Ink In or Ink Out?

Your client is a paper manufacturing company based out of Indonesia. They operate in the B2B space and sell paper to publishing houses. They are considering expanding operations by entering India. Ascertain if this is a good strategy.

CASE TYPE
Market Entry

COMPANY NAME
Accenture Strategy

DIFFICULTY LEVEL
★ ★ ★

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Should a paper manufacturer expand into other sectors?

Case Type	Company Name	Round	Difficulty Level
Market Entry Case	Accenture	Partner	

Problem Statement

Your client is a paper manufacturing company based out of Indonesia. They operate in the B2B space and sell paper to publishing houses. They are considering expanding operations by entering India. Ascertain if this is a good strategy.

I have some preliminary questions. What is the objective? Why the Indian market? Thirdly, why now?

They are primarily aiming for revenue growth. They want to achieve 20% revenue growth in the next five years. Market research indicated India as a lucrative market.

Please tell me about the scale and nature of operations. I want to know the exact value chain. Finally, what does the comparative landscape look like in Indonesia? How does that compare to the Indian market at the moment?

The company enjoys pretty much a monopoly status in Indonesia. They have captured 60-70% of the market there. There are two big players in the Indian paper manufacturing space holding 30% of the market share each. Hence, 60% of the market is captured by two big players. There are other small, fragmented players in the market. Also, there are no budgetary constraints.

Please give me a few minutes to structure my thoughts.

Let me start with financial attractiveness by estimating the market size. I am trying to think of the right approach. Please help me in ruling out any approach that seems unfeasible. I could derive the demand for paper by deriving demand for books, newspapers and printed material.

That would be very difficult and not that feasible. It won't make a lot of sense.

Please let me think of an alternate strategy. It's slightly difficult to derive demand from publishing houses. I could estimate the number of publishing houses in India and the annual demand of paper. Would this be a good approach?

Interesting. This is way better.

I'll take the tier city approach. Assuming there are 8 tier 1 cities, 30 tier 2 cities and 100 tier 3 cities. For simplicity, I'll assume there are no publishing houses in tier 4 and tier 5 cities. I'm also going to do the rest of the calculations for Delhi as a tier 1 city, to approximate the number of publishing houses.

I know Lucknow has 10 districts. Let's assume Delhi too has 10 districts. There are 2-3 publishing houses for each district, hence, there are approximately 25 publishing houses (10×2.5). The number of publishing houses in Tier 2 would be 60% of Tier 1 (15) and the number of publishing houses in Tier 3 cities would be 40% of Tier 1 (10). So, clubbing all of this, there are 1600 publishing houses in India. The exact number we get by using this formula: (25×8) + (15×30) + (10×100) = 1650. Rounding down to 1600.

That is a number we can move on with. Estimate the annual paper demand for 1 publishing house in India.

We could go towards books, printed material, newspapers, etc. What are the dimensions of paper manufactured by this company?

The company produces A4, A5 and A3 papers.

Since A4 is very widely used, that's 50% of the demand, 30% is A5 and 20% is A3. That's 100% of the demand. Let's say standard packets are 500 sheets each which are sent to the publishing house. An average publishing house might go through 10 packets each week, or 500 packets annually. There is no particular explanation I can come up with for this number.

These numbers sound good. Please proceed and arrive at the final conclusion.

If a publishing house goes through 10 packets per week, and assuming 52 weeks, 520 packets or 500 packets. 250 packets would be of A4 sheet, and remaining are A3 and A5 in the respective ratio mentioned above, ie, 150 packets of A3 sheets and 100 packets of A5 sheets. This would be the requirement of 1 publishing house. For 1600 publishing houses.

The total number of packets would be around 500 × 1600 = 8 Lakhs. With 500 sheets in each packet, around 40 crore sheets will be sold in India each year.

Move on with the rest of the analysis. Please talk about the market share.

Around 60% of the market is captured by Indian players. Assuming the rest of the market is fragmented and the client's product offering is at par with large players in terms of pricing and quality, the company might capture 10-15% share in the first couple of years of operation. This is an estimate which would be contingent on several factors. Should I move on to the feasibility and barriers of entry?

Let's leave that for now. I want you to elaborate on the market share part. Can you quickly explain some factors for determining exact market share in terms of revenue?

Some key factors I can think of are quality of the product (characteristics, appeal of the paper, durability of the product), efficiency in distribution (how will the product be available? How accessible will the paper be?) and the degree of customization available for the publishing house. Customization is a factor which is often ignored. However, for a B2B role, customisation allows a publisher to cater to specific needs of the business and give them a competitive advantage. Some other factors shaping their market share would be pricing, credit terms and ease of payment.

The guesstimate was tough and I have got an idea of how you think. I am satisfied with your response.

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Should a paper manufacturer expand into other sectors?

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Case Library

CASE FLOW

CASE FACTS

1. A paper manufacturing company based out of Indonesia.
2. They operate in the B2B space and sell paper to publishing houses.
3. They are considering expanding operations in India. Ascertain if this is a good strategy.

No. of publishing houses in India

Tier City approach

- Tier 1 Cities: 25 Publishing Houses x 8 Districts
- Tier 2 Cities: 15 Publishing Houses x 30 Districts
- Tier 3 Cities: 10 Publishing Houses x 100 Districts

1600 Publishing Houses approx.

Annual demand for 1 Publishing House in India

- A3 Sheets
- A4 Sheets
- A5 Sheets

500 Sheets

500 Packets approx. 10 packets per week

40 Crore Sheets (1600 Publishing Houses producing 500 packets having 500 sheets each)