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Oriental carpets: The Decision Dilemma

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Abstract

Oriental Carpets a sixth-generation family business that was established by Ashok Mohan Baranwal (AMB), the legacy was carried on by his grandson, Brij Mohan Baranwal (BMB), who later migrated to Madhosingh, a city in the North Indian state of Uttar Pradesh. This leadership legacy was followed by his grandsons, Chandra Mohan Baranwal (CMB) and later on by Devendra Mohan Baranwal (DMB). Oriental Carpets manufactures and exports hand knotted carpets and ‘durries’ (rugs). It supplies its products to countries in Europe and also to the United States of America, giving employment to a large number of people. The firm’s key operations and marketing strategy are being handled by Eshwar Mohan Baranwal (EMB) and Gagan Mohan Baranwal (GMB), the two sons of DMB. All business-related activities are discussed, handled and operated jointly by family members. The firm produces and sells worldwide, though its strategy is still undefined and future growth path unclear. The firm which has largely focused on exporting, remains weak as a domestic player and this is where the conflict between Gagan and Eshwar arises. In a world that is fast changing, dominated by volatility, uncertainty, complexity and ambiguity (VUCA), does it make sense to focus on the global markets or develop a foothold in the domestic market, where the demand is strong and growing?

Keywords: Professionalization, Entrepreneurial Strategy, Diversification, Internationalization, Strategy

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Dilemma

The Baranwal family has multiplied adding siblings and generating interest over ownership control over the family business. The imbroglio is around how to professionalize the family business, seeking a clear direction. Specifically, the strategic disconnect between the two sons of DMB- Gagan and Eshwar is a major issue, while the former prefers continuity of the existing export-oriented strategy, the latter wants to increase the firm's domestic presence.

Introduction

Oriental originated as a start-up by the family in the year 1972 at Madhosingh (a small-time city in the state of Uttar Pradesh), India. It emerged as a manufacturer cum exporter mainly of rugs, carpets, cushions and throws. It has the state-of-the-art infrastructure that is spread over 2,15,000 sq. ft. Oriental is a centralized unit, having its own dyeing, weaving, and finishing units. It exports to more than 25 countries across the globe.

Its main customers include Lone Teppich of Norway; Zara Home, Spain; Nitori, Japan; Ikea, Sweden; Indoor Group, Finland; Anttila, Finland; Maison, France; Crate & Barrel, USA; Safavieh, USA; Freedom, Australia; Falabella, Argentina; Sodimac, Chile. Oriental also supplied floor covering products to many Indian Retail Stores like Reliance Retail, Spencer's and Home Town. The firm has been able to generate employment for around 500 people and their families.

Milestones

During 1993, Oriental used to manufacture for IKEA. In 1998 they were able to establish a new factory, with the dynamically increased demand for handwoven rugs. It was in 1999, that the first direct order was exported to France.

In 2004, it participated, in an international exhibition for the first time, termed as Carpet Expo that was organized in New Delhi. In the year 2005, Oriental was incorporated into a PLC and was thereafter known as 'Oriental Carpets' (OC). The firm also participated for the first time in Heimtextil¹ India. In the expansion journey they added over hundred looms for Jacquard Woven² in addition what they had, i.e. over three hundred and fifty. Subsequently in the year 2006, they added a dyeing unit. Armed with new outputs they ventured to exhibit their products in Heimtextil, a leading exhibition in Frankfurt, Germany. Later in 2008 they opened up a showroom in Gurgaon (now Gurugram) in Delhi's National Capital Region. It was in 2009, that the firm participated in Domotex³, Hannover, Germany. Later during the year, they were endorsed with ISO 9001:2008 Certification followed by BSCI Certification. In 2010, the firm attained ISO 14001 and Good Weave Certification. Of late, in 2012, Oriental Carpets achieved SA 8000 certification.

¹ Heimtextil is the industry's most important global event for interior textiles, interior design and interior trends.

² Jacquard, a style of "figure weaving", is used to create elaborate designs and detailed images of objects such as flowers and birds, on a Jacquard loom

³ Domotex is the leading world trade fair in carpets and floor coverings.

Opportunities

OC is selling more than 70 percent of its products to Europe mostly Scandinavian countries and has to tap upon lot more opportunities for selling in other countries like U.S.A, Japan, Australia, Latin America and many more. Rugs is the main product of selling, the business could also include many other categories of floor covering like tufted carpets, bath mats and accessories like cushions, poufs etc. If the business increases their participation in other exhibitions, those that are held at different locations of the world, it could secure even more exposure for its products. It could start its domestic brand in floor coverings to tap the Indian market.

Other objectives of the company ought to include, a joint venture with a foreign business to enter into the U.S.A, because it is a huge market for carpets and rugs. In Madhosingh district, there are hardly 6-7 companies exporting their products and the rest of the manufacturers supply only to domestic companies at Bhadohi, Delhi, and Panipat.

Professionalism

The rug industry is a very traditional one. The people are engaged in this business for decades they have looms in their houses and start weaving at a very tender age. Professional education is not required to enter into the business. Most of the companies manufacture the product and sell it to the companies in Bhadohi (a city in the state of Uttar Pradesh home to the home to the largest carpet weaving hub in South Asia), Delhi and Panipat (a city in the North Indian state of Haryana known for its weaving and textile industry), for further processing and exports. OC started exporting way back in 1999, and at that time it must have been difficult to teach professionalism, which is currently desired to remain in business.

Core Competencies

An in-house design & development wing having four designers and a dedicated sampling unit with 11 looms has been the niche of the firm. The firm had been using the ERP software that has been customized and regulated regularly. OC has a centralized unit having its own warehouse, dyeing, weaving, finishing, packing and dispatch facility. It boasts of being one of the most organized business in the Rug Industry with ISO 9001, 14001, BSCI, Good Weave and SA 8000 certifications with a state-of-the-art infrastructure spread over 150000 square feet. OC claims to be innovative with modern tools and equipment. Investment on R&D had been at par with any businesses in the industry. A dedicated team of 20 members is always engaged in R&D throughout the year. The firm has been working with world's largest and most renowned retailers like ZARA, IKEA, NITORI and many more. They are building on their competencies and continuously improving on the quality and delivery schedule.

Business Operations

The major carpet belts in India are Agra along with close cluster of districts in the state of Uttar Pradesh like Shahjahanpur, Bhadohi, Aurai, Gopiganj, Khamaria, Mirzapur, Varanasi. OC is uniquely based out of Madhosingh, which falls in the heartland of the carpet belt surrounded by traditional culture and heritage of hand knotted carpet weaving. Add to this inland container depot (ICD), which opened later, facilitating the export trade and further increasing OC's bottom margins.

Being export oriented, OC has been constantly exposed to exchange risk. However, their buyers were based out of Europe, majorly Nordic nations (see Exhibit III), hence dealing with a relatively stable currency like Euro has given them a natural shield. However, their growing presence and business in various foreign currencies has increased their foreign currency exposure.

International Market remains the mainstay

EMB, Executive Director and elder son of the Founder, Devendra Mohan Baranwal (DMB), joined the business with grounded research. Based on his contacts, he could secure his first order from France in the year 1999. He dropped his last semester of Bachelors in Business Administration (BBA) and joined the business, full time. The first invoice was generated on a ‘Typewriter’. After having some experience, he started participating in various textile fairs in Delhi and Mumbai, where he interacted with many other buying houses, wholesalers, and retailers. The response was gradual and buyers did not order bulk quantities. As a result, one of the major decisions of the management was to reduce their dependence on India and increase exposure to foreign markets. In the year 2007, OC participated for the first time in Heimtextil, Frankfurt Germany and got a good response from buyers. In the next year, the business participated in the world’s largest floor covering exhibition at Domotex, Hannover, Germany. At present OC is exporting its products to around 25 nations across the globe, catering to renowned customers like Zara Home, IKEA and NITORI.

Export destinations are getting more diverse

A performance-based analysis of domestic and international sales by the firm reveals that the exports have been the mainstay of the firm’s performance, withering away every concern for a better coverage of international markets. At the same time, there is a concern for keeping up with the prospects of the domestic market. A market-based study showed that Nordic nations are the major buyers from OC. The exports have also gone as far as Chile and Japan. While in France, the firm is still striving to keep up with the market requirements and get a foothold. Europe has been the major traditional buyer though (see Exhibit I), its share in recent years has dwindled on account of the growing business from USA. A customer-wise business performance analysis discloses that Swedish firm Lone Teppich tops the chart in the year 2010-11 but has been overrun by the presence of some firms from USA recently (see Exhibit II). This comes as a good sign for a firm, which has been exporting to over 25 nations in the world.

Tapping the domestic market remains the Achilles Heel

The home furnishing industry in India is witnessing a continuous demand from the retail industry. Traditional buyers and retailers are looking for multiple channels and unique designs that can satisfy their modern taste, along with their traditional buying temperament. Brands like ‘Pepperfry’ and ‘Fabfurnish’ have harnessed the digital platforms by going omni-channel and concept stores across the country. OC is maintaining an extremely basic online presence through following modes:

- **Website:** OC has a dedicated website is hosted by a third party. The website contains basic information about the organization with limited catalogue listing. There is no payment gateway integration for online ordering. An enquiry form is available for quotations.
- **Webpages at B2B portals:** OC has also listed its catalogue on ‘tradeindia.com’ and ‘Indiamart.com’, which mostly target overseas business buyers. Most of the enquiries received from these online marketplaces are spams and the conversion rates are extremely low.

It goes without saying that OC has got a firm foothold in selective overseas markets but lags in the domestic market (See Exhibit V). Though OC was a pioneer in implementing carpet ERP, it failed to work on demand forecasting for the domestic retail market. Another challenge is the dilemma of the top management, regarding market and portfolio expansion. Primary reason for conflict between Gagan and Eshwar is whether to maintain their niche in international markets or diversify into the growing and promising domestic markets as well. Gagan’s point of view is to maintain status quo as far as their rugged carpet clients are concerned, for which optimum production capacities are being utilized. Eshwar supports market and portfolio expansion,

which may affect margins.

Family Business Issues

Occasionally conflicts arise on some minor issues like the manner of doing work, investment issues, decision making regarding budget allocation for construction, uncertainties arising out of lack of proper planning as well as clash in personalities. However, the top brass in the organization has the key to resolve all such dilemmas. Board meetings are held at the head office where all the Directors, Managing Director and CEO sit together to discuss pertinent issues. If at any point of time, there is a lack of unanimity among the members then the resolution is put to vote. It is here that the family members have a say over some critical decisions. But their differences are increasingly coming out in the open and are becoming difficult to resolve, resulting in delays in decision-making and productivity loss.

The Future

The family has been structured around a complex six generations of business. The family has multiplied with each generation adding the next generation and siblings. In such a situation the business complexity has increased. With each generation, a member being infused into the family business, there arises a demand for ownership and control. With the current business challenges, it mandates certain higher level of competencies to counter. The subsequent generations combine a mix of members who may or may not possess the level of competencies required for the business and this is what has emerged as a major issue to be sorted out. Thus, complex decisions such as financials, strategy and even handling ownership and operations has posited a major deterrent to family firm's growth. At the same time there is an additional concern. Though the firm has been producing and selling its products world over, since a long time, it yet has to carve a niche for itself domestically. This could prove helpful in times of global slowdowns as domestic demand would continue to fuel growth in the firm.

The firm needs a clear direction on the way forward. How can the Baranwals meet this challenge?

Exhibit I. Region-wise Exports

	Year 2015	Year 2016
Region Name	% of Export	% of Export
Europe	90.44	76.40
North America	3.68	8.97
South America	3.34	8.33
Asia	2.38	3.34
Australia & Oceania	0.15	2.19

Source: Authors' Representation

Exhibit II. Company-wise Exports

Customer Name	Year 2015	Year 2016
	% of Export	% of Export
Lone Teppich	33.53	14.22
Denina As	11.61	10.04
Zara Home	8.32	7.81
Indoor Group/Sotka	4.8	2.53
AB ST Jerna	3.82	4.97
English Home	3.22	0
Dansk Supermarked	2.73	0
FalaBella	2.59	0.73
Hanen	2.59	0
Indoor Group/Asko	2.57	2.53
Parachi SRL	2.31	0
Anttila	0.89	10.85
Mattbolaget	0	8.96
Sodimacc	0.66	5.22

Source: Authors' Representation

Exhibit III. Country-wise Exports

	Year 2015	Year 2016
Country Name	% of Export	% of Export
Norway	47.93	28.19
Finland	11.44	12.16
Spain	9.51	7.86
Denmark	6.34	0
Sweden	4.77	16.89
USA	3.68	7.05
Turkey	3.37	0.5
Germany	3.36	1.16
Chile	2.08	5.8
Japan	1.51	2.58
France	1.5	4.64

Source: Authors' Representation

Exhibit IV. Exports vs Domestic sale

	Year 2015	Year 2016
Name	% of sale	% of sale
Export	91.32	91.44
Domestic	8.68	8.56

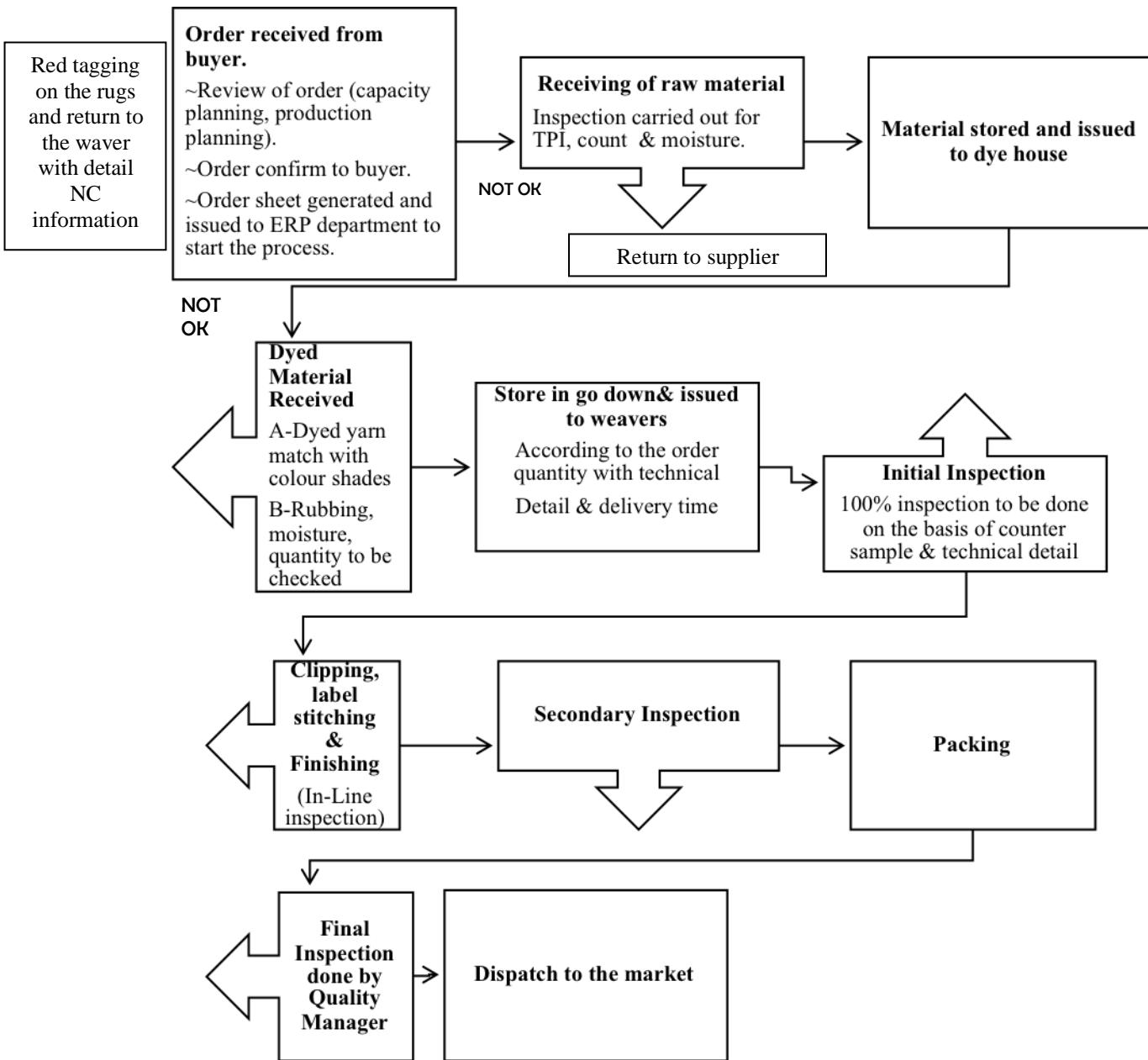
Source: Authors' Representation

Exhibit V. Market Size

Year	World (in Rupees Mn)	India (in Rupees Mn)	UP CARPET CLUSTER (in Rupees Mn)	Oriental Carpet (in Rupees Mn)
2012	14.833	1.3506	0.121554	0.010939
2013	15.855	1.715	0.18865	0.0204119
2014	16.335	1.8001	0.18921	0.020832
2015	14.752	1.7186	0.200045	0.0232852
2016	14.587	1.7369	0.206691	0.024596

Source: UNCTAD, Carpet Export Promotion Council

Exhibit VI. Business Process: Oriental Carpets



Source:Authors' Representation