****

9B19M069

Natural Ice Cream: Professionalizing a family business

Tulsi Jayakumar wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author 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. Our goal is to publish materials of the highest quality; submit any errata to publishcases@ivey.ca. i1v2e5y5pubs

Copyright © 2019, Ivey Business School Foundation Version: 2019-07-17

In January 2018, Srinivas Kamath, the second-generation scion and director of Natural, an Indian family-managed ice cream business, was preparing for a meeting with Kishore Sharma, the general manager of the company’s retail operations. Natural was founded in 1984 by Kamath’s father, Mulky Raghunandan Kamath. The company’s registered name was Kamath Ourtimes Ice Cream Private Ltd., but it eventually became known as Natural, named after its popular brand of handmade artisanal ice cream—Natural Ice Cream.[[1]](#footnote-1) The Indian ice cream industry had been heating up with both the entry of foreign ice cream companies and the strategic acquisition of domestic ice cream companies by foreign companies.[[2]](#footnote-2) Kamath’s vision was to expand Natural from 30 cities in 2018 to 100 cities by 2020. He also planned to double the production capacity from 22.67 metric tons to 45.35 metric tons of ice cream per day. However, he believed that such growth of a family business would require hiring professionals (i.e., non-family members) into management roles, thereby leading to the professionalization of the business.

Kamath had initiated the journey toward professionalization in 2012, several years after his entry into the family business. Sharma, the 34-year-old general manager, was the first professional hired by the company. Sharma joined Natural in 2014, almost 30 years after the establishment of the business. Other professionals were hired later, as the company grew steadily between 2012 and 2018. However, Kamath sensed a gradual change in the culture of the company. Greater focus was being given to business values at the expense of the family values that his father had established, and he was not comfortable with this change. The meeting was called to discuss the path that the family business should take in its journey toward growth, transform the company into a high-performing enterprise, and address the challenges that were likely to be faced.

How would Natural’s normal operations have to evolve to meet the challenges of a growing company? With growing competition, how critical was professionalization to Kamath’s vision of Natural as a high-growth enterprise? What challenges were inherent in achieving that goal, and how could Kamath ensure it would be done successfully?

NATURAL

The story of Natural’s establishment was typical of many Indian family businesses. Natural was founded from an entrepreneurial streak in Kamath’s father, who combined his love for fruits with the passion for owning his own business. With no formal education or professional qualifications, Kamath’s father had moved to Mumbai at age 15 with his family. His eldest brother had started an *Udupi* restaurant in Mumbai called Gokul Refreshments, which served South Indian fast food and ice cream. Named after the city on India’s southwestern coast, Udupi restaurants were family businesses set up by migrants from Udupi, serving vegetarian food and employing extended family members or people from Udupi’s surrounding villages. The two brothers employed a younger brother and other family members to assist in the running of their restaurant.

Seeing that customers enjoyed the ice cream, Kamath’s father felt that the restaurant should move toward specializing and offering only ice cream, which would ensure a better quality and more consistent product. He also supported the hiring and managing of labour to grow the company. However, at the age of 15, his business ideas were not taken seriously by his seven older siblings, so he waited for an opportunity to put his ideas into practice. When he was offered a share in the family inheritance, Kamath’s father (who was by now in his early thirties and married) bargained for a lump sum of ₹0.1 million,[[3]](#footnote-3) instead of monthly instalments. However, with a vision to start an independent ice cream business, he knew that he needed far more than the inheritance as seed capital. His family members insisted that his business should follow the tradition of Udupi restaurants, but he was encouraged by his wife, Annapurna, to pursue his own vision. In 1984, after convincing his family of his business idea, he managed to raise an additional ₹0.3 million from friends and family and opened a small ice cream store in Juhu, an affluent area of Mumbai frequented by Indian film stars and wealthy business executives.

Starting as a sole proprietorship, the ice cream store gained great success due to the favourable location and a quality product that was new, unique, and based on natural fruit variants instead of the commonly available vanilla and chocolate flavours. In the 1980s, ice cream was still a luxury product in India, but word of mouth helped expand the business, increase production, and grow demand for the product.

At the time, the production staff and the front-end team consisted of extended family members, but a series of incidents in 1992–1994 cast serious doubts on that business model. One extended family member who was responsible for accounting and finance embezzled money from the company and used the funds to set up a competing ice cream parlour nearby. Around the same time, the lack of a consultant or chartered accountant who could provide professional tax advice to ensure compliance with India’s taxation laws resulted in a costly mistake. In 1994, a tax audit resulted in the loss of all gains that had been earned over the previous decade.

Kamath’s father decided to start fresh. The first step was the conversion of the sole proprietorship business to a private limited company, which offered several key advantages including limited liability,[[4]](#footnote-4) improved business credibility by being registered with the Ministry of Corporate Affairs, flexibility to pursue multiple opportunities, and the option of a business succession plan. It also enabled the option of taking the business international. Foreign direct investment of up to 100 per cent of the company was allowed without prior government approval, but only if the business was a private limited company. Such a business form also helped to attract and retain talent because only private limited companies and limited companies could offer stock ownership and employee stock option plans to employees. A sole proprietorship could not issue equity shares, thus depriving the business of an important source of funding. However, a private limited company could use all four forms of funding to grow the business: self-funding, funding from friends or family, debt financing, and equity funding.[[5]](#footnote-5)

Kamath’s father set up a medium-scale production unit, which meant a new set of legal requirements for compliance. The business came under the purview of the Factories Act, 1948, and other Indian government regulations. For example, the Food Safety and Standards Authority of India required that at least three microbiologists be employed in the factory. Similarly, there were regulatory requirements for maintaining a quality control department, a doctor, and a separate in-house laboratory. Compliance structures pertaining to taxation also increased, with the company having to pay sales tax, excise tax, value-added tax, and income tax. Professionals were hired in various operational roles, including microbiologists, doctors, secretaries, and advisers, but the question was always the same: “Do we know someone from the extended family and relatives circle who can do this for us?”

Kamath’s father had by that time also decided to expand the business through franchising while retaining the core manufacturing operations. Franchisees would own and manage the stores while the product would be supplied by Natural. Essentially, franchisees were resellers who bought product from the parent company and sold it at a 35–40 per cent margin, under the brand name Natural. The first five outlets were opened in Mumbai in 1994, catering to high demand for ice cream. More outlets were opened later as the company’s management and growth increased steadily until 2007, when Natural reached a total of 59 stores (see Exhibit 1). The first set of franchisees were suppliers or people with whom Kamath’s father had shared business interests, whereas later franchises were awarded to extended family members, as well as friends and neighbours from the family’s village and community. Trust was an important factor in the awarding of franchises.

PROFESSIONALIZATION AT NATURAL

Initial Need and Baby Steps

Kamath entered the family business in 2009, after completing a management program specifically for family business scions. At the time, the company had 30 workers in the factory, and six family members were part of the management team (see Exhibit 2). After a smooth process for Kamath’s induction to the business, he was given independent responsibility for the business’s retail department. Kamath’s dream was for Natural to become a global brand through scaling up its production capacity and marketing networks. He aspired to displace the competition, which consisted of multinational brands such as Baskin-Robbins and Hindustan Unilever Ltd.’s Kwality Wall’s and domestic brands such as Vadilal. However, he was soon exposed to both the merits and challenges of running a family business, as he explained:

When I joined, everyone seemed to be doing everything. There was lack of accountability and predictability. If I sought someone’s help on a particular day, I didn’t know whether he would be there the next day for me, so I couldn’t blame anyone but myself. The sense of ownership was so strong, however. Everyone felt it was their organization.

Despite his status as co-owner, he found it challenging to maintain hierarchy over other family members who were directly involved in running the business, even if he felt he could introduce a more efficient process. “How could I advise, let alone command, my paternal or maternal uncle who had been with my father for the last 25 years in the business, and who still saw me as a child?” stated Kamath.

He soon realized that his dream to transform Natural into a national and global brand would be impossible without a change in the nature of the company from an entrepreneurial management style to a professionally led management team. The organization would have to be transformed from a personality-based organization, operating through trust-based systems, to a process-driven organization, with formal systems and processes. The centralized decision-making and paternalistic culture would also have to be replaced by decentralized decision-making, delegation, strategic planning, and control mechanisms. Finally, a merit-based system of reward and recognition would have to be introduced.[[6]](#footnote-6)

Kamath attributed the hiring of a secretary in the company’s office in 2012 as the first real step toward professionalization. This hiring was in addition to the engineers and maintenance team that had to be recruited in the factory for compliance purposes. With demand for ice cream growing during that time, the office was swamped with calls, as Kamath recalled: “From Miss World to the Underworld, we were receiving calls from everyone . . . for ice creams.”

Then, franchisees began calling, as did customers. A dedicated person was needed to receive and coordinate calls among the top management team, which by that time included Kamath, his father, and his cousin Girish Pai. Having someone handle all calls allowed the management team to devote time to more strategic activities. However, the company’s professionalization was not driven by strategic considerations; it was done merely for the sake of convenience or fulfilling compliance requirements.

Natural grew from 59 stores (across Mumbai, Pune, and Ahmedabad) in 2009 to 105 stores in 2012, with all but one (in Juhu) being franchises. Revenues had increased to ₹527 million by that time, while the company was earning net profits (after tax) of ₹11.55 million (see Exhibit 3).

Kamath employed a retail auditor to audit the growing number of franchise outlets for quality, but he soon realized that the auditor, who had no hospitality background, was unable to ensure service quality. Kamath also discovered a major flaw in the business: the product quality was excellent, and customers were extremely satisfied with the ice cream, but the quality of service was not at the same level in the franchisee-run outlets. Kamath received and monitored customer feedback via email, which often cited poor service delivery and apathy among the franchise outlet staff (see Exhibit 4). He realized that the franchisees had little control over their employees, did not share the brand vision of the parent company, and tended to blame customers and employees for problems. His attempts to instill a consistent service experience across all outlets also proved unsuccessful, judging from the responses from franchisees:

Staff is not available. Let us not try to achieve too much with them. What if they leave. . . . Nobody wears uniforms. If we give them uniforms, they will run away with it. Customers drink and create so much ruckus. Then they blame us for poor service quality. Our employees really try hard, you know.

Kamath realized that the brand was being negatively affected, so he appointed a training manager to improve the skills of franchise employees. Store owners were warned to improve service quality or face termination of contracts. In 2013, when two store owners failed to comply, Kamath had no choice but to terminate their franchises, one of which was among the top five revenue-generating stores, located in Vile Parle, a prime location in Mumbai. The termination of a top franchise store proved to be the inflection point in Natural’s journey toward professionalization.

The Vile Parle Store

The termination of the Vile Parle franchise was a major loss in revenue and prime location for the business, but Kamath found a way to mitigate the impact. Having started a change toward service excellence, he decided that new organizational capabilities would be required to stave off the growing competition in India at the time. He therefore suggested opening a company-owned store in Vile Parle managed by hired professionals. Kamath’s idea was met with great resistance from his father, who believed that Natural’s core strength was manufacturing and that new retail outlets should therefore not be opened. He was averse to dealing with dishonest staff, local municipal authorities, the police, and multiple other stakeholders. The new store would divert their attention and focus from manufacturing, he believed, and it would tie up large amounts of capital, with Mumbai’s real estate prices being among the most expensive in the world.

Kamath’s father also feared that opening retail outlets involved various negative results. First, the labour requirements for a new business would include hiring people from outside the close family circle. Second, the new generation of family management members, including Kamath and his younger brother Siddhant, would be lured by the promise of retail and would no longer spend time in the grimy and less glamorous factory shop floor, which would mean that the family business would suffer. Third, working at the retail outlets would mean long hours, with stores in Mumbai operating until midnight, which would mean that Kamath and his brother would spend all of their time in the retail outlet and away from spending quality time at home. Kamath’s father also questioned tampering with a winning formula of selling through franchises.

Kamath put all apprehensions to rest by explaining to his father how he would run the company-owned store. It would be almost like having a franchisee invest the capital but follow a hands-off policy. However, the difference would be that the store would be run professionally, which marked the first time that Kamath used the word “professional” in the explanation of his vision to his father:

I will not get family members to run the store. I shall hire people from outside the family, based on merit. I shall first hire a store manager, who will be our brand ambassador. He will be the one who will manage our pain points, ensure standards, have the responsibility to hire and fire staff, give instructions to employees, and also give us reports.

Traditionally, the store manager of a franchise outlet was merely a cashier, with the sole responsibility of billing and collecting payments. Using the McDonalds framework as his model for professionalizing Natural outlets, Kamath envisioned uniformed, clean-shaven employees running the outlets and the store manager running the store.

Kamath’s father eventually agreed to opening the new store but insisted that the store manager should be a family member. Like most Indian businesses at the time, Natural dealt mainly in cash. Therefore, the person responsible for receiving payments would have to be honest and trustworthy, which were values that only family members could possess, according to Kamath’s father. Discussions continued, with neither side willing to give up their positions.

Kamath’s mother, Annapurna, and his cousin Girish Pai, played important roles as mediators during this difficult phase. Annapurna reminded her husband about his own struggles to set up the ice cream business and the family opposition he had faced. She wanted him to give their son a chance to pursue his dreams. Her husband had involved her in almost all business decisions since the start.

Girish Pai had been working closely with Kamath’s father for 20 years and was a mentor to Kamath, despite being close in age to him. He was aware of the opposing positions between the father and the son on the matter of starting a new company-owned outlet. When Kamath’s father sought Girish Pai’s advice, he diplomatically assured the father that he supported Kamath’s plan. The maximum loss would be restricted to the new store. At worst, the store would close, or someone else would run it for them. He reminded Kamath’s father of the bigger losses they had endured in 1994 and assured him that they would be able to manage any problem after that experience. Moreover, with Kamath’s younger brother Siddhant preparing to join the family business, they would be in a better position to handle the risks of the new venture. Kamath’s father had no choice but to agree to follow his son’s judgement.

Kamath prepared a job description for the new store manager position (see Exhibit 5). He intended to create a set of processes to prevent cheating or embezzling of funds. Siddhant, who had joined the business after finishing a degree in hospitality management, was tasked with creating a training manual for the softer skills required in the hospitality business, which could be used in the retail store. This would mitigate the apprehensions of Kamath’s father regarding non-family members’ lack of customer centricity. The hiring of professionals would free up time and allow both Kamath and Siddhant to concentrate on the core manufacturing business. Kamath created a manual for best practices for the new Vile Parle store, drawing on what he had learned from some of the most successful franchise outlets.

An important element of the manual was to get employees to rotate jobs, rather than staying within their comfort zones. Therefore, it was decided that store managers would keep their position for a maximum of one year, within which time they would find a replacement and groom a new junior staff employee. The manager would then move on to other, more challenging assignments.

Following his strategic vision, Kamath hired Viren Narvekar as the professional manager for the new store. Narvekar had previously worked on a cruise ship but had no experience working in a retail store. He had responded to Natural’s newspaper advertisement for the position, and the hiring interview was conducted by Kamath, his father, and Girish Pai.

The Interview

In its professionalization journey, a typical family business had to reconcile the founder’s need for family values with the pure business need for financial success. Although financial success was more likely achieved using business values, family businesses tended to prioritize moral and social values.[[7]](#footnote-7) Family values included reputation, fairness, hard work, humility, discipline, commitment, harmony, long-term orientation, and customer service, whereas pure business values emphasized business competence, innovation, empowerment, efficiency, performance, and teamwork.[[8]](#footnote-8)

While pursuing management studies, Kamath had learned that family business values were more human, emotional, and fundamental, compared to those of a traditional business, which were more transactional, impersonal, and driven by business outcomes.[[9]](#footnote-9) He also learned that the founder’s values, beliefs, and assumptions often guided employees, who learned by observing what was important to the founder.

During the interviewing process for the position of the Vile Parle store manager, Kamath’s father insisted that a candidate with the right fit in terms of moral and social values should be hired. Therefore, he quizzed Narvekar on his experience—but even more on his family and familial relationships. Narvekar was eventually shortlisted from among several candidates because of his positive attitude and what seemed to be a tendency toward humility, hard work, and honesty. Kamath supported his father’s choice of candidate.

The experiment proved successful. Sales improved within a couple of months of the Vile Parle store opening and returned to normal within three months. Kamath felt that he could now insist on all franchises adopting similar training standards for their employees, as had proved successful in the Vile Parle outlet. Customer complaints dropped, and Kamath spent less time at the retail outlet, focusing more on manufacturing, which pleased his father.

Kamath Natural Retail Private Limited

The success of the professionally managed Vile Parle outlet in 2013–2014 started the next round of professionalization. To separate the manufacturing from the retail functions, Kamath suggested that a wholly owned subsidiary of the parent company was required. The new company would be called Kamath Natural Retail Private Ltd., and professionals would be hired for front-end and sales positions. The production and administration teams would be separated from those functions and would be managed by the parent company, overseen by Kamath’s father. The parent company would continue to be dominated by extended family and community members. Kamath worried that the parent company staff and professional retail recruits would find it difficult to work together because of their different backgrounds and the high profile of the retail division. Therefore, he felt that separating the two areas was a step in the right direction.

Kamath was also considering expanding Natural into the north of India. Delhi, India’s capital city, was the chosen destination. He decided to recruit a senior manager from Delhi before actually opening the new store so that Kamath could introduce the new employee to the team. The manager would be responsible for the entire process of setting up a new outlet from the start. Sharma was hired in July 2014, three months before the opening of the first Delhi outlet in the upscale location of Greater Kailash II. A second store opening was planned for December 2014, about two months later, in Delhi’s Connaught Place. This time, the hiring interview was conducted by only Siddhant and Kamath, without his father as part of the selection and hiring process.

Sharma was a professional with experience in the quick service restaurant segment, having worked with established and reputed multinational brands. Sharma was eager to work with the family brand and to help build the family’s vision. Kamath was drawn to Sharma’s knowledge, experience, and people skills. Sharma had worked his way up from serving tables at McDonald’s to district manager at Domino’s Pizza. He was humble and grounded, and yet showed that he could be aggressive in his drive. His story reminded Kamath of his father’s journey in the industry.

Hiring professionals in family businesses had its own set of challenges, however, as Kamath realized. Sharma had questions about whom he would be reporting to, what his growth path would be, what his career prospects would look like, and the amount of freedom he would enjoy. Kamath could see that Sharma would not be a pushover and that he would leave the company if he was not treated well. His father was quick to warn Kamath about potential issues: “This is a mistake you are making. Professionals are merely high maintenance people with little or no commitment to the customer.” However, Kamath proceeded to hire Sharma and spent three months with him planning for the two new outlets in Delhi, including renting space, getting the requisite approvals, hiring and training staff, and setting up systems and processes.

Kamath’s dream of professionalizing the company, however, soon suffered its first setback. Two weeks before the opening of the first outlet in Delhi, Sharma announced that he was leaving to pursue the goal of opening his own restaurant. He promised, however, to help get the first Delhi outlet started, and would then leave a month later. He also promised to continue the process of training the staff for both Delhi outlets. Kamath agreed and asked Narvekar, the Vile Parle store manager, to manage the Delhi outlet until a replacement was found. Although Narvekar seemed overwhelmed by the opportunity and the trust placed on him, he was able to handle the new assignment successfully. Soon, a new store manager was interviewed and selected for the outlet at Connaught Place.

Interestingly, one morning in early December 2014, Kamath received a call from Sharma explaining that his attempt to open his own restaurant had failed, and Sharma asked for his old job back. Kamath agreed to take Sharma back, despite his father’s extreme skepticism, and placed him at a level above the second manager. Kamath reasoned that Sharma’s expertise in operations would be complemented by the second manager’s human resources training and that some slack in the system was always desirable when pursuing a growth strategy. The Delhi outlets were extremely successful, and soon Natural was the highest-rated restaurant by Zomato[[10]](#footnote-10) among 10,000 restaurants in Delhi.

MARKET SCENARIO IN 2018

The ice cream market in India was going through a transformation stage. Ice cream sales had grown from 179.6 million litres in 2011 to 333.4 million litres in 2016 and were expected to double by 2021.[[11]](#footnote-11) India had emerged as the fastest-growing ice cream market in the world, growing at a compound annual growth rate of 13 per cent in 2017, even as markets in Europe and the United States were shrinking from people reducing their sugar consumption. Competition was growing in the market with the presence of domestic brands such as Vadilal and Havmor, Indian multinational brands such as Kwality Wall’s and Cornetto, and foreign brands such as London Dairy and Häagen-Dazs (see Exhibit 6).

In November 2017, South Korean Lotte Confectionery acquired Havmor for a staggering valuation of 2.5 times the company’s financial turnover of ₹4 billion. Analysts were predicting more such acquisitions, while a domestic ice cream manufacturer offered to sell the brand to the right investor.[[12]](#footnote-12) It was clear that Natural could not afford to be complacent. Professionalization could help Natural facilitate growth in such a complex and competitive environment and help raise funds from banks, through private equity, or in public equity markets.[[13]](#footnote-13)

By 2018, the company had established 128 stores, of which 13 were company owned, and had achieved sales of ₹1.289 billion (see Exhibit 3). It had established a footprint in 30 Indian cities and had a 2 per cent market share in the general ice cream industry, despite being an artisanal ice cream brand. After setting up the third store in Delhi, Sharma was made general manager of the company’s retail operations and given the task of bringing the franchises in line with the company’s vision. Kamath believed in the three Rs as the mantra for successful professionalization: role clarity, rewards, and returns (in terms of personal growth). He had applied this mantra with some success with respect to Sharma and other professional managers at Natural.

The business had been growing by leaps and bounds, but was it growing too big too fast?[[14]](#footnote-14) Recent professional manager recruits were sophisticated, aggressive, and competent, but they lacked the friendliness and warmth of the staff in the Juhu outlet. Natural outlets were managed by professional store managers and their recruited staff, but Kamath perceived a lack of ownership, which his father stressed was so important. Kamath felt that something was missing. Was the charm of “the local parlour with a heart” being lost? Was the company becoming one of the multinational ice cream stores that Natural had set out to displace through professionalization?

Kamath wondered if it was time to revisit Natural’s professionalization journey and concentrate on building a next generation of professionals who shared the values of the family business, even at the cost of sacrificing some growth in the short term. Would such values help generate growth and preserve the family business across multiple generations, disproving the pessimist adage “shirtsleeves to shirtsleeves in three generations?”[[15]](#footnote-15) Could Kamath manage to transform Natural into a high-growth company through recruiting and managing professional talent more effectively? Kamath pondered all of these thoughts as he waited to discuss these issues with Sharma.

EXHIBIT 1: NATURAL SALES AND STORES, 1994–2018

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Sales (in ₹ Million)** | **Stores** | **Company-Owned Stores** |
| 1994 |  | 5 | 1 |
| 2007–08 | 188 | 54 | 1 |
| 2008–09 | 232 | 59 | 1 |
| 2009–10 | 283 | 70 | 1 |
| 2010–11 | 403 | 92 | 1 |
| 2011–12 | 527 | 105 | 1 |
| 2012–13 | 653 | 112 | 1 |
| 2013–14 | 721 | 116 | 1 |
| 2014–15 | 878 | 120 | 3 |
| 2015–16 | 1,065 | 123 | 6 |
| 2016–17 | 1,138 | 124 | 9 |
| 2017–18 | 1,289 | 128 | 13 |

Note: ₹ = INR = Indian rupee; US1 = ₹63.83 on January 1, 2018.

Source: Company documents.

EXHIBIT 2: NATURAL ORGANIZATIONAL STRUCTURE up To 2009 (TOP MANAGEMENT)

Source: Company documents.

EXHIBIT 3: Kamath Ourtimes Ice Creams Private Ltd. (NATURAL) FINANCIAL STATEMENTS: 2011–2012 and 2017–2018

**Profit and Loss Statement for the Year Ended March 31, 2012 (in ₹ Million)**

|  |  |  |
| --- | --- | --- |
|  | **PARTICULARS** | **2011–2012** |
| a. | Revenue from Operations | 527.01 |
| b. | Other Income | 0.05 |
| c. | **TOTAL REVENUE** | 527.07 |
|  | **EXPENSES** |  |
|  | Cost of Materials Consumed | 344.79 |
|  | Changes in Inventories of Finished Goods, Work-in-Progress and Stock-in-Trade | −5.58 |
|  | Employee Benefit Expenses | 23.71 |
|  | Finance Costs | 22.47 |
|  | Depreciation and Amortization Expenses | 23.81 |
|  | Other Expenses | 71.59 |
| d. | **TOTAL EXPENSES** | 480.79 |
| e. | Profit before Exceptional and Extraordinary Items and Tax (c minus d) | 46.27 |
| f. | Exceptional Items |  |
| g. | Profit before Extraordinary Items and Tax (e minus f) | 46.27 |
| h. | Extraordinary Items |  |
| i. | Profit before Tax (g minus h) | 46.27 |
| j. | Tax Expense |  |
|  | 1. Current Tax | 13.44 |
|  | 2. Deferred Tax | 20.99 |
|  | 3. Earlier Years | 0.29 |
| k. | Profit (Loss) from the Period Due to Continuing Operations (i minus j) | 11.55 |
| l. | Profit (Loss) from Discontinuing Operations |  |
| m. | Tax Expense of Discontinuing Operations |  |
| n. | Profit (Loss) from Discontinuing Operations (after Tax) (l minus m) |  |
| o. | Profit (Loss) for the Period (k minus n) | 11.55 |
| p. | Earnings per Equity Share | 462 |
|  | Basic |  |
|  | Diluted |  |

Exhibit 3 (continued)

Profit and Loss Statement for the Year Ended March 31 (in ₹ Million)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Particulars** | **April 1, 2017–March 31, 2018** | | | **Particulars** | **April 1, 2017–March 31, 2018** | | |
| Opening Stock |  | 41 | 3.15% | Sales Account |  | 1,289.60 | 100% |
| Finished Goods | 4.65 |  |  | Sales Local | 818.34 |  |  |
| Packing Materials | 6.07 |  |  | Sales (Outside Maharashtra Sales) | 532.32 |  |  |
| Work-in-Progress Pouch | 13.40 |  |  | Discount on Sales | (–) 62.26 |  |  |
| Raw Materials | 16.49 |  |  | Other Support Service | 0.84 |  |  |
|  |  |  |  | Sales of Staff Uniforms | 0.36 |  |  |
| Purchases |  | 859 | 66.63% |  |  |  |  |
| Cost of Materials Consumed | 818.94 |  |  | Direct Incomes |  |  |  |
| Purchase (Central State Tax) | 40.92 |  |  |  |  |  |  |
| Purchase (Unregistered Dealer) | 0.23 |  |  | Closing Stock |  | 80,541.14 | 6.24% |
| Transition Credit | −0.87 |  |  | Finished Goods | 5.71 |  |  |
|  |  |  |  | Packing Materials | 16.85 |  |  |
| Direct Expenses |  | 82.69 | 6.41% | Work-in-Progress Pouch | 25.92 |  |  |
| Manufacturing Expenses | 55.77 |  |  | Raw Materials | 32.03 |  |  |
| Wages and Other Expenses | 19.97 |  |  |  |  |  |  |
| Staff Uniforms | 3.14 |  |  |  |  |  |  |
| Transport Charges, Inward | 0.51 |  |  |  |  |  |  |
| Transport Charges, Reverse-Charge Mechanism, Inward | 3.31 |  |  |  |  |  |  |
|  |  | 387.59 |  |  |  |  |  |
| **Gross Profit** |  | **1,370.11** | **30.05%** | **Gross Profit** |  | **1,370.11** | **30.05%** |
| Indirect Expenses |  | 256.42 | 19.88% | Indirect Income |  | 18.21 | 1.41% |
| Administrative and Other Expenses | 185.82 |  |  | Discounts Received | 0.08 |  |  |
| Interest and Financial | 25.69 |  |  | Dividend and Interest Received | 16.14 |  |  |
| Selling and Distribution | 43.86 |  |  | Miscellaneous Income | 0.40 |  |  |
| Ineligible Input Credit | 0.50 |  |  | Rent Income | 1.59 |  |  |
| Loss of Sale on Asset | 0.56 |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| Net Profit |  | 149.38 | 11.58% |  |  |  |  |
|  |  |  |  |  |  |  |  |
| **Total** |  | **405.80** |  |  | **Total** |  | **405.80** |

EXHIBIT 3 (Continued)

**Balance Sheet on March 31 (in ₹ Million)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Input Parameters** | **2011–2012** | **2016–2017** | **2017–2018** |
| a. | Current Assets (b + c + d + e + f) | 82.32 | 336.71 | 266.06 |
| b. | Inventory | 11.79 | 40.62 | 45.96 |
| c. | Trade Receivables | 56.25 | 10.70 | 11.20 |
| d. | Cash and Cash Equivalent | 0.12 | 271.58 | 62.11 |
| e. | Short-Term Loans and Advances | 0.78 | 0.70 | 50.09 |
| f. | Other Current Assets | 13.38 | 13.11 | 96.70 |
|  |  |  |  |  |
| g. | Fixed Assets (h + i + j + k) | 309.26 | 525.79 | 970.59 |
| h. | Tangible and Intangible Assets | 285.01 | 263.79 | 719.00 |
| i. | Non-current Investments | 0.21 | 10.71 | 10.71 |
| j. | Long-Term Loans and Advances | 24.05 | 130.68 | 240.88 |
| k. | Capital Work-in-Progress |  | 120.61 | 0.00 |
| l. | **Total Assets (a + g)** | **391.58** | **862.50** | **1236.65** |
|  |  |  |  |  |
| m. | Shareholders Fund (n + o) | 184.24 | 573.05 | 683.11 |
| n. | Share Capital | 2.50 | 2.50 | 2.50 |
| o. | Reserves and Surplus | 181.74 | 570.55 | 680.61 |
|  |  |  |  |  |
| p. | Non-current Liabilities (q + r + s) | 87.09 | 151.05 | 475.51 |
| q. | Long-Term Borrowings | 60.56 | 122.16 | 475.51 |
| r. | Deferred Tax Liability | 24.95 | 25.18 | 0.00 |
| s. | Other Long-Term Liabilities | 1.58 | 3.71 | 0.00 |
|  |  |  |  |  |
| t. | Current Liabilities (u + v + w + x) | 120.25 | 138.40 | 78.04 |
| u. | Short-Term Borrowings | 82.68 | 27.23 | 0.00 |
|  |  |  |  |  |
| v. | Trade Payables | 12.16 | 25.03 | 28.62 |
| w. | Short-Term Liabilities | 9.34 | 13.20 | 21.57 |
| x. | Short-Term Provisions | 16.07 | 72.94 | 27.85 |
|  |  |  |  |  |
| y. | **Total Equities and Liabilities (m + p + t)** | **391.58** | **862.50** | **1236.65** |

Source: Company documents.

EXHIBIT 4: CUSTOMER COMPLAINT about a NATURAL FRANCHISES

|  |
| --- |
| Customer Complaint 1:  Dear Sir/Madam,  I visited your \_\_\_\_\_\_\_\_\_\_ retail store last Saturday (March 6th) at around 6:30 PM. When I walked into the store it was hot inside, felt like an oven. The store was also empty with no customers. I walked up to the counter and while we were getting ready to decide on our order, I enquired if the AC was working.  The young man working behind the counter pointed to the AC machine and said it was working. Clearly it wasn't, otherwise the store couldn't have been that hot. The manager also made no move to be responsive to my complaint. I had to then literally push them to get them to start the fan. Seems like your staff is not trained on how to give customer complaints priority and be responsive. Instead they just stood behind the counter pointing to the green light on the AC machine. Your attendant was also brusque in his behaviour.  I had with me that day an Amul executive who I had told about the good quality of Natural’s products. He smiled the whole time while this episode was going on and then told me later that Amul has similar products (ice creams) AND better service.  You should realize that in today's competitive marketplace customers have several choices when it comes to them spending their money on ice creams. Though you have a good product you will not compete successfully unless you also have first-class service to go with your product.  I suggest you enquire into this incident with the \_\_\_\_\_\_\_\_\_\_ store and teach your store managers and staff about putting the customer first always.  I look forward to email updates regarding actions the company is taking on this incident and furthermore what actions Natural will be taking to improve customer experience at the \_\_\_\_\_\_\_\_\_\_ store in [the] future.  Thank you.  Sincerely, |

Source: Company documents.

EXHIBIT 5: JOB DESCRIPTION For STORE MANAGER (2013)

|  |
| --- |
| Summary  The Restaurant Manager is the HEAD of the store. Generally, he/she is the Restaurant’s image with regards to its performance, its viability and its profits. The Restaurant Manager is the Leader. At the time of audit, he/she is solely responsible for the consequences and outcomes derived from the report. He/she acts as a mediator between the customer and the company.  Essential Functions  Primary   * Have fun at work and ensure that you and your team deliver great service. * Welcome and thank every customer with a smile. * Make sure staff scoops ice cream with love.   Employee supervision and management   * Hire and fire employees. * Making sure all employees, at the time of working, are well groomed. (Hair nicely cut, nails short and trim, clean-shaven, uniform neat and tidy, nametag and shoe polished.) * No employee should have religious and sentimental bands and marks (tikka), jewelry, nail polish etc. * All employees at the time of working should be wearing caps and hand gloves. * Preparing weekly/monthly roster and making sure the same are followed. * Conducting training sessions – hygiene, grooming, product awareness, customer relation and compliance. * Taking note of employee grievances and needs. Making decisions to value employee relationship with the company. * Maintaining database of employees (name, address, telephone number, proof of address and other verifications, one passport size photo). * Maintaining attendance register for administrative and payroll purposes. * Motivate and inspire staff. * Train, coach all employees on procurement of product, serving the product, cashiering, and daily clerical work. * Problem solver and use good sense of judgment.   Inventory Control   * Maintain and monitor daily inventory sheet checklist. * Monitor that all staff fills the daily inventory sheet and gives handover accordingly. * Maintain an adequate inventory supply to prevent a depletion of resources (cups, cones, spoons, napkins, menu, flyers, posters and danglers). * To order ice cream using Enterprise Resource Planning (ERP) system on time. * To check whether all stock is maintained through *First In First Out* (FIFO) methods. * Order adequately and avoid over and under ordering. |

EXHIBIT 5 (Continued)

|  |
| --- |
| Regulatory Compliance  The store manager should maintain and monitor forms such as the following:   * Shift Opening Checklist * Shift Closing Checklist * Cash Reimbursement Form * Maintenance Form * Daily Inventory Sheet - Ice cream * Daily Inventory Sheet - Equipment * Attendance Register * Daily Grooming Checklist * Product Handling Checklist * Shift In charge log book * Incident Report * Budget Voucher * Customer Feedback Form * Database of all staff * Database of all customers * Financial Report * Ordering Report * Weekly/monthly Roster   All the necessary licenses should be maintained.  Display shop and establishment act license. |

Source: Company documents.

**EXHIBIT 6: MARKET SHARE OF INDIAN ICE CREAM IN 2017**

Source: Ratna Bhushan, Shramana Ganguly, and Sagar Malviya, “How Indian Ice Cream Brands Are Adopting Coolest Strategies as Competition Heats Up,” *Economic Times*, December 12, 2017, accessed November 23, 2018, https://economictimes.indiatimes.com/industry/cons-products/food/how-indian-ice-cream-brands-are-adopting-coolest-strategies-as-competition-heats-up/articleshow/62028500.cms.

1. Artisanal ice cream refers to ice cream made in small batches, with local hand-picked fruits and other ingredients. [↑](#footnote-ref-1)
2. Ratna Bhushan, Shramana Ganguly, and Sagar Malviya, “How Indian Ice Cream Brands Are Adopting Coolest Strategies as Competition Heats Up,” *Economic Times*, December 12, 2017, accessed November 23, 2018, https://economictimes.indiatimes.com/industry/cons-products/food/how-indian-ice-cream-brands-are-adopting-coolest-strategies-as-competition-heats-up/articleshow/62028500.cms. [↑](#footnote-ref-2)
3. ₹ = INR = Indian rupee; all currency amounts are in ₹ unless otherwise specified; US$1= ₹63.83 on January 1, 2018. [↑](#footnote-ref-3)
4. With limited liability, only the owner’s business assets, rather than personal assets, were at risk in case of financial loss. [↑](#footnote-ref-4)
5. Lionel Charles, “7 Reasons to Opt for a Private Limited Company,” *YourStory*, July 3, 2015, accessed November 1, 2018, https://yourstory.com/2015/07/private-limited-company/. [↑](#footnote-ref-5)
6. John L. Ward, *Perpetuating the Family Business: 50 Lessons Learned from Long-Lasting, Successful Families in Business* (Houndmills, UK: Palgrave Macmillan, 2004). [↑](#footnote-ref-6)
7. Ritch Sorenson, “How Moral and Social Values Become Embedded in Family Firms,” *Journal of Management, Spirituality and Religion* 10, no. 2 (2013): 116–137. [↑](#footnote-ref-7)
8. Manuel Carlos Vallejo-Martos, “Institutionalism and the Influence of the Cultural Values of the Family Subsystem on the Management of the Small-Medium Family Firms,” *Systems Research and Behavioural Science* 33 (2016): 119–137. [↑](#footnote-ref-8)
9. Josep Tàpies and John L. Ward, *Family Values and Value Creation: The Fostering of Enduring Values within Family-Owned Businesses* (New York, NY: Palgrave McMillan, 2008). [↑](#footnote-ref-9)
10. Zomato was a restaurant search and discovery platform based in India that provided in-depth information for over one million restaurants across 23 countries. Consumers used Zomato globally to discover, rate, and review restaurants, as well as to create their own personal networks of fellow food enthusiasts for trusted recommendations. “Our Mission Is to Ensure that Nobody Has a Bad Meal,” Zomato, accessed November 28, 2018, www.zomato.com/about. [↑](#footnote-ref-10)
11. Maria Thomas, “In Hot and Humid India, the Growth in Ice Cream Sales Is Outpacing the Rest of the World,” *Quartz India*, July 10, 2017, accessed November 25, 2018, https://qz.com/india/1024565/in-hot-and-humid-india-the-growth-in-ice-cream-sales-is-outpacing-the-rest-of-the-world. [↑](#footnote-ref-11)
12. Bhushan, Ganguly, and Malviya, op. cit. [↑](#footnote-ref-12)
13. Alex Stewart and Michael A. Hitt, “Why Can’t a Family Business Be More Like a Nonfamily Business? Modes of Professionalization in Family Firms,” *Family Business Review,* 25, no. 1 (2012): 58–86. [↑](#footnote-ref-13)
14. Vikram Bhalla and Christian Orglmeister, “A Founder’s Guide to Professionalizing a Family Business,” Boston Consulting Group, September 6, 2017, accessed November 25, 2018, www.bcg.com/en-in/publications/2017/family-business-people-organization-founders-guide-professionalizing-family-business.aspx. [↑](#footnote-ref-14)
15. This proverbial adage implied that wealth earned in family businesses by the first generation would be lost by the third generation. Augusta Dwyer, “Why Wealthy Families Lose Their Fortunes in Three Generations,” *The Globe and Mail*, January 26, 2017, accessed February 13, 2019, www.theglobeandmail.com/globe-investor/globe-wealth/eroding-family-fortunes-how-the-cycle-can-be-broken/article33757468. [↑](#footnote-ref-15)