

**MBA FINAL PROJECT**

**Diagnostic Study of Supply Chain  
Management in Berger Paints (Pvt.) Ltd.**

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**University of Management & Technology**

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**“Diagnostic Study of Supply  
Chain Management in Berger Paints (Pvt.)  
Ltd.”**

“Being a Final Project Report presented in part requirement for Master in Business Administration at University of Management and Technology”

“We declare that report is, in entirely, our own work, that it has not previously been presented in whole or part, for any other award, or published, in whole or part elsewhere”

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We will always be thankful to Almighty Allah for helping us make the right decisions in life and pick what is in best interest to us. With this blessing we had the chance to study in one of the prestigious and distinguished Universities in Pakistan, University of Management and Technology. We sure have reaped the knowledge that will certainly make us succeed in the practical and professional life. We feel it an honor to be a part of such an eminent university.

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## **Executive Summary**

The supply chain management provides the insight in understanding the modern practices adopted by the organizations. To cover the aspects of managing supply chain we have worked on the generalized supply chain model, end to end supply chain, pipeline mapping, value stream mapping, cash flow, material flow, information flow, different processes, and value chain analysis and identified the gaps within these processes along with the financial implications.

The final project is about the diagnostic study of supply chain management at Berger Paints. The Berger Paints is the leading paint manufacturer in the industry. We have collected the information of paint industry in Pakistan and then analyzed the Berger Paints over the years in Pakistan. To understand the concept of supply chain in Berger Paints we have applied various tools and techniques to finalize our report and it has helped us in understanding the real life situation that arises in the industry. The first analysis that we have done was the generalized supply chain model in which we managed to understand how the organization corresponds within its department as an integrated enterprise to manage the flow of information, knowledge, product, finance and services from suppliers to distributors and vice versa. Later we have analyzed various processes in the Berger paints and reengineered them through various recommendations that fit the organization. The flow of information, material and cash was drawn through extensive meetings with different people at various departments in the organization. The flow of material, information and cash helped us to understand the actual phenomenon how each step starts in the organization and reaches its inception after undergoing various levels in the supply chain of the organization. After understanding and completing the flows, the end to end supply chain system in Berger Paints was studied that tells us about each tier from which the materials flow to the focal firm and then finally reaches the end customer through various echelons. After this, we had set up meeting with each and every people involved in the major operations at Berger Paints to work on the pipeline mapping that demonstrates not only the inventory holding positions in the physical pipeline flow of Berger Paints but also value

added processes. The completion of pipeline mapping lead us to work on the value stream mapping of Berger Paints and value stream mapping clearly differentiate the value added activities from the non-value added activities which can help to increase service level for Berger Paints. We have also designed and evaluated the value chain of Berger Paints to understand the importance of primary and support activities in the organization. We have also worked on the financial analysis of the organization to find out where exactly the company financially stands. At the end, based on our analysis and theoretical knowledge we have presented some recommendations for Berger Paints. The issues identified in stock, lead times, cash flows, redundant activities, relationship with suppliers and distributors, sharing of fast and accurate information can easily be handled with the help of collaborative planning, forecasting and replenishment (CPFR). We presented the CPFR model for the suppliers as well as distributors and mentioned the importance that the model will impact on the organization as a whole. During our meetings with different people at Berger Paints we also came across some other problems and issues that need to be addressed so we also laid some general recommendations to help overcome those problems and issues.

## **Introduction**

### **About Participants:**

This project is completed with sheer dedication to quality and commitment to the studies. The work is done by two group members, Waqas Afzal and Rizwan Akhtar. We both have studied MBA-P from the University of Management & Technology and were students of batch 45<sup>th</sup>. Waqas Afzal had completed his specialization in marketing and Rizwan Akhtar had done his masters in supply chain management.

Established in 1990 as a project of ILM Trust, the University of Management and Technology, then known as the Institute of Leadership and Management, has evolved into a premier institution of higher learning in the country. This success rests on the high teaching and research standards maintained by the University over the years. The Higher Education Commission (HEC) recognizes all degree programs offered by UMT. After the completion of all the course work we set out to work on the MBA final project on the diagnostic study of supply chain in Berger Paints.

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# CHAPTER 1

## INTRODUCTION OF PAINT

### INDUSTRY IN PAKISTAN



# 1. Introduction of Paint Industry in Pakistan

Local paint industry operates both in organized and unorganized sectors. The data regarding production and number of units of the unorganized sector is unavailable; therefore, it is difficult to have complete data about the production and number of units of the paint industry. According to an estimate, over 350 units of paints and varnishes are operating in the unorganized sector. Their products are substandard though their cost of production is comparatively low. Many of them also avoid payments of excise duties and therefore, are in a better position to compete in the local market.

The dip in production may be attributed to the shortage of raw materials, contraction in demand for certain paints due to slump in paint consuming sectors and low level of efficiency etc. The production of paints has been reduced to half in 1997-98 as compared to 1990-91 but later in 2000 the industry just started experiencing change. The people are now accepting the fact that paints can be done every year depending on their living style.

To start a paint factory all one needs was an excise license and perhaps one or two mixers. The government tolerated this for a long time as a concession to small industry, but the situation was abused until 1992 when the government developed a new policy to prevent tax evasion. Information was obtained about all the excise-license holders manufacturing paint in Pakistan and a survey was conducted to ascertain what each unit expected to pay. But even then it got no cooperation from factory owners, and so the government established a fixed rate of tax, possibly with the assistance of the small manufacturers. No one was concerned at that time as to whether or not the figure was fair.

The idea was just to bring this very large sector into the tax net. However, the manner in which the rate was fixed was haphazard and totally out of line with reality, but opposition was undermined when the paint companies put up their own suggestions, each one different and some almost poles apart. So when this system came into operation it resulted in double taxation for the paint industry.

The larger listed units and eight or ten others were paying and continue to pay, regular taxes on their finished products, (i.e. 10% excise duty and 12.5% sales tax). These units were required to keep all records - purchase, sales, imports, exports, etc. - while companies paying just the fixed rate of tax are required to do none of this. It is difficult to get a true picture of how many such units exist in this country, how much fixed tax they pay and the volume of paint produced by them.

## **1.1 Raw Materials**

Paint industry uses about 300 different types of raw materials for producing various kinds of paints. About 15 per cent raw materials of the industry are petroleum based. In 1971 between 80 to 90 per cent requirements of the materials were met through imports which currently have been reduced to about 40 per cent due to increased production of indigenous raw materials. The major imported raw materials include pigments, zinc oxide and titanium oxide. Most of raw materials are available locally. At times raw materials are imported in large quantities compared with their demand which affects quantity of imports.

## **1.2 Foreign Investment**

Foreign companies in Pakistan's paint industry have been fairly active. In fact quite a few of the leading paints manufacturing units were sponsored by foreign manufacturers and are operated in collaboration with local entrepreneurs. Two of these foreign-sponsored paints manufacturing enterprises are public limited companies whose shares, after being offered for public subscription, are quoted on the local stock exchange. One of these is Berger Paints and ICI Paints which now is known as the Akzonobel. The interest of foreign investors in this industry appears to be due to the fact that most of these companies began their operations in Pakistan as importers and traders of paints which were manufactured by their principals in the home country. After the imposition of restriction on the import of paints, through high tariff barrier, these companies have established their own factories and are manufacturing their well-known brands. Foreign investment in paints industry was estimated to be in the vicinity of Rs. 10 million at the start and has been constantly increasing through years.