Teaching Note:

The Turnaround at Raymond

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The Turnaround at Raymond

TEACHING NOTE

CASE SYNOPSIS

This case focuses on the managerial and leadership qualities of Sanjay Behl (Behl), CEO of Raymond Ltd. (Raymond). Behl, who had no prior experience in the textile and fabric industry, won accolades from the industry for the magical turnaround achieved by the ailing textile conglomerate. Under his leadership, Raymond experienced a turnaround with revenue and profit posting a healthy growth.

The 93-year-old company was one of India’s largest producers of worsted fabric, largely used in making suits. After running successfully for years, the business had a tough time post-liberalization. The entry of international brands, competition from other Indian players, increasing demand for readymade wear, etc. posed a threat to the business. By the early 2000s, the brand had lost its luster. Moreover, the unrelated diversification of the business exerted pressure on the financials of the textile business.

Soon after joining, Behl took several initiatives to revive the company. He started simplifying the company structure and changed it into more customer-centric division rather than product-centric verticals. He moved on with downsizing the workforce, divesting non-core parts of business, and selling off the carpets, cottons, and upholstery businesses. The case also discusses the 3-phase transformation strategy employed by Behl to make the turnaround successful.

LEARNING OBJECTIVES

The specific learning objectives could be:

- To examine the various internal and external factors that lead to a company’s decline
- To identify the characteristics of strategic leadership
- To appreciate the role of a leader in reviving the fortunes of a loss-making organization
- To understand how focus on core business can be used as a strategy for the successful turnaround of the company.

TARGET AUDIENCE

This case can be used in the Organizational Behavior Class for BBA/MBA students as an example to highlight the topic of leadership. It can help students understand the concept of strategic leadership. It can also be used to teach different types of managerial styles and leadership traits.

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<th>Program</th>
<th>Course</th>
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<tr>
<td>MBA</td>
<td>Organizational Behavior</td>
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<td>Business Strategy</td>
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The case can be distributed among the students in advance so that they will have the time to read and analyze the content. The discussion can be initiated with the instructor asking certain questions about the company, its practices, business growth, etc. The students can be asked to analyze the problems in the company and the reasons for these problems. The class can conclude with questions that can be debated on, such as the leadership skills and role of a leader in a company.

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<th>Instructor's Questions</th>
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<td>Introduction</td>
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<tr>
<td>Discussion on Concept 1</td>
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<td>Summary</td>
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**ANALYSIS**

1. What, according to you, were the internal and external factors that led to the decline of Raymond?

   A. There are numerous internal and external factors that were responsible for the company’s decline.

   **Internal Factors:**

   *Diversification at the cost of core business:* When firms reach a certain stage of development, they typically start to diversify. Diversification means future growth, something most managers find exciting and challenging. But therein lies the danger. The development of new business takes more and more of the top management’s most scarce resource, time, with the result that their core businesses are neglected. The consequences of this can be quite disastrous, since the core business is likely to be a mature business that is generating a substantial portion of the cash flow needed to fund the acquisition and new venture programs.

   Raymond whose core business was producing worsted suiting fabric, diversified into engineering and aviation. The unrelated diversification of business exerted pressure on the financials of the textile business.

   *Organizational Structure hindering effective control:* One of the functions of a well-designed structure is to aid management control. Over centralization can make control more difficult because it becomes tough for management to find out what is really going on. The hierarchical level at which control is placed in the organization structure is often too high.

   Raymond’s organizational structure too was complicated. It had two broad verticals – textiles and apparels. Each vertical was headed by a president who controlled every aspect and reported to Gautam. This probably made decision making slower. Behl simplified the company structure later. In the new structure, each SBU was headed by a president, while shared service functions of brands, HR, finance, and information technology were created to facilitate all 5 SBUs. The new structure helped drive each of these functions to the level of excellence. It also helped manpower rationalization. To enable building a high-performance organization, Raymond overhauled the performance management system with clear linkages of quantified KRAs (key result areas) with the consequent management framework at all levels.
within the organization. The organizational culture at Raymond was embedded in meritocracy, transparency, personal accountability, bias for action, and collaboration of a high quality. An Advisory Board for the Lifestyle Business was formed. The Advisory Board engaged with the leadership team every quarter to discuss and debate at length diverse topics of potential relevance to the Raymond Group.

Failure of Joint Ventures:
Despite their many potential uses and benefits, joint ventures frequently go awry and create problems. There are dangers in using JVs, which include a loss of competitive advantage through strategic inflexibility. Problems are created due to the relative inexperience of firms in using JVs and their inability to manage the JVs effectively.

In the given case, Raymond entered into a 50:50 joint venture (JV) with companies like Cotonificio Honegger S.p.A, Lanificio Fedora, Grotto SpA, and UCO NV and made huge investments. The JVs, however, did not turn out to be successful. The first year of the India operation of Gas-Raymond JV was not encouraging for Gas apparel. It recorded a loss of Rs.193.2 million in 2007, which further increased to Rs. 504.6 million during 2008-09. Raymond UCO Denim too posted losses in 2007-08 and 2008-09. Raymond Fedora faced losses during 2007-08. The company itself recorded losses of Rs.416 million. Regency Texteis Portuguesa Limitada incurred a loss of Rs. 240 million during 2008-09.

External Factors:
Government Policies:
Government policies in the form of liberalization, taxation, foreign exchange policies, and regulatory requirements can place companies located within their jurisdiction at a major cost disadvantage against their overseas competitors. In the given case also, the company faced problems after the liberalization of the Indian economy as many new entrants came into the market with upgraded technology, new skills, and new products.

Change in market demand: Businesses fail to realize the changing needs of customers. The consumers are no longer interested in the same product the business is trying to push on them. Their needs are changing, and competitors are providing product innovations to meet those changing needs. Over a period of time not only the demand for a particular product but also the way in which it is distributed and purchased may change. In such a situation if the management does not respond then it might find itself in difficulties. Raymond was a pioneer in suiting and shirting fabrics. But with the changing times, the market demand shifted toward readymade garments. Moreover, with tailors leaving the profession, very few were left for stitching expensive suits. Customers were getting more options to choose from.

Competition: Competition as a reason of corporate decline occurs in the form of product and/ or price competition. All products after a certain period of time become obsolete and are replaced with newer substitutes. A firm which fails to introduce new products at the right time is likely to face a declining fortune. Some of the major competitors of Raymond were Madura Garments, Indus-League clothing, Bombay Dyeing, etc. Most of them penetrated the market with their ready-to-wear segment.

2. Interpret and apply the characteristics of strategic leadership displayed by the key player.
A. Several authors have identified a few key characteristics of good strategic leaders that lead to high performance:
1) Vision, eloquence, and consistency: One of the key tasks of leadership is to give an organization a sense of direction. Strong leaders seem to have clear and compelling visions of where their organizations should go, are eloquent enough to communicate these visions to others within the organization in terms that energize people, and consistently articulate their visions until they become part of the organization’s culture.
The Turnaround at Raymond

In the given case, the way Sanjay Behl helped in bringing back the lost glory of Raymond shows that he possessed the qualities of a strategic leader. The turnaround was possible only because of his vision, eloquence, and consistency. His vision was to change Raymond from a classical ‘product’-oriented organization to a menswear full wardrobe ‘solution’-based company by 2020. He took various initiatives to achieve this vision. He formulated a 3-phased transformational path forward termed as Raymond 1.0, Raymond 2.0, and Raymond 3.0 that was to be rolled out in three distinct time periods – 2014-2017; 2016-2020; and 2018-2025. He consistently put in efforts by reclassifying the business verticals, restructuring the company’s operations, making changes in leadership, etc.

He also had plans for the company to come out with an omni-channel strategy within a year to scale up its digital business and connect with younger customers.

2) *Articulation of the business model*: Good strategic leaders have the ability to identify and articulate the business model the company will use to attain its vision. A business model is a manager’s conception of how the various strategies that the company pursues fit together into a congruent whole.

Sanjay Behl reclassified the company’s business from two broad verticals (textiles and apparels) into five strategic business units (SBUs) – shirting, suitng, apparel, garments and exports, and custom tailoring. Earlier, each vertical was headed by a president reporting to Gautam. In the new structure, each SBU was headed by a president, while shared service functions of brands, HR, finance, and information technology were created to facilitate all 5 SBUs. The new structure helped drive each of these functions to the level of excellence. It also helped manpower rationalization.

Behl divested the company of all non-strategic and non-performing and closed down its unprofitable non-strategic retail stores including 50-60 loss making stores. He focused all energy on the core business and outsourced all non-core business processes such as information technology, security, and payroll to domain experts. He revamped the sales, distribution, and supply chain functions and searched for new markets for sourcing wool. Raymond’s business value chain, both horizontally and vertically, was reorganized. The rearrangement included retail renovation and expansion, product innovation, portfolio simplification, brand re-positioning, supply chain re-hauling, IT/digital integration, newer business models, and global expansion.

3) *Commitment*: Strong leaders demonstrate their commitment to their vision and business model by actions and words, and they often lead by example.

In the given case, it was mentioned that Sanjay Behl prior to joining Raymond had no idea about the textile and fabric industry. But he accepted the challenge of making the turnaround happen. He put in efforts to gain professional credibility among his teams. He could make his people believe in him as someone who could effectively confederate and lead them, despite an apparent lack of experience in the textile industry. Behl’s topmost priority was to learn, assimilate, and reflect on the many elements of the business at Raymond and the industry. He also traveled quite extensively and actively engaged with multiple stakeholders both in India and globally.

4) *Willingness to delegate and empower*: High-performance leaders are skilled at delegation. They recognize that unless they learn how to delegate effectively, they can quickly become overloaded with responsibilities. They also recognize that empowering subordinates to make decisions is a good motivation tool and often results in decisions being made by those who must implement them. At the same time, astute leaders recognize that they need to maintain control over certain key decisions.

When Behl reclassified the company’s business in 2014 from two broad verticals (textiles and apparels) to five strategic business units (SBUs), he delegated the headship to 5 presidents. HR, finance, and information technology related service functions were
delegated the work of facilitating all 5 SBUs. Behl also hired the best global benchmarks of talent and functions from outside the company. In the process of hiring external and elevating internal talent, the average age of the direct reportees was reduced from 52 years to below 45 years so that the company could get a team of young leaders to lead the company.

3. Evaluate Raymond’s turnaround strategy.

A. A turnaround strategy is designed to help the company shift from a negative direction to a positive direction. This can be achieved by restructuring the organizational operations with an eye on restoring the appropriate level of profitability. A successful turnaround can be achieved by giving high priority to the core business the company is in and divesting the company of diversified activities. Some of the common features of a turnaround strategy are:

5) Changes in leadership: Since poor management is one of the causes of organizational decline, a new, vigorous, and skilled leadership may cause a turnaround. Gautam Singhania took the right decision of stepping back and hiring Sanjay Behl to go ahead with the turnaround process. Behl in turn also recruited many experts from different fields to make the turnaround successful. He also formed a new advisory board that kept a watch on what was happening in the company and played a vital role in decision making.

6) Redefining the company’s strategic focus: Management must make sure that its strategic focus is not on sub-optimal operations. Redefining strategic focus means reorienting oneself (?) toward a more differentiated business that has the best long-term profits and growth prospects.

In Raymond’s case, Behl restructured the company’s operations by relocating manufacturing facilities for ColorPlus from Chennai to Mumbai. He also revamped the sales, distribution, and supply chain functions. With such initiatives, brands like Parx and ColorPlus revived. Despite closing down certain stores, an increase in sales was noticed for Parx, ColorPlus, and other brands as well.

7) Divesting or closing unwanted assets: The turnaround of the company can also be initiated by identifying businesses of the organization that are not profitable. The company may then want to divest itself of such businesses either by selling them or by liquidating them. Their sale or liquidation can bring the company much needed cash which can be used in saving and improving the remaining operations.

In the given case, Behl started divesting the company of all non-strategic and non-core businesses. He closed down the company’s unprofitable non-strategic retail stores.

8) Taking steps to improve the profitability of remaining operations: After closing the unwanted assets, the management can take a number of steps to improve efficiency, quality, innovations, and customer responsiveness and hence the profitability of remaining operations. This can be achieved by retrenching less efficient personnel, investing in labor saving equipment, bringing about changes in the organizational structure, tightening financial controls, re-engineering business processes, etc.

In the given case, Behl outsourced all non-core business processes such as information technology, security, and payroll to domain experts. He also paid the utmost importance to technology. The entire supply chain was put under a common ERP SAP system. To clean up the supply chain and eliminate product overlaps, Stock Keeping Units (SKUs) were cut down by 15 to 25 per cent. Raymond’s business value chain, both horizontally and vertically, was reorganized. The rearrangement included retail renovation and expansion, product innovation, portfolio simplification, brand re-positioning, supply chain re-hauling, IT/digital integration, newer business models, and global expansion.
Behl’s vision was to rapidly digitize the company to achieve its technical transformation. To begin with, the Digital Customer Center (DCC) was set up in 2016, its primary mandate being to create a roadmap for digital integration and enhancement in various aspects of the organization. During the first phase, the company started micro-segmenting, digital prototyping, and profiling of customers. It focused largely on campaign management and marketing.
Suggested Readings and References:


