sagar Malviya, “Haldiram Topples PepsiCo; Regains Top Spot as Country’s Largest Snack Company,” *Economic Times*, December 21, 2017, accessed March 19, 2018, <https://economictimes.indiatimes.com/industry/cons-products/food/haldiram-topples-pepsico-regains-top-spot-as-countrys-largest-snack-company/articleshow/62185925.cms>.

EXHIBIT 2: BALAJI WAFERS turnover

|  |  |
| --- | --- |
| **Year** | **₹** |
| 2012–13 | 10 billion |
| 2013–14 | 12 billion |
| 2014–15 | 12.67 billion |
| 2015–16 | 14.4 billion |
| 2016–17 | 21.22 billion |

Note: ₹ = INR = Indian rupee; US$1 = ₹63.8838 on September 1, 2017.

Source: Ajita Shashidhar, “Snacking Its Way to Success,” Business Today, November 23, 2014, accessed March 19, 2018, www.businesstoday.in/magazine/special/balaji-wafers-best-emerging-indian-companies-2014-packed-food/story/211902.html; Sagar Malviya, “Haldiram Topples PepsiCo; Regains Top Spot as Country’s Largest Snack Company,” Economic Times, December 1, 2017, accessed March 19, 2018, <https://economictimes.indiatimes.com/industry/cons-products/food/haldiram-topples-pepsico-regains-top-spot-as-countrys-largest-snack-company/articleshow/62185925.cms>; Sagar Malviya, “Taste of India: Desi Companies Feast on Snack Market,” Economic Times, December 20, 2016, accessed March 19, 2018, https://economictimes.indiatimes.com/

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EXHIBIT 3: FAMILY TREE and ORGANIZATION CHART

Source: Created by the authors based on data from Ajita Shashidhar, “Snacking Its Way to Success,” *Business Today*, November 23, 2014, accessed March 19, 2018, [www.businesstoday.in/magazine/special/balaji-wafers-best-emerging-indian-companies-2014-packed-food/story/211902.html](http://www.businesstoday.in/magazine/special/balaji-wafers-best-emerging-indian-companies-2014-packed-food/story/211902.html).

EXHIBIT 4: BALAJI WAFERS ORGANIZATION CHART

Note: R&D = research and development

Source: Created by the authors based on data from ET Bureau, “MNC Stake in Balaji Wafers: Why Patriarch Chandu Virani May Yield to His Gen Next Management,” ETRetail.com, August 26, 2013, accessed March 19, 2018, <https://retail.economictimes.indiatimes.com/news/food-entertainment/personal-care-pet-supplies-liquor/mnc-stake-in-balaji-wafers-why-patriarch-chandu-virani-may-yield-to-his-gennext-management/22061449>.

EXHIBIT 5: SAVOURY SNACK MARKET—YEAR-ON-YEAR GROWTH (%) AND TOP THREE PLAYERS

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Savoury Snacks** | **PepsiCo** | **Balaji Wafers** | **Haldiram** |
| **2009** | 22.0 | - | 2.6 | 45.6 |
| **2010** | 29.0 | - | 35.1 | 31.3 |
| **2011** | 29.3 | - | 31.6 | 23.8 |
| **2012** | 24.9 | 15.9 | 24.0 | 19.3 |
| **2013** | 22.8 | 17.1 | 19.0 | 16.1 |
| **2014** | 23.0 | 10.6 | 18.1 | 13.9 |
| **2015** | 22.2 | 7.9 | 13.8 | 12.2 |
| **2016** | 21.9 | 3.2 | 14.7 | 13.0 |
| **2017** | 14.9 | -1.2 | 15.0 | 13.5 |

Note: Haldiram = Haldiram’s Food International Limited

Source: Euromonitor International, *Savoury Snacks in India*, 2017, accessed March 19, 2018.

EXHIBIT 6: SALES OF SAVOURY SNACKS IN INDIA

|  |  |  |
| --- | --- | --- |
| **Year** | **Sales (₹ Million)** | **YOY Growth** |
| **2014** | 172,592.90 | 23% |
| **2015** | 210,891.00 | 22.2% |
| **2016** | 257,134.50 | 21.9% |
| **2017** | 295,464.60 | 14.9% |

Note: ₹ = INR = Indian rupee; US$1 = ₹63.8838 on September 1, 2017; YOY = year-on-year

Source: Euromonitor International, *Savoury Snacks in India*, 2017, accessed March 19, 2018.

EXHIBIT 7: SALES OF SAVOURY SNACKS BY CATEGORY, RETAIL VALUE (2017)

|  |  |  |  |
| --- | --- | --- | --- |
| **Type** | **Retail Value**  **(₹ Million)** | **CAGR 2012–2017 (%)** | **CAGR 2017–2022 (%)** |
| Nuts, Seeds, and Trail Mix | 22,766.30 | 16.8 | 14.6 |
| Salty Snacks | 170,567.80 | 22.8 | 14.8 |
| Savoury Biscuits | 44,385.20 | 13.5 | 10.8 |
| Popcorn | 2,799.50 | 18.9 | 15.7 |
| Other Savoury Snacks | 54,925.80 | 25.3 | 13.8 |
| **Total Savoury Snacks** | **295,464.60** |  |  |

Note: ₹ = INR = Indian rupee; US$1 = ₹63.8838 on September 1, 2017; CAGR = compound annual growth rate

Source: Euromonitor International, *Savoury Snacks in India*, 2017, accessed March 19, 2018.

EXHIBIT 8: COMPANY SHARE PERFORMANCE IN SAVOURY SNACKS (% SHARE RETAIL VALUE)

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** |
| Haldiram’s Food International Ltd. | 14.3 | 17.0 | 17.3 | 16.6 | 15.9 | 15 | 13.9 | 12.8 | 11.8 | 11.7 |
| PepsiCo India Ltd. | - | - | - | 15.9 | 14.8 | 14.1 | 12.6 | 11.2 | 9.5 | 8.1 |
| Balaji Wafers Pvt. Ltd. | 8.0 | 7.9 | 8.3 | 8.5 | 8.4 | 8.1 | 7.8 | 7.3 | 6.8 | 6.8 |
| ITC Ltd. | 5.5 | 6.2 | 6.2 | 5.8 | 6.2 | 6.5 | 6.7 | 6.9 | 7.0 | 6.6 |
| Prataap Snacks Pvt. Ltd. | - | - | 0.7 | 2.0 | 3.2 | 3.1 | 4.0 | 4.3 | 4.6 | 5.2 |
| DFM Foods | 0.9 | 1.4 | 1.9 | 2.1 | 2.2 | 2.2 | 2.0 | 2.1 | 2.3 | 2.7 |

Source: Euromonitor International, *Savoury Snacks in India*, 2017, accessed March 19, 2018.

EXHIBIT 9: BRAND SHARES VALUE 2014–2017 (%)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Brand** | **Company** | **2014** | **2015** | **2016** | **2017** |
| Haldiram | Haldiram’s Foods International Ltd. | 11.99 | 10.99 | 10.09 | 9.97 |
| **Balaji** | **Balaji Wafers Pvt. Ltd.** | **7.81** | **7.27** | **6.84** | **6.85** |
| Bingo! | ITC Ltd. | 5.60 | 5.96 | 6.08 | 5.78 |
| Yellow Diamond | Prataap Snacks Pvt. Ltd. | 4.02 | 4.33 | 4.64 | 5.25 |
| Britannia | Britannia Industries Ltd. | 5.57 | 5.22 | 5.05 | 5.11 |
| Parle | Parle Products Pvt. Ltd. | 5.54 | 5.47 | 5.12 | 5.02 |
| Lay’s | PepsiCo India Ltd. | 7.14 | 6.02 | 5.01 | 4.37 |
| Kurkure | PepsiCo India Ltd. | 4.13 | 3.98 | 3.65 | 3.08 |
| Crax | DFM Foods | 1.99 | 2.10 | 2.32 | 2.72 |
| Bikaji | Bikaji Foods International Ltd. | 2.61 | 2.46 | 2.37 | 2.43 |
| Bikano | Bikanervala Foods Pvt. Ltd. | 2.21 | 2.11 | 2.02 | 2.09 |

Source: Euromonitor International, *Savoury Snacks in India*, 2017, accessed March 19, 2018.

endnotes

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Balaji Wafers Pvt. Ltd. or any of its employees. [↑](#endnote-ref-1)
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