

SUCCESS MANTRA

If a business unit is bleeding, cut your losses and move on

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KOLKATA

If you want a large family-run conglomerate not to disintegrate, you have to keep the door open for anyone who wishes to exit, say R.S. Agarwal and R.S. Goenka, chairman and co-chairman, respectively, of Emami Ltd, who built the enterprise ground up, often exploiting conflicts within other family-run firms to expand their own empire. As the second generation takes control and the third generation is being tutored to cling together, Agarwal and his business partner Goenka have started to reflect on their chequered past, and have authored a book—*Business: The Emami Way*—to share their experiences with young entrepreneurs. The book is to be launched in Kolkata next week. Edited excerpts from an interview with Agarwal:

You have acquired many companies to boost Emami's presence in diverse fields. Which among the acquisitions was most satisfying?

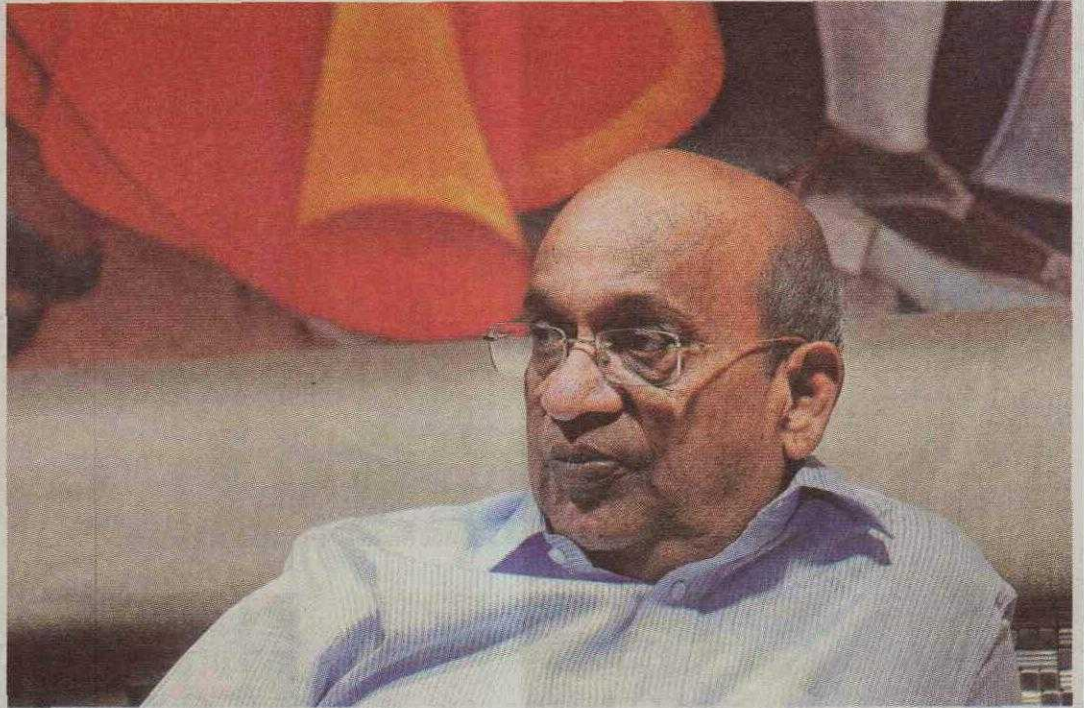
Every successful acquisition brings to me a great deal of satisfaction. So, it is difficult to tell whether the Zandu Pharmaceutical acquisition in 2008 was more satisfying than the Himani acquisition in 1977-78 (which was the first for the group).

Himani was an ailing company run by two bickering brothers. They lived in close proximity—in the same bungalow—and ran the company together, but were not on talking terms. Three decades later, we saw the same situation at Zandu—the founders had parted ways.

Both companies had a lot of assets and growth potential, which weren't being optimally exploited. And they were not performing up to par because of conflicts within the management team. It is our learning that such conflicts create opportunities for competition to snap up companies.

After Himani, it took you almost 30 years to make another big-ticket acquisition in the consumer goods space. In the meantime, you invested in other businesses. What drove you into these businesses?

After acquiring Himani and stabilizing our consumer goods business, we launched and acquired many companies. For instance, we started our paper business and though it took some time to stabilize, we are today the biggest producer of newsprint in the country. We have now added paperboards and packaging materials to that line.



INDRANIL BHOUMIK/MINT

mint INTERVIEW

R.S. AGARWAL, 71

Agarwal used to work for the Birlas before he launched his own business in the late 1960s. A chartered accountant who also has a degree in law, Agarwal is viewed within Emami as a visionary with a sharp eye for growth opportunities.

We acquired the pharmacy chain Frank Ross in the mid-1990s and it is today the biggest retailer of medicines in eastern India with 150 outlets. When we bought it, it had only two outlets in Kolkata.

We have bought several other companies, looking at their intrinsic potential and the price at which they are available. But at the same time, we had to fold up many of the businesses we had launched or bought.

We started a steel business and persevered with it for at least three years before giving up. We also started a monofilament yarn (a variety of synthetic yarn) business and remained invested in it for 7-8 years, but eventually gave up.

Our philosophy is very simple: we take decisions based on our assessment of the future potential of every business. If a business is bleeding, you should quickly cut losses and move on without getting emotionally invested in it.

Alongside, we also invested in real estate. Between me and Goenkaji, we decided to build a land bank, investing our surplus cash to buy land whenever there was an opportunity. To my mind, it is the value of the underlying land that appreciates with time with or without building homes. You can cash it at an appropriate time by launching a project.

Until the 2008 acquisition of Zandu, you relied exclusively on celebrity endorsement to ramp up your consumer goods business. Why?

Pricing, packaging and pro-

motion are among the key pillars on which we built our business. Whereas on the one hand, we gave better trade margins compared with our competitors to expand, we also used celebrity endorsement in a big way to corner market share.

Though we had used celebrity endorsement before for our products, it must have been our huge success with (so-called) in-film advertising in *Agar Tum Na Hote* (a 1983 film starring Rajesh Khanna, Rekha and Raj Babbar, in which the first played the owner of a company called Emami) that cemented our relationship with Bollywood.

We have had an 11-year contract with (actor) Madhuri Dixit, the longest to my knowledge for any company, and till this day, she is treated as a daughter in this home. I can dare say that every actor who you can quickly recall from the top of your head has, at some point or the other, endorsed Emami products.

In your book, you have written extensively about how to keep a family business from splitting among stakeholders. Here, at Emami, you have managed to keep not one but two families together. What is the mantra?

Between me and Goenkaji, there's a clear understanding that we speak in one voice. When I say, "I did this..." I mean, we did this. But it's a dynamic world changing radically—mark

my words: "changing radically". It's all about accepting changes and moving on.

So, we created a code of conduct some 15 years ago to keep our two families bound by it. We had it vetted by several experts—I have always been a great believer in seeking expertise from outside—to make sure it worked.

But more importantly, we allowed this code to evolve with time. And it will continue to change with time. At the same time, we have family reviews every fortnight.

The code imposed certain restrictions on what scions of the two families could invest in, how they could spend their personal wealth and so on. For instance, no one within these two families is allowed to make investments outside the group, or make unsecured loans outside the family.

We make sure that women who get married into these two families agree to uphold these values even before they become part of these two families. But at the same time, you should keep the door open for anyone who wishes to exit. But if someone wants to move out, he or she must sell his share within a family. See, if you lock your wife up in a room, she might agree to 24 hours of confinement, but not 24 days. So, keep the door open if you don't want people longing to leave.