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MASTER'S THESIS

BUSINESS PERFORMANCE AND A PORTFOLIO ANALYSIS OF THE CONGLOMERATE BALMER LAWRIE & COMPANY LIMITED

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AUTHORSHIP STATEMENT

The undersigned Sk Abu Jafor, a student at the University of Ljubljana, Faculty of Economics, (hereafter: FELU), declare that I am the author of the master's thesis entitled Business Performance and a Portfolio Analysis of the Conglomerate Balmer Lawrie & Company Limited, written under supervision of Professor Dr. Matej Lahovnik.

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INTRODUCTION

Diversified conglomerate is a concept that has received lot of attention of researchers in the last few decades. Over the years, this concept has evolved, and from the 1960s there was a surge to form a conglomerate in the United States of America (hereinafter: US) and other parts of the world. Basu (2010, p. 87) analysed the trends of diversified conglomerates for the last few decades. Before the 1980s, there was a surge to form conglomerates in the industry all over the world. In the decade of the 1980s, the trend shifted to greater focus. Subsequently, this trend reduced in the 1990s and was substituted by a surge in the number of newly listed single-segment firms. From 2000 to 2007, there was not so much change in the share of conglomerates compared to the previous two decades. Overall, the proportion of diversified firms declined from 40 to 17% from 1980 to 1997. Besides that, the diversification decision is reversed within four years. There is a myth that diversified conglomerates tend to underperform. Although conglomerates are successful in the US, they are facing extreme pressures from analysts and shareholders in Europe to become focus oriented. Conglomerates of Asia are performing better than European ones. But overall, the market in Asia is still undervalued. It may face intense challenges in the future if right strategies are not adopted (Heuskel, Fechtel & Beckmann, 2006, p. 6). Researchers claim that the outcome of diversification is positive only in underdeveloped economies, and negative in most developed economies (Chakrabarti, Singh & Mahmood, 2007, p. 117). However, many conglomerates succeed in fulfilling the aspirations of its investors. In their report, Heuskel et al. (2006, pp. 7–8) claim that many conglomerates have beat the stock market average. Conglomerates should not be the focus oriented coming under any pressure from the outside. Conglomerates should identify if focusing adds value for them at all. The report explains about ten value creation levers which can be pulled to improve the performance of the conglomerate instead of bowing to the pressure of focusing.

Livnat and Amit (1988, pp. 593–603) reveal that managers should take care of the exposure of different business units and products to the effects on the business cycle. Managers can insulate their conglomerate from external macroeconomic effects by right selection of businesses. Therefore, managers should explore the possibility of selling different products to different sectors, so that the slowdown of one sector will not affect the firm much. The most diversified conglomerates in terms of their exposure to the business cycle will be stable in terms of cash flow. This conclusion has been reached observing the findings of the empirical study. However, this decreased risk of variation of cash flow is embedded with reduction of profitability. There should be a trade-off between reducing the risk and reducing the profitability.

Bettis (1981, pp. 389–390) explains that, on average, related diversified firms outperform unrelated diversified firms by about one to three percentage points of return on assets. So, managers of firms should look for diversification opportunities in closely related areas instead of too far from the base business. On top of that, it has been found that related diversified firms can aggravate their performance by early entry into industries prone to entry barriers and then exploiting a "core skill" such as advertising, research and development (hereinafter: R&D), or production efficiency. According to the findings of the author, unrelated firms should diversify into more capital-intensive industries to become successful investing in fixed assets correctly.

As mentioned earlier, researchers claim that conglomerates underperform compared to focussed firms. But there is evidence that some large conglomerates are performing better than focussed firms of the same field in the financial market. Dagnino and Picone (2011, pp. 112–120) explain that the reason behind this lies in strategic leadership. Conglomerates increase the complexity of the managers. Managers can get trapped in the "jack of all trades, master of none" phenomenon. There can also be issues with inappropriate allocation of resources or cross-subsidization which impede the performance of the conglomerate. The authors explore the relationship between the strategic leadership of the conglomerate diversified firm and its performance. Through the case study of General Electric Company (hereinafter: GE), it is explained how strategic leadership can play an important role to achieve the success of a diversified conglomerate and help to avoid the conglomerate trap.

According to conventional wisdom, diversification of companies has got no value for investors as they suffer from inherent structural and managerial weaknesses. Investors can diversify their portfolio in a better way. Though, on average, conglomerates slightly underperform compared to their regional benchmark, analysis shows that conglomerates which have financial vision rather than an operational one with a value based portfolio management are highly successful (Kaye & Yuwono, 2003, pp. 1–3). These successful conglomerates also create an internal reward system to maintain entrepreneurial cultures following rigorous policies and rules.

A study has been carried out to analyse the relationship between multi-divisional structure of the company and its performance. Hoskisson (1987, p. 625) found that the implementation of M-form structure increases the rate of return for unrelated diversifiers and decreases with vertical integration. On the other hand, there is no such change in the case of related diversifiers. M-form restructuring reduces risk substantially for unrelated diversifiers but insignificantly for related diversifiers and vertically integrated companies.

Ramachandran, Manikandan and Pant (2013, pp. 111–112) add a new dimension to the conglomerate concept and cite a new way of looking at the issue. Different "business groups" in India, *qiye jituan* in China, *grupos económicos* in Latin America and *chaebol* in South Korea are more successful than so-called conglomerates. A business group is a network of independently operated, separately listed companies held together by a prime owner. Research shows that the business group centre can manage a portfolio of enterprises better than multidivisional companies. The structure of the business group helps to implement decision making and resource allocation more effectively than conglomerates. The group centre mainly guides separate entities to shape their strategy. The group centre also builds the image/brand of the group. The paper suggests that in order to generate value in the long term, multi-divisional companies can think of splitting the divisions into separate independent entities.

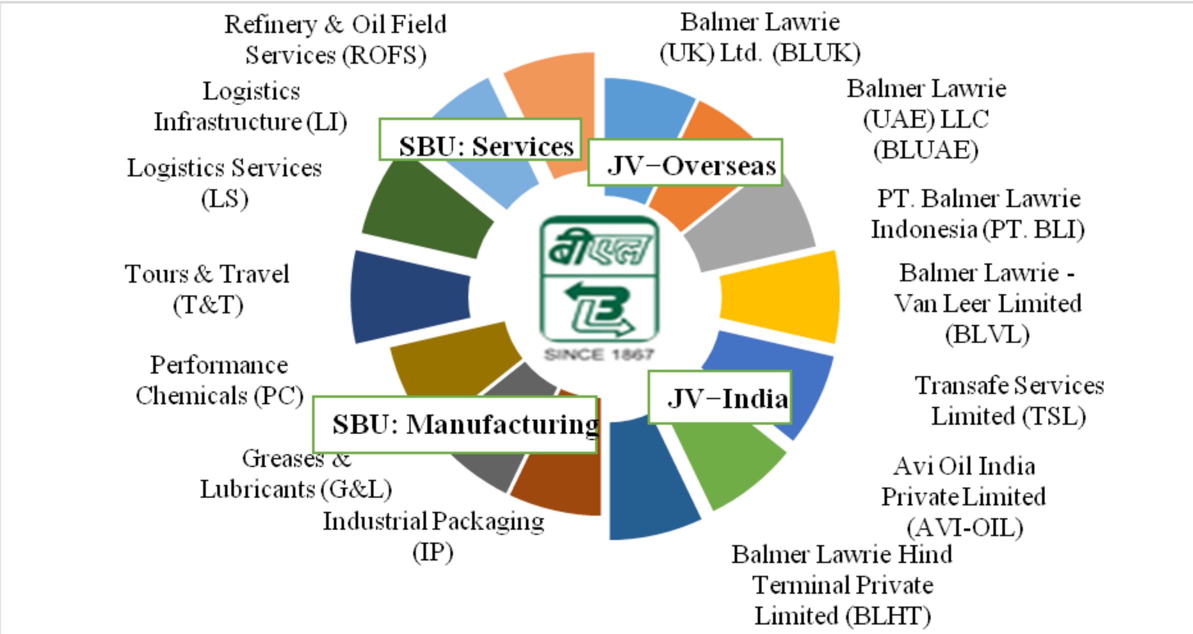
Directional strategy, portfolio strategy and parenting strategy are the three key issues dealt in corporate strategy faced by most of the companies (Wheelen & Hunger, 2011, pp. 206–215). When corporations reach the threshold limit of the growth by horizontal and vertical integration, then they should diversify to achieve growth. Apart from the allocation of resources, portfolio strategy helps to create a synergy within the conglomerate so that the overall value of the conglomerate is greater than the sum of its individual business units.

Portfolio analysis is a useful strategic tool in managing diversified conglomerate firms. Udo-Imeh, Edet and Anani (2012, pp. 101–116) argue that portfolio analysis helps top managers of the conglomerates to understand the company's overall position and to formulate a strategic plan and achieve better control. From 1960, different business portfolio analysis models have started to emerge. Different models are apt for different types of organizations. However, the Boston Consulting Group (hereinafter: BCG) growth-share matrix is the most famous because of its simplicity. As the business environments throughout the world are becoming increasingly turbulent, highly competitive and globalized, the portfolio analysis model will be continuously upgraded and modified. Hambrick, MacMillan and Day (1982, pp. 510–528) vividly explore the performance characteristics and different strategic aspects of businesses of different cells of the BCG matrix. The BCG matrix places businesses or products in different cells based on product life cycle (growth rate) and market share. All four elements of the matrix, namely question marks, stars, cash cows and dogs contribute in their way to the balanced performance of the corporation. The authors argue that the average dog has a positive cash flow, even greater than the cash needs of the average question marks. So, this argument does not support BCG's advice that dogs should be divested or liquidated immediately. Another important finding is that there is no concrete trade-off relationship between share building and profitability or cash flow. Only among stars, the inverse relationship exists, but for others it is nil. So, multiple incompatible objectives can be pursued at the same time. However, Jauch and Glueck (1980, p. 291) argue that a balanced and successful conglomerate should have the highest sales in cash cows and stars, a few question marks and only a very few number of dogs is allowed.

Corporate portfolio management should not be limited to the matrix model only. Nippa, Pidun and Rubner (2011, p. 64) argue that portfolio management model should be used to help managers to raise questions and debate among themselves, but it is not a *panacea*, meaning it is not the solution to all the problems. It should be used in conjunction with other qualitative and quantitative analyses to reach important management decisions. Management should use this model to support strategic thinking, but not to replace it.

Balmer Lawrie and Company Limited (hereinafter: Balmer Lawrie) is an Indian conglomerate and public sector undertaking (hereinafter: PSU) under the Ministry of Petroleum and Natural Gas (hereinafter: MOPNG), Government of India. The conglomerate has a very rich and diverse history of its businesses (Balmer Lawrie & Co. Ltd. – About us: History, 2014a). Presently Balmer Lawrie is producing industrial greases and lubricants, steel drums, leather chemicals, construction chemicals and also providing logistics, tours and corporate travel services. In the financial year (hereinafter: FY) 2013–14[1], the conglomerate achieved a gross turnover of [2]INR 2843 crores (355.4 million €[3]) and registered profit of INR 220 crores (27.5 million €) (Balmer Lawrie & Co. Ltd., 2014b). Along with six joint ventures (hereinafter: JV) present in the country and abroad, one subsidiary and seven strategic business units (hereinafter: SBU) as shown in Figure 1, Balmer Lawrie has successfully confronted the challenges offered by the economy.

Figure 1. SBUs, JVs and subsidiary of Balmer Lawrie



Source: *Balmer Lawrie & Co. Ltd. – About Us: Introduction*, 2014d.

Balmer Lawrie is facing intense competition in its respective business fields. It is a challenge for the top management to identify the upcoming threats and risks in different

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[1] Financial Year 2013–14 refers to the year from April 2013 to March 2014.

[2] INR stands for the currency of India: Indian rupee, 1 crore = 10 million.

[3] For all conversions from Indian rupee to euro in the thesis, 1 € = INR 80, exchange rate is considered.

business fields in which Blamer Lawrie is operating and adopt appropriate strategies to combat the same. The conglomerate should manage its diversified portfolio efficiently to sustain in the future. Leinwand and Mainardi (2012) explain "The trick with conglomerates is to manage those diverse businesses in ways that create meaningful and relevant scale". The top management has to decide about allocation of resources and investment plans in different business units appropriately so that the conglomerate in overall can grow.

Purpose of the thesis. The purpose of the thesis is to study the different business activities of the Indian conglomerate Balmer Lawrie in detail. This thesis will explore the theoretical framework for various types of diversification including conglomerate diversification along with its different aspects. This thesis will contribute to the conglomerate's growth and business performance by providing recommended strategies to become competitive and sustainable in the growing Indian market by managing its diversified portfolios. I will provide recommendations after due analysis of different SBUs of the conglomerate that will help the top management to reshape the strategies. This thesis will raise issues on which the top management of the conglomerate should draw immediate attention.

Objectives (goals) of the thesis. The objectives of this master's thesis are the following:

a) to analyse the theoretical background of diversification including conglomerate diversification,
b) to scan the Indian business environment in which Balmer Lawrie is operating,
c) to analyse the overall performance trend of the conglomerate Balmer Lawrie,
d) to critically study and analyse the performance, future prospects, opportunities, risks and threats associated with different SBUs of Balmer Lawrie in the framework of SWOT analysis,
e) to carry out portfolio analysis of Balmer Lawrie,
f) and to provide strategic recommendations based on the analysis.

Research methodology. Diversified firms have been the destination of researchers for the last few decades. Every researcher has tried to add new aspects to this concept. As a consequence, a lot of literature is available in this field. I will carry out this research based on secondary data only. Structured interviews with the top managers of different SBUs of Balmer Lawrie and Chairman-cum-Managing Director (hereinafter: CMD) would enrich this research. However, it is not possible to carry out structured interviews from Slovenia. So, a major limitation of the research will be the unavailability of primary data. Published literature such as books on strategic management, scientific as well as business journal papers will be used to provide a theoretical framework answering theoretical questions. Publications from different industries, industry associations, and the respective ministry of the Government of India will be used to scan the business environment in which Balmer Lawrie is operating. Annual reports and financial results published by Balmer Lawrie will be used to analyse the performance trends of Balmer Lawrie. Other secondary data will be collected from the official website of Balmer Lawrie and from the managers of Balmer

Lawrie to study and analyse different business functions of the conglomerate. With the help of theoretical literature available on portfolio analysis and based on the data available from Balmer Lawrie, portfolio analysis will be carried out. As only secondary data will be available, the BCG growth share matrix will be used as portfolio analysis model. Different financial parameters/outcomes will be calculated based on segregated results of the SBUs to place them in the appropriate window of the portfolio matrix. With the aid of the above mentioned analyses, strategic recommendations will be given to the management of Balmer Lawrie.

I have defined the research problem along with critical literature review. Introduction of the thesis also presents purpose and objectives of the research and research methodology. A detailed outline of the thesis is provided below:

Chapter 1 deals with the theoretical background of conglomerate diversification. I have built the concept of conglomerate diversification. It discusses the different kind of growth strategies implemented by corporations. This chapter also addresses the concept of portfolio analysis along with different models used to carry out portfolio analysis. It ends with a brief discussion on advantages and disadvantages of portfolio analysis. **Chapter 2** starts with an overview of Balmer Lawrie. It discusses present business activities of the conglomerate, its subsidiary and JVs. I have introduced organisational structure and shareholding pattern of the company in this chapter. This chapter ends with structured industry analysis in the framework of Porter's five forces model. **Chapter 3** focuses on financial and non-financial performance analysis of Balmer Lawrie with specific reference to the memorandum of understanding (hereinafter: MoU) ratings. **Chapter 4** deals with SWOT analysis of each business activity of Balmer Lawrie. I have also carried out portfolio analysis of the conglomerate in this chapter. **Chapter 5** attempts to summarise the findings of the analyses and provides recommendations. The conclusion of my thesis follows this chapter.

1 THEORETICAL BACKGROUND OF CONGLOMERATE DIVERSIFICATION

This chapter deals with theoretical background of diversification strategies including conglomerate diversification. I have built the concept of portfolio analysis. Four different models used to carryout out portfolio analysis are also discussed.

1.1 Concept of diversified conglomerate

The concept of conglomerates has started a long way back, just before the twentieth century mainly in the US through the mergers and acquisition of corporations. Through the years, researchers tried to provide a complete definition of the conglomerate in many literature sources. When a corporation engages in greatly distinct business activities which produce different products and, or offer different services that are not related, the corporation is called a conglomerate. Jacoby (1970, p. 35) defines conglomerate as a business entity which produces products or services which come under various industries not linked with respect to usage of input materials, production process, usage of technology, marketing strategy and distribution channel. Conglomerate diversification occurs when a firm expands its business into a completely different line of business. Diversification is done by using knowledge and resources developed in-house or by acquiring another firm which is already in that particular business and has know-how, experience and position in the industry. In another way, a conglomerate can also be defined as an alliance or set of firms of unrelated business activities controlled by a single corporate group (Conglomerate (Company), n.d.a). So, conglomerates are multi-industry companies.

A focussed business firm thrives to become a conglomerate to pursue different objectives. Conglomerates are a moderate but very stable source of profit. Conglomerates try to lower transaction costs by utilizing surplus productive resources through diversification instead of selling those assets (Chatterjee & Wernerfelt, 1991, p. 33). Metal producing companies diversify into processing and selling of the final product of by-products produced during the extraction of the metal. Many times a firm goes for diversification to issue new debts as conglomerates are less-susceptible to bankruptcy. Firms choose to diversify for better risk management. Availing tax advantage is also one of the reasons (Livnat & Amit, 1988, p. 593). Conglomerates aim to control internal factors and effect external factors through diversification. However, external environmental factors cannot be controlled. A poorly managed portfolio and the absence of synergies among different products or business units can erode the value of conglomerates appreciably.

GE founded in 1892 is one of the largest multinational conglomerates in the world based in the US. GE is doing business in more than 170 countries worldwide with a strong presence in aviation, home appliances, energy infrastructure, healthcare, capital market, transportation and business solutions (Said, 2013). Reliance Industries Limited is one of the largest and growing conglomerates in India. Its wide range of business activities includes exploration and production of crude oil, refining and marketing of crude oil, different petrochemical products such as polymers, polyesters, elastomers, textile and consumer retailing. Tata group established in 1907 is another much-respected conglomerate present in the following business sectors: information technology and telecommunication, engineering, materials including steel, services, energy, logistic, consumer products and chemicals in more than 100 countries across the world (Conglomerate Companies of India, n.d.b). In India, the trend of becoming a conglomerate is still very popular.

1.2 Diversification as growth strategy

Corporations implement growth strategies to increase the market share, profit and assets. In their book, Wheelen and Hunger (2011, pp. 208–215) classify the growth strategies as below:

Concentration:

a) Vertical growth:
   - Backward integration,
   - Forward integration;

b) Horizontal growth.

Diversification:

a) Concentric,
b) Conglomerate.

When a corporation's existing line of business has prospective growth opportunities, then it is suggested to adopt concentration as the growth strategy before going for diversification. Vertical growth and horizontal growth are two types of concentration strategies. When a firm intends to grow in a growing economy and industry, then it should follow concentration strategies. Vertical growth can be pursued by starting activities that were earlier performed by the firm's supplier and clients or distributors. Backward integration refers to performing the activities that were earlier performed by the firm's supplier. It means reverting backward in the value chain of the industry. Performing functions that were earlier carried out by the firm's distributors or clients is called forward integration or moving up in the value chain. A mini steel rolling company gets cast raw material called semis (ingots, billets and slabs) from steel producers and produces finished steel, namely flat products (hot rolled coils, cold rolled coils) and long products (structural sections, rebars, wire rods and bars). If the company intends to expand its business activities, it can invest in installing an electrical arc furnace and caster to produce semis on its own. This is an example of backward integration. Otherwise, the company can go for forward integration to produce nails, wires, wire ropes from wire rods in the case of long products or can produce components for automotive, white goods industry, corrugated sheets, etc. from cold rolled steels in the case of flat products. Horizontal growth of a firm can be achieved by adding new related products to its existing product portfolio or expanding the business to new locations. SBU: T&T of Balmer Lawrie achieves horizontal growth by opening new travel offices in various locations across the country. SBU: G&L is achieving horizontal growth by adding a new grade of lubricants to its existing product portfolio.

When an industry becomes saturated and mature, growth rate becomes nil. A firm operating in that industry will have very limited concentration opportunities. Under the circumstances, if the firm intends to grow, then it must diversify into other industries that are growing. Conglomerate and concentric are two types of diversification strategies. Often firms diversify into areas that are related to their existing line of business or products but belong to a different industry. In management terms, it is classified as concentric or related diversification. Companies which are the market leader in any industry are more successful than companies who are followers in the case of concentric diversification. Companies try to have a strategic fit of in-house skill, abilities, leadership style used in the existing industry with the new industry (Wheelen & Hunger, 2011, p. 214). US based company Toro, founded in 1914, used the company's existing in-house skills, manufacturing experience and marketing strategies to sell the new product (snow blowers) besides the existing product (lawn mowers).

If the current industry is unattractive, consolidated, and the firm lacks inherent excellent skills, abilities that can be translated to other related businesses, then unrelated diversification is the only option left for the firm. As defined earlier, unrelated or conglomerate diversification is a strategy to start a business in new industries unrelated to the existing business of the firm.

1.3 Advantages and disadvantages of conglomerate diversification

Rosset (2012, pp. 29–30) discusses various advantages and disadvantages of conglomerate diversification as below:

1.3.1 Advantages of conglomerate diversification

The objectives of forming conglomerates are the major advantages.

a) The management of a firm tries to minimize risks. In a turbulent business environment, diversification into non-related industry spreads the risk. It offers shields against failure of one product or market. High business growth of one SBU can compensate the slowdown of business of the other SBU. For example, during the slowdown of the manufacturing sector, the reduced turnover of SBU: G&L of Balmer Lawrie can be compensated by SBU: LS. Negatively correlated business cycles of two products will lead to gain stable return. The Ariens Company manufactures and sells both lawn mowers and snow blowers. When the sale of lawn mowers goes down in winter, it is countered by growing sales of snow blowers. Thus, overall sales of the company are steady (Conglomerate (Company), n.d.a).

b) A conglomerate can develop a pool of its internal resources. It can allocate capital effectively utilising the internal market. Schoar (2002, p. 2401) claims that diversified firms are more productive than stand-alone firms.

c) Investors and bankers consider conglomerates as stable organizations. Financers issue more debts to conglomerates than to single product firms.

d) A conglomerate can escape from one SBU if business opportunity of that SBU becomes doom and is making losses. In 2013, the conglomerate shut down the operation of SBU: Tea as it was making losses for the past several years.

e) Through unrelated diversification, a conglomerate can gradually switch to an attractive and profitable industry. As the profitability of manufacturing businesses is not so high, Balmer Lawrie is looking forward to increasing the operation of the profitable business of SBU: LS.

f) A conglomerate enjoys economies of scale when the same top managers look after different businesses. Per unit cost of advertisement, central infrastructure such as information technology, human resource, computers, administration, etc. also reduces.

1.3.2 Disadvantages of conglomerate diversification

A conglomerate has to pay the price to avail the above mentioned advantages. I analyse some notable disadvantages below which cause failure of many conglomerates:

a) Sometimes an extra level of the hierarchy is created to look after all businesses at the top management level which increases the costs (Conglomerate (Company), n.d.a).

b) Each SBU of a conglomerate intends to pursue its goals which may also be conflicting. Strong top management of a conglomerate should take decisions for the success of the overall organization. Failure of one business unit may hamper business of other units.

c) Lack of uniform identity and a common goal is the inherent weakness of the conglomerate. At times, conglomerates are less innovative than focussed firms.

d) If a firm intends to diversify into unrelated business by acquiring another firm, then there can be conflict of interests, cultures and working procedures between the two firms.

e) Lack of experience to manage conglomerates is one of the causes of failure of conglomerates worldwide. Inability of managers to manage different unrelated businesses effectively also hampers the performance.

f) If a firm diversifies into growing industries that have high P/E ratios, then shareholder earnings can be diluted due to reinvestment.

g) In annual reports, conglomerates tend to disclose the figures in groups rather than separately for each SBU. Management uses this technique to hide specific problems of an SBU. Investors, shareholders and analysts, find it difficult to compare the figures with other single product firms (Conglomerate (Company), n.d.a).

h) Shares of conglomerates may trade in the market at discounted value compared to the individual value of SBUs due to “conglomerate discount” phenomenon because investors think they can diversify their stock portfolio in a better way by buying multiple stocks of many focussed firms.

1.4 Concept of portfolio analysis

Companies with different business units or products should manage their portfolio effectively to foster overall performance of the corporation. Portfolio analysis is a strategic tool which helps conglomerates to shape its corporate strategies. Starting from mid-1960 this strategic tool has become increasingly popular to lay the growth plan of corporations. It is widely used by Fortune 500 firms to take major corporate strategic decisions. Portfolio analysis is carried out with a conglomerate’s different business units or products to determine the proper allocation of resources of the conglomerate among its SBUs or products. Different business units or products can be considered as a portfolio of investments from which returns are expected (Wheelen & Hunger, 2011, p. 220). Management should wisely play with those investments to achieve the best possible return from the portfolio.

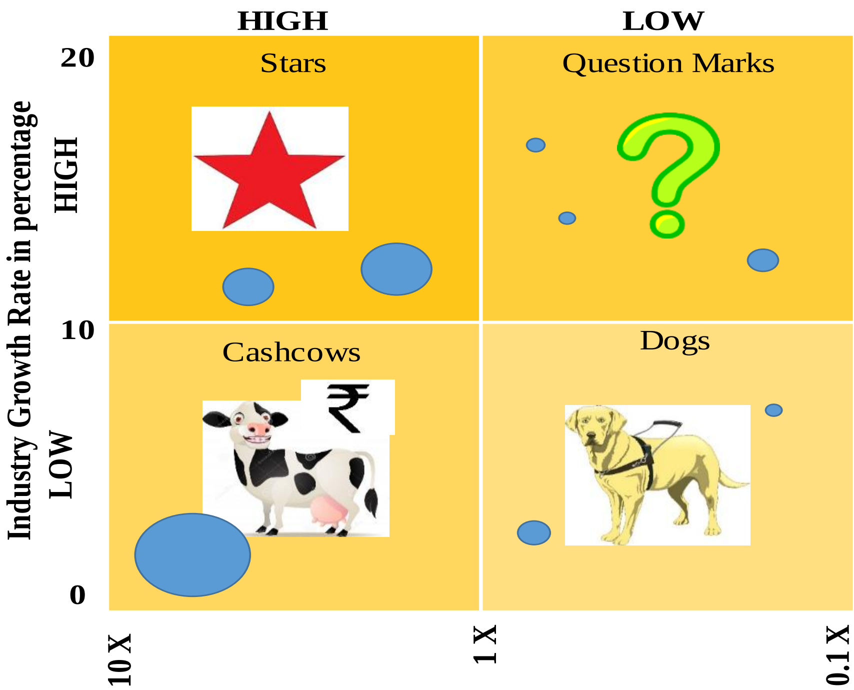
1.5 Different portfolio analysis models: Advantages and disadvantages

Conglomerates use different portfolio analysis models such as the BCG growth share matrix, GE business screen, Arthur D. Little (hereinafter: ADL) strategic condition matrix (hereinafter: SCM) and Shell directional policy matrix (hereinafter: DPM). Among these, the BCG growth share matrix, followed by the GE screen matrix are very popular.

1.5.1 BCG growth share matrix

This matrix is the simplest tool to analyse the portfolio of a corporation. The horizontal axis of the matrix denotes relative market share of an SBU or a product in the relevant industry. Relative market share is calculated by dividing the market share of an SBU or a product with the market share of the largest competitor operating in the industry. If the relative market share is more than one, then the SBU or product is the market leader in the industry. The vertical axis refers to the growth rate of the industry and reflects the sense of industry attractiveness. BCG places an SBU or a product on the matrix based on these two parameters. Relative market share of 1 is the borderline between high and low competitive positions. Market growth of 10% is another dividing line between high and low industry attractiveness. However, it can vary from industry to industry. SBUs or products placed in four cells of the matrix are awarded different status as shown in Figure 2.

Figure 2. BCG growth share matrix



Source: C. W. Hill and G. R. Jones, *Strategic Management: An Integrated Approach*, 2000, p. 351, Figure 10.1.

Question marks: Question marks or wildcats or problem children operate in a growing industry and need a lot of cash for increasing the market share. They need careful attention of the management. If they are developed properly by investing the cash generated from other units, they can become stars and market leaders in the industry. Though they have potential, sometimes they struggle to increase the market share and over the years they degrade to dogs when market growth slows down.

Stars: They are market leaders in a growing industry. They are self-sufficient as they can fund themselves to maintain high market shares. Products at the peak of their life cycle become stars. When the industry matures and growth rate declines, stars translate to cash cows if they still maintain their market leader position in the industry.

Cash cows: They earn far more cash than required for maintaining their market share as the industry becomes consolidated, and growth rate slows down. These SBUs or products are "milked" as much as possible to generate cash that can be used to finance question marks that are future stars. Over the time, cash cows become dogs when their market share reduces. However, this is not always true. Large divisions of reputed multinational companies (hereinafter: MNCs) act as cash cows in a mature industry. Still corporations invest to innovate new products and to create fresh demand making those dogs stars again.

Dogs: Dogs or pets are SBUs or products which hold low market share in a slow growing industry. They do not have the potential to increase market share. According to BCG's advice they should be either divested or handled carefully with a minimum amount of cash. However, this may not be always true. Dogs may have synergies with other SBUs or products. So, before divesting them deeper management analysis should be carried out.

Hill and Jones (2000, p. 352) and Udo-Imeh et al. (2012, p. 115) brief the utilities and pitfalls of the BCG matrix:

Benefits: I have provided the benefits of the BCG growth share matrix.

a) It is easy to perform and use the matrix.
b) Quantifiable data are used to perform the analysis.
c) Based on the outcome of this analysis, management can carry out a deeper analysis of a specific SBU or product.
d) It helps top management to understand the strategic status of SBUs or products.

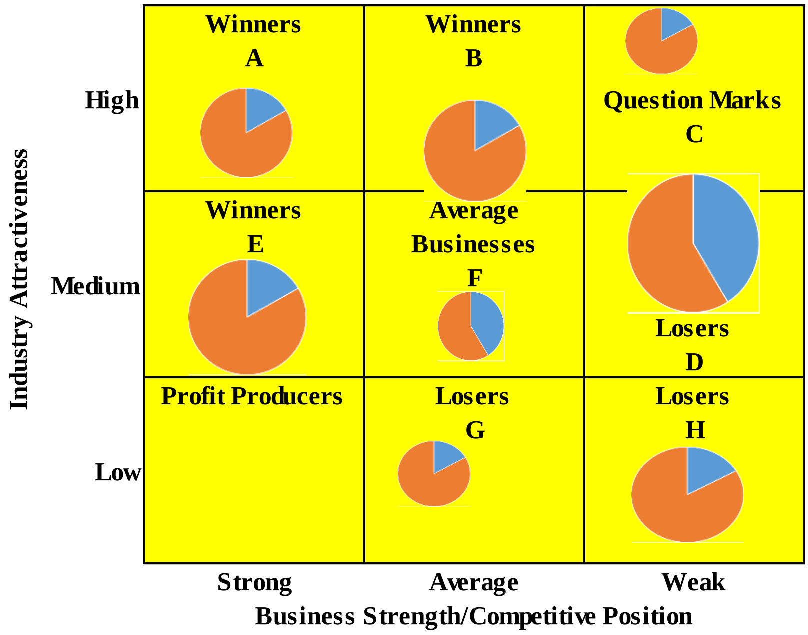
Limitations: I have discussed the limitations of the BCG growth share matrix as under.

a) This matrix is an over-simplification form of portfolio analysis.
b) Markets share is not the only factor of competitive position in the industry.
c) The relation between market share and profitability is very weak. An SBU may have low market share, but it may be highly profitable.
d) Industry growth rate is not the only aspect of industry attractiveness. There are other factors as well.
e) BCG matrix judges a business or product with respect to the largest competitor. BCG ignores small, fast growing competitors in this process.
f) It may be confusing to analyse an SBU if it gets stuck in between two cells of the matrix.

1.5.2 GE business screen

The conglomerate GE developed a more complex matrix with the help of consultant McKinsey and Company. This model has nine cells as shown in Figure 3. Each SBU or product is placed on the matrix based on two dimensions: industry attractiveness and competitive position.

Figure 3. GE business screen



Source: T. L. Wheelen and J. D. Hunger, *Strategic Management and Business Policy: Toward Global Sustainability*, 2011, p. 224, Figure 7–4.

To decide about industry attractiveness plotted in the vertical axis various factors such as industry growth rate, industry profitability, size of the industry, opportunities and threats persist in the environment are considered. Similarly, the horizontal axis represents business strength/competitive position. Business strength consists of market share, profitability, and technological ability and inherent strengths and weaknesses of an SBU. Each circle with a pie slice denoted by a letter on the business screen represents each SBU or product. The area of the circle represents proportionate size of the industry. Pie slices denote market share of the SBU or product line (Dobson, Starkey & Richards, 2004, pp. 102–104). Each cell in the screen has been awarded its status as mentioned in Figure 3. GE business screen is an improvement over the BCG growth share matrix.

Wheelen and Hunger (2011, pp. 224–225) and Udo-Imeh et al. (2012, pp. 108–116) discuss benefits and limitations of the model that are as under:

Benefits: I have briefed the benefits of the GE business screen below.

a) It is a superior tool over the BCG growth share matrix as it takes into account more variables.
b) It does not lead to a simplistic conclusion as the BCG matrix does.
c) The matrix allows intermediate rankings between high/low and strong/weak.

Limitations: Benefits of the GE business screen come at the cost of certain limitations as mentioned below.

a) It can be very complex and rigorous.
b) Business screen involves qualitative analysis (scoring on a scale of 1 to 5). So in reality the judgement differs from person to person.
c) It does not correctly depict the position of new growing SBUs or products in a fast growing and attractive industry.
d) GE does not specify any rules on how to put weights on different factors.

1.5.3 Shell directional policy matrix (DPM)

Shell directional policy matrix is another tool similar to the BCG matrix used for portfolio analysis. The nine celled matrix as shown in Figure 4 was developed mainly for the petrochemical industry. The vertical axis denotes the company's competitive capabilities. The horizontal axis represents the prospects for sector profitability. A company's competitive capability is classified as weak, average and strong. Business sector profitability is classified as unattractive, average and attractive. Ionescu (2012, pp. 229–233) explores different aspects of the DPM in detail with advantages and disadvantages of this model vis-à-vis another model. Prospects for sector profitability are determined based on factors, namely market growth rate, industry scenario and environmental issues, etc. A company's competitive capability is evaluated based on market share, product research and development and production capability, etc. Each cell of the matrix implies a specific strategic decision as indicated in the cells.

Figure 4. Shell directional policy matrix

		Prospects for sector profitability		
		Unattractive	**Average**	**Attractive**
Company's competitive capability	**Weak**	Disinvest	Phased withdrawal Custodial	Double or quit
	Average	Phased withdrawal	Custodial Growth	Try harder
	Strong	Cash generation	Growth Leader	Leader

Source: G. Drummond and J. Ensor, *Strategic Marketing: Planning and Control*, 2001, p. 102.

Benefits: I have discussed the benefits of the Shell DPM below.

a) Though Shell developed this matrix for the petrochemical industry, it is flexible enough to customize for another industry.
b) One can easily interpret the result of the analysis.
c) Managers can consider various factors in determining two dimensions: competitive ability and profitability.

Limitations: I have briefed the limitations of the Shell DPM as under.

a) Shell suggests putting equal weight on the factors. This equal weighting may not work for other industries or corporations.
b) Accurate information about competitors and clearly defined domain of the market are required to evaluate the correct position of the SBU.
c) Researchers criticize this model as it is not able to provide guidelines on implementation of the strategy, noted in the cells of the matrix.

1.5.4 ADL strategic condition matrix (SCM)

Arthur D. Little, a consulting firm, developed the strategic condition matrix (see Figure 5).

Figure 5. ADL strategic condition matrix

Industry Life Cycle Stage

Competitive Position	Introduction	Growth	Mature	Decline
Dominant	1. Rapid development 2. Act offensive	1. Rapid development 2. Act offensive 3. Defend position 4. Cost leadership	1. Act offensive 2. Defend position	1. Defend position 2. Focus 3. Consider retreat
Strong	1. Rapid development 2. Differentiation	1. Cut costs 2. Differentiation 3. Attack small competitors	1. Cut costs 2. Differentiation 3. Focus	1. Harvest
Favourable	1. Rapid development 2. Differentiation	1. Cut costs 2. Differentiation 3. Attack small competitors	1. Cut costs 2. Differentiation 3. Attack small competitors	1. Harvest
Tenable	1. Market development 2. Focus	1. Maintain or retreat 2. Identify a niche 3. Aim growth	1. Maintain or retreat 2. Identify a niche	1. Retreat
Weak	1. Identify a niche 2. Follow the competitors	1. Identify a niche	1. Retreat	1. Retreat

Source: M. S. Wilson and C. Gilligan, *Strategic marketing management: Planning, implementation and control*, 2005, p. 378, Figure 9.10.

Tudor and Valeriu (2011, pp. 754–758) analyse various aspects of this portfolio model in their paper. Industry life cycle and competitive position are the two dimensions of the model. The matrix categorizes each of the dimensions further as shown in the matrix in Figure 5. External environmental measure is an aspect of the life cycles, which consists of introduction, growth, maturity and decline. Competitive position of an SBU can be determined using four factors as under: supply factors (long-term contracts and labour costs), production factors (production flexibility and capacity, experience and technical skills), commercialization factors (power and quality of distribution network, credit conditions, product-image, product-range and market share) and financial factors (profitability, financial stability, cash flow and technological protection). Like in other models, in this matrix SBUs are also represented by plotting proportionate circles. Pie slice denotes market share. A major advantage of this model is that it fits in all situations.

Limitations: Udo-Imeh et al. (2012, p. 116) analyse some criticisms of the ADL matrix as provided below.

a) Some factors employed to evaluate competitive position are qualitative in nature, and it can vary widely from person to person.
b) It is difficult to standardize the length of life cycle of the industry.
c) This matrix ignores many aspects that may "generate long-term involution in the products life cycle of a company".

1.5.5 Advantages and disadvantages of portfolio analysis

Wilson and Gilligan (2005, pp. 379–382) and Wheelen and Hunger (2011, p. 225) discuss various utilities and shortcomings of the portfolio analysis which is widely used by conglomerates.

Advantages:

a) Portfolio analysis helps top management of the corporation to analyse all SBUs, set targets for each SBU and allocate resources (time and money) among SBUs.
b) Data from the external environment are used in correlation with internal data to place SBUs in an appropriate strategic location.
c) It helps the corporation to assess the availability of cash to plan for expansion of SBUs.
d) Pictorial presentation of the analysis results in strong communication.

Disadvantages:

a) It is difficult to define the boundary of the industry. Change of market domain can change the status of an SBU in the matrix.

b) Some data used in the analysis are subjective and qualitative by nature. So there can be biases.
c) It recommends the application of laid down strategies which may overlook the real opportunities.
d) Many portfolio analysis models do not specify about the lifecycle of a product or an SBU.
e) If management does not carry out the analysis properly, a decision taken based on it can hamper the corporate performance.

2 BACKGROUND OF BALMER LAWRIE

This chapter provides an overview of the conglomerate including its rich history, present business activities, organisational structure, manpower strength and shareholding pattern. It also provides an in-depth structured industry analysis of the industries in which the conglomerate is operating.

2.1 Overview of the conglomerate

Balmer Lawrie was set up as a partnership firm by two Scotsmen, Alexander Lawrie, and Stephen George Balmer. The founders established the company on 1st February 1867 as a trading and managing agency firm in Calcutta (presently Kolkata), India when India was under British rule. Before 1857, East India Company had the sole and exclusive rights to commerce and industry in India by the charter of the British Government. Private traders were not allowed to trade without the permission of East India Company. In 1858, the charter of East India Company ended, and all power and control of India was passed in to the hands of the crown of England. With the end of East India Company's monopoly era, a lot of British traders flocked to India. Many companies registered that time, though very few survived in the long run. Both founders of Balmer Lawrie came to India at that time. The main objective of forming the partnership company as stated in the original partnership agreement was: "That the Partnership business shall consist wholly and solely of commission transactions." The choice of the business at its birth was influenced by two important aspects: the background of the partners and business opportunities available in India that time. In later years, "commissioning transactions" were extended to the tea garden agency, shipping agency and managing agency. Later, Balmer Lawrie invested in acquiring a tea estate and started a tea business complete up to tea processing, bagging and direct selling. Balmer Lawrie started to work as an agent of tea companies whose owners were mostly in London. Balmer Lawrie started trading operation in small scale. The initial products for trading were kerosene, tea lead, tea seeds, drugs, chemicals, pharmaceuticals, blankets, wines and spirits, apparels, lubricating oils, steel, paints, etc. Balmer Lawrie ventured into clearing, forwarding and shipping business. It also started its travel business through all modes such as sea, air and train. In the nineteenth century, Britain was considered “The workshop of the world”. Raw materials were flowing from India to Britain and again finished goods were returning back to the Indian market. The British community of businessmen in India was limited. The so-called “managing agents” were the nucleus around which clusters of managed companies were promoted. The managing agent could have been a private firm, but managed firms were essentially limited companies so that the risk of the investors was limited to share capitals. At the end of the nineteenth century Balmer Lawrie became a managing agent for many reputed companies such as Bengal Paper Mill Company, Crystal Ice Supply Company, New Beerbhoom Coal, etc. Balmer Lawrie also acted as a banking and insurance agent. At the start of the nineteenth century, Balmer Lawrie entered into manufacturing business by starting grease production near the then Calcutta, India. Gradually it started manufacturing barrels and other containers. Balmer Lawrie ventured into different businesses such as manufacturing of liquefied petroleum gas cylinders, stove ovens, anti-oxidants and functional additives, oil refinery, manufacturing of office and logistic containers. Balmer Lawrie also escaped from many businesses as and when required. It has stood the test of time through its long journey. On 1st January, 1924 it became a private limited company with share capital of INR 40 Lac. Subsequently on 6th of January, 1936 it became a public limited company. In 1972, it came under the administrative control of MOPNG as a subsidiary company of IBP Company Limited[4] (Sinha, 1993, pp. 5–100). The ministry has obtained the authority from the seventh schedule of Article 246 of the Constitution of India. In 1987, it was rated as schedule B public sector enterprise (hereinafter: PSE). In 2001, major holding of Balmer Lawrie was transferred to Balmer Lawrie Investments Limited (hereinafter BLIL) when the merger of IBP Company Limited with another major oil PSU Indian Oil Corporation Limited (hereinafter: IOCL) took place. Balmer Lawrie is listed in the two major stock exchanges in the country: Bombay Stock Exchange and National Stock Exchange. Gradually it improved its performance and was awarded [5]*Miniratna I* status by the Government of India (Balmer Lawrie & Co. Ltd. – About us: History, 2014a). Over the years, Balmer Lawrie has maintained a diversified portfolio of businesses broadly classified into two sectors: manufacturing and services. The conglomerate designates each significant business as an SBU. Presently, Balmer Lawrie is functioning thorough seven SBUs. I have briefed activities of all the SBUs in the next sub-section. The conglomerate’s registered office is at 21 Netaji Subhas Road, Kolkata – 700 001.

Vision: Given below is the vision statement of Balmer Lawrie (Balmer Lawrie & Co. Ltd. – About us: Vision. 2014e):
“To be a leading diversified corporate entity having market leadership with global presence in the chosen business segments, consistently delivering value to all stakeholders with environmental and social responsibility.”

[4] IBP Company Limited stands for Indo-Burma Petroleum Company Limited.

[5] The Government of India categorizes all PSUs into four categories: *Maharatna, Navratna, Miniratna I* and *Miniratna II* based on size, profitability and net worth.

Mission: Given below is the mission statement of the conglomerate:
"To gain market leadership in all business segments, making them robust through innovative business process, selective restructuring, efficient use of resources, and imparting a very high level of customer service. In this journey, foster a century old tradition of deep rooted commitment to business values, employee pride in the organization and inclusive growth."

The conglomerate is quite communicative and focussed in its vision statement. The vision statement is also broad enough to include all perspectives. Balmer Lawrie dreams about becoming a leading conglomerate with the highest market share in selected industries. With the increase of worldwide trade opportunities the world is becoming borderless. The conglomerate eyes to have a notable presence globally. The vision statement also reflects its commitment towards greater community and environment. Its mission statement is concise, and action oriented. It also communicates about how it is going to achieve its vision. However, it is imperative that diverse business functions of the conglomerate align their goals with the vision of the organization. Integrating individual interests with the organizational priorities will be the key for success. As vision and mission statements do not specify any specific business, each SBU should frame its vision or measurable goals in alignment with organisational vision and mission.

2.2 Manufacturing businesses

The conglomerate operates three SBUs in manufacturing sectors as discussed below:

2.2.1 SBU: Industrial Packaging (IP)

Industrial packaging refers to metal, plastic and paper packaging products used for bundling, protecting and storing, shipping and transporting of goods. The scope of industrial packaging application is extremely diverse and covers a wide spectrum of products from tankers, bulk containers to drums and small cans. Balmer Lawrie is India's largest manufacturer of mild steel drums holding the largest market share (around 40%) in the country in the steel barrel market, but overall market share is around 1.5% considering all kinds of packaging (Balmer Lawrie & Co. Ltd., 2010, pp. 11–12). Balmer Lawrie has a distributed manufacturing base with factories in various locations across India. It has manufacturing plants in Mumbai (Maharastra), Chennai (Tamilnadu), Kolkata (West Bengal), Asaoti (Haryana), Chittoor (Andhra Pradesh) and Silvassa (Dadra and Nagar Haveli). In this year, the conglomerate has successfully started the operation of a newly set up high throughput automated barrel manufacturing plant at Taloja near Mumbai (Maharastra). Balmer Lawrie produces barrels which are of different range of various thicknesses to suit different types of applications or products (solid and liquid), type of pouring (hot or cold), stacking (cylindrical or conical), etc. Product ranges of this SBU are (Balmer Lawrie & Co. Ltd. – Product and Services, 2014f):

a) plain steel drums (tight head & open head),
b) lacquer lined drums (tight head & open head),
c) galvanized drums,
d) composite drums
e) internally painted drums and
f) other value added drums.

The SBU produces steel barrels of 200/210 litre capacity. Customers of the SBU use barrels mainly for storage of greases and lubricants, different type of additives, food and fruit products, various chemicals, other petroleum products like bitumen or bituminous products.

2.2.2 SBU: Greases and Lubricants (G&L)

Balmer Lawrie is the pioneer in India in grease production. Over the years, it has added also different lubricants in its range of products. Balmer Lawrie is the largest grease producer in India and has a market share of around 24%. The conglomerate is one of the largest grease producers in the Asian subcontinent. However, in lubricating oil the market share is very low (around 2.9%). Overall the market share of the SBU is around 2.5–3% in the lubricant industry (Balmer Lawrie & Co. Ltd., 2013a, p. 41). SBU: G&L achieved excellence through high performance, product innovation and superior quality. The SBU has its manufacturing facilities in Kolkata, Mumbai, Silvassa and Chennai. State of the art research laboratory named “Application Research Laboratory” (hereinafter: ARL) located in Kolkata aptly complements its businesses. Automotive, industrial and speciality greases and lubricating oils are marketed under the brand name “Balmerol”. The product range in grease includes multipurpose greases, extreme pressure greases, temperature resistant greases, etc. The product range in lubricating oil includes rolling oils, hydraulic oils, gear oils, transmission oils, compressor oils, engine oil, etc. The SBU also manufactures gear compounds, bituminous lubricants, esters of different grade and wax base wire rope compounds. Steel industries, railways and mining, defence, power and cement industries are the major customers of the SBU. Balmer Lawrie is determined to maintain its standards of products and services with zero defects and quality assurance to achieve customer satisfaction (Balmer Lawrie & Co. Ltd. – Product and Services, 2014f). The SBU is following different standards like International Organization for Standardization (hereinafter: ISO) 9001:2000 and ISO 14001:2004. The manufacturing facility of the SBU in Chennai is accredited with Occupational Health and Safety Assessment Specification (hereinafter: OHSAS) 18001 standard. The SBU is focussing on biodegradable greases keeping commitment to the environment.

2.2.3 SBU: Performance Chemicals (PC)

The leather chemicals market includes chemicals leather goods producers use for tanning, dyeing, re-tanning and finishing of leather products, across various stages of the leather production process. They fall under three categories, namely beam house chemicals, wet-end chemicals (fat liquor, syntan, dyes) and finishing chemicals. Balmer Lawrie diversified into the leather chemical business in the mid-1980s. The conglomerate started commercial production of leather chemical in Chennai after successful development of a technology jointly with Central Leather Research Institute (hereinafter: CLRI), Chennai. After that, Balmer Lawrie has gone a long way and achieved many successes to become the market leader of synthetic fat liquors. Balmer Lawrie is currently operating only in fat liquors and syntans which is a market of about INR 320 crores in India. The conglomerate's current market share in fat liquors and syntans is about 25% and 9% respectively (Balmer Lawrie & Co. Ltd., 2013a, p. 43). Tanneries located across India are the customers of the leather chemical brand "Balmol" produced by the SBU. The SBU is expanding its leather chemical production facility in Chennai to add a new range of products. A few years ago, Balmer Lawrie expanded its chemical business into construction chemicals such as concrete admixtures, water-proofing compounds, curing compounds, additives, etc., targeting the construction and infrastructure industry. The state of the art research laboratory named "Production Development Centre" (hereinafter: PDC) located in Chennai equipped with all modern facilities is involved in developing new chemical products and improving the quality of existing products (Balmer Lawrie & Co. Ltd. – Product and Services, 2014f). Though the SBU has a production facility only in Chennai, it has "Technical Service Centres" spread in cities across the country such as Ambur, Ranipet, Kanpur, Kolkata, etc.

2.3 Service businesses

Balmer Lawrie is in service businesses through the following SBUs:

2.3.1 SBU: Tours and Travel (T&T) and Vacations Exotica (VE)

Balmer Lawrie started its travel business long back. Currently, it is one of the largest travel and tour service providers in India accredited by International Air Transport Association (hereinafter: IATA). Apart from regular ticketing services Balmer Lawrie also provides tailor-made customized domestic as well as international tour and travel solutions for its customers for personal holidays or official trips. The SBU is functioning from nearly 100 locations of 20 cities in India. Balmer Lawrie works almost 24/7 to provide dependable and cost wise competitive solutions to its clients (Balmer Lawrie & Co. Ltd. – Product and Services, 2014f). The conglomerate employs dedicated professionals to offer the best service to its customers. Major central government ministries and PSUs are the main clients of the SBU as Balmer Lawrie is also a PSU. Other than that, many autonomous bodies and corporate houses are also using its services.

Balmer Lawrie had recently acquired Vacations Exotica (hereinafter: VE), a branded private tour company. It is one of the largest international and domestic package tour providers in India. VE started operations in 2007 with a dedicated team of like-minded professionals. Its range of services includes tour and vacation planning, total travel management, visa service, travel insurance, exchange of money and much more. It has got around 118 travel professionals across 9 locations in the country. It has four associate offices including one also in the US (Balmer Lawrie, 2014). The conglomerate expects to redeem the expertise and brand value of VE to expand into the tourism business. I have treated VE as part of the SBU: T&T throughout my thesis. It is represented by 113 preferred partners. Presently the conglomerate treats VE as a separate SBU. But in the future it may get merged with SBU: T&T.

2.3.2 SBU: Logistics Services (LS)

From its inception Balmer Lawrie has been in the logistic business. Currently, this SBU offers a full range of logistics services for all types of cargo with reputed IATA recognized facility. Its expertise includes dealing with both inbound and outbound cargo consignment including regular, irregular (beyond normal dimensions), temperature-sensitive, perishable and hazardous consignments. Quick delivery across the country and all over the world is the key driver of the success story of the SBU. The conglomerate is expanding its horizon by making presence in aircraft chartering, air lifting sensitive, defence equipment to destinations all over the globe (Balmer Lawrie & Co. Ltd. – Product and Services, 2014f). Balmer Lawrie is determined to add cold chain services for foods and other goods which require conditioning. Balmer Lawrie is one of the prime ocean cargo operators of the country. It provides services such as non-vessel operating common carriers (hereinafter: NVOCC), multimodal transport operation, air export, ocean import/export, air chartering, vessel chartering, break bulk delivery, customs house agents (hereinafter: CHA), project cargo logistics management and turnkey execution.

2.3.3 SBU: Logistics Infrastructure (LI)

Over the years, Balmer Lawrie has developed its in-house infrastructure to support its logistic service business. The SBU operates three container freight stations (hereinafter: CFS) across the country, one each at Mumbai, Kolkata and Chennai, equipped with modern facilities. Warehousing and distribution facilities located at Coimbatore and Kolkata help to handle a whole range of cargo efficiently and quickly with safety. Customers of the SBU recognize the SBU for safe handling and on time delivery of cargo consignment irrespective of its complexity. It provides a range of logistic services to its customers such as (Balmer Lawrie & Co. Ltd. – Product and Services, 2014f):

a) carrying of containers to/from ports,
b) destuffing, storage and delivery,
c) delivery of full container load (hereinafter: FCL),
d) handling over dimensional and out of thickness containers
e) handling and monitoring of reefer containers,
f) handling and then storage of break bulk cargo,
g) general and bonded warehousing facility (covered and open),
h) consolidation and splitting of less container load (hereinafter: LCL),
i) dealing of cargo for exports,
j) and tracking of containers using radio frequency identification (hereinafter: RFID) and SMS facility.

All container freight stations of Balmer Lawrie have received accreditation of ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007.

2.3.4 SBU: Refinery and Oilfield Services (ROFS)

Oil refineries look for environment friendly services for prevention and recovery of hydrocarbon wastes. The SBU provides these services to refineries such as crude oil sludge cleaning services which include in-situ tank sludge cleaning (BLABO) and lagoon cleaning. It also undertakes other refinery services such as composites repair of tanks and pipelines and decontamination services. The SBU has designed and engineered the tank and lagoon cleaning system in-house. It can offer repair services such as caisson repair services, corrosion damage repair services, repair services of mild steel or stainless steel tanks, vessels, pipelines for product leakage, damaged lining, coating, etc. (Balmer Lawrie & Co. Ltd. – Product and Services, 2014f). The SBU looks forward to providing cost effective turnkey or EPC consultancy services for oil refineries adding value to those clients. Oil exploration and refining companies such as Oil and National Gas Corporation Limited (hereinafter: ONGC), Cairn, Hindustan Petroleum Corporation Limited (hereinafter: HPCL), Bharat Petroleum Corporation Limited (BPCL) and Chennai Petroleum Corporation Limited (hereinafter: CPCL) are the main clients of the SBU.

2.3.5 SBU: Tea

Balmer Lawrie was in the tea business starting from its establishment. At one time Balmer Lawrie used to manage tea gardens. However, SBU: Tea of Balmer Lawrie was engaged only in blending and packaging of tea. “Tarang” (tea bag) and “The Tea” (Darjeeling tea) were the two brands. The SBU was not performing well for the past few years. The conglomerate adopted a turnaround strategy in 2010 by revamping the SBU with the installation of an automatic tea blending machine and latest form-fill-seal machines to improve the quality. But still, the turnover and profitability of the SBU could not be improved. It was incurring losses year on year. Finally, the management decided to close down the activities of the SBU with effect from September 30th 2013 (Press Trust of India, 2013). Currently, Balmer Lawrie is engaged in disposing of the assets of SBU: Tea.

2.4 Joint venture companies and subsidiary of Balmer Lawrie

I have briefed the business activities of all joint venture companies and subsidiary of Balmer Lawrie below:

2.4.1 Balmer Lawrie (United Arab Emirates) LLC (BLUAE)

This joint venture company is a leading container manufacturer in the Gulf region. The company manufactures drums of mild steel, containers of different ranges of the tinplate material. Chemicals, pharmaceuticals, paints, lubricants and edible oils industries are among the major clients of the company. The company started in 1978 by the then ruler of Dubai, the late His Highness Sheikh Rashid Bin Saeed Al Maktoum. The company is located at Al Quoz industrial area of Dubai. Barrels manufactured by the company conform to international standards ISO 15750:2002, British Standard (hereinafter: BS) 814-1:1987, BS 2003:1987, European Standard (hereinafter: EN) 209:2000, EN 210:1986, American National Standards Institute (hereinafter: ANSI) MH2-1997, etc. The products also carry the United Nation certification for packaging of hazardous goods (Balmer Lawrie & Co. Ltd. – About us: Joint Venture Companies, 2014b). High level of quality, customer satisfaction and state of the art technology has elevated Balmer Lawrie (UAE) to become one of the major players in the respective industry.

2.4.2 Balmer Lawrie – Van Leer Limited (BLVL)

Though it started its journey in 1956 as Indian Flange and Manufacturing Company Private Limited, its holding pattern and line of business changed over the years. In 1993, it translated to a joint venture between Van Leer and Balmer Lawrie. Subsequently the company was renamed. The company manufactures different types of closure products used for packaging. It expanded its facilities to manufacture different kinds of plastic containers (open head drum – 210 litre, smart pack container/pail – 20 litre, blow moulded container – 100 litre and liner for composite drums). The company has got its manufacturing facilities in Turbhe near Mumbai, Chennai and Dehradun, Uttarakhand (Balmer Lawrie & Co. Ltd. – About us: Joint Venture Companies, 2014b). Apart from meeting domestic demand the company exports its products heavily to the Middle East and South East Asia.

2.4.3 AVI OIL India Private Limited (AVI-OIL)

It is a joint venture company formed between Balmer Lawrie, IOCL and NYCO S.A. France. The company started its journey in 1993. The company has got production facility at Piyala, Faridabad, Haryana. It produces high-end products aviation lubricants for the defence services, other aircraft operators and industrial sector in India. The company has a state of the art laboratory to extend its expert services to its customers (Balmer Lawrie & Co. Ltd. – About us: Joint Venture Companies, 2014b). The products have been approved by respective authorities such as the Directorate General of Civil Aviation (hereinafter: DGCA), the Centre for Military Airworthiness and Certification (hereinafter: CEMILAC), etc.

2.4.4 Transafe Services Limited (TSL)

Balmer Lawrie and ICICI Ventures formed this joint venture in 1994. The company provides leasing of domestic containers for movement by rail and road. It also manufactures dry van and specialized containers (project site containers). It has got manufacturing facilities at Coimbatore, Tamilnadu and Kharagpur, West Bengal (Balmer Lawrie & Co. Ltd. – About us: Joint Venture Companies, 2014b). BLVL bought 50% of the shares of the company from ICICI Ventures.

2.4.5 PT. Balmer Lawrie Indonesia (PT.BLI)

This joint venture company was set up in 2010 by Balmer Lawrie (UK) Limited (hereinafter: BLUK) and PT. Balmer Lawrie Indonesia (hereinafter: PT.BLI) to start production of greases and lubricants at Cikande Modern Industrial Estate, Indonesia (Balmer Lawrie & Co. Ltd. – About us: Joint Venture Companies, 2014b). It produces and supplies high quality, cost worthy greases and lubricants to petroleum companies as well as the end users of petroleum products.

2.4.6 Balmer Lawrie Hind Terminals Private Limited (BLHT)

Balmer Lawrie formed this joint venture with Hind Terminals Private Limited, an Indian logistics company headquartered at Mumbai, in the FY 2011–12. The objective of the formation of the joint venture is to operate and maintain a CFS in Chennai, which is very near to the existing CFS of Balmer Lawrie. BLHT has commenced its business in August 2012 in association with Balmer Lawrie.

2.4.7 Balmer Lawrie (UK) Limited (BLUK)

Balmer Lawrie (UK) Limited is the subsidiary of Balmer Lawrie, (100% owned by Balmer Lawrie) registered in the United Kingdom. Earlier it was involved in leasing and hiring of marine freight containers and tea warehousing, blending and packaging. The company exited from these businesses. It is currently utilising the resources to invest in other business opportunities. Accordingly, BLUK has invested in PT. BLI to become a co-owner of the JV company with 50% of paid up equity share capital.

Table 1 summarizes the percentage stakes of Balmer Lawrie in all of its JVs and subsidiary.

Table 1. Holdings in JVs

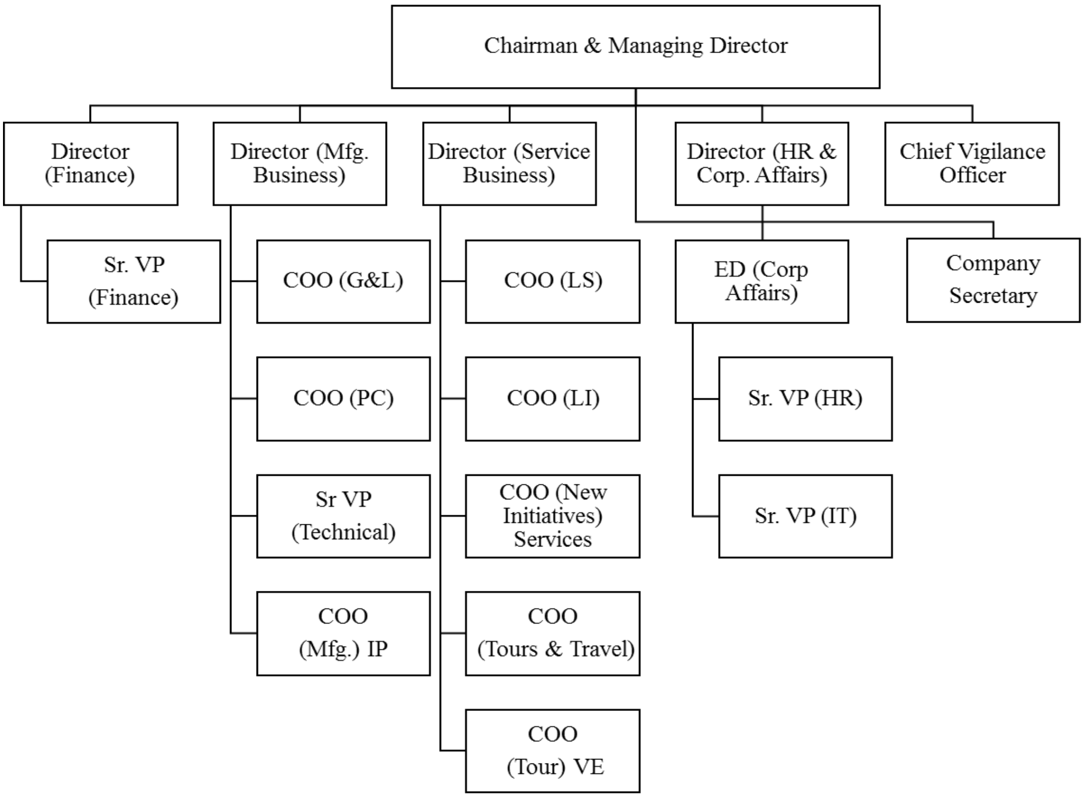
Sl. No.	Name of the Company	% of Stake
1	Balmer Lawrie (UK) Limited	100
2	Balmer Lawrie (UAE) LLC	49
3	PT. Balmer Lawrie Indonesia	50
4	Balmer Lawrie – Van Leer Limited	48
5	Transafe Services Limited	50
6	AVI Oil India Private Limited	25
7	Balmer Lawrie Hind Terminal Private Limited	50

Source: Balmer Lawrie & Co. Ltd., *Annual Report 2011–12*, 2012a, p. 76, pt. 26.24.

2.5 Organizational structure and manpower

Figure 6 shows the organizational structure for top management of Balmer Lawrie. Corporate functions such as finance, human resource, information technology, engineering and projects, new initiatives, corporate affairs and vigilance create synergies among various SBUs. Chief Operating Officer (hereinafter: COO) is the head of an SBU. Head of other corporate functions are designated as Senior Vice president. Both are at the same level in the organization that is grade E-8. Balmer Lawrie can carry out recruitments at all levels up to grade E-8. But selection and placement of personnel in the posts of Chairman, Managing Director or CMD (Level-I), and Functional Director (Level-II) in all PSEs including Balmer Lawrie is carried out by the Public Enterprises Selection Board (hereinafter: PESB), a high powered body constituted by the Government of India. Government of India also appoints Chief Vigilance Officer through the Department of Personnel & Training. Presently Board of directors of Balmer Lawrie constitutes of CMD, four functional directors as shown in Figure 6, two directors nominated by Government of India and six independent directors. Parent ministry chooses independent directors for PSEs. Present government is in the process of reducing the number of independent directors of PSEs. Government of India controls the activities of PSEs through nominated and independent directors.

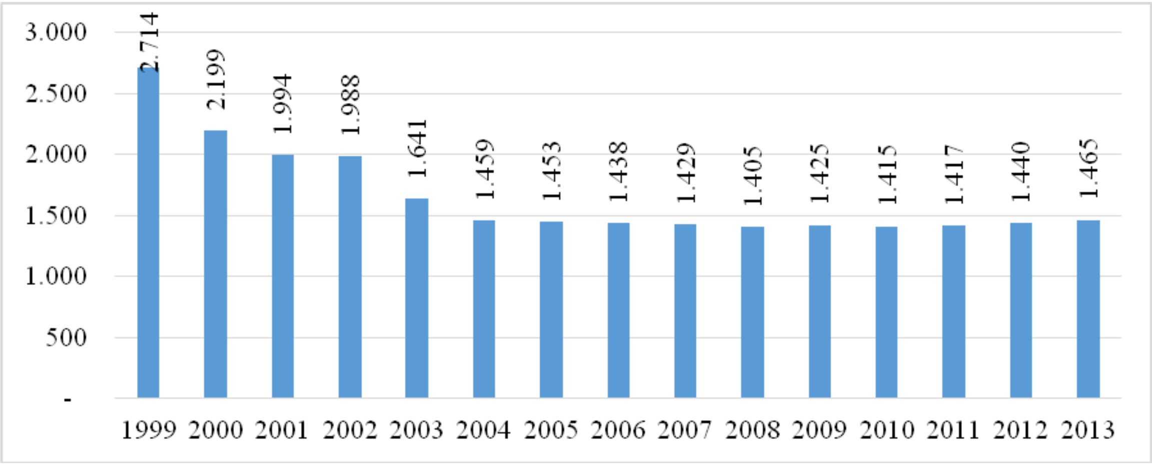
Figure 6. Organizational structure



Source: Adapted from Balmer Lawrie & Co. Ltd., *Presentation: Corporate Profile*, 2013b.

According to the record of 2013, besides permanent employees of around 1,465, more than 1,600 people were working in off role employed through job agencies. Figure 7 shows that a few years ago, the conglomerate reduced its manpower massively to reduce unnecessary burden of overheads (Balmer Lawrie & Co. Ltd., 2013b).

Figure 7. Manpower



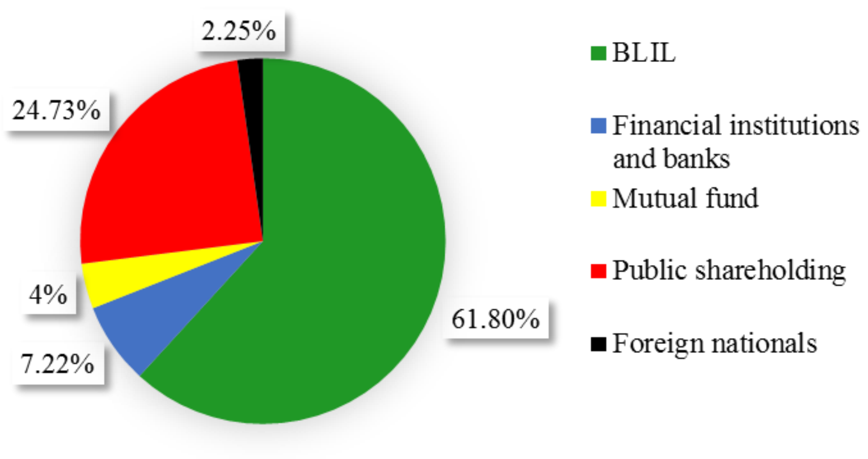
Source: Balmer Lawrie & Co. Ltd., *Presentation: Corporate Profile*, 2013b.

But to support and sustain present growing business activities the conglomerate needs to increase its manpower strength. For the last three years Balmer Lawrie has again started recruiting executives at different levels. For all public sector companies in India, induction of manpower starts at lower level. Graduate engineers and other professionals such as chartered accountants, MBA professionals are inducted from the colleges through campus selection procedures. Balmer Lawrie trains them for one year as graduate engineer trainee or management trainee. Upon satisfactory performance during the training period, trainees are absorbed as assistant manager (E-1 grade). The conglomerate inducts diploma engineers at supervisor level (S-1 grade) from the polytechnic colleges. Lateral entries at different levels of management are very low in public sector companies.

2.6 Shareholding pattern

BLIL was established by the Government of India as a non-banking financial company under the guidelines of the Reserve Bank of India to acquire the share of the company from IBP Company Limited. This company cannot indulge in any other business activities except holding 1,00,64,700 equity shares of face value INR 10 each (Balmer Lawrie & Co. Ltd., 2013a, p. 63). Presently the Government of India is the major shareholder of the conglomerate through BLIL. Reputed financial institutions, banks and retail investors are also the co-owners of the conglomerate. Figure 8 represents the shareholding pattern of the conglomerate in pictorial form. Each shareholder is eligible for one vote per share held. The dividend proposed by the Board of Directors is subject to the approval of shareholders in the ensuing Annual General Meeting. The Board of Directors has issued additional 1,22,14,560 bonus equity shares of INR 10 each on May 25th 2013, after obtaining the assent of the members. Pursuant to this change, the potential equity shares outstanding for the purpose of calculation of diluted earnings per share stands at 2,85,00,641 equity shares of INR 10 each.

Figure 8. Shareholding pattern as on 31st July, 2013



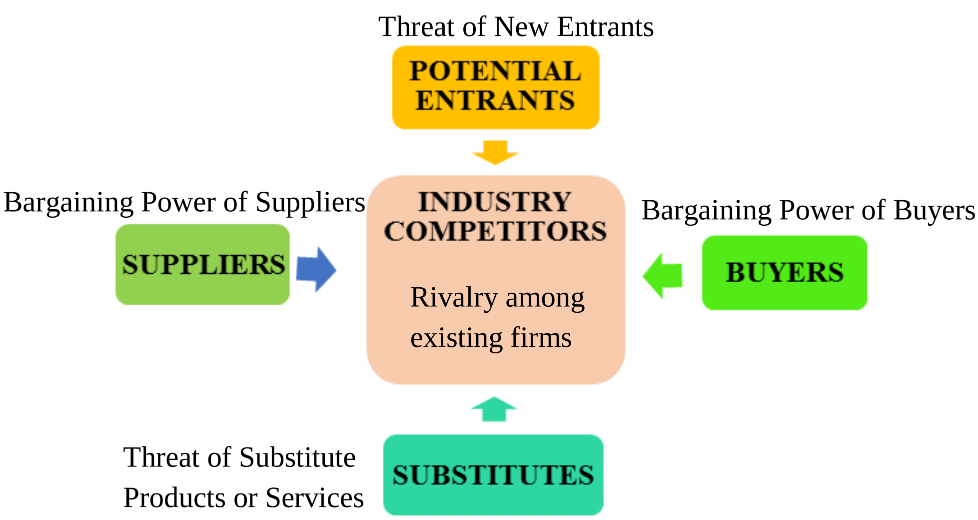
Source: Adapted from Balmer Lawrie & Co. Ltd., *Annual Report 2012–13*, 2013a, p. 36.

2.7 Industry analysis: Porter's five forces model

The Indian economy has seen spectacular growth in the last few years. Gross domestic product (hereinafter: GDP) growth reached 10.3% in 2010. Then it declined in the next two years due to the global slowdown. Again it is slowly peaking up. In 2013, the country attained reasonable GDP growth rate of 5% (The World Bank, n.d.). Presently the 12th five-year plan (2012–17) is being implemented. Under this plan, the Planning Commission, Government of India targets to achieve average GDP growth rate of 8% each year. However the government had to revise the GDP growth target due to the economic slowdown (Planning Commission, Government of India, 2012). Still the country has tremendous growth opportunities. Under such conditions, a conglomerate should explore every possibility to take advantage of the booming market.

Balmer Lawrie operates in various industries with the right mix of manufacturing and service industries. According to Porter (2004, pp. 3–7) each industry differs from the other in terms of profit potential. Competition in any industry depends on five competitive forces in the long run as shown in Figure 9. All five competitive forces collectively decide about the sustainability, profitability and intensity of competition of any industry. Knowledge of underlying sources of these competitive forces helps to find out strengths and weaknesses of the company that is also useful for consideration of diversification. Structural analysis of industries in which a firm is operating is the initial step in shaping the competitive strategy of that firm. Structural analysis of industries is carried out in the framework of Porter's five forces model so as to understand the competitiveness of each industry in which Balmer Lawrie is operating.

Figure 9. Forces driving industry competition



Source: M. Porter, *Competitive strategy: Techniques for analysing industry & competitors*, 2004, p. 4, Figure 1-1.

2.7.1 Threat of new entrants

Drum manufacturing industry is fragmented and populated in the country with small unorganized players present in the market. The Government of India issued guidelines for PSUs to procure barrels from micro, small and medium enterprises (hereinafter: MSME) which may encourage only small players to come into the market. Small unorganized players start their business in locations where a tax rebate is offered by the Government of India. Once the tax rebate scheme is withdrawn they shift their business to other locations. Small players reduce capital investment required to start new production facilities significantly with manual operations in the production process. **Lubricant industry** is fragmented though major PSUs such as IOCL, BPCL and HPCL and MNCs such as Castrol, Gulf, and Exxon-Mobil are controlling the market (about 80% of total market share) (Balmer Lawrie & Co. Ltd., 2010). The Government of India deregulated the lubricant industry in 1993. At that time, many players entered into the industry. Now the industry is highly competitive. Profit margin is shrinking. Consolidation of the market is taking place, and only large players will survive. New players will not be interested to enter this highly competitive mature market (Badgujar et al., n.d., p. 22). Business is moderately capital intensive. Economies of scale can increase the profit margin significantly. In **leather chemical industry**, compliance to strict international norms ISO, REACH acts as an entry barrier for new players especially in export. India exports 40% of leather chemical products produced in the country (Balmer Lawrie & Co. Ltd., 2010). Presently the government provides a tax rebate to promote export of finished leather goods. Due to this step along with the economic boom, a significant increase in the demand of leather products is expected which will uplift the demand of leather chemical products. New players may enter the market to take advantage of the growing market. Entry of foreign players is quite restricted due to government regulations on foreign direct investment (hereinafter: FDI) in the retail sector in **travel and tourism industry**. Entry barriers in the industry are very low due to low level of experience, technology and assets required to start a business. Due to the scattered market, a ready distribution network is not always available to travel agencies (Baranwal, Kumar & Vishwakarma, n.d., p. 11). E-commerce is increasing significantly. Threat perception from new entrants is low in the corporate travel segment as being a PSU, Balmer Lawrie is the preferred choice of other PSUs, government ministries and departments for travel solutions. High growth rate and profitability of the **logistics sector** inspires small as well as organized players to come into the market. Due to market deregulation more international players are expected to enter the Indian logistics market. Many cargo companies, shipping lines intend to extend their value chain by entering into the logistics business (Sharmabharat, Debendar, Singh, Katoch & Tharwani, n.d.). High cost involved in importing portable sludge cleaning unit BLABO and technology required to start a business may act as an entry barrier to the **sludge and lagoon cleaning business**. However, new players may enter the market to grab a niche area.

2.7.2 Bargaining power of suppliers

Drum manufacturers procure prime raw material steel from large players such as Tata Steel Limited, JSW Steel Limited, etc. These large steel producers have significant bargaining power over small consumers. They can control the price and credit policy. In the **lubricant industry**, bargaining power of suppliers is low. There is a remote chance that suppliers will go for forward integration to set up new lubricant plants. There are many small suppliers for raw materials like additives, alkali, etc. Major lubricant companies can choose among these suppliers (Badgujar et al., n.d., p. 22). Companies who have their production and supply of prime raw material base oils enjoy low bargaining power of suppliers but not Balmer Lawrie. The conglomerate has to depend on oil PSUs for supply of base oils where suppliers have high bargaining power. In **leather chemical industry,** supply of quality raw materials (animal skins) is depleting due to reduced slaughtering. Increased health awareness among people to avoid red meat is fuelling the raw material scarcity. Environmental activists and animal lovers are raising their voices against slaughtering. Suppliers take advantage of the situation and increase the price of raw materials. In **travel and tour industry**, suppliers possess strong bargaining power over the travel agents. Airline operators encourage travellers to buy tickets directly from the counter or website. They are reducing the percentage of commission and production-performance bonus given to the travel agents. But individual suppliers like airlines, train operator, hotels are not successful in selling combo tour packages. In that segment travel agents or tour operators are quite dominating. Also, there is no significant cost to change suppliers. So travel agents are also having variety of options. **Logistics business** requires an infrastructure like land, machineries, manpower, etc. Bargaining power of the suppliers varies based on government policy, cost of fuel, taxes, rents, etc. (Sharmabharat et al., n.d.). Balmer Lawrie has added advantage of using its infrastructure in the logistic business. Engineering items, equipment, labours are the main inputs of the **sludge and lagoon cleaning business**. There is no threat as such from suppliers of the inputs.

2.7.3 Bargaining power of buyers

In **drum manufacturing industry**, bargaining power of buyers is quite high, and it is increasing as there are many manufacturers in the market among which they can choose. Large industrial buyers such as IOCL, HPCL, and Castrol are forcing organized players to reduce the price to match it with other small players. The bargaining power of buyers also increases when the manufacturers have limited product portfolio. In **lubricant industry**, buyers possess high bargaining power as they can switch among many products available in the market. Large institutional buyers like railways, defence exercise high bargaining power through long-term contracts. In **leather chemical industry**, finished leather goods manufacturers are the buyers of leather chemical products. Large buyers have got moderate bargaining power over the producers as most of the producers belong to an organized sector. Buyers have more bargaining power over the producers with limited product portfolio. Due to strict pollution control norms and scarcity of raw materials unorganized small players will not be able to sustain in the market. Buyers possess reasonable bargaining power in **tours and travel industry** due to low level of brand loyalty and switching options (Badgujar et al., n.d., p. 23). Buyers are highly fragmented. Corporate buyers, especially government ministries enjoy long credit period. Credible threat exists as customers are buying tickets directly from airlines, railway counters and booking hotels directly through the website of hotels. The bargaining power of buyers is not so high in the **logistics sector** as in other manufacturing industries because of fewer numbers of large players and a fast growing market. Departments and ministries of government who are the clients of Balmer Lawrie have significant bargaining power. Oil refineries are the main clients of the **sludge and lagoon cleaning business**. They exercise high bargain power over small cleaning agencies.

2.7.4 Threat of substitute products

Plastic and fibre drums are increasingly substituting **steel drums** due to lower cost. Other intermediate packaging alternatives such as intermediate bulk containers (hereinafter: IBC) can also reduce the use of drums. There is no threat of substitute products to **lubricants** as such. However, long life lubricants pose a threat to the industry reducing the demand. High prices of leather products are the main reason behind development of substitute products. Low-cost products made from polyvinyl chloride (hereinafter: PVC), fibre, rubber, and textile substitute leather products which is a threat to the **leather chemical industry** indirectly. The disposable income of Indians is rising. **Tours and travel** will be on the top of the priority list in household expenditures. It is unlikely to be substituted by other household expenditures (Baranwal et al., n.d., p. 8). There is no substitute product for **logistics service**. However, customers can always switch from undifferentiated service. Services provided with lower cost by small players may pose a threat. Sometimes, oil refineries employ methods to develop turbulence inside the oil tank so that sludge can float for using in processing of different petroleum products. So technological development may pose a threat to the **sludge and lagoon cleaning business**.

2.7.5 Rivalry among existing players

Intense competition among existing players is reducing the profit margin in **drum manufacturing industry**. Favourable government policy gave an edge to MSMEs in the competition. It is a challenge for organized players like Balmer Lawrie to retain the market share and also to utilize the plant capacity. Intense competition prevails among existing firms in the **lubricant industry** also. Each firm intends to increase market share and profits by aggressive marketing. Small players reduce prices to gain market share. Large players are focusing on increasing the market share by developing new products, expanding the distribution and retail network and aggressive sales promotion. Major international players like BASF, Clariant, TFL and Stahl are controlling 40% of the total

leather chemical market (Balmer Lawrie & Co. Ltd., 2010). Competition is quite high in the market. Small domestic players are increasingly aggressive in pricing and credit terms to crack new market. Organized players intend to increase market share with development of new products and by extending product portfolio. **Tours and travel industry** is highly fragmented. Only around 16–20% of market share is captured by organized players present in tier one and two cities. Family run businesses are present in small towns across the country. High competition prevails in the market due to the absence of product differentiation and low switching costs (Baranwal et al., n.d., p. 7). Small entry and exit barriers and growing market are responsible for entry as well as exit of players. Moderate competition prevails among existing players in the **logistics sector**. Competition comes from small unorganized players as well as international players such as Fedex, DHL, APL Logistics, Panalpina, and Maersk Logistics, UPS, Menlo and Kuehne Nagel, D B Schenkers. Domestic players such as Transport Corporation of India (hereinafter: TCI), Container Corporation of India Limited (hereinafter: CONCOR), GATI, XPS, Safeexpress, DTDC, etc. are also dominating players. In **sludge cleaning business**, rivalry among existing competitors is low as the market is not so populated with too many players.

The above analysis shows that the industries in which the conglomerate is operating are quite competitive. Moderate threat of new entrants persists in service sectors but in manufacturing industries it is quite low. Threat of substitution is also quite low in service sectors and moderate in manufacturing industries except the steel drum sector (due to use of plastic and fibre drums) and lubricant industry (due to cannibalizing effect of long life lubricants). Prime raw material suppliers possess high bargaining power. Many companies adopt backward integration strategies to combat this competitive force. Power of customers is also high due to availability of so many producers or service providers in the market. Intense competition among existing players in almost all sectors except logistics business is reducing the profit margin. Overall the industries are vulnerable except for few such as leather chemicals, logistics wherein high potential exists. Balmer Lawrie should analyse its strengths and weaknesses in the situation of all these competitive forces to adopt appropriate strategies. I have carried out SBU wise analysis in the later part of my thesis.

3 PERFORMANCE ANALYSIS OF BALMER LAWRIE

Financial and non-financial performance analysis of a firm is of importance to various stakeholders of that firm. This chapter focuses on financial and non-financial performance analysis of Balmer Lawrie. I have also discussed the methodology of performance evaluation of PSEs carried out by the Government of India. MoU ratings given by the Government of India is also presented here.

3.1 Memorandum of Understanding ratings

The Government of India evaluates performance of all PSEs each financial year and presents to the Parliament of India. Respective administrative ministry under which a PSE is operating evaluates the performance. The Department of Public Enterprises (hereinafter: DPE), Ministry of Heavy Industries and Public Enterprises is the nodal agency for coordinating with different ministries and central public sector enterprises (hereinafter: CPSE). Each year a negotiated agreement is signed by the Government of India and CPSEs named as MoU. The Government of India implemented MoU system in 1986 as a consequence of the recommendations of the Arjun Sengupta Committee Report (1984). MoU defines the targets to be achieved by the public sectors and also the obligation of both the parties: government and the enterprise. This arrangement makes the management of the enterprise accountable for its decisions. Through this process, public enterprises become more competitive in the industry. MoU helps the government to monitor the performance of enterprises in a better way. The government exercises its controlling power in finalizing the MoU and evaluating it at the end of each year. Table 2 shows major parameters for performance evaluation along with their weight.

Table 2. MoU – Performance evaluation parameters with weightage

Sl. No.	Parameters	Weightage
I.	Financial (static) parameters	50%
II.	Non-financial parameters (50%)	
(i)	Dynamic parameters	30%
(ii)	Enterprise-specific parameters	10%
(iii)	Sector-specific parameters	10%

Source: Department of Public Enterprises, Government of India (MoU Division), *Methodology of Evaluation*, 2014.

Financial parameters consist of profitability, efficiency, turnover, etc. Dynamic parameters consist of project execution, expenditure in R&D, etc. Sector-specific parameters relate to macro-economic factors like fluctuations in demand and supply, changes of price, change of interest rates, inflation, etc. These parameters are not in the control of management. The government measures safety and environment pollution under enterprise-specific parameters. In FY 2010–11, it was decided that corporate social responsibility (hereinafter: CSR), R&D and sustainable development will also be a component of non-financial parameters with mandatory weighting of 5% each. However, CPSE, administrative ministry and task force will mutually decide about the choice of parameters. These parameters can vary from one enterprise to another. All parameters should be specific, assessable, achievable, result yielding and tangible. A Five-point scale (excellent, very good, good, fair, poor) is set to measure the performance goals of MoU. Each PSU, for example Balmer Lawrie submits the draft MoU to DPE through administrative ministry MOPNG. The MoU is discussed and finalized in the task force meeting coordinated by DPE. Retired experienced secretaries, ex-CMDs, directors of CPSEs, experts from the field of management, finance and respective technical domain, chartered accountants, academicians, etc. are selected to form a task force. Evaluation of the signed MoU takes place at the end of the year by task force based on audited account, annual report, etc. The weighted score of each parameter is added to arrive at the final score (Department of Public Enterprises, Government of India (MoU Division), n.d.a). Table 3 shows the grading system of PSEs based on the final MoU score.

Table 3. Grading based on final MoU score

MoU final score	**Grading**	**Eligibility of performance related pay**
1.00–1.50	Excellent	100%
1.51–2.50	Very Good	80%
2.51–3.50	Good	60%
3.51–4.50	Fair	40%
4.51–5.00	Poor	0%

Source: Department of Public Enterprises, Government of India (MoU Division), *Methodology of Evaluation*, 2014.

Once the evaluation is complete, it goes to the high power committee headed by the cabinet secretary for final approval. MoU rating of the PSU is one of the determining factors for performance related pay (hereinafter: PRP) disbursed to employees of CPSEs. Employees of excellent rated CPSEs will be eligible for 100% PRP while CPSEs rated as poor are not eligible for PRP. Besides this monetary incentive, MoU excellence award in different categories is given to successful, high performing PSUs. Table 4 shows that performance of Balmer Lawrie in the last few years has been very lucrative.

Table 4. MoU ratings of Balmer Lawrie

FY	**2007–08**	**2008–09**	**2009–10**	**2010–11**	**2011–12**	**2012–13**
Score	1.26	1.38	1.26	1.09	1.095	1.053
Grade	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent

Source: Department of Public Enterprises, Government of India (MoU Division), *MoU Evaluation Score*, 2014.

In 2002, the Department of Disinvestment, Ministry of Finance, Government of India issued “Expression of Interest” (hereinafter: EOI) tender to divest its stake in Balmer Lawrie completely to raise cash. Finalization of the deal was also in the process. During that period, the term of the then government ended, and a new government came into power. The new government stopped the disinvestment process.

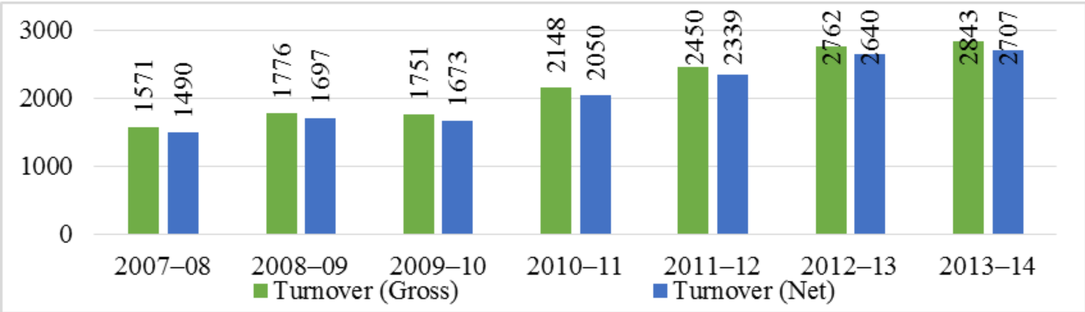
3.2 Financial performance analysis for last few years

Financial performance analysis helps to find out financial strengths and weaknesses of a firm by establishing the relationship among different financial statements. I have carried out financial performance analysis of Balmer Lawrie below.

3.2.1 Overall performance

Over the years, Balmer Lawrie has thrived to improve its financial performance by expanding its existing businesses and entering into new business opportunities. Figure 10 shows that the conglomerate has been continuously increasing its gross and net turnover for the past few years. Excise duty is deducted from gross turnover to arrive at net turnover.

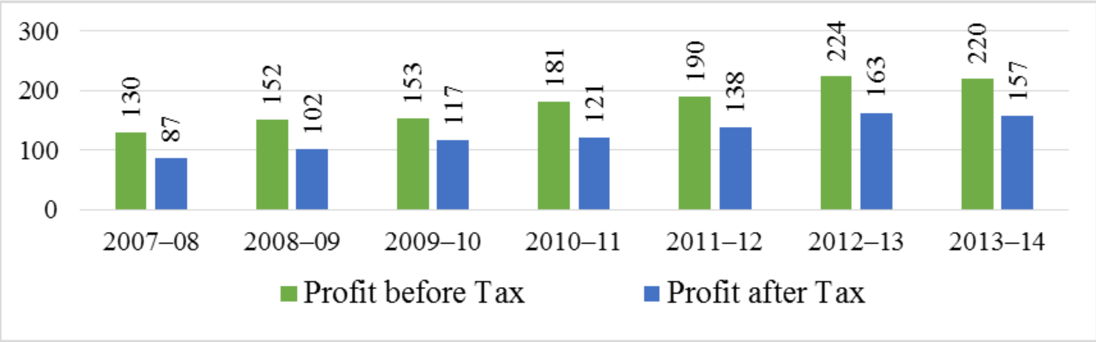
Figure 10. Gross and net turnover in crores of INR



Source: Balmer Lawrie & Co. Ltd., *Annual Report 2012–13*, 2013a, p. 1; Balmer Lawrie & Co. Ltd., *Financial Result 2013–14*, 2014b, p. 1.

Figure 11 shows that profit before and after tax have also been increasing for the last few years. But it is to be noted that in FY 2013–14 the profit decreased from FY 2012–13 though the turnover had increased. Decrease in profit is due to a reduction in margin of SBUs such as SBU: IP, SBU T&T under intense competition and increased raw materials cost. Balmer Lawrie is a cash rich company. Its general cash reserve including subsidiary and all JVs during closing of FY 2012–13 was INR 421.83 crores (52.73 million €).

Figure 11. Profit before tax (PBT) and profit after tax (PAT) in crores of INR

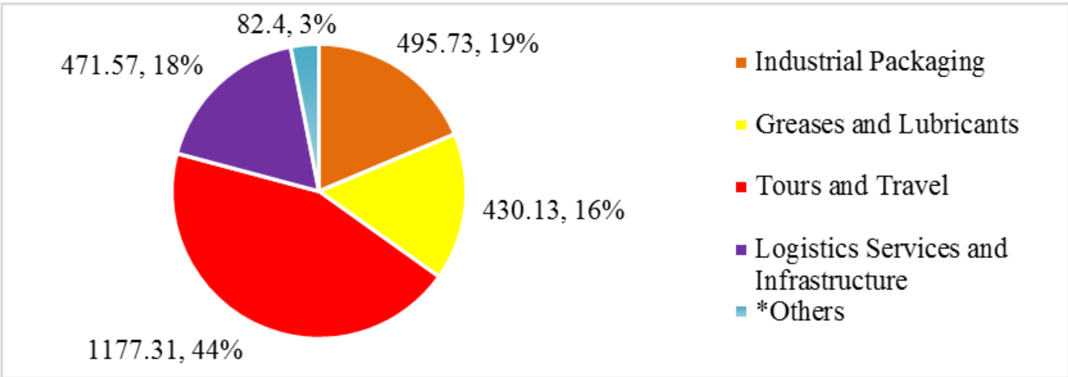


Source: Balmer Lawrie & Co. Ltd., *Annual Report 2012–13*, 2013a, p. 1; Balmer Lawrie & Co. Ltd., *Financial Result 2013–14*, 2014b, p. 1.

3.2.3 SBU wise performance

Critics argue that the management of a conglomerate tends to combine data of all the business units to hide specific problems or weaknesses from stakeholders. Conglomerates should introduce SBU wise reporting of financial performance to become transparent to its stakeholders (Heuskel et al., 2006, p. 20). Figure 12, Figure 13 and Figure 14 represent the SBU wise income, profit before interest and tax (PBIT) and capital employed of the company for FY 2013–14.

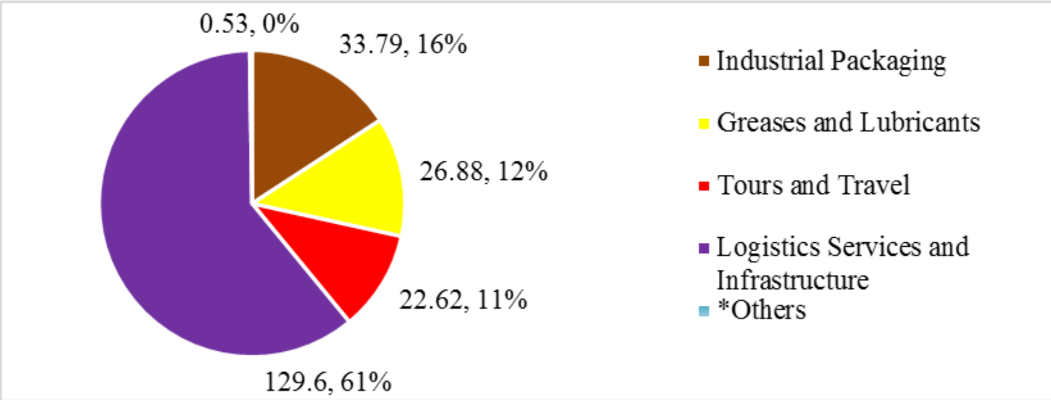
Figure 12. Segment wise net sales/income in crores of INR in FY 2013–14



Source: Balmer Lawrie & Co. Ltd, *Financial Result 2013–14*, 2014b.

SBU: T&T is the major contributor towards total revenue (44%) of the conglomerate followed by IP, LS & LI, G&L and others. Surprisingly the share of SBU: T&T towards total PBT is only 11% which is a matter of concern to the management. SBU: LI & LS is the largest contributor (61%) towards total PBT followed by SBU: IP and SBU: G&L. Balmer Lawrie has employed more than 60% of the total capital in manufacturing SBUs.

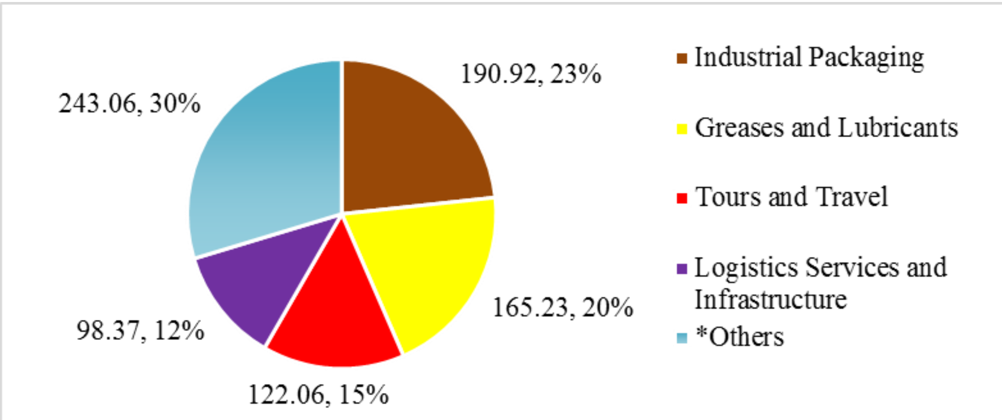
Figure 13. Segment wise PBIT in crores of INR in FY 2013–14



Source: Balmer Lawrie & Co. Ltd., *Financial Result 2013–14,* 2014b.

Profitability of the SBU: LI & LS is extremely high (27.5% based on PBIT) and profitability of SBU: T&T is extremely poor (2% based on PBIT). Analysis shows that SBU: LI and SBU: LS are the gems of the conglomerate. As the contribution of SBU: T&T towards total revenue of the conglomerate is very high, it helps to retain the *Miniratna I* status given by DPE, Government of India. Due to its *Miniratna I* status, the top management of Balmer Lawrie enjoys certain power and autonomy delegated by the Government of India in taking major business decisions.

Figure 14. Segment wise capital employed in crores of INR in FY 2013–14



Note. * As the shares of SBU: PC, ROFS and Tea are small; "Others" shows the summation of all.

Source: Balmer Lawrie & Co. Ltd., *Financial Result 2013–14,* 2014b.

Table 5 shows the contribution of small SBUs towards total revenue and profit. Profitability of SBU: ROFS is quite impressive. SBU: Tea incurred loss after which it was closed down. E&P is a department within the conglomerate which undertakes in-house expansion projects. It provides its services to SBU: G&L, SBU: IP, SBU: PC and SBU: LS. Expenses of the department is shown as loss.

Table 5. Break up of "Others" for net sales and PBIT in FY 2013–14 in crores of INR

Segments	Net sales	Profit/Loss
Specialty Containers Division	0.00	0.07
Performance Chemical	67.45	2.76
ROFS	13.51	3.40
Tea	1.38	-2.00
E&P	0.05	-3.70
Total	**82.40**	**0.53**

Source: Balmer Lawrie & Co. Ltd., *Financial Result 2013–14*, 2014b.

3.2.4 Performance of subsidiary and JVs

Table 6 represents the summary of financial results of the JVs and subsidiary of Balmer Lawrie. Among existing JVs, logistics service provider TSL has been making losses progressively for the past few years due to lack of orders for container manufacturing. Management implemented a corporate debt restructuring package to revive the company which failed to produce desired results. Balmer Lawrie has sought advice from business consultant Deloitte based on which the management will make a decision about the company. Other JVs are trying their best to be profitable. The profit of AVI-OIL declined sharply in FY 2012–13 due to a steep hike in raw material prices and manpower used.

Table 6. Financial results of JVs and subsidiary in crores of INR

Company	FY 2011–12		FY 2012–13	
	Turnover	PBT	Turnover	PBT
BLUAE	531.1	32.5	–	–
BLVL	188.93	3.85	211.55	8.32
TSL	75.53	-10.1	75.33	-12.9
AVI-OIL	41	3.41	40	0.75
BLUK[6]	–	70.31	–	73.44
BLHT	–	–	–	27.09

Source: Adapted from Balmer Lawrie & Co. Ltd., *Annual Report 2012–13*, 2013a, pp. 14–15; Care Research, *Balmer Lawrie & Company Limited*, 2014, p. 8.

3.2.5 Ratio analysis

Ratio analysis is an important tool for analysing the company's financial performance. I have carried out ratio analysis below to understand Balmer Lawrie's financial position, strengths and weaknesses.

[6] Exchange rate of 1US Dollar = INR 53.5 considered as mentioned in the annual report.

3.2.5.1 Liquidity ratios

Liquidity ratios are the most commonly used of all the business ratios. Creditors are often interested in these because they show the ability of a business to quickly generate the cash needed to pay outstanding debt. Liquidity ratios are highly interesting since the inability to meet short-term debts would be a problem that deserves immediate attention. Liquidity ratios are sometimes called working capital ratios because that, in essence, is what they measure. The liquidity ratios are: the current ratio and the quick ratio.

Current ratio of Balmer Lawrie has been continuously improving for the last few years as seen in Figure 15. Presently it is well within the accepted range (1.5–2.5). Balmer Lawrie is capable of meeting its obligations and pay bills on time. At the same time, Balmer Lawrie has not made over provisions to meet short-term obligations. Figure 16 shows that the trend of the acid test or quick ratio is following the trend of current ratio.

Figure 15. Current Ratio

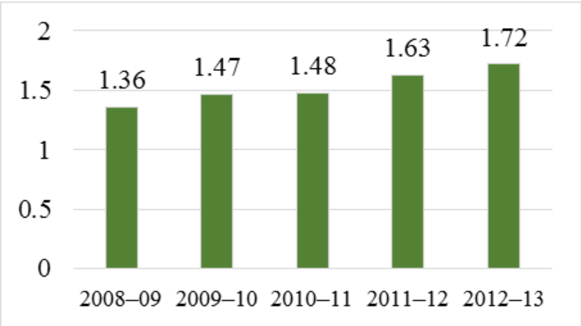
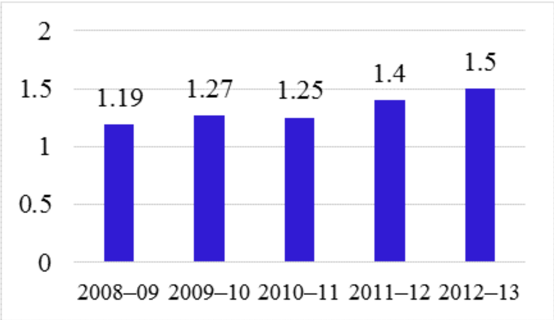


Figure 16. Quick Ratio



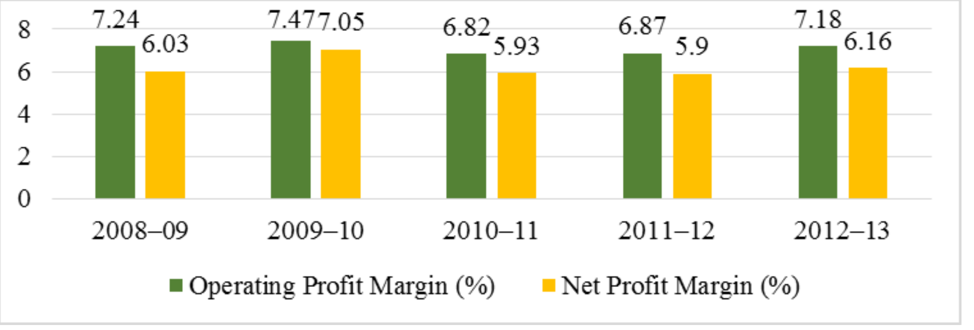
Source: Balmer Lawrie & Co. Ltd., *Annual Report 2012–13*, 2013a; *Moneycontrol.com*, 2014.

As the quick ratio should be more than 1, Figure 16 shows that the conglomerate is very much able to meet current obligations using liquid assets. Liquidity ratios of the conglomerate indicate that Balmer Lawrie has good short-term financial strength.

3.2.5.2 Profitability ratios

Profitability ratios measure a company's ability to generate earnings relative to sales, assets and equity. Different profitability ratios provide different useful insights into the financial health and performance of a company. Operating profit margin and net profit margin of Balmer Lawrie for the past few years has been almost stagnant within a narrow range (of 5.9–7.05% for net profit margin) as seen in Figure 17. Diversified business activities have provided a shield against fluctuation of profitability. Poor profitability of SBU: T&T drags the overall profitability of the conglomerate to a lower level. However high return of SBU: LI & LS counterbalances its impact.

Figure 17. Operating and net profit margin (in %)



Source: Balmer Lawrie & Co. Ltd., *Annual Report 2012–13*, 2013a; *Moneycontrol.com*, 2014.

Figure 18 shows that there has been a continuous drop in percentage return on capital employed (hereinafter: ROCE) over the years. But still the reported ROCE is high compared to other companies. However, the decreasing trend of ROCE needs attention of top management. The conglomerate should deploy capital more efficiently to improve the ROCE percentage. Figure 19 shows that the conglomerate has reported excellent return on equity over the years as it is more than the range of ROE 15-20%. However it has been gradually falling over the years which is a matter of concern.

Figure 18. ROCE (in %)

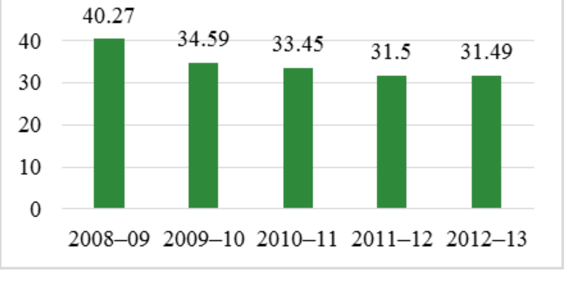
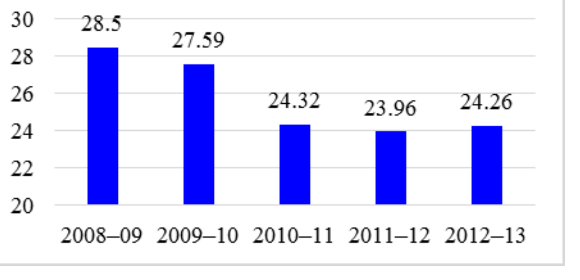


Figure 19. ROE (in %)



Source: Balmer Lawrie & Co. Ltd., *Annual Report 2012–13*, 2013a; *Moneycontrol.com*, 2014; NDTV Profit, *Balmer Lawrie & Company Ltd*, 2014

3.2.5.3 Leverage ratios

Balmer Lawrie is very much conservative in the mode of financing its assets or operations. The conglomerate has maintained almost zero debt to equity ratio consecutively for the last few years as seen in Table 7. Zero value of debt to equity ratio is very unusual for a company that undertakes manufacturing activities. Capital intensive manufacturing companies generally have significant debt to equity ratio. The conglomerate is not exposed to any risks caused due to increase of interest rates or change of credit rating. Most of the times, the conglomerate is using its retained profits to finance its growth plans. The lower leverage allows for better financial flexibility of the company.

Table 7. Debt to equity ratio

Financial Years	**2009–10**	**2010–11**	**2011–12**	**2012–13**
Debt to equity ratio	0.01	0.0	0.0	0.0

Source: Care Research, *Balmer Lawrie & Company Limited*, 2014, p. 6.

3.2.5.4 Activity ratios

Activity ratios measure the relative efficiency of a firm based on its use of its inventories, assets, leverage or other such balance sheet items. Balmer Lawrie has made continuous effort to reduce the inventory sell off cycle especially in the manufacturing businesses. As a result, the conglomerate is slowly improving the inventory turnover ratio as seen in Figure 20. Inventory of the conglomerate is substantially liquid. Figure 21 shows that the trend of total asset turnover ratio follows the trend of inventory turnover ratio. It shows that the conglomerate is efficient in using its assets to generate sales.

Figure 20. Inventory turnover ratio

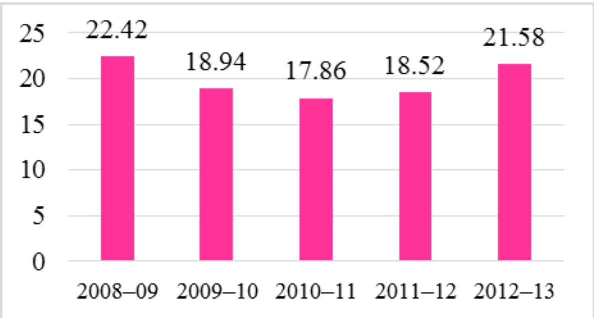
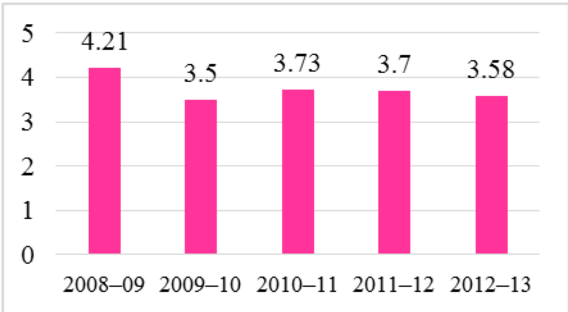


Figure 21. Total asset turnover ratio



Source: Balmer Lawrie & Co. Ltd., *Annual Report 2012–13*, 2013a; *Moneycontrol.com*, 2014.

3.2.5.5 Other ratios

Figure 22 represents that earnings per share (hereinafter: EPS) were gradually increasing till FY 2012–13. After issuance of bonus shares in May 2013, total shares for calculation of EPS stands at 2,85,00,641 from 1,62,86,081. Due to this EPS has been diluted and reduced to INR 55 from INR 99.94 for each share of face value INR 10 in FY 2013-14. Presently total share capital of the conglomerate is INR 28.50 crore. Balmer Lawrie has been an attractive stock to the investors since its listing in the stock exchanges. Each year it issues dividends to its shareholders. Figure 23 shows that in FY 2012–13, the conglomerate issued 308% pay-out though it reduced to 180% in the subsequent year due issuance of bonus shares.

Figure 22. Earnings per share (EPS) in INR

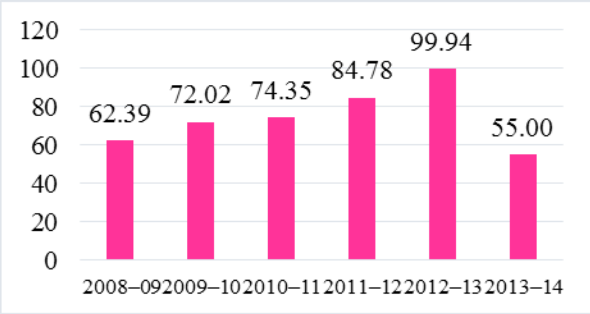
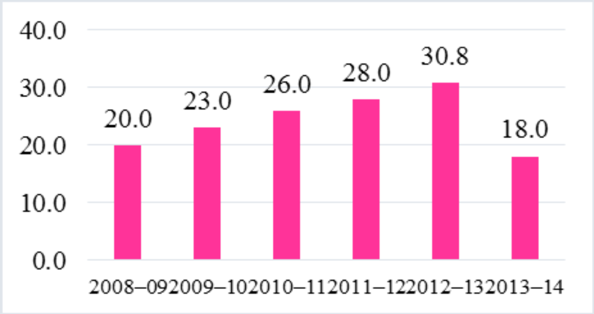


Figure 23. Dividend per share in INR



Source: Balmer Lawrie & Co. Ltd., *Annual Report 2012–13,* 2013a; *Moneycontrol.com,* 2014.

3.3 Non-Financial Performance Analysis

As a responsible business entity to the society, Balmer Lawrie always strives to uplift its non-financial performance. According to the guidelines of DPE these parameters are part of MoU as well as of annual reports. This sub-section of the thesis carries out non-financial performance analysis based on the information provided in the Annual Report 2011–12 and Annual Report 2012–13.

3.3.1 Human resource management

Management of the conglomerate drives to increase the productivity of the employed manpower. Attention is given to attracting new quality talents, managing and retaining existing talents. A big chunk of employees in Balmer Lawrie are at the verge of their retirement. The Human Resource department projects that by 2015, 30% of the total permanent workforce will be superannuated which will create a huge gap in the middle and senior management level. Proper succession planning was the need of the hour for the conglomerate to fill that gap and to sustain. The conglomerate has reviewed its existing "Talent Management Policy" and has taken necessary steps for the same. Top management focuses on creating a leaner organization with horizontal structure.

3.3.1.1 Talent attraction and retention policy

During 2012–13, Balmer Lawrie recruited 82 persons in the executives/officer levels including 54 lateral entries and 28 executive trainees fresh from colleges. The new "Talent Management Policy" rolled out in FY 2012–13 introduces attractive designations (refer Table 8), lowers the eligibility criteria (of age/experience) pertaining to a certain grade and introduces a fast track career scheme for potential and exceptionally high performing employees (Balmer Lawrie & Co. Ltd., 2013a). Table 8 shows different grades and designations for the employees in Balmer Lawrie. These grades are similar in nature for all PSEs as laid down by the Government of India. Designations corresponding to each grade are set individually by each of the PSEs. To make the designations attractive and more focussed, all non-unionized supervisors and executives up to the level of general manager (Grade E8) have been re-designated as given in Table 8. Balmer Lawrie has abolished "Supervisor" designation and has introduced "Vice President" series. New designations have made executives more comfortable and confident while dealing with the external business world. New designations are also commensurate with organizational structures and designations of other private companies in India.

Table 8. Earlier and new designation against each grade

Grade	Earlier designation	New designation
S1	Junior Supervisor	Junior Officer
S2	Supervisor	Officer
E0	Junior Officer	Executive
E1	Officer	Assistant Manager
E2	Assistant Manager	Deputy Manager
E3	Deputy Manager	Manager
E4	Manager	Senior Manager
E5	Senior Manager	Chief Manager
E6	Assistant General Manager	Associate Vice President
E7	Deputy General Manager	Vice President
E8	General Manager	Chief Operating Officer (COO) and Senior Vice President
E8	Executive Director	Executive Director
Director	–	–
Managing Director	–	–

Source: Balmer Lawrie & Co. Ltd., *HR Manual Revised 2014*, 2014c.

3.3.1.2 Training and development

Balmer Lawrie is committed to enhancing the professional skills and core competencies of its executives by proper training. The conglomerate conducts various in-house and external training programs. Training programs are tailored to meet the functional and managerial needs of employees. In FY 2012–13, a total 1,064 man-days of training, including in-house and external training programs were imparted to all grades of employees (Balmer Lawrie & Co. Ltd., 2013a).

3.3.1.3 Managing performance

Balmer Lawrie was successfully running the performance management system (hereinafter: PMS) to evaluate and improve the performance of middle and top management employees. The conglomerate conducted in-house workshops to get feedback from employees to improve the PMS. Incorporating the feedbacks, the Human Resource department of Balmer Lawrie has launched a robust PMS, which covers lower management executives also.

3.3.1.4 Employment of special categories

In pursuance with the directive of the Government of India, the conglomerate puts emphasis on recruiting special category employees. Throughout the FY 2012–13, the conglomerate appointed three scheduled castes, two scheduled tribes, 13 other backward classes, six minorities and nine women (Balmer Lawrie & Co. Ltd., 2013a). It has already identified positions for physically handicapped categories in pursuance with the respective act of the Government of India and in the process of recruiting against those posts.

3.3.1.5 Employee welfare

The conglomerate promotes and organizes cultural events encouraging involvement of employees along with their families. On 1st February, 2014, Balmer Lawrie celebrated the 148th foundation day in all establishments of the conglomerate across the country. Balmer Lawrie also organizes various events like annual sports day and cultural evening at major locations during the year.

3.3.1.6 Employee relations

Various trusts and communities are formed to look after the benefits scheme of employees. Productivity and safety related issues are discussed by the plant level committee with the management and mutually settled. As reported in FY 2012–13, there was no loss of man-hours due to any industrial actions at any factories or offices of the conglomerate.

3.3.1.7 Organizational culture and employee engagement

To capture the feedback of employees towards company's culture, leadership and satisfaction level the conglomerate administered a cultural survey (hereinafter: BLCULT) and employees engagement survey (hereinafter: BLESS). Participation level in the survey was very high (around 95%). The satisfaction score of 71 reflects the association of the employees with its culture (Balmer Lawrie & Co. Ltd., 2013a). "EK Soch" (One Thinking) suggestion scheme was also introduced to capture the innovative, novel ideas from all employees.

3.3.1.8 Implementation of official language (Hindi)

The conglomerate takes several steps during the year to promote *Rajbhasha* Hindi in official work. Deputy Director Implementation, Official Language Department, Kolkata was very much satisfied after inspection and assessment of Balmer Lawrie head office for implementation of Hindi language within the company in FY 2012–13.

3.3.1.9 Women empowerment

The government of India makes continuous effort to empower women in all sectors through its various acts and directives. Currently, 6.83% of total employees are women in spite of the fact that Balmer Lawrie engages large numbers of employees in factory floors (Balmer Lawrie & Co. Ltd., 2013a). The conglomerate makes effort to deploy women in its various plants also while employing manpower through contracting agency. Balmer Lawrie spends a large share of CSR funds in woman-centric projects.

3.3.2 Employee health and safety

Ensuring employee health and safety is the highest priority for the conglomerate. Balmer Lawrie launched integrated health and safety management system all over the company. Major manufacturing plants/units have got the certification of OHSAS 18001. All safety and health practices are in line with the Factories Act, 1948. The conglomerate carries out internal safety audit each year in its major locations. Top management reviews the implementation of recommendations of the safety audit. Balmer Lawrie celebrated 43rd national safety week in its major establishments between 4th and 9th March, 2014 aiming to generate safety awareness among employees and all stakeholders. Balmer Lawrie has commissioned a new fire detection and alarm system in FY 2013–14 in head office, Kolkata. IP plant at Silvassa, Dadra and Nagar Haveli has commissioned a fire hydrant system.

3.3.3 Environmental protection and sustainability

Balmer Lawrie is committed to performing its duties towards protection and sustainability of the environment. Many steps have been taken to minimize pollution level in its plants. Emission norms as laid down in the Environment Protection Act, 1986 are strictly followed. All plants and other major establishments have got the certification of environment standard ISO 14000. Balmer Lawrie has commissioned a new sewerage system in its plant at Manali, Chennai. Energy efficient motors with variable frequency drives are being used in the recently commissioned grease plant at Silvassa, Dadra and Nagar Haveli and barrel plant at Taloja, Mumbai. Wherever required the plants use non-return valves, level detectors, alarm systems to prevent spillage of oils and avoid pollution. Eco-friendly paints are being used in barrel manufacturing plants. The conglomerate is working on developing bio-degradable and environment friendly greases and lubricants. In pursuance with the recent directive of the Government of India, the conglomerate is planning to invest in renewable energy sources mainly in solar power plant.

3.3.4 Corporate communications and branding

The conglomerate takes initiatives to generate awareness among employees about business activities happening within and outside the company. A weekly media update which is a compilation of news associated with the conglomerate published in various media is circulated electronically to all the employees. Balmer Lawrie online monthly bulletin (hereinafter: BLOOM) containing news and happenings within the conglomerate is circulated each month to all the employees electronically. The conglomerate publishes Balmer Lawrie organizational gazette (hereinafter: BLOG) quarterly which contains news and happenings within the conglomerate and interviews with role model executives. For the last two years, a meeting was organized at town hall, Kolkata wherein all executives and officers interacted with the whole time directors regarding the findings of engagement surveys.

3.3.5 Implementation of Enterprise Resource Planning (ERP)

Presently the conglomerate is implementing Systems Applications Products software (hereinafter: SAP) with the help of software firm Tata Consultancy Services. The project is going on in full swing. SAP module for human resource, accounts and finance, SBU: IP, and ROFS are already in live mode. In 2nd phase, SAP will be implemented in SBU: G&L and SBU: PC. In 3rd phase, it will be implemented in SBU: T&T, LS and LI.

3.3.6 Vigilance

Vigilance department of the conglomerate commits to ensuring honesty and clarity in all business transactions. It takes up “awareness” programs to enhance transparency and ethical business practices among all stakeholders. E-procurement, online payment, e-auction, etc. have been introduced and practiced to ensure transparency and accountability.

3.3.7 Compliance of Right to Information Act, 2005

According to the guidelines of the Government of India, the conglomerate publishes various disclosures of information as mandatory by The Right to Information Act, 2005.

Apart from that Balmer Lawrie provides monthly, quarterly and yearly reports related to the requests for details received under the act within the stipulated timeframe to MOPNG, Government of India.

3.3.8 Conservation of energy

Balmer Lawrie is gradually taking necessary steps towards conservation of energy. Manufacturing plants are aiming to reduce specific energy consumption per unit of production. Efforts are being made to replace existing equipment with new energy efficient equipment which will reduce the energy bills in the long run.

3.3.9 R&D and technology development

Extensive R&D work is being carried out in various SBUs. SBU: G&L is in the process of developing new bio-degradable and eco-friendly lubricants, vegetable oil base synthetic esters as well as upgrading existing products. Lithium complex greases of high-temperature resistant grade, food grade greases, long life gear oils and different bitumen softening compounds are also in the development stage in the laboratory of the SBU. SBU: PC is working on the development of new high-grade fat liquors, varieties of syntans and different finishing chemicals used in leather industry. SBU: IP has re-engineered the process flow of old plants to improve the productivity and quality. In the annual report, the conglomerate has laid out future action plan for R&D activities to become a cost leader by introducing innovative product and process through continuous improvement. Efforts have been made to use or commercialize the in-house developed technology rather than outsourcing it. Table 9 shows the R&D expenditure for two years in lakh[7] of INR.

Table 9. R&D expenditure in lakh of INR

Item	FY 2012–13	FY 2011–12
Capital expenditure	146.50	54.66
Revenue expenditure	585.48	523.47
Total	731.98	578.13
R&D expenditure as % of turnover	0.28	0.28

Source: Balmer Lawrie & Co. Ltd., *Annual Report 2012–13,* 2013a, p.23.

3.3.10 Corporate governance

Balmer Lawrie inherits good corporate governance from its primitive age. It gets reflected in its culture, policies and values. Being a listed company in the stock exchanges, it abides by the guidelines of Securities and Exchange Board of India (hereinafter: SEBI) regarding

[7] 1 lakh = 0.1 million

corporate governance. Further to that, as a PSU, the conglomerate also follows the guidelines laid out by DPE on corporate governance for CPSEs. The corporate governance report is part of the annual report of the conglomerate.

3.3.11 Corporate social responsibility

Society recognizes Balmer Lawrie for its contribution to the environment and society. The conglomerate puts emphasis on aligning its business objectives to achieve a greater goal for the society. It implements its well documented CSR policy. CSR project "Balmer Lawrie Initiative for Self Sustenance" (hereinafter: BLISS) aims at up gradation of the under-privileged sections of the society. Another project "Samaj Mein Balmer Lawrie" (hereinafter: SAMBAL) is running to improve the quality of living of the society in and around the establishments. With the help of consultant Ernst and Young, the conglomerate has framed a long term CSR plan for the period 2012–17. Expenditure towards CSR in FY 2012–13 was INR 303 Lakh, which is more than minimum expenditure target of 2% of after-tax profit as guided by the Government of India (Balmer Lawrie & Co. Ltd., 2012–13, 2013a). Balmer Lawrie is organizing free health check-ups for 50,000 drivers of commercial vehicles associated with the conglomerate across the country during FY 2014–15. The project started on 23rd July, 2014 in its grease plant in Kolkata (Balmer Lawrie & Co. Ltd., 2014a). In the first phase, health check-ups of 10,000 drivers from the eastern region of the country will be carried out.

3.3.12 Customer satisfaction rating

Customer satisfaction rating is quite high for each SBU of Balmer Lawrie (see also Appendix D for detail). Table 10 shows the results of the customer satisfaction survey carried out in selected locations of various SBUs in FY 2011–12.

Table 10. Customer satisfaction rating in FY 2011–12

SBU	**Location**	**Rating on 10 point scale**	**Grade**
T&T	Branch: Lucknow	8.70	Excellent
T&T	Branch: Delhi	9.10	Excellent
LS	Branch: Chennai	9.01	Excellent
LI	CFS: Kolkata	8.78	Excellent
IP	Western Region	8.70	Excellent

Note: Scale as set in MoU, > 8.5 Excellent, 7.5–8.5 Very Good, 6.5–7.5 Good, 5.5–6.5 Fair, < 5.5 Poor

Source: Balmer Lawrie & Co. Ltd., *Evaluation of 2011–12 MoU Score Based on Audited Data*, 2012b.

Balmer Lawrie expects this excellent customer cooperation to continue in the future which will also help to enter into long-term strategic partnerships with key customers. In volatile business environments it can be the key to sustainable growth strategy of the conglomerate.

4 STRATEGIC BUSINESS ANALYSIS

In this chapter, I have carried out SWOT analysis as well as portfolio analysis for the conglomerate.

4.1 SBU wise SWOT analysis

Each SBU of Balmer Lawrie functions as a small independent company and competes with other companies in relevant industries. Accordingly, I have carried out SBU wise SWOT analysis below.

4.1.1 SBU: IP

Strengths: The SBU is the market leader in the country in mild steel drum manufacturing. Pan-Indian presence of the SBU helps to reduce transportation cost. The R&D department focuses on developing different packaging products. Recently commissioned plant has very high level of automation. Increased level of automation will reduce required numbers of manpower drastically resulting in lower operating cost. The SBU enjoys a good relationship with its employees in all manufacturing plants.

Weaknesses: Balmer Lawrie is limited to mild steel drum manufacturing only. Limited product portfolio is a major weakness. Customers prefer suppliers who have a wide range of products. Balmer Lawrie has still not taken necessary steps to enter into the plastic drum market. Plastic drum is cannibalizing the steel drum market. A few plants of the SBU are very old wherein workers perform high level of manual operations. Specific energy consumption of these plants is also high.

Opportunities: Products of packaging industry are very diverse in nature. It can be classified based on material, content, method, shape, etc. The SBU can explore the possibilities of adding a new product in its portfolio utilizing multi-locational plants. It can exploit the existing large customer base who are buying other packaging products such as small metal cans, plastic drums, etc. from other manufacturers.

Threats: Small and medium enterprises are entering the market. Presently demand for steel drums is falling due to use of substitute products such as plastic and fibre drums. There is excess supply in the market with too many production facilities. Balmer Lawrie is also having excess capacity with the commissioning of high throughput barrel manufacturing plant. Excess capacity leads to reducing the prices to keep the market share intact. Volatility of the price of prime raw material cold rolled steel is of major concern. The Government of India issued a directive to PSUs to buy steel drums from MSMEs to promote them. Small companies also enjoy tax advantages which help them to reduce the price.

4.1.2 SBU: G&L

Strengths: SBU: G&L is the market leader in grease manufacturing in India and also present in lubricating oil and compound manufacturing as shown in Table 11. Starting from 1937, the conglomerate has rich experience in grease manufacturing. SBU: IP produces steel drums, one of the packaging materials used in the SBU. A state of the art laboratory with experienced professionals and scientists of the relevant field provides a competitive edge. Except for the northern region, manufacturing plants are located all over the country. The SBU has a strong base of large institutional customers such as railways, defence, steel industry, sponge iron industry, etc. In 2012, a state of the art grease plant was commissioned at Silvassa, Dadra and Nagar Haveli. The SBU has implemented GLIOS[8] in all locations for better monitoring of different performance and other parameters. To support growing retail sales, “online depot management system” is in place.

Weaknesses: The SBU is fully dependent on oil majors for supply of base oils. It has limited bargaining power over the suppliers. Sometimes the SBU had to accept low-quality base oils also. Due to low level of automation old plants employ large manpower. The SBU bears a high burden of overhead in some plants such as Kolkata and Mumbai due to engagement of many experienced permanent workers. “Balmerol”, brand of the SBU is very weak in comparison with other PSU brand “Mak” or MNC brand “Castrol”. Due to poor brand image SBU: G&L has little presence in the retail market. Market leaders have tied-up with original equipment manufacturers (hereinafter: OEM) who recommend using those brands for their vehicles and machineries.

Opportunities: Small towns and rural areas are getting flooded with small cars and two wheelers. Growth of the automobile industry is increasing the demand of automobile lubricants in the retail sector. Lots of opportunities persist for the SBU to expand its business in the retail sector with aggressive marketing and branding. The state of the art laboratory, ARL is developing bio-degradable and eco-friendly lubricants that are expected to capture a niche market. Specialty lubricants for the industrial sector, for example, high-quality steel rolling oils, etc. are being developed and commercialized. The conglomerate

[8] GLIOS stands for Greases and Lubricants Integrated Operating Software. It is the platform for carrying out activities of SBU: G&L.

can upgrade and re-engineer its existing product portfolio to increase the market share. Also, the SBU is capable of offering complete lubrication solutions to the industry and not just the products. Table 12 shows that the SBU has lot of scope to increase the market share in the retail sector.

Threats: Rising and volatile price of prime raw material base oils is a major concern. Base oil suppliers are giant PSUs in India. They are controlling the price of raw materials. Balmer Lawrie is also undertaking contract manufacturing (known as “processing”, shown in Table 12) for oil PSUs HPCL, BPCL and IOCL in which margin is thin and value addition is low. Most of the times these oil majors dictate the terms of the contract. With the advancement of technology, changing cycle of lubricants is increasing. New engines are already in the market wherein once filled lubricant works till the end of the life of the engine. Availability of other raw materials such as 12 hydroxyl stearic acid (hereinafter: HSA) and hydrogenated castor oil (hereinafter: HCO) will be a concern in the future. Other raw material lithium hydroxide (hereinafter: LiOH) will be costly due to increasing popularity of lithium ion batteries (Balmer Lawrie & Co. Ltd., 2010, p. 25). There are some small local players who produce lubricants at low cost. Demand of engine oils and lubricants may significantly decline in the future, due to use of electric vehicles.

Table 11. Product portfolio of G&L in FY 2010–11

Types of products	Metric ton	Total sales (in %)
Greases	24,000	53%
Blended oils	17,000	38%
Compounds	4,000	9%
Total	**45,000**	**100%**

Table 12. Different customer segments of G&L in FY 2010–11

Customer segments	Metric ton	Total sales (in %)
Industrial	20,000	44%
Processing	13,000	29%
Retail	11,000	24%
Exports	1,000	2%
Total	**45,000**	**100%**

Source: Balmer Lawrie & Co. Ltd., *Manufacturing Business Snapshots*, 2012c.

4.1.3 SBU: PC

Strengths: The SBU is in commendable position at reasonable price in competition with other Indian suppliers of imported fat liquor. It has started penetrating African countries. The SBU is successfully producing and supplying concrete admixture to the construction industry. Products of the SBU, syntans and synthetic fat liquors have captured respectable market share. The SBU has the scope to grab a niche market with specialty products. Presently expansion of its existing production facility in Chennai is going on.

Weaknesses: It is very important to have a product portfolio that covers the full range of leather chemicals to become the market leader. Since leather production is a complex and multi-stage process, customers prefer all-round suppliers who can offer them a full range of carefully matched products covering all processing steps. Whereas, Balmer Lawrie operates in a limited range of leather chemicals such as fat liquors and syntans only (Balmer Lawrie & Co. Ltd., 2010). The SBU is relatively new in the business. Lack of knowledge of the overseas markets and the absence of relevant business experience may pose a threat to the SBU. The SBU does not have a production facility to produce other leather chemical products.

Opportunities: The SBU has huge potential of exporting products to China, South Korea and Bangladesh. Iran, Vietnam and other African countries are also targeted markets for the SBU. From 2011, the SBU has diversified to construction chemicals that have immense growth prospects. Balmer Lawrie has got scope for development of other products such as personal chemicals.

Threats: Supply of raw materials: hides and skins have become scarce due to reduced slaughtering. Scarcity of raw materials leads to increase of raw material prices affecting the industry. Leather processing plants emit a lot of pollutants. As a measure, common effluent treatment facilities are being developed by the industry relocating the tanneries into clusters. Volatility of other raw materials such as petroleum products and paraffin wax is also in the list of threats. Many times price of the final products cannot be increased just due to price rise of expensive raw materials. To tackle that, producers use other materials to substitute costly leather raw materials which affect the quality. Unavailability of non-leather raw materials or substitute raw materials is contributing to the threat factor list (Balmer Lawrie & Co. Ltd., 2010). Low-cost leather substitute finished products also pose a threat to the leather industry which may reduce the business of the SBU indirectly. Small domestic players pose a high threat due to their low prices. Business also depends on service terms: discount, credit period, etc.

4.1.4 SBU: T&T

Strengths: The SBU acts as one of the largest travel agencies in the country approved by IATA. It has a wide network of branch offices. The SBU offers 24x7 help line service along with user-friendly web portal for ticket and tour booking. Acquisition of VE has provided additional strength to the conglomerate to focus on packaged tours. Being the largest PSU travel agent, the SBU has a strong customer base of government ministries, other PSUs and government organizations. Activities of the SBU enable to maintain and improve relation and contacts with its government, PSU and other clients which indirectly helps to fetch businesses for other SBUs.

Weaknesses: The conglomerate is not able to grab considerable market share in the profitable tourism sector as it is confined to ticketing business mainly. The SBU is not able to collect huge amounts of outstanding payments on time from different ministries due to budget constraints of the government. Sometimes the SBU had to offer considerable credit period to its customers making instant payment to the airline carrier. Interest accrued during the credit period offsets the commission amount. Practically the SBU is working on extremely thin margin.

Opportunities: The conglomerate can use the experience and expertise of VE to increase the market share in the tourism sector that is more profitable than the ticketing business. Also, the conglomerate may launch promotional events and aggressive marketing schemes to attract individual travellers and tourists. The SBU can tie up with hotels, restaurants, transfer services, airline operators, etc. to provide competitive and attractive package deals. The trend of travelling abroad during the holiday is rising in the country. The conglomerate should utilize VE effectively to promote attractive international packaged tours.

Threats: The Indian aviation industry is going through tough times. The government is taking various measures to reduce the commission fee of travel agents. Airline operators are reducing the credit period earlier offered to travel agents. During austerity measures, the government issues a directive to all ministries and government organizations to buy tickets directly from the airline operator (mainly from PSU airline operator Air India) and not from travel agents. Airline operators are also reducing the productivity linked bonus disbursed earlier to travel agents. They are launching lucrative offers and innovative strategies to attract customers directly. Aggressive competition from unorganized agents is also reducing the margin.

4.1.5 SBU: LS

Strengths: The conglomerate has rich history and experience in the logistic business. It looks forward to adding new services such as cold storage services and warehousing to its portfolio. The SBU is a respected player in container freight services with considerable market share. SBU: LI perfectly complements the business of the SBU.

Weaknesses: Major clients are various departments of the government or other PSUs. The SBU is not able to build its strong customer base in the private sector.

Opportunities: Logistics is one of the fastest growing sectors in India, which is growing at a rate of more than 10% per annum. India is becoming a hub for automobile, pharmaceutical industry due to lower cost of production. Growth in these industries will drive the growth of the logistics sector. Many industries are outsourcing the total logistic solutions for their finished products and raw materials which has opened a new era in the logistic sector. Balmer Lawrie can capitalize the growing market and grab new business opportunities. More than 50% of the revenue of the SBU comes from air cargo handling. Opportunities lie in expanding the operation in ocean and inland cargo handling as customers prefer complete logistic solutions combining air, ocean and inland cargo handling.

Threats: Success of logistics service providers is dependent on the support extended by its partners. Domestic freight forwarders are facing intense competition from international service providers. To survive in the market domestic forwarders are going for tie-ups and mergers with international service providers. Slow GDP growth of India and other countries due to the global recession poses temporary threat.

4.1.6 SBU: LI

Strengths: The SBU has three large container freight stations in three different regions of the country which can support to provide logistics services across the country. Balmer Lawrie owns unused lands that can be used for setting up new warehouses. The SBU has successfully launched "Container Tracing and Tracking Solution" portal to provide real-time tracking information of consignments to its clients.

Weaknesses: Unavailability of infrastructures to provide a whole range of logistic services such as cold chain, storage and transportation of fruits, vegetables, etc. is the major weakness.

Opportunities: The volume of containerized traffic in India is still lower than the world average. To boost the infrastructure growth, the Government of India is considering the establishment of two ports on the eastern coast of the country in West Bengal and Andhra Pradesh in public, private partnership mode. Two ports will open new doors for the establishment of new infrastructures near to those ports. The Government of India allowed 51% FDI in multi-brand retail on 7^{th} December, 2012 subject to the approval of individual state government (Garg, 2013, p. 1). With the growth of retail business, new warehouses will be required. There is a gap between supply and demand of organized cold chain storage.

Threats: Global economic slowdown and subsequent slow GDP growth of the country is a major threat to the SBU. Another threat perception is weakening of Indian rupee against US dollar. The Government of India allows some large importers, government agencies, PSUs to use green channel clearing facility. Green channel means clearance of imported goods without routine examination. Thus, green channel may hamper the business of the SBU indirectly. Shipping lines are coming up with their container freight stations which add to the threat list.

4.1.7 SBU: ROFS

Strengths: The SBU is the market leader in sludge processing and cleaning services for oil refineries. It has got internal know how for building new sludge cleaning units. Experienced business professionals of the relevant fields have added to the strength.

Weaknesses: The SBU has got fewer numbers of cleaning units (BLABO) than is required for full operation. Transportation of cleaning units from one site to a distant site incurs a high cost. Until date, the conglomerate has not been able to hire experienced professionals or consultants to create a knowledge base to venture into new business areas such as non-metallic composite repair work as proposed in its plans. The SBU has to go through technological evolution to reduce per unit cleaning cost and to reduce manual intervention while cleaning to reduce the risk.

Opportunities: The SBU can continue to increase the processing oil sludge business adding new cleaning units, as required. The government is enforcing strict pollution control norms for oil refineries. This step will aggravate the demand for cleaning services. Opportunities lie in composite repair works for the pipeline, oil tanks in refineries as the SBU is very much capable of undertaking those jobs. The SBU can explore the possibility of offering other allied services such as waste management and safety and protection system in refineries and oil terminals. Hazardous sludge cleaning services in other industries can be a potential target market for the SBU.

Threats: Entry of unorganized small players in the cleaning business is the main threat. New players may enter into the business to grab a niche market.

4.2 Portfolio analysis: BCG growth share matrix

Balmer Lawrie should maintain the right balance in distributing its resources among its business functions to achieve optimum performance of the overall conglomerate. Out of all portfolio analysis models, I have chosen the BCG growth share matrix to carry out the portfolio analysis as the secondary data available to me is best suited for this model.

4.2.1 Assumptions

I have chosen SBU of Balmer Lawrie as the unit to perform the analysis. Revenues earned by each SBU in financial year 2013–14 are collected from the financial result of the conglomerate. I have taken market growth rate data from industrial publications and internal analysis of Balmer Lawrie. Table 13 given below presents all relevant data needed to plot the BCG growth share matrix. Table 13 also shows names of the largest competitors of Balmer Lawrie in respective business areas.

It is very important to define the relevant market for correct positioning of the SBUs. For SBU: IP, only steel drum manufacturing is considered as the relevant market. However, steel drum manufacturing contributes to only 3.5% of the overall packaging industry. I have defined overall lubrication industry of the country as the relevant market for SBU: G&L. Leather chemical industry is the relevant market for SBU: PC. Construction chemical business is ignored for the purpose of analysis as the conglomerate's presence in the segment is insignificant. I have considered corporate travel as the relevant market for SBU: T&T. I have ignored packaged tours business offered by SBU: T&T and VE. Container freight handling business in top three ports of the country: Mumbai, Chennai and Kolkata is considered as the relevant market for SBU: LI & LS. Sludge and lagoon cleaning business in oil refineries is the relevant market for SBU: ROFS. The Planning Commission, Government of India targets to achieve average GDP growth rate of 8% per year in the 12th five-year plan. Accordingly growth rate of 8% has been set as the dividing factor between high and low growth market.

Table 13. Data for BCG growth share matrix

SBU	Revenues (INR in crores)	% of Corporate revenues	Largest competitor and its market share		SBU's market share	Relative market share	Market growth rate
IP	495.73	18.66%	YCL	10%	40%	4.00	4.0%
G&L	430.13	16.19%	IOCL	30%	3%	0.10	3.0%
PC	67.45	2.54%	BASF	14%	5%	0.36	11.0%
T&T	1177.31	44.31%	FCM	13%	6%	0.46	9.0%
LS & LI	471.57	17.75%	APMT	9%	6%	0.67	14.0%
ROFS	13.51	0.51%	PTMIPL etc.	18%	82%	4.56	10.5%
Tea, E&P	1.43	0.05%	–	–	–	–	–
Total	**2657.13**	**100.00%**					

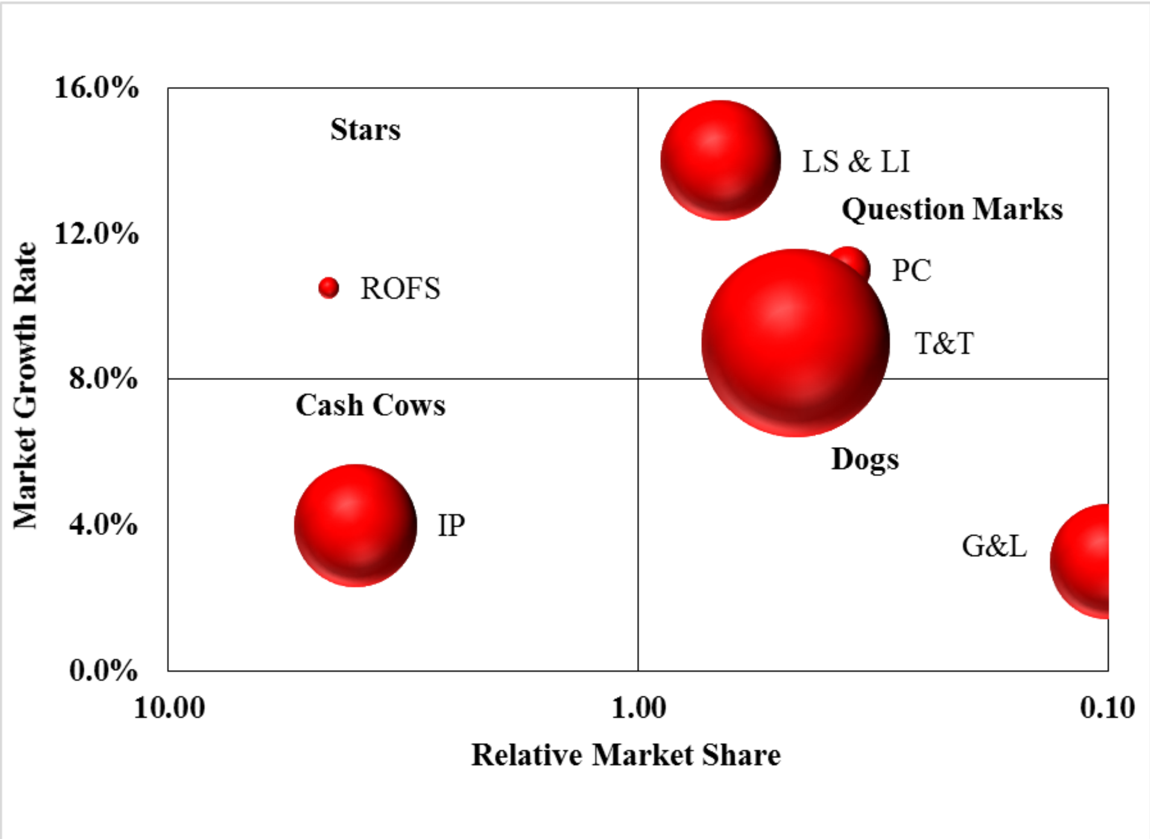
Source: Balmer Lawrie & Co. Ltd., *Financial Result 2013–14*, 2014b; Balmer Lawrie & Co. Ltd., *Internal Reports of Balmer Lawrie,* 2014d.

4.2.2 Analysis

Based on the data provided in Table 13 the BCG growth share matrix for Balmer Lawrie is plotted as under and captioned as Figure 24. Each circle represents one SBU. The area of each circle denotes the proportional revenue of the SBU. Plotted matrix shows that the conglomerate has almost balanced portfolio of businesses. But the area of the circle of star, SBU: ROFS is very small compared to SBUs of other three cells.

SBU: IP has become a cash cow in the sluggish industry. Its reinvestment requirement should be low. But recently the conglomerate has invested around INR 75 crores (9.4 million €) in high through-put barrel plant with an aim to increase the market share by cornering the unorganized players present in the sector with economies of scale and lower cost of production. Due to intense competition, the SBU expects consolidation in the sector. According to the analysis SBU: IP should generate excess cash to fulfil the cash requirements of other SBUs. In accordance with BCG's advice, the conglomerate should "hold" the SBU: IP to maintain market share and cost leadership. Over the years SBU: G&L has been translated to dog due to its insignificant presence in the lubricating oil market and slow growing lubricant industry. If I consider grease market separately wherein the SBU is one of the market leaders, the status of the SBU may be changed to cash cow. The conglomerate needs to manage SBU: G&L carefully with limited capital.

Figure 24. BCG growth share matrix



SBU: PC and LS and LI are question marks. These SBUs can turn around success story for the conglomerate. Balmer Lawrie is rightly "building" all these SBUs (after proper analysis) as they have the potential to become stars and subsequently cash cows in the future. However, though little but chances are that SBU: PC, SBU: LI & LS may translate to dogs in the future in spite of investments if the market growth rate declines. SBU: T&T lies on the borderline between question mark and dog. Management should cautiously handle the SBU as it is slipping down to become a dog. SBU: T&T's share towards the overall performance of the conglomerate is high. There is a fear that it may act as a cash trap in the future due to its thin profit margin (Henderson, 1972). SBU: ROFS is a star and the conglomerate should "build'' it which means it should continue to increase the market share – if necessary at expense of short-term earnings. But, unfortunately, its impact on the overall performance of the conglomerate is negligible as the volume of the market in which the SBU is operating is very small.

5 RECOMMENDATIONS

SBU wise SWOT analysis is carried out to find out strategic fit between environmental opportunities available around with the internal strengths of the conglomerate. It deals with external threats and internal weaknesses also. Though SWOT analysis inherits its shortcoming, this helps to provide strategic recommendations to the conglomerate. Portfolio analysis carried out with the BCG growth share matrix guides to decide on the allocation of time and resources among different business units.

IFAS (internal factor analysis summary) and EFAS (external factor analysis summary) could be carried out to form the strategic factor analysis summary (SFAS) matrix. Subsequently TOWS (threat opportunity weakness strength) matrix could be developed to generate alternative strategies for the company (Wheelen & Hunger, 2011, pp. 176–183). However due to the limitation of volume, only SWOT analysis is carried out. I have provided SBU wise strategic recommendations for the conglomerate based on my analyses.

5.1 SBU: IP

The SBU continues to be the market leader in mild steel drum manufacturing. The SBU should target steel drums or containers of sizes other than 210 litre capacity. To improve the shrinking margin of the SBU, optimized and re-engineered process in old plants should be employed. Manual intervention in the production process should be reduced to minimum level introducing automation in old plants to reduce overhead cost. The SBU should utilize new high throughput barrel plant fully which has a high level of automation to take advantage of lower operating cost.

The SBU, a cash cow, should consume less cash than it generates because of slow growth of the industry in which it is operating. Ideally cash generated by this SBU should be used to fund question marks such as SBU: LI, LS and PC but profitability of the SBU is an issue due to intense completion from unorganized players, threat from substitute products and government policy. The market has excess production facilities. The SBU is recommended not to go for any investments in the steel barrel sector except for diversification into other materials such as plastic and fibre. Under the circumstances, the decision of the management of putting a new plant at Taloja, Mumbai seems irrational. The conglomerate shall hold the the SBU to retail its market leader position.

Diversification in the same segment:

- **IBC:** The SBU has already identified a potential opportunity in this sector which also possesses a good operating margin. Market growth rate for IBC continues to be high as it is becoming increasingly popular due to lower cost.
- **Plastic Drums:** Plastic drums are replacing steel drums due to cost advantage, lower weight and less volatility of price of raw material plastic. Industry experts expect more than 10% annual growth rate. It is high time to venture into this business.
- **Fibre Drums**: Fibre drums are at least 20% cheaper than steel/fibre drums. With the use of modern technology, these drums can offer moisture and leak proof resistance same as steel drums. Use of fibre drums is increasing at a faster rate in few countries which have banned plastic material. It is best-suited for bulk powder drugs and chemicals (Balmer Lawrie & Co. Ltd., 2010, p. 36). The SBU can explore the possibility of venturing into fibre drum manufacturing as well in the future which will increase the export business.

Diversification into other packaging domain:

The SBU should carry out a detailed feasibility study consisting of current market analysis, detailed information on leading players, market growth projection, technology required, price structure, profitability, investment required, etc., on other packaging domains such as metalized film packaging, collapsible tubes, beverage and food cans, tetra packs, etc. into which Balmer Lawrie aspires to venture in the future. The SBU can look for a merger and acquisition or joint venture formation with other companies who have a significant presence in these segments of packaging.

5.2 SBU: G&L

According to the advice of BCG, SBU: G&L should be managed cautiously with limited resources or “divested” completely to other market leaders. It should be used to get short term cash without looking at long term aspects. However, many business analysts do not support this view of BCG. Management should not take any harsh steps based solely on this BCG matrix. Low market share of SBU: G&L does not reflect its profitability which is one of the weaknesses of the BCG matrix. Earlier Balmer Lawrie used to be a grease manufacturer only not lubricating oil manufacturer. The SBU is one of the market leaders in grease market. The conglomerate started lubricating oil business a few years ago which is also growing significantly. I suggest adopting aggressive turnaround strategies for the SBU. Based on other analysis carried out in my work I have provided following recommendations for the SBU.

Aggressive marketing strategy needs to be implemented to tap growing sectors like automotive (commercial and consumer retail), steel, power, construction and mining.

Retail sales: SWOT analysis reveals that contribution of retail sales towards total sales is considerably low, and the SBU has lot of scopes to increase the retail sales. A dedicated team of executives should be formed to focus on the retail sector. The conglomerate should give stretch targets, and bonus linked with retail sales to its executives. Balmer Lawrie should encourage its dealers with higher commission to promote Balmer Lawrie products. The marketing department should put emphasis on customer loyalty with better customer relation management.

Branding: Brand "Balmerol" is very weak vis-à-vis other PSU or MNC brands. Common retail consumers are not at all aware of the brand. Strong brand is essential for this type of products as knowledge about product properties remains low among customers. Balmer Lawrie should increase budget towards advertising expenditure to promote the brand. Suitable media such as television and radio should be selected for advertising to reach the masses. The marketing department should make innovative advertisements with a strong catch line with the help of a professional advertising agency. Sponsorship of programs such as auto-expo and industrial fare will also help to raise awareness among attendants of those events which are eventually prospective buyers. The SBU should organize events, conferences, and provide detailed product benefits in car/bike magazines. The SBU should target new OEMs and customize products to meet their requirements. Subsequently the SBU should enter into an agreement with OEMs so that they recommend "Balmerol" products (Balmer Lawrie & Co. Ltd., 2010, p. 40). Continuous evaluation of the brand with proper management methodology is required to assess the success of penetration of the brand in the industry. The SBU can appoint a dedicated brand manager.

Increase in exports: Tremendous opportunities lie for export of greases and lubricants particularly in South-East Asian, Middle East, African and CIS[9] countries. The SBU is already exporting to Kazakhstan, the Philippines, Kenya, Indonesia, Nepal and Tanzania. Opening of marketing offices in the Middle East and Gulf countries and setting up plants in those countries would help in tapping the local market in these countries (Balmer Lawrie & Co. Ltd., 2010, p 40.). However, a detailed feasibility report should be prepared before taking any decision on this.

Enriching product portfolio: ARL, laboratory of the SBU, should develop new products to suit the future trends. Work on long life, bio-degradable lubricants, eco-friendly lubricants, should be continued.

Raw material security: The SBU should look for the possibility of entering into a long-term agreement with oil majors to ensure a continuous supply of base oils. The SBU can explore opportunities for importing quality base oils from Gulf countries. The company

[9] CIS stands for the Commonwealth Independent States.

can increase the storage capacity of the most consumed base oil SN500[10]. The SBU may undertake a detailed feasibility study to go for vertical growth through backward integration to ensure supply of other raw materials such as 12 HSA, HCO including few additives.

5.3 SBU: PC

The SBU can become a star from the question mark in the future if Balmer Lawrie implements appropriate strategies. The conglomerate should invest to set up new production facilities to meet the growing domestic demand which should also be capable of offering a full range of leather chemical products and construction chemical products. The SBU should invest and utilize the laboratory PDC to develop other leather chemical products such as beam house, dyes and finishing chemicals so that the SBU can gradually commercialize other leather chemical products. PDC shall thrive to gain access to different technologies available across the globe through tie-ups with technology suppliers. The SBU should focus on developing a strong marketing department which will be responsible for increasing the export business. New plants can be set up at strategic locations to facilitate exports. Target should be kept to increase profitability by reduction of operation cost, implementation of process standardization and enhancement of production through automation of the plants. The SBU should install energy efficient equipment in its ongoing expansion project which will reduce energy consumption in the long run. The SBU should appoint a consultant to carry out a detailed study consisting of categories of products, application, price structure, detailed information on existing players, technology required, growth prospect, etc. about products in which the SBU aspires to venture such as personal chemical, dyes, oil field chemicals, etc.

5.4 SBU: T&T

Balmer Lawrie should handle this SBU carefully as it is in the danger zone in the BCG matrix. Appropriate management decisions can save this SBU from becoming a dog and cash trap. Profitability of the SBU is very poor. A shift from less-profitable travel agency business to profitable packaged tour business is the need of the hour. The conglomerate should utilize the potential of VE to expand its horizon in the tourism sector. VE should design and promote attractive tour packages with aggressive advertisements and also through social networking sites. Business conferences can be sponsored to promote international packaged tours. The SBU should focus on improving the customer base in corporate travels of private companies. It should employ its credit policy strictly to reduce bad debts and deferred payments. Long-term agreements with low-cost airlines, hotel chains, car drop service providers will help to offer a full range of services to its clients with improved profitability.

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[10] SN 500 stands for Standard Neutral 500. It is Group-I base oil most used in lubrication industry.

5.5 SBU: LS & LI

Profitability of the SBU is very high. Although, according to the BCG matrix, it is a question mark, it is a star performer among all the SBUs. It has got immense potential. Balmer Lawrie should invest heavily in this SBU to expand its existing business so that it becomes a market leader and its location shifts to the left cell of the matrix. The SBU should form a dedicated team to focus on and penetrate the ocean freight segment. In its existing business, apart from government clients the SBU should focus on attracting private clients. The conglomerate should invest in its existing businesses through expansion of existing CFSs or setting up new stations. The conglomerate should carry out a detailed feasibility study of setting up inland container depot (hereinafter: ICD) in the northern region of the country; then it would have a presence in all four regions of the country. The conglomerate should execute an envisaged project of setting up of cold storage facility to start the cold chain business. After a detailed study, the conglomerate is venturing to set up MMLH comprising of CFS, inland container depot for stuffing and de-stuffing of EXIM cargo, rail network, custom bonded warehouse, warehouse for storing import/export cargo, cold storage facilities, etc. Execution of the project should be sped up to take advantage of demand-supply gap as new MMLHs are also being set up by other logistics companies such as CONCOR across India. The conglomerate should undertake a feasibility study of finding the investment required, market potential, profitability, future prospects, operating margins, demand-supply gap, competitor evaluation and entry-exit barriers for NVOCC, port terminal operations and airport ground handling. Balmer Lawrie shall consider the possibility of merging SBU: LS with SBU: LI to offer third party logistics solutions.

5.6 SBU: ROFS

The SBU is a star but its impact on the overall turnover and profit of the conglomerate is almost negligible. However, profitability is very high. Industry experts expect sector growth rate to gradually decline in the future. Then SBU: ROFS will be translated to a cash cow. But then also it will not be able to generate much cash as the domain of existing business of the SBU is very limited. The conglomerate should invest to provide other services in refineries that will broaden the sector. The SBU should focus on improving the profitability by reducing unit cost of cleaning, increasing tanks turnover with better cleaning quality, improvement of technology, safer working environment, minimizing preparation and construction cost and increasing production of re-useable/saleable by-products. The SBU should raise awareness among new clients for proper handling and disposal of sludge for the sake of a clean environment. The SBU can develop one BLABO unit to meet the growing demand. It should be developed in-house to reduce the cost. Before entering into new business areas as envisaged by the SBU, the conglomerate can hire a specialized consultant to carry out a detailed study on the future business opportunities, profitability, technology required, future growth prospect and other aspects. Experienced professionals from the relevant field should be appointed to build in-house teams at the office as well as in the field with site-in-charge, engineer, fitter, etc.

CONCLUSION

Conglomerates play an important role in emerging economies like India. They are responsible for over 95% of Indian businesses, 80% of Brazil's and 90% of Chinese. In a growing economy, the conglomerates are considered the prime reason for job creation and economic growth creation (Kurtović, Siljković & Dašić, 2013, p. 111) Successful Indian conglomerates such as Tata Group, Godrej Group, ITC, Reliance Industries, Larsen & Toubro, etc. are increasing their presence globally. Balmer Lawrie, another Indian conglomerate of experience of 148 years, visions to be in that list. Reshaping the strategy with effective allocation of resources among its SBUs is the need of the hour to accomplish the vision.

I have carried out this thesis work following appropriate research methodology using secondary data. A lot of literature sources are available in the field of a diversified firm as it is a quite aged concept. Critical literature review helped me to explore the theoretical background of the diversified business firms along with its different aspects. Subsequently my thesis critically analyses theoretical models available for portfolio analysis. I have provided an overview of the specific conglomerate Balmer Lawrie including its inception, rich history, evolution of business activities, organizational structure, and manpower and shareholding pattern. I have briefed about present business activities of the conglomerate including its JVs and subsidiary. To assess Balmer Lawrie's position in the respective industries in which it is operating, structural analysis of industries has been carried out. I have also carried out financial and non-financial performance analysis of the conglomerate using charts, graphs, tables, etc. with specific reference to MoU ratings graded by the Government of India. SBU wise analysis is carried out to identify inherent strengths and weaknesses of the conglomerate against underlying causes of each competitive force prevalent in respective industries. I have concluded the analysis of my thesis with portfolio analysis in order to ascertain about allocation of resources among SBUs and also to segregate SBUs based on their potential. I have used typical management tools such as Porter's five forces model, SWOT analysis and the BCG growth share matrix in my work to analyse the conglomerate. This thesis attempts to provide the answers to the research questions framed in the beginning. In the end, I have provided detailed strategic recommendations based on the analyses.

Balmer Lawrie has travelled a long journey. My recommendations will help the conglomerate in its future journey. Recommendations provided will help to reshape the corporate and business strategy of the conglomerate. This thesis will contribute to the success of Balmer Lawrie.

This thesis is limited to secondary data only. Primary data collected through structured questionnaires from top managers and an interview with CMD of the conglomerate would have enriched my thesis. Primary data collected from industry experts would also have been very useful. Wherever possible, I have presented recent data of FY 2013–14 in the performance analysis section. However, it was not possible to collect and present the same throughout the analysis. Accordingly I had to use data of FY 2010–11, FY 2011–12 and FY 2012–13 as well.

A major weakness of the BCG matrix is that only one factor is used to decide about the competitive position as well as industry attractiveness. Also, the link between market share and profitability is not strong. Relative market share of the question mark, SBU: T&T is 0.46 but profitability is only 2%. Even if the SBU improves its market share to become a star or cash cow in the future, its profitability may not increase. On the other hand, profitability of another question mark SBU: LI & LS is 27.5% though relative market share is only 0.67. So, weaknesses of the BCG matrix have been captured in my analysis. There is scope for improvement in the future. This research can be extended by analysing the portfolio with GE business screen matrix, by collecting primary data and secondary data as required. Future researcher can validate the results of GE business screen analysis with the results of BCG matrix analysis. Alternatively, TOWS matrix can also be developed from EFAS and IFAS to generate a strategy for the conglomerate. In that case, primary data should be collected to decide about internal or external strategic factors, rating and weightings.

Balmer Lawrie has got excellent financial strength with excess cash reserves compared to other companies of its size. It is a debt free company also. It should focus on increasing the market share of existing businesses as well as adding new products or services to its existing SBUs after proper market analysis. The conglomerate should put more emphasis on units that are highly profitable as well as attractive such as SBU: LI & LS and SBU: PC. Investments are required to increase the market share of these businesses. Increased turnover of these SBUs will allow the top management to take a bold step against SBU: T&T, which needs immediate strategic shift from thin margin ticketing business to profitable tour packages. Other manufacturing SBUs such as SBU: G&L and SBU: IP should be managed tactfully with budgeted resources. Investment decisions should be taken cautiously in these two SBUs considering all aspects only after full utilization of existing capacities.

Over the years, Balmer Lawrie was somewhat conservative in taking up aggressive business expansion plans. Now the time has come. The conglomerate should grab new business opportunities in the booming economy of the country by utilizing its reserve funds. The change is visible. In 2014, Balmer Lawrie took over premier tour company VE. I expect that the conglomerate will be able to increase the profitability of SBU: T&T by milking the strengths of VE. It has started the work for setting up a new MMLH at Visakhapatnam, Andhra Pradesh which is an investment of INR 150 crores (18.8 million €). The board of directors of the conglomerate has cleared another investment of INR 150 crores (18.8 million €) for setting up a logistic park in West Bengal. It has also issued EOI for setting up three temperature controlled warehouses one each in Mumbai, Hyderabad and NCR for handling processed foods, dairy products, etc. Transition in workforce is taking place. By the end of 2015, a large chunk of young leaders and competent managers will replace the superannuated workforce. Rich cultures, ethics and core values embedded in the employees; able leadership and guidance provided by the top management and ambition of young managers will push the conglomerate to achieve greater heights.

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APPENDICES

LIST OF APPENDICES

Appendix A: List of abbreviations

ADL	Arthur D. Little
ALB	Al-Bucheeri
ANSI	American National Standards Institute
ARL	Application Research Laboratory
AVI-OIL	Balmer Lawrie – Van Leer Limited
Balmer Lawrie	Balmer Lawrie & Company Limited
BASF	BASF India Limited
BCG	Boston Consulting Group
BLCULT	Balmer Lawrie Cultural Survey
BLESS	Balmer Lawrie Employees Engagement Survey
BLIL	Balmer Lawrie Investments Limited
BLISS	Balmer Lawrie Initiative for Self Sustenance
BLHT	Balmer Lawrie Hind Terminals Private Limited
BLOG	Balmer Lawrie Organizational Gazette
BLOOM	Balmer Lawrie Online Monthly Bulletin
BLUAE	Balmer Lawrie (United Arab Emirates) LLC
BLUK	Balmer Lawrie (UK) Limited
BLVL	Balmer Lawrie – Van Leer Limited
BPCL	Bharat Petroleum Corporation Limited
BS	British Standard
CA	Corporate Affairs
CAIRN	Cairn India Limited
CAPA	Centre for Asia Pacific Aviation
CASTROL	Castrol India Limited
CEMILAC	Centre for Military Airworthiness and Certification
CFS	Container Freight Station
CHA	Customs House Agent
CIS	Commonwealth of Independent States
CLRI	Central Leather Research Institute
CMD	Chairman-cum-Managing Director
COO	Chief Operating Officer
CONCOR	Container Corporation of India Limited
CPCL	Chennai Petroleum Corporation Limited
CPSE	Central Public Sector Enterprise
CSR	Corporate Social Responsibility
DGCA	Director General of Civil Aviation
DGMS	Director General of Mine Safety
DNH	Dadra and Nagar Haveli
DPE	Department of Public Enterprise

DPM	Directional Policy Matrix
ED	Executive Director
EFAS	External Factor Analysis Summary
EN	European Standard
EOI	Expression of Interest
E&P	Engineering and Projects
EPC	Engineering Procurement and Construction
EPS	Earnings per Share
ERP	Enterprise Resource Planning
ESP	ESP (Asia) Private Limited
FCM	FCM Travel Solutions
FCL	Full Container Load
FDI	Foreign Direct Investment
FY	Financial Year
GDP	Gross Domestic Product
GE	General Electric
G&L	Greases and Lubricants
GLIOS	Greases and Lubricants Integrated Operating Software
GOI	Government of India
GULF	Gulf Oil Corporation Limited
HCO	Hydrogenated Castor Oil
HPCL	Hindustan Petroleum Corporation Limited
HR	Human Resource
HSA	Hydroxy Stearic Acid
IATA	International Air Transport Association
IBC	Intermediate Bulk Container
IBP Co. Ltd.	Indo Burma Petroleum Company Limited
ICD	Inland Container Depot
IFAS	Internal factor Analysis Summary
IIP	Indian Institute of Petroleum
INR	Indian Rupee
IOCL	Indian Oil Corporation Limited
IP	Industrial Packaging
ISO	International Standardization for Organization
IT	Information Technology
JV	Joint Venture
LCL	Less Container Load
LI	Logistics Infrastructure
LiOH	Lithium Hydroxide
LS	Logistics Services
MBA	Master of Business Administration
MMLH	Multi Modal Logistics Hub

MNC	Multi National Company
MOPNG	Ministry of Petroleum and Natural Gas
MoU	Memorandum of Understanding
MSME	Micro, Small and Medium Enterprises
NCR	National Capital Region
NI	New Initiatives
NVOCC	Non Vessel Operating Common Carrier
OEM	Original Equipment Manufacturer
OHSAS	Occupational Health and Safety Management System
ONGC	Oil and Natural Gas Corporation
PAT	Profit after Tax
PBT	Profit before Tax
PBIT	Profit before Interest and Tax
PC	Performance Chemicals
PDC	Product Development Centre
P/E Ratio	Price-Earnings Ratio
PESB	Public Enterprises Selection Board
PMS	Performance Management System
PRP	Performance Related Pay
PSU	Public Sector Undertaking
PSE	Public Sector Enterprise
PT.BLI	PT. Balmer Lawrie Indonesia
PTMIPL	Plant Tech–Midcontinent (India) Private Limited
PVC	Polyvinyl Chloride
R&D	Research and Development
REACH	Registration, Evaluation, Authorisation and Restriction of Chemicals
ROCE	Return on Capital Employed
ROE	Return on Equity
ROFS	Refinery and Oilfield Services
RFID	Radio-frequency Identification
SAP	Systems Applications Products
SAMBAL	Samaj Mein Balmer Lawrie
SBU	Strategic Business Unit
SCM	Strategic Condition Matrix
SEBI	Securities and Exchange Board of India
SFAS	Strategic Factor Analysis Summary
SMS	Short Message Service
SN 500	Standard Neutral 500 Grade Base Oil
SWOT	Strengths Weaknesses Opportunities and Threats
TCI	Transport Corporation of India Limited
TOWS	Threat Opportunity Weakness Strength

TSL	Transafe Services Limited
T&T	Tours and Travel
UAE	United Arab Emirates
UPS	United Portal Service
UK	United Kingdom
US	United States of America
VE	Vacations Exotica
VP	Vice President
YCL	Yashraj Containuers Limited

Appendix B: Corporate journey of Balmer Lawrie

Beginning years	
1867	Partnership firm set up on 1st. Feb.1867 as trading and managing agent for tea, shipping & forwarding.
1867	On 21st May, Mr Balmer, one founder died in England.
1872	Banking operations commenced and appointed as managing agents for Jokai Tea.
1878	Appointed as selling agent by Marshall Sons & Company Limited for machineries.
1882	Crystal Ice Supply, Kolkata appointed Balmer Lawrie as managing agent.
1888	Started food export to West Indies.
1889	Employees received annual bonus.
1890	Bengal Paper Mills appointed Balmer Lawrie as managing agent.
1891	New Beerbhoom Coal appointed Balmer Lawrie as managing agent.
1894	Office of Balmer Lawrie at 103 Clive Street enlightened with electric power.
Corporate journey – Maturing years	
1908	Founder Alexander Lawrie passed away. A branch office in Bombay (presently Mumbai) opened.
1909	New 4 storied Office constructed in Kolkata, presently used as head quarter.
1917	Company acquired first motor car.
1919	Aurther Butler & Company appointed Balmer Lawrie as managing agent. Audit of accounts carried out by PricewaterhouseCoopers for the first time.
1920	British India Electric Construction Company Limited (Biecco), Bridge & Roof Indian Galvanising Company appointed Balmer Lawrie as managing agent.
1924	Translated to a Private Limited Company on 1st. January, with share capital of INR 40 Lacs.
1932	New Office in Delhi opened.
1936	Transformed to a Public Limited Company on 6th January.

Corporate journey – Growth years	
1937	Started grease production at Pilkhana, Howrah, West Bengal.
1944	Grease production started in Sewree, Bombay. Barrel manufacturing started at Indian Galvanizing Company. Staff provident fund was started.
1946	Employee Trade Union formed.
1947	New overseas offices inaugurated in Karachi, Pakistan & Chittagong, Bangladesh.
1949	Balmer Lawrie & Co (Pakistan) Limited established.
1951	Tribeni Tissue commissioned. Balmer Lawrie acted as managing agent.
1952	Branch Office commenced at Madras (now Chennai), though later discontinued.
1956	Alex Lawrie & Co. sold 25% of holding to IBP Company Limited.
1958	Insurance agency (Sun Insurance) discontinued.
1963	Banking operations stopped.
1968	Management control was taken over by Duncan Brothers.
1969	Managing agency system discontinued, as a consequence Balmer Lawrie lost managing rights of more than 40 tea gardens.
Corporate journey – Uncertain years	
1972	Indo Burma Petroleum Company Limited (IBP) bought remaining all shares from Alex Lawrie & Duncan Brothers and obtained complete control of Balmer Lawrie. Balmer Lawrie turned to a subsidiary of IBP.
Corporate journey – Public sector era	
1987	Rated as Schedule B public sector enterprise (PSE).
2001	BLIL took over holding (61.8%) of IBP Company Limited. Share of the company was listed in Bombay Stock Exchange and National Stock Exchange.
2003	Balmer Lawrie elevated to Mini Ratna II grade.
2006	Mini Ratna I PSE.

Source: *Balmer Lawrie & Co. Ltd. – About us: Milestones*, 2014c. http://www.balmerlawrie.com/

Appendix C: Financial ratios

1) Current ratio= $\frac{\text{Current assets}}{\text{Current liabilities}}$

2) Acid test or Quick ratio= $\frac{\text{Current assets - Inventory}}{\text{Current liabilities}}$

3) Operating profit margin= $\frac{\text{Operating profit before interest and tax}}{\text{Sales}}$

4) Net profit margin= $\frac{\text{Profit after tax}}{\text{Sales}}$

5) Return on capital employed (ROCE)= $\frac{\text{Net profit before interest and tax}}{\text{Shareholders' funds + Long-term debt)}}$

6) Return on equity (ROE)= $\frac{\text{Net Income}}{\text{Shareholder equity}}$

7) Inventory turnover ratio= $\frac{\text{Costs of goods sold}}{\text{Average Inventory}}$

8) Total asset turnover= $\frac{\text{Total sales}}{\text{Total assets}}$

9) Earnings per share= $\frac{\text{Profit after tax}}{\text{Number of shares}}$

10) Dividend per share= $\frac{\text{Dividends paid}}{\text{Number of shares}}$

11) Dividend pay-out ratio= $\frac{\text{Dividends paid}}{\text{Profit after tax}}$

12) Price/earnings (P/E) ratio= $\frac{\text{Market value per share}}{\text{Earnings per share}}$

Appendix D: Evaluation of 2011–12 MoU score based on audited data