

### **Alpha Paint and Chemical Industries Ltd**

Color symbolizes the imagination of people and paint gives color to the dreams of people in different objects like houses, furniture, car etc. People imagine colors and companies manufacture these colors and give it to people at an affordable price. With the vision to fully manufacture paints in this country, Alpha Paint & Chemical Industries Ltd. was established in 1952 by Mr. MK Barua Ahmed. Its objective was to produce quality paints that will satisfy not only local market but also the foreign markets. They will make environment friendly paints that will harm the environment less. It is deemed as an import substitution. It was incorporated in 1952 as a private limited company.

**The structure of the company is as follows:**

Mr. Mahmud Chow	Chairman
Mr. Karim Chow	Vice Chairman
Mr. Mk Barua	Managing Director
Mr. Rasel Chow	Director
Mr. Harun Chow	Director

**The following table shows the partial balance sheet of the company for the year 2013-2014:**

<b>Particulars</b>	<b>BDT in Crore ( Approx)</b>
Short term assets	250
Long terms assets	800
Short term liabilities	200
Long term liabilities	500
Owner's equity	350

Alpha paint has adequate plant & machineries. The machines are basically of mixing machines of different raw materials and the quality of paint largely depends upon the spinning magnitude of these machines at various production stages. The company has power generator, modern testing equipment & software, strong quality control department, fork lift etc. The capacity currently is 61000 liters of different paints and it is using only 40% of its production capability.

What Alpha Paint does is mainly imports different raw materials from abroad and mixes these in right proportion in the right spinning and produces paint. The main raw materials are Resin, Titanium Di Oxide & Emulsion. These are imported from different countries like Germany, India, and China etc. Most of the packing materials are locally collected and managed.

At first a base is prepared with different chemicals and the viscosity, opacity, coverage, price, right formulation is gauged with the help of a unique software. This base is then prepared practically at R & D department and after successfully preparing, the right pigment is used to get the shade. If this is successful then the formula is sent to the production department to produce the product in batch wise. Then the products are made, packaged and sent to the warehouse located in GEC, Chittagong. From there the paints are distributed throughout the Bangladesh by 10 distribution points. The dealers collect their ordered paints from these points.

To create better demand for their products, Alpha Paints hangs bill boards at premium locations, TVC is built but mainly their selling technique is direct marketing. Their staffs go to different dealers, corporate houses, real estate firms and sell directly to them. The cash is normally collected after one month. By this method once Alpha Paint became the market leader but recently it has been relegated to the 5<sup>th</sup> position with a market share of only less than 5% (Approximately) in a BDT 2200 crore market size in Bangladesh. Berger, Asian Paints have taken the lion share of the market. Consumer taste is changing and Alpha is unable to understand that changes and thus they are facing strong pressure from the competitors.

It is researched that paint industry increases at least two times of the GDP growth of a country. So Alpha should have sales growth of at least 12% with the current effort. But in reality it faced sales decline and decreased profit. Its cost of goods sold also increased. Their cash operating cycle increased from 62 days to 90 days recently that shows their poor cash recovery management.

Following is a two year financial statement of Alpha Paint & Chemical Industries Ltd:

<b>Particulars</b>	<b>2013-2014</b>	<b>2012-2013</b>
Sales	120 Crore	200 Crore
Total Assets	1050	1000
Profit Before Tax	35 crore	50 crore

The company is currently suffering from decreased sales & profit. This can be better understood in the following conversation. The Chairman is worried about the financial figures and summoned the managing director to get the answers.

**Chairman:** Why our sales is decreasing?

**MD:** That is also my concern recently. I did some market study and found out that our products are not perceived as a good quality compared to Berger and Asian Paints. Our product is also deemed as high priced.

**Chairman:** What is the reason for that?

**MD:** I think our production process has some bottlenecks. We have improper batch formulation.

**Production Manager:** Our raw materials are good but high priced due to recent surge in the price internationally. We have high employee turnover that is creating bottlenecks also.

**A/C manager:** Our Marketing cost increased significantly recently. Also the software we installed increased our cost. We are also lagging behind collection of cash as our brand is not strong enough to enforce to get cash. It is increasing our finance and administrative cost.

**Sales Manager:** Our sales are decreasing for a lot of reasons but the main reason is leave of good, skills sales people who joined another firm has gifted those companies our market share.

**Marketing Manager:** We are trying to improve the perception of people about the products of Alpha Paint. That is the reason of our increased cost.

**Chairman:** I think employee leaving, market un-competitiveness is our main problem.

From the above discussions the following problems are found-

Wastage of raw materials is crucial because skilled production managers are leaving and new employee are wasting materials as skilled people are scarce in Chittagong. Also we are not getting the cash in the right time due to push marketing. A centralized decision making is hampering the decision making process. All the departments are

increasing cost without right planning and collaboration among the different departments. Strong brand image is lacking and it is also creating pressure on cash collection and sales.

### Problem Identification of Alpha Paint & Chemical Industries Ltd.

In the early 1950, there was a shortage of quality paints in the East Pakistan. Before then a major proportion of paints demand was met by importing from the developed countries. To meet the demand of paints, The Company Alpha Paint & Chemical Industries Ltd. was born in 1952. It was the first ever paint company to have been established in Bangladesh. Under the guidance of Late Mr. MK Barua Ahmed, for almost 60 years, this name has been synonymous with quality, success and luxury. Since its inception, the company has grown to become one of the country's leading paint brands. Now the company has over 500 employees, 8 distribution offices and 2 factories. It achieved the 2<sup>nd</sup> best Brand award in 2014. The factories are housed in a state of the art buildings in Dhaka and Chittagong. The warehouse is in GEC. The factories and the warehouse and the administrative building is located in the area and building of the company. This is a great advantage of Alpha Paint and Chemical Industries Ltd. Alpha Paint has been assuring quality products since its inception and all the raw materials are imported from Japan, Germany and China. The packing materials are supplied locally. The QC team is engaged in checking all types of quality. It is a ISO 9001 certified company and thriving to achieve it again. Highly motivated team was employed. Driven by its strong consumer-focus and innovative spirit, **the company has been the market leader in paints since the inception, but recently it has found deteriorating profits.** It has currently 5<sup>th</sup> market share in the paints industry and it is a steep fall from the number 1 position. The reasons for their decreasing profit are:

1. Decreasing sales: Alpha has lost substantial amount of sales in the last couple of years. They lost sales due to lack of innovative product, lack of skilled sales officers, lack of marketing, lack of proper relationship with distributors, high price of products in comparison to the strongest brand Berger, painters' lack of cooperation, lack of proper market study, strong competitor activities.
2. Increased cost inefficiency: Alpha has huge cost inefficiency like lack of proper raw material usage, packaging materials are not used effectively, lack of good production planning, cost control and reduction lacking etc.

**So the main focus of our team is to find out the reasons behind this decreased profit and give a strategic solution to the problems.**

## SWOT analysis on Alpha Paint & Chemical Ind. Ltd:

<p><b><u>SO Strategies:</u></b> Use strength to take advantage of opportunities.</p> <p><b><u>WO Strategies:</u></b> Overcome weaknesses by taking advantage of opportunities.</p> <p><b><u>ST Strategies:</u></b> Use strength to reduce threats.</p> <p><b><u>WT Strategies:</u></b> Support other more profitable activities.</p>	<p><b><u>Strengths</u></b></p> <ol style="list-style-type: none"> <li>1. Best industrial products</li> <li>2. Strong distribution channel</li> <li>3. Good brand value</li> <li>4. Company owned office at the center of the town.</li> <li>5. Identifiable corporate name with good reputation.</li> </ol>	<p><b><u>Weaknesses</u></b></p> <ol style="list-style-type: none"> <li>1. Poor R&amp;D activities</li> <li>2. Lack of sufficient instruments in lab</li> <li>3. Less motivation and opportunity for product development</li> <li>4. High price products.</li> <li>5. Inefficiency in using raw materials, packaging material etc.</li> </ol>
<p><b><u>Opportunities</u></b></p> <ol style="list-style-type: none"> <li>1. Utilizing existing resources efficiently</li> <li>2. Increased market size.</li> <li>3. Export the products and entrance to foreign market</li> </ol>	<p><b><u>Possible Strategies:</u></b></p> <ol style="list-style-type: none"> <li>1. Increase the current market demand of the product and use full production capacity.(S1,O1,S5,S3,S2)</li> <li>2. Expand to foreign market.(O1,O3,S1,S5)</li> <li>3. Diversify into other segment (S1,O1)</li> </ol>	<p><b><u>Possible Strategies:</u></b></p> <ol style="list-style-type: none"> <li>1. Use of proper method to reduce costing and thus decrease price.(S1,T5)</li> <li>2. Training of R&amp;D personnel to diversify into new products. (O1,O2,T1,T3,T2)</li> <li>3. Use proper demand and production planning to avoid mismanagement of raw materials and thus price. (O1, O2,W4,W5)</li> </ol>
<p><b><u>Threats</u></b></p> <ol style="list-style-type: none"> <li>1. Increased competition (Jotun, Berger, Asian Paints, Nippon)</li> <li>2. Political unrest</li> <li>3. Laws &amp; regulations.</li> <li>4. Decreased demand for its decorative product.</li> </ol>	<p><b><u>Possible strategies:</u></b></p> <ol style="list-style-type: none"> <li>1. Diversify into products which competitors are unable to serve at present.(T1,T4,S1,S5)</li> <li>2. Decrease cost and motivate distributors effectively.(T1,T4,S2)</li> <li>3. Make current good demand products less price. (S4,T1,T4).</li> </ol>	<p><b><u>Possible Strategies:</u></b></p> <p>Sell the company. (T1,T2,T3,T4,W1,W2,W3,W4,W5)</p>

**Alternatives:** Alpha Paint have the following options to consider:

### **Alternative 1:**

Investing more money to full utilize the current production capacity and rebrand the company to

increase sells and even take the advantage to export paints in Asam, Bihar etc. They can also arrange for joint venture with some Indian companies to expand the market.

**Advantages:** Sells will increase and thus boost profit

**Disadvantages:**

1. Taking further loan for investing may increase the business, credit risk of Alpha Paint and the financing cost will increase which cause increased price of the products.
2. The sell may not increase due to competitors' action.
3. Some kind of tariff and non-tariff barrier may hinder the export process.
4. Joint venture will decrease the ownership of the existing owners.

## **Alternative 2.**

Alpha may make the existing facilities more streamlined like making the R & D stronger, integrating the sales, supply chain and R & D department and reengineering the production process. A meeting with the R & D and production managers has shown that this may reduce the overall cost by 10% of the sales price of the products.

**Advantages:**

1. To make the R & D stronger it may take some further investment which will be met by financing from the bank that will increase the financing cost.
2. This will take advantage of the economies of scale and learning curve effect and thus reduce the cost and the increased profit.

**Disadvantages:**

1. Increased finance and administrative cost.
2. Production reengineering process may be counterproductive due to the existing employees' lack of knowledge of the new system. If they are not involved in the whole process, the predicted result may

not achievable.

### **Alternative 3.**

As Alpha still has some sort of brand value that causes auto sell of its product of nearly 40%, it may tie a stronger relationship with the current dealers by giving them more financial and non-financial benefits.

#### **Advantages:**

1. Alpha's internal research has already proven that dealer have the capacity to increase sells by up minimum 30% of the current sells. So this will increase sells.
2. Strong dealer connection will also give advantage to understand the market more clearly.

#### **Disadvantages:**

1. Dealers may get hungry for more facilities. They may also take advantage of Alpha but sell the competitors' product.
2. Competitors like Berger, Asian Paint may respond aggressively and double the benefits of the dealers to have a strong grasp of the market share. As Alpha Paint is privately held but Berger is a public limited company, Berger is able to sustain financially far more than Alpha paint.

### **Alternative 4.**

Sell the company.

**Advantages:** Selling the company is the last resort and it will relieve the owners of all the associated burden of running the company.

**Disadvantage:** Losing of a growing sector industry which may not come back.

### **Strategic Choice:**

Upon considering the above various options, Alpha Paint may go for the second choice: Making the R&D more strong and reengineering the business process. Reengineering the business process means to outsource the non-value added activities at a lower cost like Payroll preparation, direct sells activities etc. Paint sector is an oligopolistic market which means few companies are selling the same products with small differentiation. Here strong R & D can make huge difference like differentiating the



products, inventing a more cost efficient ways production etc. As Alpha paint is already selling 90 lac liters of paint yearly and have the capacity to sell more 90 lac liter of paint, it should go for efficient raw materials usage, economic production process (economies of scale), new product development that can be done with the help of strong R & D department. Alpha paint should invest 5% of its profit for the R & D department every year. Thus Alpha's present owners may exercise full control over the company as well.

**Implementation:** To implement this strategy, the following additional cost will be needed to gain a 10% cost efficiency which is expected to give a result of 140 million BDT cost saving from the current production process.

1. A specialized software worth of 20 lakhs which will give the formula of any type of shade that competitors make.
2. A tinting machine costing BDT 2000000.
3. More talented people. If 2 scientist is hired on a monthly basis giving a standard salary of 50000 BDT per month it will increase the cost by 1 lac each month.

The incremental cost and benefit budget is given below: (For the next 1 year)

Item	Description	BDT	BDT
<b>Increased Benefits</b>			
	Current Production cost	=140000000*80% =112000000	
	Decreased Production Cost	=140000000*70% =98000000	
	<b>Increased benefit</b>	=112000000-98000000=	140000000

<b>Increased cost</b>			
	Tinting machine	2000000	
	Salary	1200000	
	Software	2000000	
	<b>Increased cost</b>		5200000
<b><u>Increased profit</u></b>		140000000-5200000	134800000

**Control:** The CFO will monitor the overall progression of this project from time to time and report directly to the MD sir about the milestones. 50% of the benefit coming from this implementation will be distributed as bonus to the employees to keep them motivated and the rest 50% should be expensed for the further R&D development functions. This will be continued for a certain period of time and thus, the sustainability of Alpha Paint will be stronger.