

# Bata India Limited- A Catch-22 Situation

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## Abstract

The Bata Shoe Organization (BSO), established in 1894 in Czechoslovakia, occupies a unique position in the world footwear industry operating in different countries through subsidiaries. Bata India Limited, a subsidiary of BSO, started operation in 1931 in Kolkata. Today, Bata is a household name producing and selling footwear through a network of retail stores all over the country for all segments of the market, with popular brands among middle and upper middle class customers. Despite being a mature company, it has a fluctuating record of profitability. It registered its first ever loss of Rs. 8.57 crore in 1992, made a turnaround in 1993 but again incurred a heavy loss in 1995. In 2000, sales started falling and in 2002 it went into red with an operating loss of Rs. 11.20 crore. The company continued to suffer losses till 2004 before making a profit of 1.85% and 6.18% on sales in 2005 and 2006 respectively. The company possesses a huge capacity with a high fixed cost. To recover the fixed cost, product price has to be kept at high. However the prices of products can not be increased at will due to consumer resistance against price increase. There is stiff competition from the unorganized sector, having the advantage of a low fixed cost setup meeting 60% demand for footwear in the country. These factors lead to underutilization of capacity and thereby inefficient fixed cost recovery. For removing the pile of high cost stock, frequently sale at a discount is effected making it more difficult to recover cost. Despite an effort to retain customer loyalty by various innovative marketing strategies and cost reduction measures, the company management seems to be at a loss as to how to reposition itself in a price-sensitive market to bring back profitability on sustained basis.

## Keywords

*Customer loyalty, Indian footwear industry, Financial performance, Cost recovery.*

## 1. Bata India limited: History and Corporate Profile

Bata Shoe organization was established in 1894 in Zlin, Czechoslovakia (now in Czech Republic) by Thomas Bata who also included his brother Antonian and sister Anna. Although this business was new, the Bata as a brand had been a part of a tradition in shoe making for eight generations, spanning over 300 years. It was one of the modern day shoe manufacturers consisting of a team of shoe makers not just

for the local town, but for distant retail merchants. It marked a new beginning and a departure from the centuries old tradition of one-man cobbler's workshop towards the creation of a new industry.

Bata shoe organization (BSO) through a conglomerate of subsidiaries today occupies a unique position in the world footwear industry with 40 production facilities spread across 50 countries, operates 4600 retail stores in 50 countries,

employs more than 40000 people and serves 1 million customers everyday.

Bata India Limited (a subsidiary of BSO in which the latter holds 51 percent share) started its operation as Bata Shoe Company Private Limited in 1931 at Kannagar, near Kolkata. It was founded by Thomas J. Bata himself. In 1934, the company purchased land from the port commissioner and small land owners to set up a modern shoe factory near Budge Budge by the side of the river Ganga. Subsequently, the town of Batanagar was established centering on the factory. In 1936 Bata's leather shoe segment came into being with the reduction of what was known as Albert Shoes.

The company went public in 1973 and changed its name to Bata Limited. Today Bata is a household name in India, meeting the needs of changing times and producing and selling shoes for every walk of life. From its 6 factories located in 5 states 1) Batanagar, West Bengal (1936), 2) Batagnj and Mokamaghat, Bihar (1942), 3) Faridabad, Haryana (1951), 4) Peenya, Karnataka (1988) and 5) Hosur, Tamilnadu (1994)- Bata India produces quality leather, rubber and canvas shoes in wide-ranging designs and styles, at a affordable prices. The in-house tannery at Mokaanaghat, Bihar is the second largest in Asia.

The company shares are listed on the stock exchange in Kolkata, Mumbai (BSE) and the National Stock Exchange (NSE)

## 2. Objective Redefined

Bata is essentially a footwear manufacturing company with a huge sales network (in urban and semi urban areas) spanning a period of seven decades and has undertaken a major reorientation drive from manufacturing to designing, marketing and distribution since 1999.

Besides its core business, in 2006 it started a 262 acres riverbank township construction on surplus land inside its Batanagar factory complex West Bengal (near Kolkata), under a subsidiary (a special purpose vehicle) consisting of 2500 modern housing apartments, a large hospital, school, IT park, hotel and residential flats along the riverside (river Ganga). Bata does not possess any previous experience in real-estate development. For the purpose, the company has

formed a joint venture company, namely – Riverbank Holdings (P) Ltd with Calcutta Metropolitan Group Ltd in which both Bata and Latter company hold 50% of the paid up share capital. The latte company (Calcutta Metropolitan Group) has got experience in real estate business. The township project is proposed to be complete by 2011.

On profitability front, the objective is to 'achieve at least 10% Return on Turnover (ROT) in future years'.

## 3. Brand and Sales Network

Bata India is the largest company for BSO in terms of sales pair and the second largest in term as of revenue. The total sale of 2006 was more than 40 million pair averaging 118 thousand pair per day. Total revenue for the said period was Rs7948 million. Certain popular brands of footwear of the company are a Hush Puppies, North star, Power, Dr Scrolls, Bubble gummer (children footwear). The sales networks to reach different segments are classified as:

### 4. Own Network of Retail Stores

Over the years Bata India has established a leadership position in the footwear industry and is the most trusted name in branded footwear serving customers through its retail network of 1250 stores giving a reach that no other footwear company can match. The stores ate conveniently located and can be found in metros, mini metros and towns. Bata super store, family stores and Bata bazaars are landmarks in most Indian cities and many small towns. Generation have lived with Bata shoes and grown old with them.

### 5. Urban Division

Urban wholesale division consists of 16 depots selling over 15 million pairs across the country through 150 distributors and over 20000 dealers. The focus is on selling volume products catering to complete family needs. Under urban division the company has a) wholesalers and b) Retailers.

#### 5.1 Wholesaler

Shoe Trader who buys merchandise to resell to dealers (multi-brand outlets) located in street markets of major cities/towns and rural areas. They keep inventory of Bata products for replacement and sale on credit or cash basis. Their focus is on volume products like basic closed shoes, sandals, school shoes, canvas shoes, Hawaii,

Sandak and so on.

## 5.2 Dealers

There are multi-brand outlets in major cities selling Bata products as well. Products consist of medium to high priced shoes for the whole family. These shops deal in regional brand and unbranded footwear from small manufacturer also. Some of the dealer stores are located in high streets and are also air-conditioned.

## 6. Branding Division

It consists of 15 distributors located in major cities selling brands like Hush Puppies, Dr Scholl's, Power and bubble gummers to departmental stores, footwear chains, specialty stores and high street dealers.

## 7. Award, Recognition and New Business Opportunities

Bata has been rated as among the top most 10 trusted brands by the Economic Times. The company has bagged the Retailer of the year award for the year 2006 in the footwear category as a part of the Reid and Taylor Award for retailer excellence.

Recently, Reliance Retail is reported to have shown interest in striking a strategic tie-up with Bata. Talks are reported to be on between Bata and Mukesh Ambani led Reliance Retail in the matter. Reliance is planning to get into footwear retailing and is targeting a turnover of Rs 3000 crore in 3 years in the segment. If the tie up materializes Bata showrooms across the country would immediately gives access to over 1000 Bata retail outlets across the country located mostly in prime localities. The talks are reported to be in advance stage.

## 8. Indian Footwear Industry – An Overview

India ranks second among the footwear producing countries next to China. The availability of abundant raw material, large domestic market and the opportunity to cater to world market makes India an attractive destination of footwear production and investment in the sector. The production process is fairly labour intensive and is mainly concentrated in small and cottage industry sector. While leather shoes and uppers are concentrated in comparatively large scale units, sandals and chappals are produced in the household and

cottage sector. Statistically, around 60% of the footwear demand in India is met from the unorganized sector consisting of small and cottage industries.

About 70% of the total market size is estimated to be rural which is largely served by the local or regional small manufacturers offering the price sensitive functional or utility footwear for the masses. The manufacturing remains localized primarily because of the regional or local preferences and seasonality, lack of proper distribution network and so on. The cottage, small and medium enterprise (SMEs) having a low fixed manufacturing overhead are cost efficient. They (SMEs) leverage on price factor in price-sensitive Indian market.

In contrast, the urban market is rapidly changing with the advent of new format retail stores and international influence of brand marketing. Though price continues to a major factor but with economic prosperity and more disposable income in the hands of young urban upper-middle class—fashion, comfort and craze for branded product exert significant influence in demand creation.

The urban market is served both by regional unorganized and organized manufacturers. The organized sector operates at national or regional levels in a marketing mix of both retail and wholesale. Bata with its brand existing for seven decades continues to be the largest manufacturer and marketer followed by Liberty, Action, Lakhani, Khadim, Metro, Regal and so on. The estimated market share of Bata in footwear is around 6.5%. Besides Bata, the second player in organized sector is Liberty Shoes. However, size of Liberty Shoes in terms of turnover is one-third of Bata. In the organized sector of footwear, Bata's market share is around 27% (however, the company claims that it enjoys 35% market share).

## 9. Focus Issue: Poor Financial Performance

Despite its presence for over 70 years, brand image, distribution network supported by manufacturing facility, Bata India Limited (BIL) has been confronting problem of volatile sale and fluctuating profitability. It recorded first ever operating loss of Rs 8.57 crore in 1992. In 1995 it again incurred huge operating loss of Rs 42.16 crore. In last 5 years (2002-2006), it incurred loss in 3 consecutive years (2002-04) before making turnaround in 2005. BIL prepares its accounts on calendar year basis (1st January to 31st December) for statutory audit and placing before the annual general meeting

for shareholders' approval. The Exhibits-I-IV contains financial and quantitative statements for 10 years period (1997-2006) and Exhibit V highlights capacity utilization for 6 years period (2001-2006) for analysis of financial performance of the enterprise.

## 10. Problems Encountered

On decline of sales in 2001 compared to 2000, the report of the Board of Directors observed—It was the result of 'depressed market condition' following earthquake in Gujarat and slowdown of global economy due to 9/11. There were 'under recovery of expenses at manufacturing facilities due to reduced production as well as increased markdown on slow-moving stock'.

In the Board report, the reason for massive drop of sales in 2002 (loss year) was attributed to 'depressed market condition' due to large scale riot and communal tension in Gujarat with declining 'industrial growth'. Besides above, the Board pointed out that the potential reason for under-performance was —'market resistance to price increase particularly for the volume articles contributed to the fall in turnover. This together with impact of discounts to clear slow-moving stocks as well as under-utilization at production units impacted unfavorably on the profitability of the company'.

The Management Discussion and Analysis Report of 2003 (second consecutive year of loss) observed —'Statistically, around 60-65% of this footwear demand are met from the unorganized sector comprising the small/cottage industries, leveraging on the price factor. The company is trying to break the myth of the price factor, by increasing an economy range of products that will encompass both style and quality.

One of the biggest problems of the company has been the baggage of the past. Restructuring the operations is a daunting task, more so when the company is a seven decade old company, more so when the operations are spread across the length and breadth of the country and more so when it involves numerous employees. The company employee costs are as high as 26% of the sales'.

The Board of Directors report (2004) on Industrial Relations

and Personnel observed-'In view of high fixed cost of remuneration of retail stores. Discussions have already been initiated to formulate a pay structure with more weightage on variable element'.

The Management Discussion and Analysis Report (2005) once more emphasizing the problem of cost observed- 'The existing cost structure of the company in its present state is alarmingly high, to make the business competitive and viable in the long run. The company can not continue with high cost structure and is therefore, exploring various avenues to reduce cost at all fronts including launching VRS'. On turnover front, the said report remarked- 'The present day marketing policies can not ignore the decisive factors of customers, competition and change. Customers, apart from the brand satisfaction expects a low price, high value and post sales service.....'

Apart from SMEs, who due to have their low cost of production and having a price advantage-'there are threats from low cost Chinese, Korean and Taiwanese footwear' the said Report of 2006 observed.

A noteworthy feature impacting company's performance adversely in the past was militant trade union activity. Though there has been no major disruption in the recent years (2005-2006) for trade union activity, any attempt to rationalize workforce or curtail any benefit needs considerable effort on the part of the management.

## 11. Management Intervention

After registering first ever loss in 1992, the company turned around the very next year (1993) with an operating profit of 3018.82 lacs (margin 6.36% of gross sales).

The Directors' Report proclaimed —'The company achieved record sales and profit for. In fact, gross sale was higher by 19.4% as compared to that of 1992. It was mainly due to marketing initiatives.

A new dimension was added with the introduction of "European Collection" which evoked excellent response and went a long way in promoting the image of the company for up-market men's shoe.



Hush Puppies, the famous international brand was launched in metro cities and showed good promise.

New feature were added to the company's established brands such as Ambassador, North Star, Marie Claire, Mocassino, Hardy Walker, etc. as part of overall strategy to present an improved collection to the company's loyal customers.

In 1995 the company incurred a huge cash loss of Rs 2990.26 lacs. The company sold its building (where the registered office of the company was located) with adjoining land at prime locality in Kolkata to meet the liquidity problem arising from operating cash loss.

In 1996 the company made a moderate turnaround with a profit of Rs 415.31 lacs (though margin was meagre—only 0.72% of gross sales). The company further consolidated its position in 1997. Gross sale was up by about 13.57% compared to that in 1996 with a margin on sales of 2.62%. In the language of the Directors' report the good result was attributable to 'new and exciting products' both from company's own factories and from many contractors mainly small scale sector.

1998 and 1999 witnessed sales growing up by 11% and 4.10% respectively compared to immediate previous years. Operating profit margin was 5.51% and 6.22% respectively in those 2 years. Emphasis on marketing through advertisement, brand building and better market penetration through retail network was the thrust area so far as over-all strategy was concerned.

Focused advertising campaigns helped launch new products and drive sales growth especially in the ladies category where the company secured the endorsement of film actress Rani Mukherjee.

Sale started falling from 2000 before disastrous loss in 2002 fuelled by 8.65% decline in sale.

As a measure of rationalizing the manufacturing facilities, the company initiated necessary procedural and legal steps to demerge its production units at Faridabad and Mokameghat after getting necessary approval of shareholders in the Extraordinary General Meeting of the shareholders on July 8, 2002. But because of the conditions attached to the scheme by the Hon'ble Calcutta High Court, the management dropped the idea of pursuing the demerger route.

There were losses in 2003 and 2004. The company terminated employment of 1469 employees in 2004 and 2005 through "Voluntary Retirement Scheme" (VRS) in an attempt to reduce employee cost.

The corporate office of the company was shifted from Kolkata to Gurgaon near New Dehli in December 2004 with an object to serve the customers better as Gurgaon was considered as retail hub of the country with upcoming shopping malls and retail chain.

In 2005 and 2006, number of re-structuring measures in product, process and organization were taken to improve performance like:

- Rationalization of factory production for better capacity utilization.
- Exploiting opportunities in Men's fashion Shoes.
- Improving product design generating higher margin.
- Remodeling of strategic stores.
- Reducing the number of cash drain stores.
- Reinforcing in wholesale credit and better receivables management.
- Expansion in number of stores
- Extending in shopping hour. (The company initiated steps to keep the shops open for 7 days a week and for longer hours to compete with local brands and unorganized sector).
- Focus on customers services.
- Improving communication.

There was accounting surplus in 2005 and a meagre operating profit (margin 2.77% gross sales only) in 2006. The gross sale was up by 8.25% as compared to that of 2005.

## 12. Issue for Debate and Analysis

1. What is the reason of poor and fluctuating profit and profitability margin with intermittent losses of Bata (India) Limited?
2. Is the attempt to enhance turnover by cost cutting to reach customers the only strategy
3. What steps should be taken to bring back the profitability on sustained basis?

## Exhibit-I Summarized Profit and Loss Account [Rs in lacs]

Particulars/year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Income: Sales	67064.12	74317.49	77364.46	76015.2	75998.33	69418.6	71139.96	72455.7	73424.06	79482.2
Less: Excise Duty	2922.22	3278.45	4207.73	4092.86	3925	4446.04	3730.32	3051.15	2749.26	2461.67
Net Sales	64141.9	71039.04	73156.73	71922.34	72073.33	64972.56	67409.64	69404.55	70674.8	77020.53
Other income	176.52	159.71	98.25	113.9	1621.14	1060.45	529.89	443.6	1863.8	2715.66
		71198.8	73255	72036.2	73694.5	66033	67939.2	69848.2	72538.6	79736.2
Expenditure: Raw material, Finished goods etc	34156.39	35409.02	35637.42	34949.09	36785.74	30834.27	33948.94	38988.54	35201.79	38498.21
Interest	1443.22	778.64	683.66	891.03	909.24	831.69	785.74	853.23	1223.49	1057.62
Manufacturing, Distribution, Selling and Administration Expenses	25922.88	29676.14	30767.25	32261.48	34405.44	34179.02	34025.64	34891.51	33050.34	33900.76
Depreciation	1039.54	1236.25	1357.99	1404.71	1348.53	1307.88	1312.03	1241.56	1200.18	1361.74
	62562	67100.1	68446.3	69506.3	73449	67152.9	70072.4	75974.8	70675.8	74818.3
Profit/ (Loss) before Taxation	1756.39	4098.7	4808.66	2529.93	245.52	-1119.85	-2132.82	-6126.69	1862.8	4917.86
Provision for I-T										
Current Tax	91.92	1673.04	1763.01	970	18.79	-61.14	-20.32	-71.92	-	773.1
Deferred tax [net]	-	-	-	-	-171.22	-317.68	492.5	-	110	130
Profit/ (Loss) before Taxation	1664.47	2425.66	3045.65	1559.93	397.95	-741.03	-2605.01	-6274.81	1752.8	4014.76
Transfer from general reserve	-3611.85	-1942.7	-	-	160	-	-	-	-	-
Profit/(Loss) available for Appropriation	-1947.4	482.96	3045.65	1559.93	557.95	-741.03	-2605.01	-6274.81	1752.8	4014.76
Proposed dividend & tax dividend tax	-	480.79	941.02	850.01	385.67	-	-	-	-	-
Dividend%	-	8.5	15	15	7.5	-	-	-	-	-
Balance Carried to reserve	-	2.17	2104.63	709.92	172.28	-741.03	2605.01	-	-	-
Balance carried to balance sheet	-1947.38	-	-	-	-	-	-	-6274.81	1752.8	4014.76
	-1947.4	482.96	3045.65	1559.93	557.95	-741.03	-2605.01	-6274.81	1752.8	4014.76
Earning per share-Basic and Diluted	3.24	4.72	5.92	3.03	0.77	-1.44	-5.07	-12.2	2.07	6.25

\*All figures are in Rupees excepting Dividend expressed in %

## Exhibit –II Summarized Balance Sheet [Rs in lacs]

Source of Fund	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Equity Shares (1)	5142.14	5142.17	5142.2	5142.21	5142.21	5142.21	5142.21	5142.21	6426.38	6426.38
Reserves (2)	26181.36	27454.53	28910.13	29109.6	27295.05	25602.05	22658.49	19549.12	24746.43	14773.45
Shareholders' Funds (3)= (1+2)	31323.5	32596.7	34052.33	34251.81	32437.26	30744.26	27800.70	24691.33	31172.81	21199.83
Loan Funds (4)	4276.85	2546.58	2394.49	5991.82	5174.68	6185.9	6325.99	12434.76	8130.51	5249.56
Total (3+4)	35600.4	35143.3	36446.8	40243.6	37611.9	36930.2	34126.7	37126.1	39303.3	26449.4
Application of Fund										
Fixed Assets-Gross	29308.37	31234.04	32888.84	33829.8	33191.72	33489.13	34212.88	35764.26	36298.46	30639.73
Net Fixed Asset include Intangible Asset	21575.4	21601.27	21738.79	20830.45	18559.35	17240.24	16650.38	13965.47	13192.3	8024.74
Investment (6)	487.98	487.3	521.17	485.64	485.64	485.64	485.20	485.18	497.68	1724.33
Current Assets	23106.5	25371.5	28795.5	34397.2	34213.51	37896.69	40730.53	38605.38	38830.37	35570.76
(-) Current										
Liabilities	9569.53	12316.79	14608.64	15469.66	15646.56	18692.49	23739.42	24815.42	20050.65	18870.44
Net Current Assets (7)	13536.97	13054.71	14186.86	18927.54	18566.95	19204.28	16991.11	13789.96	18779.72	16700.32
Misc. Exp & Dr Balance of P/LA/C (8)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	8885.48	6833.54	Nil
Total (5+6+7+8)	35600.4	35143.3	36446.8	40243.6	37611.9	36930.2	34126.7	37126.1	39303.3	26449.4

### Exhibit –III Analysis of Administration and Selling Expenses [Rs in lacs]

Particulars/Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Salaries, Bonus, etc to employees	11520.57	13191.34	14240.3	15067.44	15072.01	15138.43	15751.54	15231.83	15256.47	15667.23
Staff Welfare	754.73	865.09	832.51	911.49	918.38	940.96	922.81	791.28	713.51	745.36
Gratuity, Pension and Provident Fund	1730.81	2094.19	1935.28	1897.99	2035.99	2185.11	2568.41	2477.51	2071.39	2073.43
	14006.11	16150.62	17008.09	1927876	18026.78	18264.23	19242.76	18500.62	18041.37	18486.02
Advertisement	1946.42	1241.67	1152.5	1000.53	1488.74	1318.51	1165.06	1313.13	836.94	1066.77
Other Expenses	9970.35	12283.85	12606.66	13384.03	14890.32	14596.28	13617.82	15077.76	14138.03	14347.97
Total	25922.9	29676.1	30767.3	32261.5	34405.4	34179	34025.6	34891.5	33016.3	33900.8

### Exhibit –V Installed Capacity and Actual Production

Product Description	Unit	2001		2002		2003		2004		2005		2006		
		Installed Capacity	Actual Production	Capacity Utilized in %	Actual Production	Capacity utilized %	Actual Production	Capacity utilized in %	Actual Production	Capacity utilized in %	Actual Production	Capacity utilized in %		
Rubber & Canvas Footwear	Pair	42500	20248	48	24922	59	21726	51	20948	49	16832	40	20538	48
Leather & Other Footwear	Pair	20256	10716	53	11796	58	10797	53	9564	47	10561	52	9474	47
Finished Leather From Hides	Pair	1596	778	49	761	59	635	40	528	33	479	30	324	20