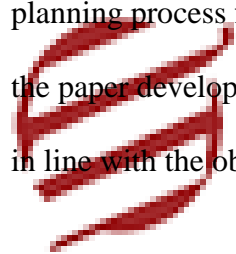


## Executive Summary

Family businesses form an important part of the world economics. The same is true for the country like India as well where a huge portion of economic growth is contributed by the family businesses. The strategy planning is as essential for the family businesses as it is for any other business, but the process of the strategy planning is slightly different. Along with economic objectives, the family business caters to the personal and social objectives as well. The strategic planning for the family business needs to take care these objectives too. Also, the family business strategy should be developed keeping in the view the succession of the business. This project, with the help of the case study of M/s Stag International, looks into the strategic planning process for the family business. Based on the details provided in the sample case study, the paper develops and suggests various steps that can be taken to expand the family businesses in line with the objective of the owners and the company.

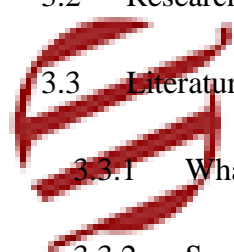


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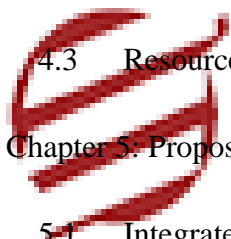
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## Chapter 1: Introduction

Family-owned businesses form a major chunk of the global economic landscape (Sharma P. , An overview of the field of family business studies: Current status, 2004), and constitutes the huge majority of the businesses in the world (Heck & Trent, 1999). (Aronoff, 1998)has stated that these businesses are as old as civilization.

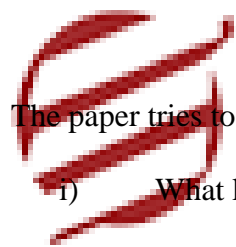
The importance of family business cannot be denied. Most of the businesses in India are family owned, and a similar trend can be seen in the world as well (PWC, 2013). Family business are different from other counterparts because of the two different dynamics involved in them—the family dynamics and the dynamics of the business. Many times, these dynamics are conflicting in nature, and hence the family businesses create a system which needs special focus in terms of strategic planning (PWC, 2013).

With the expansion of industries globally and economic liberalization the family businesses have great chance to grow and develop, but this growth and development calls for engagement of existing resources and creation of additional resources. A company can decide to follow the path of development and take future risk, or it can decide to preserve the wealth rather than engaging the new system. The decision is not solely dependent upon the opportunities, but takes into account the personal motivation of the family members as well as wealth and welfare of their family. This further is dependent upon the mission and the vision of the family (Hoover & Hoover, 1999).

This paper studies the problems faced by the family owned businesses with the help of the case study of M/s Stag International, and tries to formulate a future pathway to solve these problems.

(Sharma, Chrisman, & Chua, 1996) defined the family businesses as “the business concerns that is governed and/or managed on a sustainable, potentially cross-generational, basis to shape and perhaps pursue the formal or implicit vision of the business held by members of the same family or a small number of families.”

As it is clear from the above definition, the family owned business also applies strategic management as they have their goals and visions and a strategy is formed to pursue these goals and visions. The company’s mechanics is developed in such a way that the strategy is implemented and the progress towards the goal is monitored.



The paper tries to answer the following questions in the due course:

- i) What kind of problems a family owned business encounters?
- ii) How the scenario does differ in comparison to non-family owned businesses?
- iii) What are the various methods that can be used for increasing the profit of these family owned businesses in the current competition?
- iv) Suggest the best practices for sustaining the family business.

The research follows the following model:

- i) Chapter 1: Introduction

This chapter introduces the concept of family ownership and explains the objective of the research. The chapter also throws light on the motivation of this research and various research questions that will be answered through the research.

- ii) Chapter 2: Case Brief

This chapter presents the case brief. The chapter lists out the various details mentioned in the case study and sets up the background for the further study.

iii) Chapter 3: Problem Statement and Analysis

This chapter focuses on the problem statement and the company analyzed in the case study. The chapter's initial part defines the problem statement. The next part focuses on the literature review by studying the associated papers and books. The chapter also describes the data collection methods and the research methodology followed for the project.

iv) Chapter 4: Analysis and Results

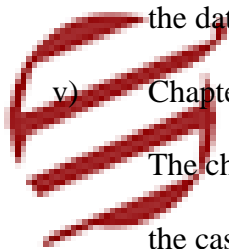
This chapter analyzes the data collected throughout the research on the basis of the the data collected in the due course of research.

v) Chapter 5: Proposed Solution to the Problem

The chapter tries to answer the questions asked during the introduction with respect to the case study. The idea of the chapter is to provide the recommended solutions, make the plan to implement the solution, and last but not the least, to analyze the impact of these plans on the various stakeholders of the company.

vi) Chapter 6: Application to Another Company

This chapter applies the solutions derived in the research to one other family owned company. The chapter tries to test the theories developed above in one other comparator company.



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## Chapter 2: Case Brief

The paper focuses on the case study of the family owned company of Stag International. Like all the major family-owned businesses, the company started off as a small company with a name of Goodwill & Co. out of Sialkot in Pakistan. The company shifted its base to Meerut after the independence of the country. Currently the company is run by third generation, Rakesh and VivekKohli. The stage is set for the fourth generation of the company to set in. (Goyal & Mishra, 2013)

### 2.1 Company's Mission, Vision and Product Portfolio

Currently the company is involved in the sports goods associated with the Table Tennis with the two verticals:

- 
- i) Domestic Sales: This includes the sale to the dealers and the distributors of the sports good in the country.
  - ii) Exports: The major export market of the company includes Latin America, Europe, ITTF and the rest of the world (Goyal & Mishra, 2013).

Company has the vision to provide sports good to the people at an affordable rate. The mission of the company involves to be one of the top three brands in Table Tennis worldwide, to be the biggest exporter of sports good in India, and to be the top sports group in the country supporting the grooming of the future player as well. Currently, Mr. RakeshKohli is looking forward towards the ways to expand and improve the business. For the purpose, he has set the following targets:

- i) To increase the annual turnover of the company to INR 500 crores over the span of five years.



The target of 500 crores was further divided into the smaller target as detailed below:

At the end of the Year	Expected Revenue (in INR crores)
Current GDP	10
GDP by the end of the Year 1	70
GDP by the end of the Year 2	130
GDP by the end of the Year 3	200
GDP by the end of the Year 4	350
GDP by the end of the Year 5	500

ii) To Build a domestic distribution business of 30 global sporting and fitness brands valued for approximately INR 300 crores.

iii) Introduce or add one million players of Table Tennis in India (Goyal & Mishra, 2013).

## 2.2 Market-Environment Analysis As indicated In the Case Study

The market environment of the sports good is quite competitive. The major players Stag International has to compete with can be divided into three further categories:

i) Domestic Players like Garware Sports, Vinex India, Sanspareils Greenland etc. are the biggest competitor for achieving the number one position of the sports good exporter and manufacturer in the country. While these companies are not producing the same products as the Stag International, some of the present and future interest of the company do overlaps.

- ii) International brands like Nike, Reebok and Adidas have conquered a huge chunk of Indian market. Although not a direct threat for now, the future concerns of the company can directly be competing with these companies' products.
- iii) International Table Tennis Sports Brand like Stiga, Butterfly, Joola and Donic also provides some competition to the company. Although the product sales of these companies is fragmented, but the companies do offer direct competition to the current product line of Stag International. (Goyal & Mishra, 2013)

The above section presents the details of the company and its competing environment. The next section will attempt to develop the required strategy for achieving the goals of the company.



## Chapter 3: Problem Statement and Analysis

This chapter analyzes the idea behind the research and analyzes the literature associated with the case to develop the right kind of strategy for the future pathway. The chapter is divided into five further parts. The first part defines the problem statement for the case study. The second part focuses on the literature review which studies the various papers, articles and books to develop the much needed background for the case study. The research methodology is discussed next to understand the information used for the strategic planning for the company. Based on the research, the chapter then suggests the strategic plan for the growth of the company as per the desired goals. Sources of data and ethical issues associated with the research are also explored in this chapter only.

### 3.1 Problem Statement

Keeping the objective defined in the case brief in mind, the problem statement of the case can be listed out as to develop a five year strategic plan for the growth of the company. In order to so, the research will try to answer the following questions:

- i) What is the current situation of the company?
- ii) What potential business opportunities are available for Stag International after analyzing the competitive landscape?
- iii) How aggressive should the reinvestment be to achieve the desire objectives?
- iv) How can the company expand its current business concerns to increase the sales to the number desired?
- v) What kind of CSR policy the company should adopt in order to meet their objective?
- vi) Other suggestions to keep the business thriving and to sort out the future upcoming issues?

- vii) What sort of issues the company might face in following the future plans?

### 3.2 Research Methodology

Research as a subject is taken to analyze and decide upon a situation (Bhattacharyya, 2006). The purpose of the research, as explained in problem statement above, is to establish a strategic pathway for the growth of Stag International so as to make way for the future generations to enter and expand the business. It is hoped that the research would enable to understand the various avenues of growth, expansion and CSR policies that are in line with the mission of the company.

There are various methods to do the research:

- i) Analytic and Descriptive Research: While the descriptive research is more focused on interviewing and preparing the questionnaire, the analytic research is more about analyzing the data already available. The analytic research takes the data provided and makes the meaningful deduction from the data itself (Creswell, 2014)..
- ii) Qualitative and Quantitative Research: The qualitative research focuses on providing and collecting the information about questions like “How? When? Where? Why?” while the quantitative research is more about the quantitative treatment of the provided data and express the results through those treatment. Mean, median, weighted average etc are few of the methods used to process the quantitative research portion (Kothari, 2004).

Keeping in view the above, this research can be defined as the analytic and qualitative research.

The research is mainly the qualitative research as it makes the deduction based on the existing data, rather than treating it quantitatively. The research studies the existing literature provided

with the case study and also analyzes the market information available on internet and in journals to understand the various methods that can be adopted by the company.

The research also takes into account the various difficulties as faced by the other family owned business owners by studying the news report and the annual reports of the company.

### **3.3 Literature Review**

This chapter studies the literature associated with the strategic planning in a family owned business. The chapter starts by analyzing what is family business and how it is different from all the other businesses. The chapter then moves on to describe the strategic planning and various tools that can be used for the strategic planning. The last part of the chapter explains that special features that need to be taken care of while doing strategic planning for the family business.

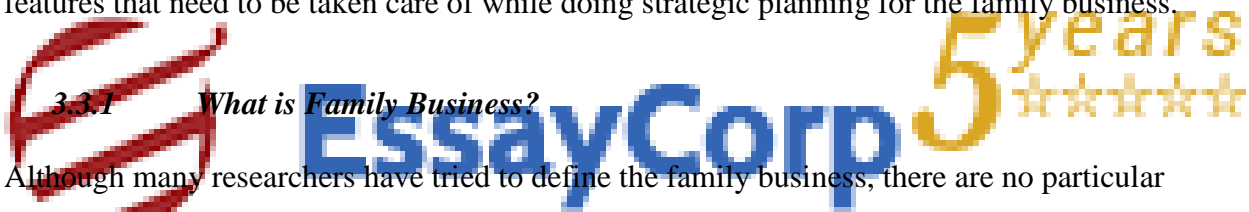
#### **3.3.1 What is Family Business?**

Although many researchers have tried to define the family business, there are no particular definitions of the family business (Family business Research: A Strategic Reflection, 2004).

(Lank, 1997)states that the number of definitions for the word for the word 'family enterprise' is as many as the number of researchers in the field.

For the purpose of the paper, the definition provided by Hall is considered. She states that in simple terms, “a business owned and managed by the family is a family business” (Hall, 2012).

(Astrachan & Shanker, Family Business' Contribution to the U.S. Economy: A Closer Look, 2003)has further developed three different definitions of family businesses in terms of family involvement in the operation of the business.



- i) The first definition of the family business is the one in which the family the voting right over the business operations.
- ii) The second definition depending upon the involvement is the kind of business in which the family is directly involved in the day to day business procedures.
- iii) The most third definition of the family businesses is one in which the businesses owned by families, with the family members having the voting control of the business, and with multiple generations participate in the everyday business procedures.

In case of all the definitions and classifications, it is clear that the family plays the major role in the business.

### 3.3.2 *Success of the Family Business*

The success of the family business cannot be measured directly as the definition of success is quite ambiguous in case of the family businesses as each of the family business has different sets of financial and non-financial goals (Stafford, Duncan, Dane, & Winters, 1999). Although the role of the financial success cannot be defined, it is important to understand the success of non-financial objectives as well (Walker & A., 2004). Success is more of the perception of the manager or the business owned who can decide how successful their business is.

A family business has many advantages over other businesses:

- i) Efficient decision making
- ii) Independence
- iii) Long Term Perspective
- iv) Good working relationships

- v) Strong and Caring Culture (Hall, 2012)

But the family businesses suffer from many disadvantages as well, especially in terms of the strategic planning.

- i) Inertia to the change caused by long-term planning horizons and long-term tenure of main actors (Covin & Slevin, 1991)
- ii) Risk averseness and strategic simplicity is also considered as one of the common problems faced by the family firms (Sheperd & Zahra, 2003).
- iii) An inherent need for stability in the family firms also acts as one of the major reasons for the opposition to change and the future expansion (Schulze, Lubatkin, & Dino, 2001).

The family business differs from the other businesses because family's influence plays an important role in the business decisions in case of family own businesses. In the current literature, the following methods are considered as the mean to understand the family influence role in the business.

- i) SFI or the substantial family influence is used to in case the family owns the majority of the stocks or plays an indispensable role in the corporate governance through the management or the family members' presence in board of directors (Klein, 2000).
- ii) F-PEC: This system uses the subcategories of the power, experience, and culture to define the family roles in the firm. The power subscale is used to define the power of the members in terms of the ownership and involvement in terms of company's management and governance. The experience dimension indicates how many generations of the families have been involved in business and how the business

handles the succession, to the family's generational involvement and related experiences with regard to succession. The culture subscale refers to how much of the business culture is influenced by the family values and its commitment to the business. (Astrachan, Klein, & Smyrnios, The FPEC scale of Family Influence: Solving the Business Definition Problem, 2002)

### **3.3.3 *Entrepreneurship and Strategic Management decision in terms of the family owned business***

(Schumpeter, 1934) defined enterprising activities as the activities which helped in creation of new fields of economic and social value. In other words, entrepreneurship includes the activities that creates the new avenues of action such as innovation, new ventures, strategic renewal, and creative destruction—each of the activities leading to the improvement in the social and economic performance within firms ( (Sharma & Chrisman, Towards the Reconciliation of the Definitional Issues in The Field of Corporate Entrepreneurship, 1999)).

Therefore, entrepreneurship not only applies to refers to the creation of the new businesses and the firm, but also for established firms who develop new systems/processes to sustain their internal growth and renew a firm's operations through innovation" . (Sharma & Chrisman, Towards the Reconciliation of the Definitional Issues in The Field of Corporate Entrepreneurship, 1999)'s definition of entrepreneurship is widely accepted. As per them, the corporate entrepreneurship is "the process where an individual or a group of individuals, in direct association with an exist company, work to create a new company or renews the process with the innovation within that company" (p. 18). The corporate entrepreneurship is essential to maintain the company's short- and long-term performance. The corporate entrepreneurship is essential for a firm so that it can exploit its current competitive advanatage and explore the future



opportunities and the necessary competencies (Covin & Slevin, 1991). More importantly, the corporate entrepreneurship decides the firms' financial and market performance, and in terms of family business, it is also essential to ensure the family business' survival, profitability, and growth(Liabotis, 2007)..

Strategic planning is the term used to define the development of the plan for future growth and expansion of the business in the competitive market environment. This kind of strategic plan explores the current market scenario and develops a plan which can help in further enhancement of the company's concern in the market(Paley, 2005).

The strategic plan for future growth of the company should be written down, listing each specific step needed for the improvement in the business concern. The planning should also address any kind of concerns and methods to improve the customer satisfaction and profits so that the company is ready and revitalized to be handed over to the next generation.

While the similar process is followed in all the other companies as well for strategic planning, the family owned firms' strategic planning should take into account all the strategic involvement of family as well and make the pathway for the roles of the future generation. A strategic plan for family owned business should be able to weave the company as well as the families' vision.

The business decision in the family owned firms are not only the result of the company's profit and loss statement. Neither it can just be the visualization of the families dreams and visions. Many of the family businesses have failed. Family business calls for special form of planning, especially when the business is to be passed on to the next generation.

The main reason for the failure of the strategic firms are as follows:

- i) Lack of financial and human resource in the company.
  - ii) Problems like sibling rivalry and generation succession
  - iii) Lack of conceptual framework to grow and develop in the competitive market
- (Carlock & Ward, 2001).

The secret to the success of the firms lies in the successful formulation and execution of the strategies and changing of the strategies as per the changing business environment.

Family strategic planning should address four questions:

- i) Why is the family committed to participating in the business? Apart from expanding business, family has other options like liquidating the business. What benefits does the family see in keeping the business?
- ii) How does the family visualize the company in the coming years ahead, and what kind of participation they expect from the family in the later date?
- iii) How does the family resolve the conflicts arising because of conflict in ideas of the family members? Are all the conflicts associated with the compensation or are there any ideological conflicts as well?
- iv) What are the steps required to achieve the professional and personal goals of the family with respect to the business? (Ward, 2011)

Keeping these steps in mind, the strategic planning can be divided into following different steps:

- i) Analyzing the commitment of the family: The first step of strategic planning for the business is to understand what the family wants. The key to the successful planning lies in understanding the vision of the company and their commitment to the vision. If

the company is looking towards the succession, it needs to be ensured that the future generation is ready and invested in the ideas to develop the business.

- ii) **Assessment the Firm's Business and Financial Health:** The second step in the strategic planning is to understand the company's financial resources available. This kind of assessment will show whether the company's current strategy is working or not. It will also help in ensuring that the company has enough resources for the future plans developed. This kind of system gives an idea about the reinvestment policy of the company as well. Most of the family business believe in keeping the profit for retirement or for the family benefit and are reluctant to reinvest in the market. Thus it is important to analyze whether the businesses are ready to reinvest the money or not.
- iii) **Identification of Business Alternatives:** The third step in the company's strategic planning is to list out the alternatives the company can adopt in the current environment. Some of the options the company has regarding the new possibility is to enter new geographical area, increasing the quality of the service, enter the new business verticals, improve the productivity etc. This identification is more dependent upon the firm's unique selling point as well as the market scenarios and insights. The next step is to identify possible business alternatives: enter new geographical areas, increase the quality of service, and hire strong managers to generate sales or improve productivity, and so on.
- iv) **Assessment of the Resources Required:** The last step is to check the feasibility of the project, whether it is possible for the firm to implement the said strategy. What kind of resources will be needed for the implementation and how many of the resources can the company afford to invest is the key question that this steps tries to answer.

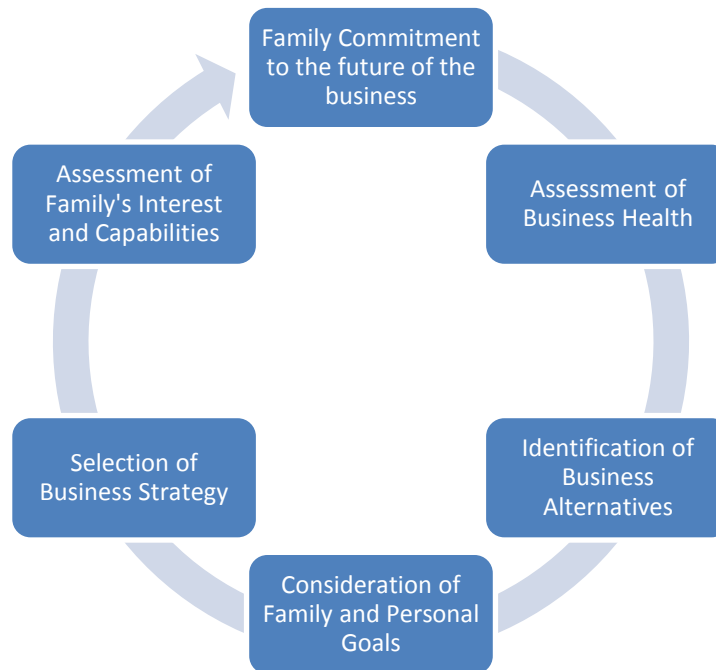


Figure 1: Process of Strategic Planning of Family Business



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### 3.3.4 *Benefits of Strategic Planning for the Family owned businesses*

- Formal planning helps in ensuring that the families are able to identify their strategic potential and are not “underperforming” with regards to their strategic potential. With the help of articulation of assumptions and perceptions, the family-owned businesses are clearly able to define the future pathways the business should grow in.
- Planning also helps in getting the family members committed towards a certain sets of goals. Once the future plans, mission and vision are articulated, the family members are more committed towards the achievement of that goal and there are lesser chances of conflict.

- It helps in gaining the confidence of the employees and the customers as the strategic management allows the true assessment of the company's rate of reinvestment and future and thus presents a clearer picture of the cash positions of the company.
- Strategic planning of the business calls for the involvement of whole of the family members and business partners. This serves as perfect platform for training the upcoming generation and helps them in gaining the business knowledge required for succession and the leadership of the company.

Strategic Planning has many benefits, but the best benefit is that as the participants answer difficult question about the competition, investment, and vision, all the employees, managers and the family members develop a common level of understanding. They might or might not agree with the plan on the whole, but they are going to have an idea about the underlying assumptions of the plan. Strategic planning focuses attention to the relative strengths and weaknesses of family ownership. Explicit recognition of these characteristics should improve the choice of strategy.

Thus it is essential that the strategic business planning should include everyone who reports to the owner of the business and those who play an important role in the management of the family business. The strategic planning process needs to be kept transparent in order to prevent the conflict among the various family members. Also, it should be ensured that the views regarding each of the decision is kept in mind. Sometimes, the conflicts can paint a clearer picture of the situation as the doubts of the individual members are explored (SIV).

### 3.3.5 *Tools of Strategic Planning*

#### *Competitive Analysis: Porter's Five Force Analysis*

Michael E. Porter's five force model is a well-accepted model to analyze the competitive forces in the market. The five forces which defines the competitive force in the market as per Porter are:

- i) **Intensity of Rivalry among the competitor:** This force analyzes the kind of competition that exists between the current competitors in the market. This competition can be in terms of price wars, or it can be in terms of the market share wars.
- ii) **The Risk of Entry by the new Potential competitors:** There are many reasons which limit the entry of new players in certain market. This can be the high cost of investment in the development, or it can be the technical know-how, or it can be the brand loyalty of the customers. This reason can also be the regulatory as well as the political reason controlling the new entrants in the market. The difficult entry means that there are less chances to enter and acquire the market.
- iii) **The competition from the substitute products:** This is another form of competition offered in the market. Many times a product can be substituted by something else, and the companies need to wage the competitive wars against the substitute as well.
- iv) **The powers of the suppliers in the supply chain:** The suppliers role also plays a major role in deciding the kind of price a company can charge for the product. Suppliers also defines the inventory and the promise the company can make to the customers.
- v) **The powers of the buyers in the supply chain:** The buyers in the supply chain are sometimes the decision makers, especially in case there are lot of options available.

The companies in such cases have to cut their own profit to meet the customers' expectations.

Porter has explained that as these forces of competition grows stronger, the companies are limited by these forces to increase their price and earn profits. Thus the strong competitive force in the above sections means that the companies will end up earning lesser profit and this makes the situation more difficult for the new as well as the existing players in the market (Hill & Jones, Strategic Management Theory: An Integrated Approach, 2013).

#### *Internal and External analysis of the Company: SWOT Analysis*

As explained above, the strategic planning calls for understanding the external and the internal environment of the company in the market scenario, and the tool used for this purpose is the SWOT analysis. SWOT analysis looks into the strength, weaknesses, opportunities and the threats associated with the company. The idea behind doing the analysis is to understand the external opportunities available to the company, the threats which the company needs to build on for growth, and the inherent strength which needs to be protected for the company. In other words, the purpose of the SWOT analysis is to fine-tune a business model, and develop the functional, global and business level strategies (Hill, Jones, & Schilling, Strategic Management: Theory: An Integrated Approach, 2014).

#### *Competitive Advantage Strategies: Porter's Generic Strategies*

Porter has suggested generic strategies that can be adopted by the firm to establish themselves in the market. The following generic strategies are considered for the current case study:

- i) **Low-Cost Strategy:** The low cost strategy is the one strategy in which the businesses produce standardized goods and services and offer them to the

customer at comparatively lower price than the competitors thereby establishing a cost leadership in the market.

ii) Differentiation Strategy: The second strategy that can be followed by the business is the differentiation strategies in which the businesses produce goods which have special and unique features and then these goods are charged at the higher price as compared to the other products in the market.

iii) Focus Strategy: This strategy is more focused towards the needs of a limited set of the customers. The company with this kind of strategy focuses on the niche market and develops a business which moves around this niche market. Once the focus has been selected, the company can decide between the cost leadership or the differentiation leadership strategy they want to follow. Furthermore the companies can also decide whether they want to follow an offensive strategy and grab the market shares of the competing companies with the help of the cost or differentiation leadership, or the company can decide to adopt the defensive strategy with the sole aim of protecting the current market share of the company.

These strategies give an idea about the kind of planning the business shall do in order to develop their market share. Each of these strategies have their own pros and cons and the same need to be considered while developing the strategy for the company.

### **3.4 Proposed Plan of analysis**

Keeping in view the above literature, following is the proposed plan for analysis:

a) The first section of the analysis will be based on the situational analyses, which will be used to identify and analyze the existing market and its conditions.



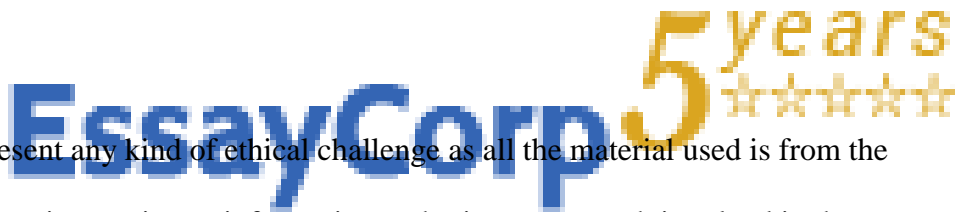
- b) The second part will analyze the company with respect to the current situation and its strengths, weaknesses and the alternate scenarios of opportunities the company can harness. This will done with the help of the SWOT analysis.
- c) The third part of the analysis section will analyze the competition and key success factors in the market.
- d) The last part will evaluate the resource constraints if any.

### **3.5 Sources of Data**

The data from the above analysis will be collected from different papers and literature available on the internet. The financial history of the company provided with the case study will be taken as the base for the analysis of the financial statements of the company.

### **3.6 Ethical Issues**

The report does not present any kind of ethical challenge as all the material used is from the secondary sources. There is no primary information gathering or research involved in the process.



## Chapter 4: Analysis of the Stag International

As explained above, there are various tools available for the strategic management and planning of a firm. This chapter analyzes the Stag International with the help of these tools and techniques to assess the pathway for future growth and development.

### 4.1 An Assessment of Current Situation

#### 4.1.1 *Situation Analysis*

Retail is one of the fastest growing sectors in India as well as world. The GDP contribution of the sports retail is usually less than 5%, but because of its labour intensive nature and niche practices, the sports industry condition is improving every day.

In India, the sector is still regulated and faces strict restriction in terms of the foreign direct investment (FDI). Sports retail is a small but fast growing segment of modern retail in India. In the recent times, the country has seen the boost to the sector because of the host of international sports competition being held up in the country. Because of this rise, the sports have become a lucrative option where many foreign and domestic corporate retailers have entered sports retail (Mukherjee, Goswami, Goyal, & Satija, 2010)

The boost in the sports retail is mostly because of the the rising awareness among the urban and the middle class population who have become more conscious towards the fitness. Also, the workplace structure is also changing in India. Many MNCs have their own inhouse gymnasium and they are ready to sponsor their employees for sports and fitness activities. The companies are also establishing intra office tournaments for various sports like cricket, volleyball, carom, table tennis etc.

The global demand for sports goods is lead by the different kinds of the sports apparel, which accounts for somewhere around 50 per cent of the total demand. The balance of the demands is the demand of the footwear and equipment Sports Goods Export Promotion Council of India (SGEPC) has stated that the size of the global sports market increased from \$267 billion in 2006 to \$278.4 billion in 2007, growing at the rate of four per cent. The report also maintains that the worldwide sales of sports equipment, apparel and footwear were \$284 billion in 2008. The numbers might not present the same picture everywhere, but it is clear that the demand of the product is increasing not only in the country, but throughout the world(Mukherjee, Goswami, Goyal, & Satija, 2010).

#### **4.1.2 Company's Situation Analysis**

This section focuses on Stag Industries and tries to take a look at the current business strategies and an analysis of the company's strengths and resource capabilities, weaknesses and resource deficiencies, market opportunities, and threats to future profitability.

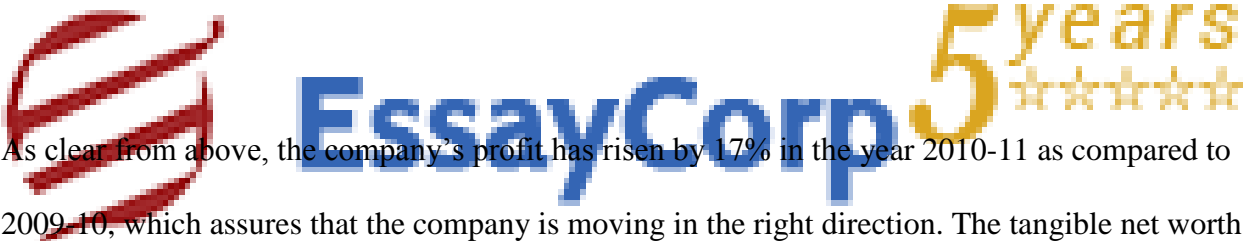
##### *Evaluation of the current strategy*

The current strategy of the company can be divided into two sections: Exports, which constitutes around 70% of the company's business and Domestic Market, which includes around 30% of the product sales.

Table 1 highlights some of the key financial performance figures for Stag International over the last three reported fiscal years, retrieved from the case study itself.

Table 1:Stag's Key Financial Features

	2008-09	2009-10	2010-11
Top Line Revenue	25.8	28.9	31.2
Operating Profit before Depreciation, Interest and Tax(OPBDIT)	2.3	2.3	2.7
Profit After Tax(PAT)	1.3	1.7	1.5
Net Cash Accruals	1.5	2.0	1.9
Tangible Net Worth	2.1	2.5	4.2
OPBDIT/Operating Income(OI)	8.8%	8.0%	8.7%
PAT/OI	4.9%	5.7%	4.9%
Return on Capital Employed	23.3%	24.2%	18.1%
Return on Net Worth	59.9%	65.3%	36.5%
Net Cash Accruals/Debt	24.6%	27.3%	19.7%
OPBDIT/Interest	3.25	3.17	2.84
Total Debt/Net worth	2.98	2.87	2.28
Net Working Capital/OI	21.1%	21.2%	34.1%
Total Debt/OPBDITA	2.8	3.2	3.5



As clear from above, the company's profit has risen by 17% in the year 2010-11 as compared to 2009-10, which assures that the company is moving in the right direction. The tangible net worth of the company has also increased in 2010-11 with the increase in the revenue being 7%. The operating capital has been constant for the year 2008-09 and 2009-10 after which it has grown to 34.1% in comparison to 21.2% for the previous year. This clearly indicates the commitment of the company towards the future investments.

#### *SWOT Analysis*

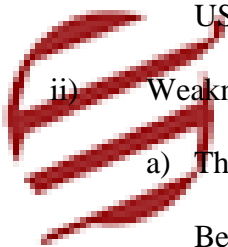
SWOT analysis of the company refers to identifying the major strengths and the weaknesses of the company along with the future opportunities and the growth.

- i) Strengths of the Company: The strengths of the company can be listed off as follows:

- a) The company has built up a reputation in the market in the long years of its operation. Its 90 years of brand name can give a major impetus to any new direction the company decides to take.
- b) The company is both recognized by International Table Tennis Federation(ITTF) and Table Tennis Federation of India.
- c) The company has the worldwide presence and is internationally recognized and accepted brand.
- d) The company is run by Rakesh and Vivek, whose business acumen along with the passion for sports make them the perfect brand ambassador for the products.
- e) Because of the higher labor cost of the product manufacturing in the countries like US and Europe, the company has the major price advantage over its counterparts.

ii) Weaknesses of the Company:

- a) The biggest weakness of the company is its dependence on the foreign trade. Because of this, the company is widely affected by the fluctuations in the foreign market.
- b) Another weakness is the company's only focus on Table Tennis. Although it is understood that the company's passion is table tennis, it is important to focus on other sports as well in order to retain their position in the competitive market.
- c) The company does not have any online presence. In this current world of internet, where customers like to see the brands and interact with the brands, the company neither has a website nor has an online store which serve as a serious setback to the company. Although a look at Facebook page indicates that the company has



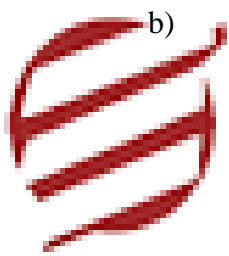
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been mentioned a few times by ITTF, the company has no brand page where the customers can directly interact with the company.

iii) Opportunities: Future opportunities of the company can be many.

a) The first and the major opportunity of the company lies in the footwear and the apparel branch of the company. Although the company has launched the apparel and footwear section, the section still needs to be worked upon. It has the huge potential as the company can offer good quality products at the much cheaper rate as compared to their counterparts like Adidas, Nike and Reebok. This presents a perfect opportunity to expand further in the foreign market as well as the Indian market.



b) The second opportunity for business expansion lies in expanding in the different sports field. While the company has made its mark in the tennis world, the company has not ventured in the areas of other sports. The cricket, soccer, and the badminton are few of the sports which have gained quite a lot of popularity in the past years, and the company can venture out in them. Badminton and lawn tennis will particularly be the better choice keeping the similarities of the sports in mind.

c) The third opportunity for the company lies in expanding in the domestic market via sponsoring the tennis players. This will not only help in making the brand popular in domestic and international market, but will also increase the number of players in future, thereby increasing the future demand of the products in the market. In order to do so, the dedicated coaching academy can be opened up in select cities. These coaching academies can be used to

develop the future players of the tennis who will make the name of the company better in future.

- d) The fourth opportunity for the company lies in the growth in the “rest of the world”. Currently the company’s major customers are the European countries and Latin America, while a small share is also exported to rest of the world. With the rise in the sports in the countries like Africa and Australia, it is entirely feasible to expand the company’s sales in the other continents and the countries.
- iv) Threats: The threats to the company can be described as below:
- a. The biggest threat to the company lies in the fluctuating foreign economies. While the company’s biggest customers remain overseas, the threat of recession is the biggest threat for the company.
- b. The second threat to the company lies in the ever-changing political situation. While the foreign brands are not allowed to retail the product directly in the Indian markets, the scenario might change in the near future. This will increase the competition in the market.

#### **4.1.3 Porter’s Five Forces Analysis: Competition Analysis**

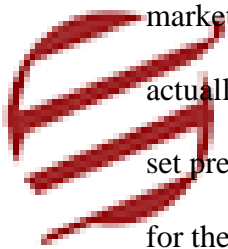
Porter’s five forces analysis is used to understand the situation of the competition in the market.

Following is the analysis of the Porter’s Five Forces in the sports retail market in India:

- i) *Competition between Rivals:* Competition between the sports equipment manufacturers ranges from the moderate to high. The major competitors of the company currently are Garware Sports, Vinex India, Sanspareils Greenland etc. Among the sports clothing and the shoes retailers, the companies like Reebok, Nike

and Adidas are the major concerns for the company. While the competition is mainly there in the areas such as new technologies, product performance, price and service, design, and strategic alliances, etc., the competition makes less of a difference overall as there is a huge untapped market in the world.

- ii) *Threat to the Entry in Market:* The threat or power of potential entrants in the sports equipment industry is quite weak. There are little economic obstacles as the huge investment is not needed. Technical obstacles are there as the company needs the technical know-how of the manufacturing process. The regulatory obstacles varies from country to country. The limit of FDI is one major obstacle for the foreign companies even though they are not as rigid as the foreign companies enter the market through the dealers. But the biggest obstacle in the sports retail industry is actually the consumers' loyalty for existing brands. Most of the consumers have their set preference regarding the different sports equipments and products. It is difficult for the new companies to make their mark in such a market. New companies entering the sports retail market face the difficult task of changing the consumers' current buying habits and of breaking the consumers' commitment to the already favored brands. The best way to achieve this is to find the right balance between quality and price. Lower price might give the perception of poor quality, while the higher priced product might not appeal to the customers. Thus a lot of research and development needs to be done to understand the customer preference. The focus also needs to be on the marketing activities to survive in any new branch and to succeed in the competition.



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iii) *Competition from Substitutes:* The industry faces minimum three different challenges in terms of competition from substitutes.

a) First substitute of the product is the other companies producing similar products.

The competition is between different companies for the same type of products.

For example, Stag International competes directly with the products from international table tennis brands like Stiga, Joola, Donic etc.

b) Second substitute of the product for the company is from the other manufacturers of the sports equipment. The ever changing interest of the customers create a competition not only among the companies producing the same products, but all the companies producing the different products as well. This is far more true in case of Stag International, who aims to become the best sports retail company in the country irrespective of the sports good transferred.

c) Third threat of substitute is to the whole industry itself. The whole of the sports equipment industry is facing indirect competition from other industries. The sports is not a necessity like the food related product, but is a source of entertainment for many and is dependent upon the disposable income the customers have. Hence as such, sports has to compete with other industries like the movie industry, concert/play industry etc. for their own space. This adds another form of competition for the company (Shank, 2004).

iv) *The power of suppliers:* The power of suppliers in the sports industry is not very strong. The biggest leverage of the supplier is if they can provide a product with some specialized or specific product with unique feature or technology. The sports retail

industry mostly provides the weaker supplier-seller equation as it is not possible to collaborate with the single seller to distribute the product (Armstrong & Kotler, 2005).

- v) *Power of Buyers:* On the other hand, the power of buyers in the sports equipment industry is quite strong. As explained customer loyalty is an important factor in the sports industry. Hence, customer satisfaction plays a paramount role in developing the companies strategies. A company should aim at building long lasting and effective relationships with consumers in order to remain competitive in the market. If a company wants to be successful, customers have to be on the top of its priority list (Armstrong & Kotler, 2005).

#### 4.1.4 *Driving forces*

Being globally competitive is one of the driving forces in the sports equipment industry today. The company can truly grow by expanding their sales throughout the world.

Following are the major driving forces in the industry:

- i) **Efficient Operation:** Efficient operation can help in reducing the losses and the cost of the production of the products, and hence can be helpful in increasing the profits.
- ii) **Innovation through R&D** is another important driving force in the sports equipment industry. The company only compete in the current market if the research and development allows them to innovate in the field. The current expenditure of the industry in research and development is quite less, but like all the other industries, in the sports retailing as well, the amount of money spent on R&D is closely connected to a company's ability to remain innovative and bring new products into the market. Since the market is quite niche, innovative products can support the major differentiation strategy. As seen from the financial statement, there does not seem to

be any amount spent in research and development of the future products by Stag International.

- iii) Electronic commerce has become a major driving force in the sports equipment industry. Internet has made the process of distribution of sports equipment much more easier. But internet can also help the company otherwise as well. The comprehensive websites of the company can be used to communicate directly with the customers. The same can also be used to inform the public about the mission, vision and the other factors associated with the company. If the consumers wish, they can buy these products online, at their convenience. Having an effective website is crucial for reaching a quickly growing number of internet users. The people also prefers the online purchase as it helps them to buy merchandise such as online as it allows the easy comparison of the different products and prices, and shop at their leisure in the comfort of their home or office. The online channels also allow the business-to-business e-commerce by facilitating communication between suppliers, manufacturers, distributors, and dealers.

## **4.2 Alternate Scenarios**

### **4.2.1 Key success factors**

There are several important factors for companies trying to be successful in the sports equipment industry.

- i) One of most important success factor that can contribute to the growth of the company is the personnel. Like any other industry, skill and experience in the field of producing sports equipment, with a strong strategic business plan, can be highly

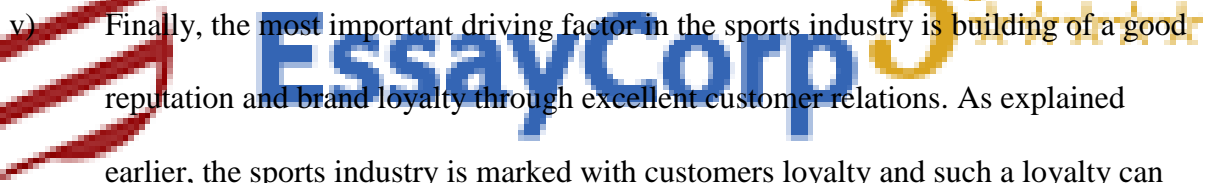
beneficial. Skilled and experienced workers and management usually guarantee that a company uses its resources wisely and is run efficiently. Therefore, it is important for companies to be built on intelligent and dependable people in order to stay competitive in this business. Stag International is headed by the family only. There are no other experts in the system. Appointing an expert in the area to manage and control the production losses can be one way of increasing the profit.

- ii) The second factor that is suggested is the investment in the R&D budget as this will help in discovering the newer and better methods of production and will help in gaining more profit from the existing expenditure itself.

iii) The third key factor which can help in success of the sports company is the effective distribution line. There are various methods to distribute the product. The company can distribute the product through the distributors and wholesalers, or it can open an independent stores. Online channels also present an easy and quicker way to develop the

- iv) Building an effective distribution can also help in gaining success in the sports retail market. There are multiple options available to the company. Companies can sell the products to the retailers through the distributors and wholesalers or they can directly contact the retailers, bypassing all the mediators. Another option is to reach the customers directly with online channels or specialty stores. The decision of the kind of store should be based on what benefits the company and consumers most. The

purpose of the distribution channels is to reach the maximum customers, and the same should be kept in mind while deciding the market. A company should evaluate each market it operates separately, and choose the best distribution network for that market. Each of the selling channels have their own Selling to distributors might is disadvantageous as the distributor mark-ups drive up the price of products to the consumers. However, in the Indian markets where there are no large and powerful retailers, rather there are many different medium to small sized retailers, dealing with fewer distributors instead of several independent retailers can potentially save a lot of time and money for a manufacturer. Another option is to sell the products directly to consumers through online channels and specialty stores.



v) Finally, the most important driving factor in the sports industry is building of a good reputation and brand loyalty through excellent customer relations. As explained earlier, the sports industry is marked with customers loyalty and such a loyalty can only be earned through the right customer service.

#### **4.2.2 Overall attractiveness/unattractiveness of the industry**

There are many factors which add to the attractiveness of the sports industry. Some of these are as listed below:

- I. Huge potential for profit.
- II. The potential of industry growth
- III. Constant increase in global as well as the domestic demand.
- IV. Lower cost of entry when compared to the other industries
- V. Lower risk of failure as the demand is already there in the market.

Although there are challenges associated with the sports retail and the competition associated with the niche market, the attractiveness of the market lies in the fact that the demand for the product will be there as long as the people are playing sports. The economic condition might bring ups and downs in the industry, but in the end the demand for the goods will still be there. Stag International has the added advantage of being in India as the cost of labour is quite lower as compared to their counterparts in European or American companies and hence the options of cost leadership are greater for the company.

The factors which discourage the expansion into the sports equipment industry are:

- i) Brand loyalty: This is the biggest deterrant for any company as the customers not only buys the product but the brand. Thus it is difficult to convince the customers to diverge from their existing choice of brand.
- ii) Seasonal nature of the industry: The second factor which discourages the expansion is the seasonal nature of sports. While Table Tennis being an indoor game is played year round, the other sports like soccer, cricket etc suffers from seasonal bouts as the sales increases during the times of the world cup and tournaments. This calls for special R&D and strategic planning to ensure that the company can give their best to the customers without incurring the loss.

#### **4.2.3 Opportunities Feasible**

Keeping the above perspective in mind, following alternate scenarios can be seen for the company of Stag International:

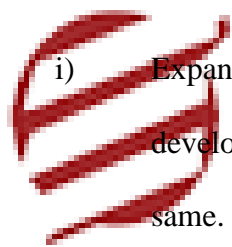
- i) The company can enter in the other sports and industry like cricket, volleyball, lawn tennis etc. Currently 60% of the company's sales are driven by Table Tennis. But the company can expand in the other sports areas as well.
- ii) Another feature where the company can expand itself lies in the field of apparels and footwears. The company's apparel and footwear is a newly set up section. As explained above, since the sports apparel and footwear form a major chunk of sports retail sale, the company can take huge advantage because of this rising market. The company can increase the focus of its sales and marketing on these products. Moreover, the company can easily win over the Indian customers with respect to the cost of these apparels and the footwear.
- iii) The third alternative scenario can be of opening a dedicated store for the brand. The company already has tie-ups with many distributors, but forming a tie-up with the major sports retail chain like Planet sports and setting up their own dedicated store can also help the lot in developing the future pathway.
- iv) The fourth alternative scenario that can be seen is of opening up of B2B and B2C online sales channels. While B2B channel will allow the company to form the direct contact with the retailer and distributors through online channels, B2C channel will be helpful in the sale of smaller value of products like apparel and footwear. The company can also tie up with the various ecommerce platforms like Flipkart, Snapdeal, Jabong etc. to develop the sales scenario.
- v) The fifth alternative for the company can be opening of the sports academy. This sports academy will not only help in improving the CSR of the company, but will also

provide the future players to the country. This sports academy can be monumental in deciding the future marketing of the company.

- vi) The sixth alternative is to expand the sales in the other countries through the right kind of marketing and sales process. This will help in increasing the global imprint of the company and will bring them closer to their aim of the being the number one exporter.

### **4.3 Resources Constraint**

Although many of the options have been recognized above, not all these options can be used directly as there are many constraints associated with each of the item. The following are the resource constraint for the options:



- i) Expanding into other sports calls for research and development in the product development as well as the marketing area. The dedicated staff will be needed for the same. Since the company is looking towards the succession, this can be done slowly—by focusing on one product at a time.
- ii) Online sales channels do not offer much constraint except for a dedicated person who can handle the process of the only handle the website and the content. The company might need to hire some experts to develop the website, but the same could be possible with small investment.
- iii) Opening of the dedicated stores calls for the required land and space for opening of the store and will need investment. It will also call for the dedicated sales team to maintain and run the store.
- iv) The Academy idea is in line with the vision of company, but opening up of an academy calls for the location and space. Also the company will need to hire the

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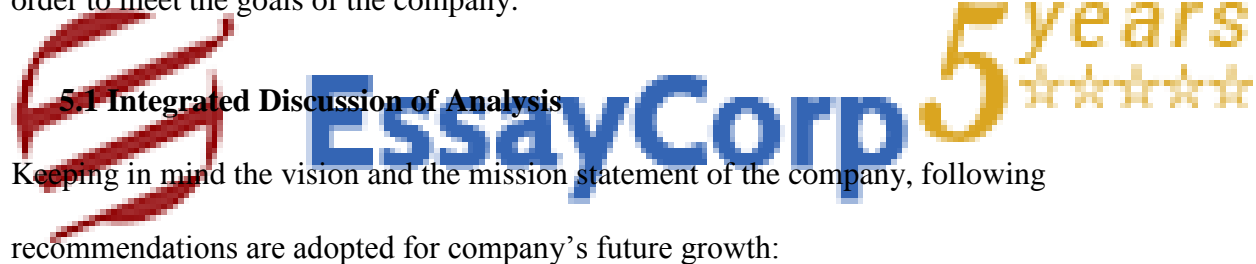


competent coach for the students. This can create the resource constraint in the company.

- v) Spreading the company's name and fame in other geographical areas can be achieved with the help of the a sales and distribution team in these areas. This again calls for a dedicated team in the areas as well as the investment in developing the reputation for the same.

## **Chapter 5: Proposed Solution to the Problems**

This chapter lists out the proposed solution that can be implemented in the staggered manner in order to meet the goals of the company.



**5.1 Integrated Discussion of Analysis**

Keeping in mind the vision and the mission statement of the company, following recommendations are adopted for company's future growth:

- i) Establishment of the website and online channel to increase the brand awareness and B2B and B2C business transactions.
- ii) Increase in the sales of the Apparels and Footwear developed by the company.
- iii) Diversification of the company into other sports goods in staggered manner.
- iv) Development of a coaching academy for Table Tennis headed by Mr. Vivek.
- v) Geographical diversification of the products sales in other areas of Asia, Australia and Africa.
- vi) Increasing the distribution in the country by setting up of the B2B channels where the retailers and the distributors can directly contact the company for their needs.

- vii) Partnering with the online E-commerce companies.

## **5.2 Strategic Recommendation and proposed plan of action**

As discussed earlier, immediate implementation of all the plans will not be possible because of the financial constraints associated with each of the suggestions. Also, the additional management will be needed to manage the new lines of business. Keeping this and the mission statement of the company in mind, following plan is suggested with the year wise view:

Year 1:

It is suggested that the first year be dedicated to the improving the existing line, rather than opening the new lines. Thus following are suggested to be implemented in the first year itself.

- i) Setting up of Online Sales Channel : To be done on immediate basis.

As explained above, online channel offers many advantages to the company and can help increasing the sales of the company. Thus it is suggested that the first step of the strategic planning be setting up of an online website and a social media page where different products can be displayed and the customer can order the products from there. The management of these online channels can be handed over to Vinita and Pranav as most of the expected sales from these channels will be from the sales of the apparels and the footwear.

- ii) Partnering with online channels: To be done on immediate basis

The team of Vinita and Pranav can also look into the partnering options with the online channel so that the customers as well as the retailers can directly contact the company rather than contacting the mediator.

iii) Setting up of the Academy: To be completed in an year's time.

This will be the only finance-intensive activity for the company in the first year. This might not give any returns, but in the later years this can be quite useful as the brand name is established. Mr. Vivek's expertise and charm can be used to set up of the company. The year should be dedicated to planning and setting up of the academy at the earliest possible.

Year 2:

i) Diversification into the other sports: Market Research to be conducted in second year.

The first step of the company shall be to conduct the market research to diversify in other sports good. The new sports can be selected by market research or it can be selected after discussing with the family. The market research should focus on how the product can be introduced with the minimum expenditure.

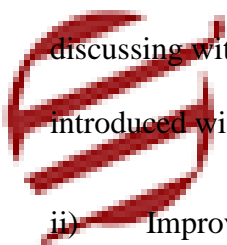
ii) Improvement in the current process: Beginning of Second year.

A special team need to be hired to conduct the audit of the current operation and manufacturing policies to find any kind of wastage or inefficiency in the system. This will help in improving the profit with the same cost to the company.

iii) Setting up of Academy: By the end of the second year.

The coaching academy should be set up by the end of the year at the location decided after the last year. The same can be handed over later to the children of Mr. Vivek as they learn the rope of the business.

iv) Meeting with the distributors of other geographical areas: Market research to be conducted



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The step will involve the analysis of the other markets to find the most profitable area the company should focus their efforts on. The current scenario shows the areas of Asia, Australia and Africa as profitable one. The stock of situation should be taken in the second year and the plans should be made to increase the distribution.

- v) Contacting more of domestic distributors and Retailers: Throughout the second year. The second year will also aim at the development of the better distribution network and tie up with the sports retailers so that the products are available to wider public.

Year 3:

Expansion into the Other Sports and the Geographical Areas: During the year three

The year should be dedicated to the expansion in the other sports and the geographical areas as per the research done in the past year. It is estimated that this year involve the maximum expenditure as the machinery required for the production of other sports will be used.

Year 4:

- i) Analyzing the performance of the new channels: Throughout the year  
This year will be dedicated to finetuning of the new products and markets. It is expected that the investment will start to be recovered in this year.
- ii) Opening of the physical stores: In one of the strategic locations in Delhi/Mumbai or some other metro city.  
The company can focus on opening of a physical store by taking a shop on lease at one of the location. This will allow easy access to the customers and will help in brand visibility as well.

Year 5:

Opening of more physical store: Depending upon the response to the first store.

The fifth year should bring the result of all the areas as the company sets the new products and markets. Depending upon the response to the newly opened company, the company can further look into the opening of the new stores in other metro cities as well.

### **5.3 Critical Assumption to the Analysis**

It is assumed that the market scenario will remain more or less same, and there will not be any recessive wave of economics in the world.

### **5.4 Implication for the Stakeholders**

The above plan calls for higher re-investment of the profits. It is expected that the operating income of the company will increase. This may not translate to immediate profit, but will give good returns in later times. Also, the family members will be required to put in more time and efforts in the new ventures of the company.

### **5.5 Limitation of the Study**

The study is limited only to the information disclosed in the case study. Since the company has no online presence, the data for financial performance etc. is taken from the case study only. The further limitation is that the study does not take into account any kind of changes in the sports scenario in the near future. The change in demand might call for the alteration of the strategic plan.

## **Chapter 6: Application to another Case**

The case study done on the Stag International is equally applicable to another of the Sports retailer in the company, F.C Sondhi& Company Private Limited.

### **6.1 Description of the comparator company's situation**

This company, headquartered in Jalandhar, is another of the family owned business mainly dealing with the cricket related sports good. The company is one of leading exporter of the product in the Europe, Africa and Australia and serves to the niche market of the cricket sports good. The mission of the company like Stag International is to be the number one exporter of the sports good in the country. The company has its own manufacturing facilities which are used to develop the product. The companies' major share like Stag International also comes from the export of the products. The domestic distribution of the product is through distributors. This clearly indicates that the company in its operation and distribution is very much comparable to the Stag International (FCS Sports, n.d.).

### **6.2 Testing the Recommendation on the Comparator Company**

- i) Like the Stag International, FCS's major market is export company as well. Hence the company also has a huge potential in terms of the domestic market. The company can also benefit by improving its sales in the domestic market with the help of the distribution partners and channels.
- ii) The company also is specialized towards only cricket related products, and has not ventured in any other area. The company has an option of venturing out into the other sports like badminton and tennis balls as well.

- iii) The company is involved in the manufacturing of the sports goods and the protective gears, but has not moved out in the apparel and the shoes line. Since these two also form an inherent part of the game of cricket, the company can definitely venture out in these fields as well.
- iv) The CSR activities of the company have been limited only to Jalandhar. And hence the company's name is better known to the customers of Jalandhar only. The company will benefit equally by associating with the coaching academies and by sponsoring the products associated with the cricket.
- v) The company has a well-maintained product catalogue and online presence as well. The company can benefit more if it allows the online ordering of the product through these online channels as well. Currently the company's online ordering platform seems to be limited to certain bigger client as well. But since India has a huge potential as unorganized sports retail, a separate ordering page for ordering the product online can help the company increase its domestic sales. The only problem in implementation of this system is that it is not inline with the vision of the company as the vision and mission statement of the company shows that they are not much focused on the smaller orders or the domestic players.
- vi) The company follows the innovative and quality controlled manufacturing practices. A look in the modern updation systems so as to ensure that the company is able to perform better is also suggested. This will reduce the operational cost of the company as well as improve the profit.

It is seen that the future vision of the company is different from Stag International, but despite this, many of the activities suggested to the company remains the same as those of

Stag International. Since the suggestions were made after analyzing the sports retail scenario in India, some of those suggestions are equally applicable to the FCS as well especially the one related to the export and diversification.



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