

THE CREMICA STORY

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Abstract: The Cremica group, the Rs 650 crore business empire started by Mrs Bector 35 years ago, today is on cross roads. Cremica, the leader in condiments, snacks and opera includes group companies like Cremica frozen food, Mrs Bector's Desserts, Cremica Agro and EBI. The company with the strategic tie-up with McDonald's, Hindustan Unilever, Big Bazaar, Spencer's, Taj Group, ITC, Jet Airways, Air India, Barista, Café Coffee Day, Pizza Hut, Domino's and Papa John's. Today Cremica Group has demerged and segregated its joint family business. What has caused this demerger and segregation of 4000 employees? How will the company now operate post demerger?What will happen to stakes of PE firm Motilal Oswal stakes?What are the opportunities post merger?

Key Words: Cremica, demerger, post-merger, condiments, strategic tie-ups.

Cremica Group started as a backyard firm in 1978 and developed to be a flagship bearer in food retailing and food services industry. Today it is exporting to 50 countries including Africa, the USA, UK and the Middle East.

Cremica Group includes Cremica Frozen Foods, EBI Foods, Mrs. Bector's Desserts and Cremica Agro India. The products range from biscuits, sauces, bread spreads, ready to eat curries, syrups, and caters to very specific needs of the food processing industry. This focused marketing has made Cremica Group the largest player in food services business in India. Cremica client list includes McDonald's, Hindustan Unilever, Big Bazaar, Spencer's, Taj Group, ITC, Jet Airways, Air India, Barista, Café Coffee Day, Pizza Hut, Domino's and Papa John's.

After 35 years of working Cremica Group has demerged and segregated its joint family business. This brings about plenty of opportunities at the same time interesting challenges to the complete picture.

INITIAL YEARS (1978 – 1995)

In an Era of 1970s when Indian women from well-to-do families weren't heard working, Mrs. Rajni Bector laid foundations to create a 650 crores business empire in food processing industry, CREMICA GROUP. The story of Cremica Group can be seen from the way the business looks today. What Mrs. Rajni Bector started as hobby out of her backyard was taken to a different level by her sons. Her sons grew it further and made it a leading food supplier. Cremica Group now has entered into the \$13-billion FMCG space. Mrs. Bector's fondness for cooking made her to try out various recipes of ice creams, cakes and cookies. It was so good, that her friends motivated her to start a business out of it. Operating from her home kitchen, with one small oven and an initial investment of Rs. 300, she started her business. Word spread and orders for parties and functions kept pouring in.

Despite of Mrs. Bector's giving her heart and soul, her business wasn't making much profits. On the recommendation of her husband, Dharamvir she decided to expand, commercialize and take it up as a serious business.

As the first step, In 1978, with an investment of Rs. 20,000, Mrs. Bector set up a small ice-cream manufacturing unit in the backyard of the Kothi, enabling her to take bigger orders for marriage parties.

The Bectors'ancestral 107-year-old business in trading food grains, oil and fertiliser was badly affected by Terrorism in 1990s, which was flourishing in Punjab and there was a lot of tension between Hindu traders and Sikh farmers. By this time, Cremica Group was a respectable Rs. 5 crore business, The family decided to put all its eggs into one basket. Mrs. Rajni's eldest son joined soon after graduation, followed by her middle son Akshay who completed engineering from Manipal. The youngest — Anoop — was preparing for his CA, but left it midway. With the involvement of her husband and sons, the passion-led business started by Rajni turned ambitious and professional.

TURNING POINT(1995-1999)

The turning point came into CR when they discovered in 1995 that McDonald's was coming to India and was scouting for local suppliers. Being a young entrepreneur that he was, Mr. Akshay Bector's wrote a letter to McDonald's head office.

The company zeroed in on Cremica Group, for supply of buns. The partnership soon expanded from supplying buns to liquid condiments. This stepping stone in 1996 marked the start of new opportunities for Cremica Group. Cremica Group entered into 50:50 joint ventures with the Quaker Oats, a fortune 200 Company of USA. A new company by the name Quaker Cremica Foods (P) Ltd. was set up to produce liquid products such as, Tomato Ketchup, Mayonnaise, Tartar & Sandwich Spreads, Milk shake Syrups and Ice cream Toppings-mainly for Mc Donald's requirement in India and neighboring countries.

The plant has been operational from Oct. 1996. Since 1996 Cremica Group has been supplying buns, ketchups and toppings to *McDonald's - its key business partner*. It has also partnered with Cadbury's ITC and EBI Foods, a UK based firm.

GROWING AHEAD(1999 – 2012)

However the partnership with Quaker Oats; could not last long. In the year 1999 Quaker Oats , Cremica's partner in producing liquid condiments withdrew from the joint venture. The name of the company was changed from Quaker Cremica Foods (P) Ltd. to Mrs. Bector Food Specialities (P) Ltd. Post the separation Cremica Group responded by converting itself into a public limited company in 2001. It started institutional & retail market in addition to their key account-Mc Donalds.

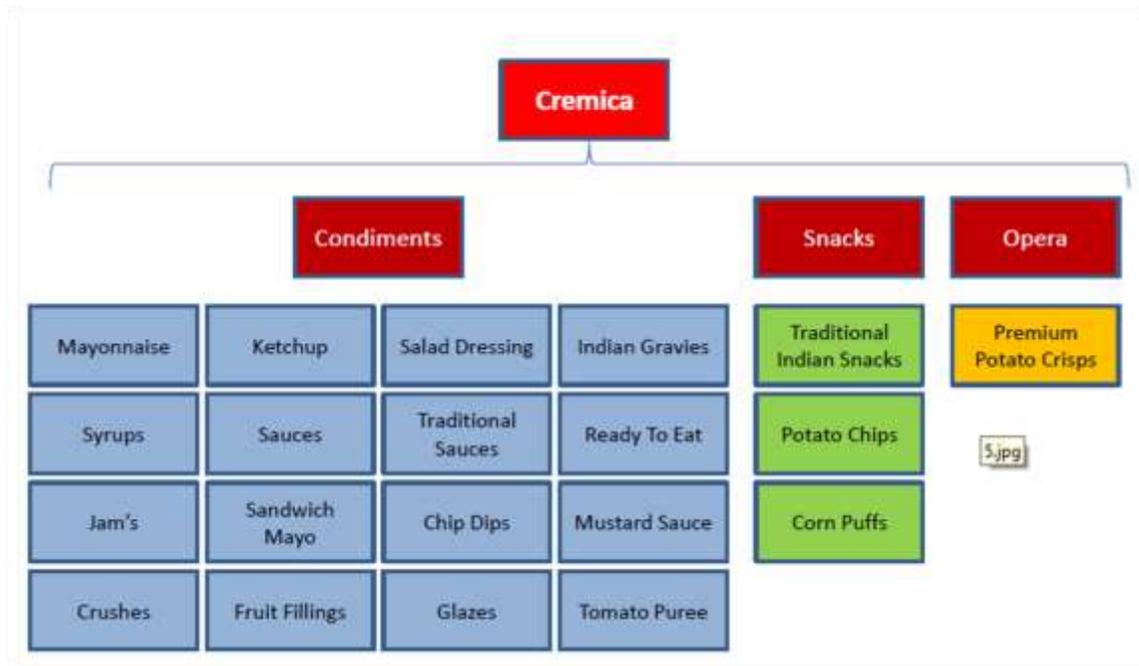
Having an association with an American food Chain made Cremica Group develop very high Quality Standards. It maintained a strategy of being ahead with innovation by continuously developing new products, substituting ingredients with local alternatives, reformulating existing products and maintaining a quality consistency.

An example of innovation and rejuvenation has been the launch of a new range of chip-dips and bread spread in the ethnic Indian range in 2009. This product range has particularly been liked by the non-resident Indians and is being exported to a number of countries. Cremica Group gave due attention to its Indian consumers as well who they regard as "extremely price sensitive and quality conscious".

Maintaining quality consistency has been the base strategy for Cremica Group. In a scenario of high tomato prices, many companies reduced the tomato paste content in tomato ketchup, Cremica Group remained consistent with its ingredient's percentage. The quantity of tomato paste in Kissan Fresh [Tomato Ketchup](#) made by HUL had gone down from 28% to 22.5%, and in Maggi Rich Tomato Ketchup made by Nestle India from 28.1% to 26.7%. Tomato paste content in brands like Del Monte (29%) and Heinz (26%) as well as Indian brands like Cremica (34.5%) and Safal (35%) has not come down².

By 2006, Cremica Group was clocking revenues of Rs. 100 crore, with a 30% year- on-year growth. Goldman Sachs, through Mauritius based Jade Dragon, a unit of Goldman Sachs - a global investment banking and securities firm, picked up 10% stake in the company for 50 crore that valued the company at 500 crore in 2006. The raised funds were used to further energise and expand the business. Cremica Group invested in developing modern and fully automated plants in Greater Noida, Bombay ,Himachal Pradesh .However in 2010 ,Goldman Sachs later exited and sold its share to Motilal Oswal.

With the help of its fully automated plants, employing over 4000 people across different locations . Cremica Group crossed annual sales of Rs. 650 crores.



PARADIGM SHIFT AND MOVING AHEAD: Demerger(2013)

In 2013 the business was divided equally among Mrs. Bector's Food's founder Rajni Bector's three sons – Ajay, Anoop and Akshay Bector. An agreement was settled in which biscuits and bakery business was demerged from the condiments business. It was agreed that Mr.Ajay and Mr.Anoop would manage the biscuits and Bakery divisions (divisions contributed 65% of total revenue of the business) while condiments will be managed by Mr. Akshay . As a part of the entire settlement process, the PE Firm Motilal Oswal which currently has 20% stake in the company will only have a stake in the biscuit business.

Post the de-merger while the biscuits business is planning an IPO the condiments business under Akshay bector is going national in retail space by foraying in the high-margin kettle chips segment. According to Mr. Akshay Bector, the Indian food processing industry is forecasted to grow at 9% to 12% in the coming years. Several new and old established companies like Frito Lay, Parle and ITC companies are making a mark in the sector as per Annexure 1. The government is regulations have also ben softer on the food processing industry as per Annexure-2.He further plans to focus more on direct retailing rather than institutional sales, bringing inspirational products and focusing in the premium segment of the market.

After the de-merger the road ahead seems exciting but challenging at the same time. The challenges that lie ahead range from financing, to new growing business, and running operations independently now testing the competencies of all individuals independently. However the biggest task for the independent businesses would be to develop business plans to leverage its association with restaurants and prospects of high margin packaged foods.

TEACHING NOTES

Case Title:- Cremica Food Industries Limited: The Way Forward

Case Synopsis:-

The case addresses the strategic issues faced by family run corporate which after a period of time get divided into individual businesses and take different directions. Starting with a promising and established business, the protagonist, Akshay Bector's dream is to take Cremica Food Industries Limited (CFIL) on a growth trajectory and make Cremica a known name in every household from urban to rural India. The discussion would enable students to develop competitive strategies for future growth and expansion.

Target Audience: MBA students

Course: Strategic Management

Learning Objectives:-

The case aims to equip management students with the following skills:-

- Identifying potentially valuable opportunities and starting a business.
- Analyzing the issues involved in growing the scale and operations of business.
- Understanding the importance of market research and innovation.
- Developing a competitive strategy under the market based limitations.

ANNEXURE

Annexure-1

Major Players in Indian Food processing:

- ITC Limited
- Parle Products Pvt. Ltd.
- Agro Tech Foods
- Amul
- Perfetti India Ltd.
- Cadbury India Ltd.
- PepsiCo India Holdings
- Nestle India Pvt. Ltd.
- Britannia Industries Ltd.
- Hindustan Lever Limited
- Milkfood
- MTR Foods Limited
- Godrej Industries Limited
- Gits Food Products Pvt. Ltd.
- Dabur India Ltd.
- Unilever
- Conagra Foods
- Nissin Foods
- Walmart
- Venky's

Annexure- 2

FOOD PROCESSING INDUSTRY IN INDIA

With the advent of planned economy from 1951 and the subsequent industrial policy followed by Government of India, both planners and Government earmarked special role for small-scale industries and medium scale industries in the Indian economy. Due protection was accorded to both sectors, and particularly for small scale industries from 1951 to 1991, till the nation adopted a policy of liberalization and globalization. Certain products were reserved for small-scale units for a long time, though this list of products is decreasing due to change in industrial policies and climate.

The relative importance of classical food products such as coffee, tea, sugar, cocoa and so on have sharply declined due to the rapid expansion of trade in products like fruits and vegetables, poultry, fish and dairy products which are exported after technologically sophisticated processing. These new dynamic products are referred to as processed foods product. Since Processed food items undergo substantial processing before being exported are of typically high value. After processing the food items value addition of the products is going to be changed. Therefore, subject to more stringent food safety standards.

As per the Ministry of Food Processing Industry as data source, the food processing sector is highly fragmented industry, it widely comprises of the following sub-segments: fruits and [VEGETABLES](#) , milk and milk products, beer and alcoholic beverages, meat and poultry, marine products, grain processing, *packaged or convenience food* and packaged drinks. A huge number of entrepreneurs in this industry are small in terms of their production and operations, and are largely concentrated in the unorganized segment. This segment accounts for more than 70% of the output in terms of volume and 50% in terms of value. Though the organized sector seems comparatively small, it is growing at a much faster pace.

Consumer food industry includes pasta, breads, cakes, pastries, rusks, buns, rolls, noodles, corn flakes, rice flakes, ready-to-eat and ready-to-cook products, biscuits etc. Bread and biscuits constitute the largest segment of consumer foods. India's biscuits industry is the largest among all the food industries and has a turnover of around US\$ 0.64 billion. India is known to be the second largest manufacturer of biscuits, the first being USA.

India's food processing or evergreen revolution can help realize our huge potential in food production and become a leading food supplier to the world. As the Indian economy grows and family incomes rise, so would the acceptability of ready to eat processed foods.

Agriculture is always been our primary source of production but not much has been done to retain. As a matter of fact now with the ministry of Food Processing in India at least things are in shape. Today any organization no matter whether big or small can only

survive and flourish if they innovate and change otherwise either they will die their death or extinct since the competition is tuff and product life cycle is becoming shorter. As it was well proven by the evidence collected and presented through Case study of Mrs. Bector's crema. They were well aware of the ever-changing environmental pressure and matching them with the In house potentiality and competency.

Hence Innovation is in evitable. Entrepreneurship whether SME or LSE is an important source of creation of the Wealth in Nation and thereafter the growth will fall naturally.

The Food Industry is divided into organized and unorganized wherein the maximum contribution is made by small and unorganized. Hence the focus of the study will be organized food processing sector. The research methodology is empirical study for this the evidences will be collected, in the form of case studies as evidences, through secondary data. Further, it ascertains the growth rates of innovative SMEs in comparison to non- innovative SMEs in terms of sales turnover, employment, and investment.

Investments in infrastructure through Public Private partnership (PPP)

- Mega Food parks
- Integrated cold chain

Food safety Management Systems

India is one of the world's major food producers but accounts for less than 1.5 per cent of international food TRADE . This indicates vast scope for both investors and exporters. Food exports in 1998 stood at US \$5.8 billion whereas the world total was US \$438 billion. The Indian food industries sales turnover is Rs 140,000 crore (1 crore = 10 million) annually as at the start of year 2000. The industry has the highest number of plants approved by the US Food and Drug Administration (FDA) outside the USA.

Food processing industry in India has attracted Foreign Direct Investment worth \$1970.09 millon from April 2000 to July 2013, according to the latest data published by Department of Industrial Policy and Program, which suggested the potential of the sector, Tamil Nadu Governor, Dr K Rosaiah said today.

There was an increase in participation of entrepreneurs, bankers, FINANCIAL institutions in this sector in Tamil Nadu and there was the need to take advantage of huge investment, Rosaiah said, after inaugurating a conference on + Likning growth drivers of Food processing industries, market, quality with food safety and skill,+ organised by ASSOCHAM, here.