Shafi Reso's Dilemma of Strategy Formulation in Stern Competition

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Abrar Ahmed was concerned. After experiencing solid growth in the first two years of its launch, Resolith was headed for murky waters. Abrar Ahmed had realized in 2005 that the industry would be difficult to navigate, considering the presence of international brands, but the situation had gotten worse recently with the emergence of numerous local manufacturers. The local manufacturers were undercutting Resolith in terms of price while the international players had their brand names and brand networks doing all the heavy lifting for them. Abrar Ahmed did not want to lower the prices as this would mean compromising on quality and cutting corners, something which Shafi Group did not stand for. With these thoughts and recalling the launch of Resolith, Abrar Ahmed was moving from the CEO's office to the board room, where his marketing and sales team was waiting for him. He was thinking of the time when Resolith's launch didn't put them into such dilemma.

Shafi Reso Chem

Shafi Group started as a trading house of hides and skins seven decades ago. Shafi Group had grown to become a major manufacturer in leather industry with products including shoes, garments and chemicals. Shafi Reso Chem, a strategic business unit of the group, was the product of the firm's diversification strategy and was started in 1994 in collaboration with the Italian firm ALPA. The company produced specialty chemicals and auxiliaries for leather textile, paper, paint, carpet, and cement industries. Annual production of chemicals was about 15,000 metric tons per year. The main plant was situated in Lahore and was employing a workforce of hundred. The annual turnover of the Shafi Group was about US$ 40 million in 2006, with major exports to over 32 countries worldwide.

It had always been the vision of Shafi Reso Chem to be market leader rather than being "me too". Started as distributor of chemicals, they developed an R&D based state-of-the-art plant in Lahore, which facilitated the organization to introduce glue with termite first time in the market. The network of the organization was well organized in major markets of Lahore, Karachi, Kasur, Sialkot, and Faisalabad; where the developed a strong perception of value, quality, and commitment.

White Glue

White glue is mainly used for wooden joints and paneling in doors, furniture, and walls. For obtaining strong joints, proper gluing has to be performed. Complete contact has to be reached between glue and wood surface over the entire joint area. A continuous film of properly mixed glue between wood layers was essential for good cohesion. Care had to be taken that no air bubbles or foreign particles get stuck in the layer of glue which had to be applied evenly over the surface.

Using high quality glue introduced cost savings for the customer in the long run, primarily by using less quantity, stronger adhesion and life time durability. Starch based white glue was of a lower quality as compared to polymer based white glue. A substitute for white glue existed in the form of formaldehyde.

White Glue Market

The predominant use of the white glue was in the housing industry. The market research commissioned by the company had revealed that the product was bought by five different customer segments. A small segment comprised of consumers who were building homes for their personal use. This segment was generally less price conscious and was looking for quality products that will enhance the lifetime of their homes. However due to lack of product knowledge, they had to rely on expert opinion to make the choice or they could put their faith in a well known brand.

Construction contractors and housing developers, the second segment, were a major consumer of the product. They bought the white glue to finish houses which they would then sell. Quality and price preferences of this segment varied from manufacturer to manufacturer.

The third segment includes workshops that manufactured doors. The fourth segment was of carpenters who would use the glue to repair furniture in industrial workshops. These carpenters were the price-sensitive in regards to their personal purchases. However, they were often subcontracted or consulted by the manufacturers and people supervising their house's construction. The fifth segment comprised of industrial scale manufacturers of plywood and win board sheets.

Viscosity of the glue was perceived to be a good indicator of quality. Some local manufacturers were resorting to add starch in their glue to make them more viscous. However, under extreme conditions, this impure glue would give way. In addition, starch-added glue did not mix with water properly and neither did it absorb much water in the preparation stage. Polymer-based glues formed a better mixture and absorbed more water.

End users of white glue market were not involved in buying, which made it difficult for manufacturers to emphasize quality over price. All the five segments of the market were either B2B or directed through them. Targeting them through marketing was not an option as they were highly price conscious. What could be done to motivate them to buy quality white glue?

The board room

"We should seriously consider this option because we urgently need to increase our market share", the Marketing Manager said. "I will not lower prices" replied Abrar, a little stern in tone. "You do not seem to realize that lowering prices would mean lowering quality and putting the entire Shafi Group's reputation at stake" replied Abrar.

"What are our other options?" a rhetorical question by the CEO was met with blank faces, which put Abrar Ahmed to recall Resolith's launch.

The launch of Resolith

In the May of 2005, Resolith's launch initiated the adhesives division of Shafi Reso Chem. As a result of firm's diversification strategy, Resolith gained ground faster than the management expected. The management believed that a Pakistani alternative to international quality brands will be a huge success. Resolith's launch was done in accordance with the company's high standard of quality and honesty.

In order to add value for their customers, extra effort had been done to add features like termite protection, water resistance and resistance towards extreme temperatures. However, termite protection, Resolith's differential advantage had been imitated by the competitors. Resolith was entirely polymer based and provided good coverage i.e. a smooth transparent film when it was spread. Transparency was important as it provided good finishing when woodwork was completed. Year 2006 proved good for Resolith as 4.76 ton was sold and its market share at the national level jumped to 9%. [Exhibit 3, 4, 5]

Resolith's sale was dominated by the commercial hardware market which accounted for around 90% of the total sales. It was achieved mainly through sales team, the first one in the entire industry of Pakistan. Large industrial scale furniture manufacturers accounted for the remaining ten percent. A negligible quantity was also sold to paint and cement workers along with cold storage firms.

The White Glue Industry

The white glue industry derived its demand from the housing construction sector. Therefore, strong growth in the housing sector meant an increased demand of White Glue. Another factor which drove the demand up was the per capita income which increased from $1,085 in 2006-07 to $1,256 in 2007-08. A flourishing consumer market meant a greater demand for furniture. The harvest season saw a greater demand in the rural areas, while monsoon and winters resulted in a nationwide drop in the demand of White Glue. White glue industry was hostage to the price of Petro-chemical products [Exhibit 8]. The scramble in energy sector of the country drove manufacturing costs up and the customers started switching to low price options.

Manufacturing white glue was no rocket science. The inexpensive technology employed to manufacture white glue, a vat and stirring equipment, was easily available. In addition, the same technology could be used to manufacture other products since PVA (polyvinyl acetate) had multiple uses. Shafi Reso had used this to their advantage once when they had manufactured stiffeners for the packaging industry. Suppliers were easy to find in the white glue industry. In fact, a cottage industry, serving white glue manufacturers, had developed recently. However, manufacturing high quality white glue required precision and investment in temperature control technology.

Distributor margins for the industry were around 20-25%, wholesaler margins around 5-10%, and retailers around 10-20%. Shafi Reso was on par in offering these margins. Major players like ICI and Clariant used distributors while minor players did not. This allowed an additional 5-10% margin to be given to wholesalers and retailers. Distributors provided more coverage to the market. Buyers traded on heavy credit and heavy discount [Exhibit 6].

The white glue industry of the country seemed to be attractive as demand was increasing and new competitors started to enter. The economy of the country didn't support the growth of industry because of power shortage and uncertain business environment, but white glue industry stayed as a high selling product. By compromising on quality, new regional competitors started to attain the market share by low pricing strategy.

The board room

"Sir!" The words brought Abrar back in the present. "What do you think?" asked his adhesive division's GM. "About?" replied Abrar, shrugging his shoulders. "We should launch a new economy brand. We can use our current infrastructure and equipment. I believe that it is our only chance at gaining some ground on our competitors" replied the GM. "Or we can start manufacturing some other products" interrupted his Operations Chief, Faheem Ahmed. "Our strength is in our R&D department. Our last major innovation, termite protection, created ripples in the industry. We should try and repeat that success" exclaimed Abrar. "That is sure to raise costs and who is to say that like our previous innovations, this new one would not be copied" said Faheem.

The decision was weighing upon Abrar because he knew that the decision had to be taken fast. "What are our competitors doing?" asked Abrar. The marketing manager had the stage again.

Competition in the white glue industry

Resolith had two international competitors along with a few brands who operated at the national scale. Recent times had seen many small scale manufacturers enter the industry.

Clariant

Clariant, a German multi-national manufacturing chemicals and dyestuff, had launched it product Mowilith 270 in Pakistan more than three decades ago. Although, the largest player in the industry, Mowilith did not invest heavily on branding and advertising but did however possess a strong nationwide distribution and presence while Mowilith's name had become synonymous with German white glue. The Karachi based company, Clariant Pakistan Limited, was having trouble keeping counterfeit Mowilith off the market and the company was either unwilling or unable to tackle this problem. Clariant held a market share of about 30%.

Imperial Chemical Industries (ICI)
Imperial Chemical Industries, a British chemical company, was one of the largest in the world. It produced paints and specialty products, including adhesives. ICI brand was a household name in Pakistan due to the success of their paints. Their brand Calatac was available nationally and was particularly fruitful in Faisalabad, Multan, Lahore and Azad Kashmir. With a market share of 15% and a strong brand identity it was the only multinational company alongside Clariant in the Pakistani white glue market. Resolith, Mowilith and Calatac were all polymer based glues.

Multi-Resin Industries
Multi-Resin Pakistan, Multan, was the manufacturer of Multilith and low-priced sister brands, Woodtech and Vinamol. Its brands were present in two regions: south Punjab (particularly Multan and adjacent areas), interior Sindh and Karachi. Multilith had a market share of around 7% while Woodtech and Vinamol brands also combined to grab a share around 7%. Multi-resin did not have a sales force and relied on wholesalers for meeting sales targets. The products were of a lower quality grade than those of multinational competitors or Shafi Reso and came with a price tag which targeted price sensitive buyers. Multi-resin could be called leader in low-price glues. One notable difference was that Multi-resin products were starch-based and not polymer-based. Therefore, they could not claim to be 'pure' white glues as per the market nomenclature. However, this characteristic was neither advertised nor displayed on the label; consumers could only assess purity of the product while using it.

Power Chemical Industry (PCI)
PCI was based in Faisalabad and occupied around 6% market share with its polymer-based Power Tac. Quality of Power Tac was better than Multi-Resin's products, but inferior to Shafi Reso, ICI or Clariant. Power Tac was mainly distributed in Faisalabad and adjacent areas.

Malcolm Industries
Malcolm Industries' Kaylith had a stronghold in its hometown market, Karachi. It used wholesalers and distributors to market its polymer-based adhesives.

Frontier Chemical Industries (FCI)
Situated in the western city of Peshawar, FCI was an importer of pharmaceuticals along with raw materials and chemicals for cement and sugar industries. In addition to this, FCI also produced adhesives. FCI's white glue brand Fevicol had comprehensive distribution in NWFP and some distribution in Punjab.

There are various regional manufacturers of starch-based white glue, which have increased in recent times. These small regional manufacturers have not only increased the competition of the industry, but also have motivated small businessmen to enter in the same market.

Various small local manufacturers of starch-based white glue had cropped up in recent times. Their distribution was limited to one or two cities usually however they have increased not only the competition due to substitute products with cheap pricing, but also have motivated other small and medium sized manufacturers to enter the industry.

Shafi Reso distribution and promotion strategy

Mahmood Mir was heading the eleven men strong sales team. Shafi Reso Chem had strong presence in the major cities of Pakistan but their market share in the smaller cities left a lot to be desired. Mowilith's sales force was located in Lahore, Karachi, Hyderabad, Multan, Rawalpindi, Quetta, Sukkur, Faisalabad and Gujarat. These cities were hosts to Shafi Reso distributors also. Despite having faith in their strong distribution network, the management had commissioned some research regarding their distribution network [Exhibit 9].

Distribution strategy of Shafi Reso Chem was outsourced, not owned like major competitors. Owning distribution channels would require not only very high investment, but also strategic management by the organization. However this could add better control over distribution channels to access buyers directly.

Shafi Reso Chem had always employed below the line (BTL) marketing activities to promote Resolith WG-40. Shafi Reso sales officers were always prim, proper and professional and focused on demand generation. They would also interact with carpenters and offer them the sample of their product. They would also present gifts to carpenters. Sales force members would visit retail shops to create awareness and generate orders. They distributed promotional material like pencils, flyers, writing pads and calendars. The company conducted a survey to determine the effects of these marketing tactics [Exhibit 10, 11, 12, 13]. The management had started the concept of carpenter dinner parties. The company invited its clients at these events and showcased its products. Five percent of sales target were set aside for funding such marketing activities.

What Next?

It was decision time. Abrar could not delay it any longer. He knew that it was critical decision making time. "It would also affect the Shafi Group as a whole", he thought. He had limited options within a limited timeframe, with dilemmas, creating a tough decision making scenario for him. He was thinking to rebrand his existing products, reevaluate the marketing strategies, reset the supply chain management and logistics or to develop a new product overall. He had to make a decision.

Exhibit 1: Map of Pakistan

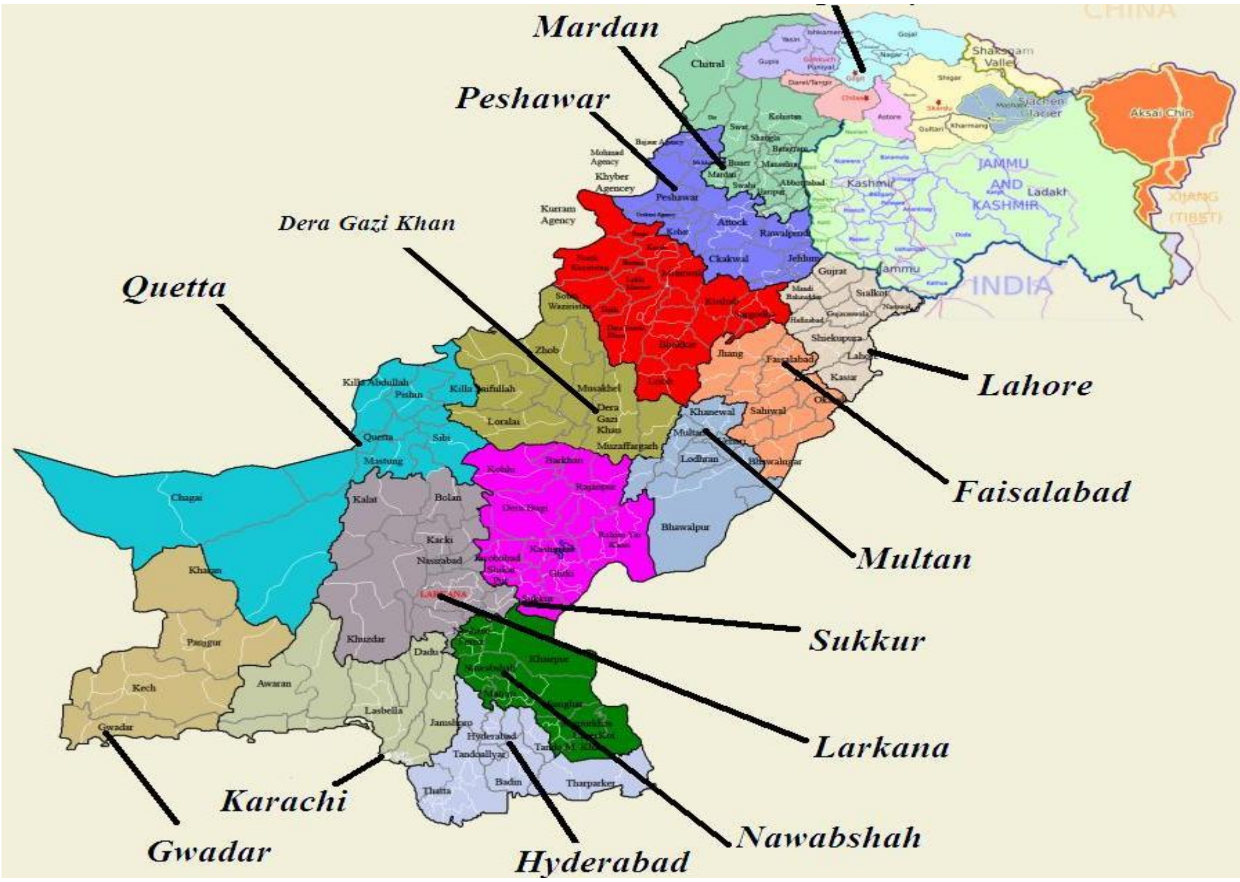

Exhibit 2: Resolith WG-40 Product Images

1 kilogram bottle

1 kilogram pouch (with free pencil)

Source: Company Records

Exhibit 3: National Sales Data for Resolith WG-40 (in kilograms)

Year	Months												
	Jul	***Aug***	***Sep***	***Oct***	***Nov***	***Dec***	***Jan***	***Feb***	***Mar***	***Apr***	***May***	***Jun***	**Total**
2003-04	0	0	0	0	0	0	0	50	200	200	0	300	750
2004-05	0	0	200	500	0	500	50	0	0	1200	5894	2540	10884
2005-06	2240	2880	4178	3785	3880	5493	5597	8350	6810	10178	25806	11947	91142.3
2006-07	10771	12370	27188	18662	28173	20653	14182	31948	31390	38010	34169	20642	288154.5
2007-08	38244	13429											

Source: Company Records

Exhibit 4: Reso-Chem Monthly Sales of Different Packaging

Package Quantity Range	Packs Sold	Average Sales Per Pack (in PKR)	Total Revenues
Open	42	167,292	7,026,250 (25%)
801-1200 kg	65	82,242	5,345,750 (19%)
501-800 kg	93	39,892	3,709,989 (13%)
100-500 kg	594	16,292	9,677,716 (35%)
Less than 100 kg	680	3,262	2,218,317 (8%)
Total	1,474	308,981	27,978,022

Source: Company Records

Exhibit 5: Monthly Sales of Different Brands in Various Districts (in kilograms)

Province	District	Multilith	Power Tac	Kaylith	Mowilith 270	Calatac	Fevicool	Others	Resolith WG-40
Punjab	Lahore	506	349	550	280	267	245	172	102
	Shakhoo	335	79	248	27	189	76	35	55
	Gujranwala	205	130	177	124	192	219	50	134
	Bahawalpur	15		100	49		76	35	5
	Multan	9	508	100	284	182	131	50	76
	Faisalabad	200	215		234	206	159		105
	Sahiwal				40	215	97	91	81
	Kasur		250		48	10	102		46
	Toba Tek Singh	150	128			200	100		75
	Jhang					128	100		
	Khanewal						325		
	Sargodha		136		182	166	122		
	Okara	525			90		295	800	
	Rawalpindi				253	251	123	158	141
	Islamabad		300		368		100		91
	D.G.Khan	8			127	65	282		
	Gujrat				150			75	
	Nankana sb		67		104	140	84		
	Khusab				100	150	100		
	Rahim yar	10					19		
	Total	**2222**	**2112**	**1535**	**2618**	**2391**	**2967**	**1381**	**1010**
Sindh	Badin	20							
	Karachi	84	152	104	145	66	122	56	162

	Hyderabad		30	170	135	73	193	181	143
	Sukkur	100	51	359	160	30	213		100
	Larkana			132	322		50		170
	Tando Adam		10	300	95		70	48	123
	Mirpur				57		500		133
	Jacobabad			217			50		60
	Khairpur	45		104		32	60		
	Hala		5	20	90		50		
	Nawab Shah	250		100	65		50		
	Tandu Ala	47		13	32		21		
	Shikarpur			680					
	Total	**590**	**197**	**1840**	**991**	**171**	**1207**	**304**	**1464**
NWFP	Kohat	20			200			225	225
	Peshawar	111	60		112	99	200	173	126
	Mardan				500		119	278	125
	Total	**131**	**60**		**812**	**99**		**676**	**476**
Baluchistan	Quetta	212		50	117	125	319		20
	Pashin	100			150		118		
	Khazdar				100		58		
	Total	**312**		**50**	**367**	**125**	**495**		**20**

Exhibit 6: Percentage Discounts Offered by Different Brands

Brands	Wholesale	Retail
Mowilith 270	6%	6%
Catalac	12%	4%
Resolith WG-40	5%	7%
Multilith	11	11%
Power Tac	13%	19%
Kaylith	17%	20%
Fevicool	8%	-
Others	12.5%	11%

Source: Company Records

Exhibit 7: Monthly sales of different brands (in kilograms)

Brands	Total Kilograms Sold	Price Range per Kilogram in PKR	Market Share
Mowilith 270	148,582	75-80	28%
Catalac	70,303	70-75	13%
Resolith WG-40	47,658	70-75	9%
Multilith	35,682	60-65	7%
Power Tac	29,236	60-65	6%
Kaylith	26,677	55-60	5%
Fevicol	10,741	50-55	2%
Others	162,110	Below 50	31%
Total	530,989		100%

Source: Company Records

Exhibit 8: Rise of Fuel Prices in Pakistan in Recent Years

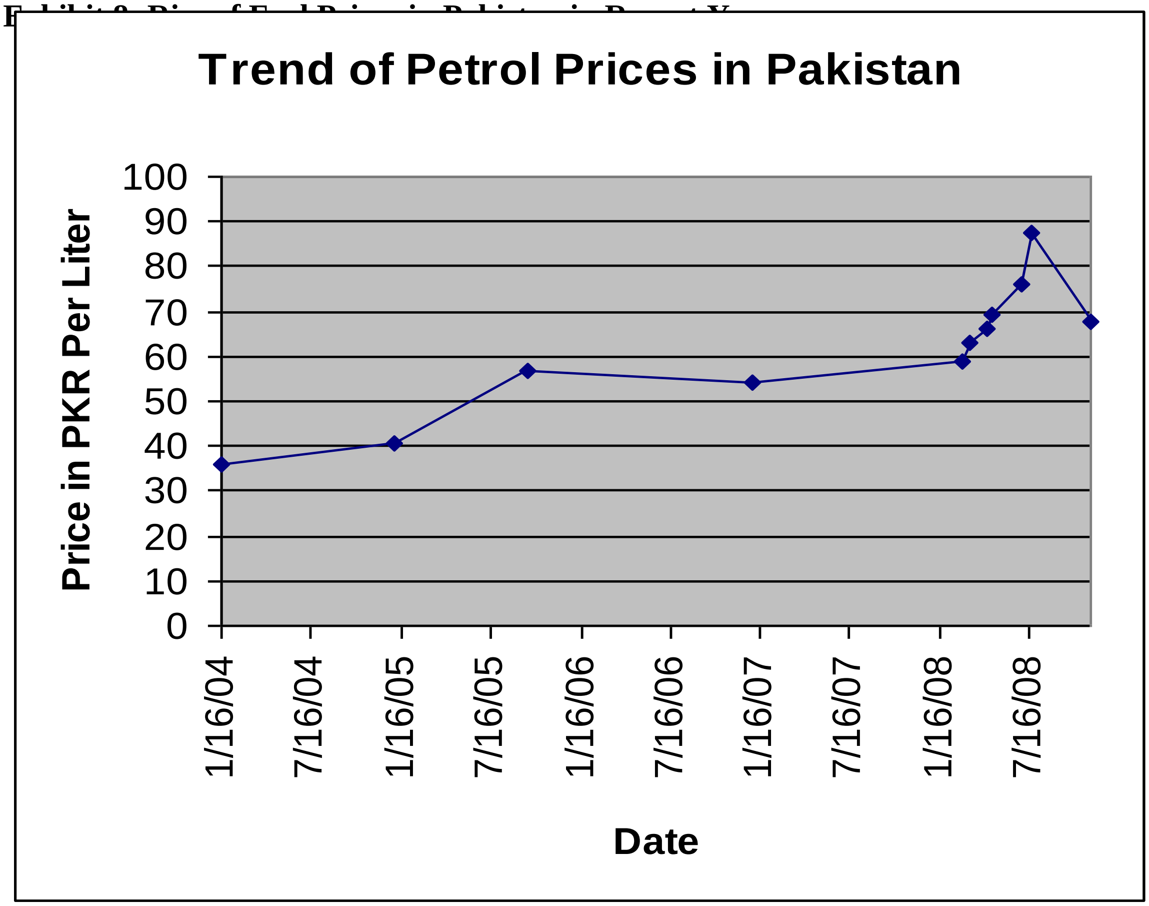

Exhibit 9A: White Glue Market Size of Punjab

Serial No.	Division	Districts	City/ Town	Approx. Market Size	Shafi Reso Sales Officers	No. of Wholesalers/ Retailers	No. of Industrial Workshops
1	Rawalpindi	4	15	31.8	1	150	40
2	Sargodha	3	14	23.4	0	153	143
3	Faisalabad	3	4	6.5	1	25	44
4	Gujranwala	6	12	30.5	1	147	73
5	Lahore	4	10	14.5	2	87	43
6	Multan	5	13	29	1	108	103
7	D.G. Khan	4	11	10	0	74	97
8	Bahawalpur	3	12	19.4	0	85	121
Total	8	32	91	165.1	6	829	664

Source: Company Records

Exhibit 9B: White Glue Market Size of Sindh

Serial No.	Division	Districts	City/Town	Approx. Market Size	Shafi Reso Sales Officers	No. of Wholesalers/Retailers	No. of Industrial Workshops
1	Karachi				3		
2	Hyderabad	4	20	11.4	1	46	7
3	Larkana	3	15	12.2	0	33	20
4	Sukkur	5	23	19.2	1	45	43
5	Mirpurkhas	4	18	9.3	0	46	8
Total	5	16	56	52.1	5	124	71

Source: Company Records

Exhibit 9C: White Glue Market Size of N.W.F.P.

Serial No.	Division	Districts	City/Town	Approx. Market Size	Shafi Reso Sales Officers	No. of Wholesaler/ Retailers	No. of Industrial Workshops
1	Hazara	3	5	5.5	0	43	15
2	Peshawar	4	6	4.5	0	35	10
3	Malakand	7	27	6.5	1	30	3
4	Mardan	7	16	23	0	135	130
5	Bannu	2	2	5	0	25	10
Total	5	23	56	44.5	1	268	168

Source: Company Records

Exhibit 9D: White Glue Market Size of Baluchistan

Serial No.	Division	Districts	City/Town	Approx. Market Size	Shafi Reso Sales Officers	No. of Wholesalers/ Retailers	No. of Industrial Workshops
1	Quetta	3	13	3	1	15	0
2	Sibi	5	24	13	0	28	10
3	Kalat	5	33	35	0	130	34
4	Zhob	2	7	5	0	25	20
5	Nasirabad	3	10	5	0	25	10
6	Makran	3	18	18	0	73	28
Total	6	21	105	79	1	296	102

Source: Company Records

Exhibit 9E: White Glue Market Size of Azad Kashmir

Serial No.	Division	Districts	City/Town	Approx. Market Size	Shafi Reso Sales Officers	No. of Wholesalers/ Retailers	No. of Industrial Workshops
1	Mirpur	3	3	5	0	35	9
2	Muzaffarabad	4	4	2	0	9	0
Total	2	7	7	7	0	44	9

Source: Company Records

Exhibit 10: Client Rating of Importance of Attributes in White Glue (%)

Product or Service	Average Score (out of 5)	Very Important	To Some Extent	Neutral	Not Important	Absolutely Not Important
Quality	4.2	88	7	3	1	1
Price	3.6	71	20	8	1	0
Packing	2.9	58	23	11	7	2
Termite Protection	2.5	52	19	16	8	6
Distributor Choice	2.1	32	24	29	8	6
Actionable Complaint	4.1	88	7	2	2	1
Delivery	3.7	79	12	5	2	2
Salesman Behavior	3.4	70	18	9	1	1
Sales Visit	3.3	67	19	12	3	1
Calendar	3.1	64	18	14	3	1
Shop Board	3	61	19	15	5	1
Carpenter Party	2.8	58	18	15	6	3
Advertisement	2.5	41	31	22	5	2
Firm's Goodwill	2.4	49	18	17	9	7
Discount Token	2	41	19	13	9	18

Source: Company Records

Exhibit 11: Client Perception of Marketing Activities by Various Brands (Percentage of Retail Store Clients Responding Positively)

	Advertising	Stickers	Carpenter Party	Shop Board	Calendar	Sales Visit	Writing Pads	Token	Different Gifts	Complaint Action
Mowilith 270	18	27	7	24	45	39	61	11	36	51
Calatac	20	33	10	19	39	54	61	4	38	56
Kaylith	33	36	16	36	45	53	67	36	49	54
Resolith WG-40	85	74	45	36	72	88	63	3	12	60
Multilith	10	13	40	51	58	74	74	19	45	78
Others	10	81	6	12	24	36	54	17	21	41

Source: Company Records

Exhibit 12: Client Reasons for Higher Sales of Various Brands

Quality		**Advertising**		**Carpenter Party**		**Discount Token**		**Termite Security**		**Packing**		**Price**		**Goodwill**	
Mowilith 270	45	Resolith WG-40	4	Resolith WG-40	5	Power Tac	5	Resolith WG-40	16	Mowilith 270	11	Local	44	Mowilith 270	33
Calatac	24	Local	2	Local	1	Kaylith	4	Local	1	Calatac	10	Calatac	14	Calatac	12
Local	23	Calatac	1	Mowilith 270	0	Local	1	Mowilith 270	1	Resolith WG-40	8	Mowilith 270	13	Local	10
Resolith WG-40	18	Mowilith 270	1	Multilith	0	Mowilith 270	1	Kaylith	0	Local	6	Multilith	7	Resolith WG-40	6
Multilith	8	Kaylith	1	Fevicool	0	Calatac	1	Fevicool	0	Power Tac	5	Power Tac	7	Power Tac	6
Kaylith	7	Power Tac	1	Calatac	0	Resolith WG-40	0	Multilith	0	Kaylith	3	Kaylith	6	Multilith	5
Power Tac	7	Fevicool	0	Kaylith	0	Fevicool	0	Calatac	0	Multilith	1	Resolith WG-40	6	Kaylith	3
Fevicool	2	Multilith	0	Power Tac	0	Multilith	0	Power Tac	0	Fevicool	0	Fevicool	4	Fevicool	1

Source: Company Records

Exhibit 13: Client Recommendations

Reso should take priority actions in areas of	**%**	**Recommendations about price**	**%**
Advertisement	14	Low price	25
Relationship with Carpenter	4	Discount	3
More Site Visits	1	Higher margin	3
Making Exhibition	0	More credit	2
Understanding market trends	0	Incentives	1
Reso should primarily offer promotion in		**Recommendations about product**	
Gift/prizes	6	Maintaining quality	4
Shop board	4	Improvement in quality	3
Token	4	Branding	1
Writing pad	3		
Scheme	3	**Recommendations about place**	
Sign Board	1	Delivery in time	4
Banners	1	Increasing shopkeeper	2
Calendar	0	Offering direct supply	0
Free Sampling	0		
T shirts	0	**Recommendations about packaging**	
Wood catalog	0	Stronger	6
		More variety	1
		Special packages	1

Source: Company Records