

Aadi Aushadhi Business Analysis

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1 May 2012

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I. ACKNOWLEDGEMENTS

The Applied Global Business Learning (AGBL) group would like to thank St. Xavier's College community for their outstanding hospitality and financial support that makes this rare opportunity possible for Marquette students on an ongoing basis. We would also like to extend a thank you to the community of Dediapada as well as the Jesuit community for their warmth and openness. The team also acknowledges Marquette University's generous financial and moral support given to Applied Global Business Learning. We also would like to thank Francis and his family for their gracious hospitality during our trip. Finally, we would like to give special thanks in particular to Fr. Lancelot D'Cruz, SJ—without whom we would not be able to have this rich experience.

II. INTRODUCTION

The following report was produced by members of the AGBL team for *Aadi Aushadhi* after returning from their trip to Dediapada in January 2012. The team was very impressed with the state of operations at *Aadi Aushadhi*, which in many ways is running its operations as we would expect a modern company to operate. We do believe that the cooperative has a bright future, and to facilitate growth we believe that the members need to consider a number of issues. We outline those issues in this report where we suggest changes on to both the marketing and the production of the products produced by *Aadi Aushadhi*, and we also suggest a strategic plan for implementing these suggestions.

III. MARKETING ISSUES

A. *Branding*

It is very important for an organization to create and establish a brand. One way that this is possible is through labeling. *Aadi Aushadhi* has done a great job creating attractive labeling however; some packages in the Dediapada store were without labels. It is important that enough labels are made so that every packaged product can have a label. This helps the consumer understand what product they are purchasing and equally important, where they purchased it.

Furthermore, the labels can be used to educate the consumers of *Aadi Aushadhi*'s history and mission. The company might want to consider making a second label for the back of their products that briefly tells the story of *Aadi Aushadhi* and the company's goals. This could incentivize some consumers to pick *Aadi Aushadhi*'s products over a competitors' because the money is being used to directly help the community of Dediapada. These second labels would not have to be customized for each product, so the expense associated with production of the second label could be kept to a minimum. Also, the second label is a great way of further establishing your brand by making sure that each product is telling the *Aadi Aushadhi* story.

B. *Pricing*

Pricing products appropriately is very important because it establishes the size of revenues. If prices are set too high, they can discourage potential buyers from purchasing the product. If they are set too low, you sacrifice revenues. Thus, there is a careful balance that needs to be established. One factor that plays a role in determining the appropriate price is the level of consumer demand in each market. *Aadi Aushadhi* should customize its prices to take into account the market in which they are operating. For example, ice cream sells well in both

urban and rural markets, so it could be sold in both places. Urban residents, however, are generally willing and able to pay a higher price for goods than rural residents due to the differences in wages and cost of living. This means that the price of ice cream as well as other items, such as the chai masala tea, and other products should be higher in urban areas than rural areas. This will create the opportunity for a higher per unit profit margin. One way to go about determining the price to set in urban areas is to look at the prices of similar products in the area and set a price close to those products.

Prices should be reviewed regularly to ensure that they reflect demand. This will keep *Aadi Aushadhi*'s products competitive in the market and help maintain an adequate profit margin for the company

IV. PRODUCTION ISSUES

While *Aadi Aushadhi* has made impressive improvements to the way they run their business in the past year, there is still room for improvement around product standardization and data collection. By improving these two areas, *Aadi Aushadhi* will improve their product quality and have valuable information on which products sell best and when. This will increase the efficiency of the workers who are already sacrificing their scarce and valuable time to make *Aadi Aushadhi* a success.

A. *Product Standardization*

By watching the production process and examining its records during our visit, it became apparent that there was a need for additional work in the standardization of products. There were two major issues observed: (1) there were some differences in the amount of product placed into

each container and (2) there did not appear to be a set name for each product with a set price that was recorded each time it was sold.

The workers we observed placed the product (tea in this instance) into the plastic bag container using their hands. They “eyeballed” the amount placed in each bag, which led to inconsistent volume levels from bag to bag. In addition, when our group went to a local merchant in Ahmedabad to look at the final product being sold, we saw that there was some inconsistency in each individual product. Some bags had a little more of the product inside it than others and vice versa. Additionally, the overall quality of the product was not the same in each bag. Some bags had “dust” in the bottom of the bag while others had more leaf material. The products that are of lesser quantity or quality will undoubtedly be left on the shelves. This can hurt the *Aadi Aushadhi* brand by suggesting that quality is inconsistent or of poor quality.

It would be much more efficient and cost effective to have a way of standardizing the amount of product put into each container. For instance, using a cup with a known volume to fill the bags each time would ensure that the amount placed into each bag would be the same. This would provide product consistency and prevent losses that would come about as a result of an inconsistent product. It would also be helpful in planning production because the amount of product needed to create ‘x’ amount of packets will be more accurately known. In addition, someone should inspect each item produced for quality. Modern companies have an entire department devoted to the maintenance of quality standards. If a particular package appears to be inferior, it is better to pull that package out of inventory rather than allow it to be sold, and potentially hurt the *Aadi Aushadhi* brand. When restocking inventory at a store, pay attention to

the condition of the existing inventory at the store. If there are units that appear to be damaged or of inferior quality, they should be replaced with higher quality product.

Additionally, it would be highly beneficial to standardize the name of each product being sold. For example, when one goes to McDonald's, they can order from a menu of set products (e.g. a McSpicy or a McVeggie). One of the major reasons this is done is because makes it dramatically easier to track the sales of each product. They can see which products are doing well and which items are not. If a product is not selling well, the firm can easily discontinue it and try another product. It is important to note that modern companies discontinue products all the time. It is wasteful for them to keep using labor and materials to produce something that has little or no demand. Additionally, if they had to tailor each specific order to the exact specifications of each customer, it would be nearly impossible to keep track of their products.

B. Data Collection

When examining the sales records of *Aadi Aushadhi*, we identified several areas where improvements need to be made. For example, in the record book, the ailment being treated was noted but the specific product was not. Additionally, there seemed to be differing prices for each product. We suggest that you give each distinct product a name and set price (by unit or by weight). This would have several advantages. First it would make the records much clearer and more useful for the purpose of analysis. The names given to the product that are recorded in your record book do not have to be fancy or elaborate; you just have to keep track of each separate product. For example, if you have three different products for joint pain (i.e. three unique recipes), label them JointPain1, JointPain2 and JointPain3. Each time one of these

products is sold, note it, along with the quantity and price per packet, in the sales record. This will remove any question as to what exactly was being sold.

To improve record keeping, it would be highly beneficial if the exact number of each individual product that was sold, and the date on which it was sold were both recorded in the record book. When we examined the sales data, the number of each product sold was sometimes ambiguous. For example, a more complete record of a sale would indicate: 5 units of JointPainX sold on DD/MM/YYYY at XYZ location for Y Rupees each. See Table 1 at the end of this paper for an example. Note that all of this information should eventually be contained in an Excel spreadsheet so that this information can be analyzed.

Knowing the demand for each product is extremely valuable information for a company to have. A product may sell very well during a certain time of the year and very poorly during other times. As mentioned earlier, a product like ice cream may sell much more during the summer but it may not sell nearly as well the wintertime. It would be a poor use of your worker's time and effort, and your companies resources to produce a large amount of ice cream when it is cold outside and there is low demand for this product. Accurate data collection can reveal to a company a great deal about their products and how to allocate their company resources.

C. Forecasting

Besides the benefits already mentioned, improved data quality can help *Aadi Aushadhi* improve production timing to better meet customer demands. One challenge the organization has faced has been timing their production so that they have enough inventory to meet demand. *Aadi Aushadhi* has already taken steps to measure and track how much raw material is needed to

make certain amounts of product. The next step would be to align these production processes with retail sales targets. It would be extremely beneficial for the organization to develop a retail forecasting strategy that will time production with sales. If these processes can be aligned, it will result in fewer inventory shortages, increased sales, and thus greater net income.

Forecasts should be the best estimate of how many units of each product you think you will sell in a given time period. You can forecast sales for the year, quarter and month. By creating a retail forecast, companies can have a picture of what they expect to sell in the next period and therefore how much they will need to produce to reach this goal. Each firm must develop their own forecasting methodology based on their own unique retail trends. One simple method is to take total sales from the last period, and apply a growth or retraction rate based on how the business expects to perform in the coming period. For example, assume *Aadi Aushadhi* sold 40 packets of its kidney stone medicine in February. Next month an increase of 10% is expected. Apply the growth rate to the actual sales and you get a forecast of 42 units, $40 \times (1 + 0.1) = 44$. You can continue this method for future months and thus gain a better picture of what your inventory should look like in order to meet these forecasts. This method is typically adapted as your sales for the most recent year are revealed. For example, if you anticipated a 10% increase and your sales actually rose faster (say 50%, to 60 units), then you would adjust upward your expectations for the next year.

As you continue to collect data you can refine your methodology further by taking into account trends that are unique to the retail environment in relevant markets. For example, once an entire year of sales is recorded a rough idea about the seasonal selling patterns can be formed. If you notice that 30% of total annual sales for joint pain occur in July, then next year you can

plan production accordingly. *Aadi Aushadhi* also has the challenge of inventory constraints due to availability of raw materials. It may be the case that the growing season for certain medicinal plants may not align with the selling season. These challenges need to be realized ahead of time and accounted for when creating a production plan.

Creating a comprehensive and accurate forecasting strategy can be challenging and it will likely take several years before a reliable methodology and procedure is developed. However, taking steps to align production with perceived market trends will help to create a customer led production model. This will ultimately result in increased sales and reduced costs through more efficient production.

D. Supplier relations

Another unique aspect of *Aadi Aushadhi* and its production process is that it depends on co-op members and outside suppliers for raw materials and some of its final products. Therefore, it is especially important for the organization to foster and maintain strong supplier relations.

Aadi Aushadhi will benefit from new strategies to improve relations with their growers.

Obviously growers are familiar with the company's mission and goals, which helps to give them a stake in the company's success. However, it is extremely important to make growers aware of the further benefits to working with *Aadi Aushadhi*. Each individual grower should understand what having a stake in *Aadi Aushadhi* can bring them. For example, a stable and even increasing income means improved living conditions for their family, improved farming technology such as wells and irrigation, and education for their children. Explaining to them these benefits in addition to the monetary rewards may encourage further participation in the program and allow *Aadi Aushadhi* to bring in more raw materials.

Another idea to further increase participation is to create a type of rewards program for continued loyalty and increased production from growers. *Aadi Aushadhi* could set targets for growers and grant them a reward to enhance their productive capacity after the specific target is met. For example, a grower who has sold his or her products to *Aadi Aushadhi* for at least 6 months and has delivered a certain amount of product can be given a monetary grant to start an improvement project on their land. This way *Aadi Aushadhi* is incentivizing the growers to not only continue their work for the organization but to bring in more product. This will also allow *Aadi Aushadhi* to invest back into its loyal growers, helping them develop their farms, and hopefully increasing loyalty and future production.

Another facet of *Aadi Aushadhi*'s business is their food products. Since many of these products rely on outside suppliers to create the final product, it is important that relationships are built and maintained, as previously mentioned. One common practice for business-to-business transactions is to create a contract. Even an informal contract will give the outside supplier an idea of the length and scope of the partnership. In this way both the outside supplier and *Aadi Aushadhi* can reach an agreement that is mutually beneficial and gives some reassurance that each party intends to fulfill their commitments.

V. STRATEGIC PLAN

Aadi Aushadhi has done a good job of diversifying the products it makes and sells; expanding from medicines to ice cream, tea, and khakras. This has helped spread the *Aadi Aushadhi* name while also offering other sources of income and profit. To further this progress and leverage all products to their greatest potential, it would benefit *Aadi Aushadhi* to

continually review their sales records to identify which products are in demand as well as where and at what times they are in demand. For example, the ice cream that was sold at SATVIK Food Festival seemed to be very popular amongst all consumers. The ice cream may sell more in the summer than in the winter due to the weather—one is more likely to look for a cool treat in warmer weather. Knowing this, *Aadi Aushadhi* can produce less ice cream in the winter and then more in the summer, thus reducing the amount potentially wasted while also being prepared for orders of the ice cream in the summer.

Another way to optimize *Aadi Aushadhi*'s resources and improve its current business is by setting goals for the company to reach. Such goals could include reaching a certain level of profit that can be invested into a new machine, or perhaps reaching a certain level of growth by increasing sales. This of course requires that the company also manage production so that the demand for the product can be met. These company goals will help the cooperative members of *Aadi Aushadhi* see progress in the company while also making the accomplishments more tangible. This should, in turn increase employee motivation as well as increase interest among other potential members to begin growing plant material for *Aadi Aushadhi*. It is also an important way for the company to establish its own goals and expectations.

VI. CONCLUSION

In summation, there are several simple things *Aadi Aushadi* can do to grow and improve its organization. Improvements to marketing, production and strategic planning is an ongoing process that all modern companies must routinely examine. One way to achieve those improvements is through more thorough and comprehensive data collection. By keeping a

thorough account of all the sales and expenditures, the leadership at *Aadi Aushadhi* can begin to implement strategies that will make *Aadi Aushadhi* a more profitable and efficient company. Identifying which products are the most profitable (as well as those that are unprofitable) and tracking when they are in the most demand will be invaluable information. It will allow for better allocation of resources (i.e. the time and labor of the farmers involved in *Aadi Aushadhi*) and greater revenue.

Additionally, improvements in marketing are important as well. Letting customers know of the story behind *Aadi Aushadhi* should increase awareness and support, as well as potentially increase sales. Lastly, having strong leadership that can implement these suggestions and strategies will help *Aadi Aushadhi* set goals, achieve them and continue to grow as a company. We would like to emphasize our gratitude to St. Xavier's College and the *Aadi Aushadhi* group for their generosity and hospitality. We believe it was a mutually beneficial and unique experience for both parties. It is our hope that our recommendations and observations will help *Aadi Aushadhi* grow and prosper in the coming years.

Tables and Figures

Table 1:

| Patient | Product | Quantity | Price per Product | Total Cost | Date | Location |
|----------------|----------------|-----------------|--------------------------|-------------------|-------------|-----------------|
| Michael Rhodes | Acidity1 | 2 | 30 | 60 | 31/01/2012 | Main Store |
| Michael Rhodes | Massage2 | 1 | 30 | 30 | 31/01/2012 | Main Store |
| Meaghan Sloand | JointPain2 | 3 | 50 | 150 | 2/2/12 | Main Store |