

**THE IMPORTANCE OF STRATEGIC DIRECTION FOR
THE GROWTH OF SMALL AND MEDIUM SCALE
ENTERPRISES: A CASE STUDY**

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Abstract

GMH Organics is a medium size pharmaceutical enterprise in Haryana, India which manufactures dry powder injectable since 2007. This was established as a partnership organization under the GMH Group. The company is engaging in third party manufacturing and fulfilling domestic and global market demand through large pharmaceutical companies and franchise mode selling. Within a short period of time GMH Organics has obtained incredible growth in the market while keeping CAGR of 91.43%. This enterprise is differentiated from other SMEs because they have proper vision and mission statements which are targeted to the international growth. In addition to that, they have adopted advanced strategic management techniques and procedures such as quality management, network strategy, benchmarking, SWOT analysis and PESTEL analysis when formulating strategies.

Key words: Vision, Mission, Strategic Management, Small and Medium Scale Enterprises

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“The World Health Organization (WHO) estimates that up to 30 per cent of branded drugs sold in developing nations are counterfeit which can have profound implications for patients. For example, tuberculosis and Malaria counterfeits, which largely originate in India and China, are estimated to kill some 700,000 people a year! Counterfeiters, similar to legitimate drug manufactures, are keen to benefit from manufacturing costs in India that are around 40 per cent cheaper than other markets. As a result, India's counterfeit market has reportedly grown at a rate of about 25 per cent per annum, and represents a significant proportion of the global counterfeit drug market (thought to be worth between \$75 billion and \$200 billion a year).”

Deloitte, United Kingdom(Mondaq, 2015)

Date: 21-04-2006

Location: Board Room, GMH Pharmaceuticals Pvt. Ltd

“With more than 20 years experiences in this pharmaceuticals industry, we have identified number of new investment opportunities which can increase profits of the group. Dry powder injectable is one of them. According to the feasibility report which was made by a consultancy firm, this investment could make profits from first year onwards.”

Yogesh Singla, Partner, GMH Organics

GMH group was established in 1985 and the Board meeting held on April 21, 2006 led to the formation of GMH organics a pharmaceutical manufacturing enterprise in 2007 at Karnal, Haryana, India.

YogeshSingla andAnkurGoyal founded this enterprise as a partnership organization. Within a short period of time they specialized in manufacturing of CEPHALOSPORIN GROUP injectable products. This company is fulfilling the domestic and global market demand by operating through franchise mode and by being third party manufacturers to leading Indian pharmaceutical companies such as CIPLA, ManeeshPharma, Piramal Healthcare, Unimark Remedies and Flaming Pharmaceuticals are the major customers of this organization.

On being asked the necessity of incorporating a new company Mr. Goyal said *“First we decided to start this dry powder injectable plant as a branch of GMH Pharmaceuticals Pvt.Ltd. However*

Yogesh had a different plan and he made a feasibility report with an assistance of a consultancy firm. Then we identified profitability of this product and its future growth as a separate business. I appreciate ad hoc and strategic decisions of Yogesh in this regard.”

GMH organics opened their marketing offices at Karnalin 2007 and Punchkula in 2013. Manufacturing plant of the enterprise was established in 2007 at Baddi, Himachal Pradesh(Gmh,2015).Their manufacturing facilities are as per international standards and norms (at Baddi excise free zone, Asia's largest pharmaceutical hub) having World Health Organization’s (WHO)Good Manufacturing Practice (GMP) Certification.The plant has very sophisticated fully automatic high speed dry powder filling lines, from vial washing to final packing of finished goods. Process controlling and the production activities of the enterprise are carried out under the class 100 area of environment keeping in mind of the international norms. Currently production capacity of the company is 2.5 million vials per month.

GMH organics has the following vision and mission.

Figure 1

Vision	GMH organics is committed to be recognized as a trusted and respected global leader in healthcare segment by consistently delivering its quality products throughout the world in order to ensure “Good Meaningful Health (GMH) for all human beings.”
Mission	GMH is determined to achieve top position in bringing together the bridges across the world in medicine market and supplying best quality to patients. To ensure GMH galvanize its entire team for executing above strategy, fostering a rewarding and growing business.

Source: GMH Organics, 2015 (<http://www.gmh.co.in/index.php/about>)

Mr. Yogesh Singla, Managing Partner, commented:

“According to the investment made in plant and machineries, this organization is falling under the medium enterprise category. However most of the Indian SMEs do not follow advanced strategic management tools such as vision and mission. According to our experiences, effective strategic management begins with the organization clearly articulating its vision for the future. It provides a proper direction to the organization.”

GMH focuses on three areas; Quality, Commitment and Ethics. They are highly concerned about the maintenance of the market best quality and standards as well as constantly following the statutory requirements of the industry. The firm ensures that all the steps involved in the design, development and manufacturing of the product lead to the intended level of quality performance in the market. GMH uses modern manufacturing techniques such as automatic machinery, Dyperogeneration tunnel, bung processor, sterile garment cubical, chiller plant, dehumidifies (FVB- 600), Dehumidifies (FVB – 1500) for maintenance quality and standard of their products. This firm is competing with large and medium sized pharmaceutical companies like Nitin Life sciences Ltd, Zee Laboratories, Aqua Vitoe Lab and Zeiss Pharmaceuticals Pvt. Ltd in the market (GMH, 2015).

GMH Group

GMH Group is consisting of five pharmaceutical and health care companies including GMH organics. This group entered in the Pharmaceutical Industry with retail business in 1979 and expanded from retail of pharmaceuticals to wholesale business in 1987. This group has more than 100 franchises across India and they produce for more than 70 reputed companies through third party manufacturing. Their products are supplied to more than 20 countries through third parties. This group presently employees over 500 professionals who operate state of the art production lines for pharmaceuticals (GMH, 2015)

Member Companies excluding GMH Organics:

1. GMH Pharmaceuticals

GMH Pharmaceuticals Pvt. Ltd. was incorporated in the year 1995 with the prime objective of marketing & promoting of pharmaceuticals specialties by providing quality medicines to the mankind living even in the remote areas. During the last years company has made an excellent progress (Gmhpharma, 2015).

2. XIEON Life sciences Pvt. Ltd

XIEON was established in the year 2006, with the prime objective of Marketing, Promoting of Pharmaceuticals Specialties and making medicines available even to the people living in the

farthest interior and remote places. Further Xieon has following subsidiaries for its domestic operation(Xieonlife, 2015).

3. GMH Laboratories

GMH laboratories is the division of GMH group established in 2006 with the prime objective of making medicines available to the people living in the farthest interior and remote places. This company is one of the largest privately held pharmaceutical companies in India(Gmhlaboratories, 2015).

4. GG Nutrition

GG Nutrition is a state of art manufacturing facility, which is engaged in manufacturing of solid dosage forms and strives to provide high quality pharmaceuticals that improve the health of society. This company specializes their production in formulation of Beta Lactam group.

Indian Pharmaceutical Industry and Dry Powder Injectable Market

The Indian pharmaceutical industry is globally the 3rd largest in terms of volume and 13th largest in terms of value (Pharmascholars, 2015). Total market size is Indian Rupees (INR) 1233 billion includes domestic consumption market of INR600 billion and the export marketing INR633 billion. This industry is annually growing by 17.8%. India has the following competitive advantages over pharmaceuticals industry of other countries(Slideshare, 2015).

- Increasing per capita income
- Increasing investments by big multi-national companies
- Life style related disorders
- Government initiatives

Indian pharmaceutical companies are enjoying some financial benefits due to their manufacturing costs are around 40% less than as compared to other countries. India produces around 40% of generic and other drugs used in the United States, making it the second biggest supplier after Canada(in.reuters, 2015).

Dry powder injectables are simply drugs that come in a vial (glass vessel) as a powder form. Generally other drugs come as a liquid. The dry powder ones are different because first they have to be mixed with water. For that sterile water should be injected into the vial mix until powder dissolves. Pharmaceutical products such as Cefetoxine Injection I.P, Cefotaxime Injection I.P, Cefoperazone and sulbactam for injection, Imipenem&Cilastain for Injections I.P. and Cefepime for Injection are falling under this dry powder injectables category. These products have been widely used in the world from last decade due to some benefits attached with them as compared with liquid injectables (Gmh, 2015).

Growth of the Company

In the first year of establishment (2007-08) G.M.H organics have achieved INR 5millionturnover with 25 employees. Within six years period this enterprise has recorded a remarkable growth and obtained around INR471 million as their revenue in 2013-14 financial year (Annexure 2). CAGR (Cumulative Annual Growth Rate) of the company is 91.43% and this is an incredible figure when compared with the CAGRof the dry powder injectable industry (59.8%) as well as competitive firms (Annexure 3). GMH has secured within a short span of time of market share of 8% (Annexure 1).

However,the company has not recorded continuous growth throughout this six years period. Revenue decreased by INR3 million in 2010-11 financial year due to unfavorable economic conditions. As Mr. Yogesh Singla has observed:

“This was happened due to the global financial crisis. We are working with number of global companies. This crisis seriously affected to those companies than us. At that period we were producing less than twenty types of injectables. This crisis forced us to think strategically in the market. Therefore inthe financial year 2011-12, we increased our product categories up to 50, and as a result of this, revenues increased by 44%. Most of our early decisions were based on industry best practices (Benchmarking). In addition to that we decided to employ SWOT analysis and PESTELanalysis wherever necessary to take decisions.”

Strategic Management Techniques adopted by GMH Organics

GMH Group has over twenty years of experience in all aspects of pharmaceutical operations, giving them the experience to identify opportunities for revenue enhancement, efficiency improvement, and cost reduction throughout the entire production cycle. This enterprise has developed and implemented two types of strategies Intended and Emergent.

Intended strategies are expressions of desired strategic direction properly planned by top management in accordance with corporate vision of the organization. It can be identified three types of intended strategies as corporate level strategies, business level strategies and operational level strategies. On other hand, emergent strategies come about through everyday routines and ad-hoc situations in the company (Thompson et al, 2010).

GMH Organics adopts following strategic management techniques in order to formulate their intended and emergent strategies.

Quality Management

GMH Organics' commitment, discipline and continuous efforts ensure quality products and they never compromise on that. They have WHO-GMP approved state of the art manufacturing facility and use the most advanced testing equipment, to ensure the quality of the products. Once manufacturing process starts then quality process is ensured for the entire period for all drugs. They follow 76 SOPs (Standard Operating Procedures) of quality control and 41 SOPs of quality assurance to guarantee the quality and integrity of the products throughout the process.

Along with internal, external auditors also check the products and equipments for ensuring the quality and standard operating procedures. Continuous updates of the processes and procedures are employed to fulfill global requirements. Training is provided regularly to the staff for carrying out their duties and production processes, and to make them quality conscious.

Network strategy

The company maintains an ERP (Enterprise Resource Planning) system which combines all the functions such as production, marketing, finance, human resources etc. This enables to evaluate

operational as well as employee performances, manage unnecessary costs, identify timely deviations with budgets and identify frauds and errors easily. This system has linkages with other network systems in the group. Numbers of internal controls are practiced over this system in order to mitigate information risks, mal-practices, non-compliances, human and system errors and frauds.

Benchmarking

GMH Organics adopts two types of benchmarking approaches to formulate their strategies: Industry benchmarking and Best-in-class benchmarking. Under the industry benchmarking, their performances are compared with performances of the industry best players. On other hand, best-in-class benchmarking is made more widely comparison with best practices of any industry. Especially their vision and mission are somewhat broad. When formulating this vision and mission, they followed best practices of the global companies.

According to Mr. Yogesh Singla:

“Most of the local business people believe organizations should have a vision statement which can be quantified. These kinds of vision statements are prepared for around 20 years period and they are highly concerned about the domestic growth of their companies. But our target is to become an International company. Therefore we have a broad vision with a clear direction”

PESTEL Analysis

Macro environmental influences on the company are evaluated under the PESTEL analysis. Because the market is very competitive, political, economic, social, technological, environmental and legal influences have to be considered when developing and implementing strategies. This analysis facilitates to identify key drivers of change as well as differential impact of these key drivers on external influences. Especially technological changes are very critical in the pharmaceutical industry.

SWOT Analysis

A SWOT analysis summarizes the key issues from the business environment and strategic capability of the company. The company has made following SWOT analysis recently.

Figure2

<p>Strengths</p> <ul style="list-style-type: none"> High CAGR Growth of market share High quality of the products Skilled and Qualified work force Over 20 years experiences of the management Clear direction from vision & mission Considerable investments on R&D Low manufacturing cost Manufacturing plant was established in Asia's largest pharmaceutical hub 	<p>Weaknesses</p> <ul style="list-style-type: none"> No products portfolio Third party manufacturing Centralized decision making Low level of segregation of duties and delegation of authorities Less number of financing methods
<p>Opportunities</p> <ul style="list-style-type: none"> Growth of the industry High local and international demand Government support New innovations in the industry 	<p>Threats</p> <ul style="list-style-type: none"> Increasing investments of big multinational companies Negative perceptions of international customers towards Indian pharmaceutical products High competition

Source: Personal discussion with Managing Partner

Then TOWSmatrix is used to identify options that minimize weaknesses and also avoid threats.

Major competitors of G.M.H Organics

Zee Laboratories

Zee Laboratories was established in 1994 and they are manufacturing pharmaceutical products such as tablets, capsules, liquid injectable, dry powder injectable, cosmetics and herbal products. The company's annual revenue in 2014 is INR 2300 million. Their products export to 25 countries (Zeelab, 2015).

Vision of the company is "We have a challenging and inspiring vision to improve the quality of human life by enabling people to do more, feel better and live longer."

Aqua Vitoe Lab

This enterprise was founded in 2005 as a sole proprietorship. They are manufacturing tablets, capsules, syrups and dry powder injectable. The current turnover of the company is INR 500 million (Aquavitoelab, 2015).

All the strategies of this company follow their vision of “An organizational with high degree of excellence towards conformity and business growth.”

Zeiss Pharmaceuticals Pvt. Ltd

This company was founded in 2003. They are also manufacturing dry powder injectable with some other drugs. The Current revenue of this company is INR 50 million (Indiamart, 2015).

This company has not developed and implemented a proper vision regarding their future status. GMH organics has obtained rapid growth as compared to its major competitors. GMH organics with a CAGR of 91.43% is at an exceptional level when comparing with corresponding figures of Zee laboratories (56.67%) and Zeiss Pharmaceuticals Pvt. Ltd (30%). Particularly Zeiss Pharmaceuticals Pvt. Ltd has around ten years experiences in the pharmaceutical industry. On other hand that is a limited liability company. However their revenues are considerably low due to they do not follow a proper strategy executing process.

Challenges & Future Strategies

Indian pharmaceutical industry is criticized due to the low quality of products and counterfeit manufacturers. Therefore all the registered companies in this industry should highly concern about maintenance and improvement of quality of the products. Pharmaceutical Quality Systems such as ICH Q10/ISO9001 should be applied and followed according to the GMP requirements.

Considerable numbers of companies have entered to the dry powder injectable industry within a very shorter period of time. It created a lot of competition in this market and posed a challenge to the existing companies for their growth and survival. As a result of that demand for high qualified professionals is continuously increasing and companies have to give more attractive salary packages to acquire or retain them. This resulted in the increase in administrative costs rapidly. On other hand new investments have to be made on research and developments to capture new opportunities in the market.

Large companies in this market impose new cost constraints on new entrants as well as existing small firms. As the result, the commercial environment is getting harsher and companies should formulate new strategies to survive in the market. SMEs need funds and better relationships with large companies to expand their business activities. On other hand customers expect health care products that are clinically better and economically cheaper than the existing alternatives. However, new developments and innovations have not been issued to the market as per the requirements of the customers throughout the past decade. Therefore the companies who can supply new and innovative healthcare products have advantages to become key players in the market.

One month before to the annual budget meeting which was scheduled in December 2013, Yogesh Singla sent an email addressing all the managers and executive level employees of the GMH Organics.

“We should re-evaluate our strengths and weaknesses to face future challenges in most positive way. We have seven years experiences as a company and twenty seven years experiences as a group. Therefore the Success is not a big thing but it will come through our efforts. All the multinational companies have achieved their targets by strategic thinking. As a visionary company we should more concern about adoption of right strategic tool at the right time. Not only for production and marketing but also for other divisions this matter will be applicable. We have to think beyond the third party manufacturing with new and improved pharmaceutical products.”

Conclusion

GMH Organics is differentiated from other medium size enterprises because they have proper vision and mission statements which are targeted to the international growth. Their vision is somewhat broad and cannot be quantified easily but according to the view of top management it makes a clear direction to the company. In addition to that, they have adopted advanced strategic management techniques and procedures such as quality management, network strategy, benchmarking, SWOT analysis and PESTEL analysis when formulating strategies.

There is a huge criticism over the Indian pharmaceutical industry due to the low quality of health care products and counterfeit manufacturers. Therefore all pharmaceuticals companies should highly concern about maintenance of quality of the products. In addition to that research and development area of this industry should be developed as per the requirements of international market. GMH Organics has taken these challenges in positive way to obtain their future growth.

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Annexure 1**Market Share of the Company**

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Market Share (%)	1	1	2	3	5	7	8

Source: Personal discussion with Managing Partner

Annexure2**Profitability of the Company**

Indicator	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Net Revenue (Mn INR)	5	182	236	233	336	416	471
Profit (Mn INR)	0.01	5	10	6	17	28	33
Profit Margin (%)	0.2	2.7	4.2	2.6	5.1	6.7	7.0
No of Employees	25	25	32	65	78	92	95
Revenue per Employee (Mn INR)	0.2	7.28	7.37	3.58	4.31	4.52	4.96

Source: Personal discussion with Managing Partner

Annexure 3**Comparison of Company Growth with Industry Growth**

CAGR of the Industry	51.13%
CAGR of the GMH Organics	91.43%
CAGR of Competitive firms	
Zeiss Pharmaceuticals Pvt. Ltd	30%
Zee Laboratories	57.67%

Source: Personal discussion with Managing Partner;www.zeelab.co.in