

Case Analysis 2

Prashant Salwan

Mr. Agarwal set up Gati to increase the value chain of Cargo Company by incorporating intangible resources like branding and data management and human resources management in its business model. And so Gati began as a door-to-door cargo company committed to delivery with the invoice being presented to customers only after the cargo had reached the destination. Gati's product was time bound, point-to-point premium price cargo management service.

In 1998, other courier operators cloned what was Gati's strong point. The product, which was a niche product, became a commodity. Premium pricing was not feasible and the Gati's market share was eroded by 60%. The biggest problem Mr. Agarwal faced was of employees leaving Gati to join the competitors.

Gati faces competition in every product and market segment but not as a whole. The question is how should Gati protect itself from possible encroachment by competition?

In the case of Gati, the problem was not in the idea but in the implementation of the idea. When Mr. Agarwal implemented the growth strategy of Gati, he did not take into account forces such as future competition. This lapse in initial strategy formulation made the company lose out on developing and sustaining competition advantage by not concentrating on functional level competencies building and creating barriers of entry in the industry through developing people, HR policies, infrastructure developments, contracts and so forth.

Gati started as a premium courier company and it should concentrate on the same as a focused customer company. This focus, coupled with entrepreneurship DNA, will help in creating value for customers through products and service offerings. Gati should also very carefully calculate the value chain of each product and try to work on the bundling of competencies in delivering the products profitably to customers. Gati has a good mix of capabilities and opportunities in the market. It should harness its resources as well as upgrade the people skills. The competitive hedges Gati can create vis-a-vis its competitors would help capitalizing opportunities faster than others. Create a brand name. Develop and retain personnel.

Gati should have its business model as follows:

| | |
|----------------|--|
| Revenue source | : Service through quality and creating value as per customer segments and relationship (supply chain and customer) and GA. |
| Cost drives | : Labour, ERP, and organization |

Investment size : Asset light company, more of entrepreneurship approach by harnessing customer and organization knowledge. Build GA funds with assured returns.

Critical success factors : Smooth timely delivery, analyzing the external environment trends and developing your internal strengths accordingly. Create relationships thus creating barriers for entry for competitors.

The business model affinity diagram constitutes of four components, strategic choices, value network, create value and capture value. Gati can do as follows in all the attributes of business model.

Strategic choices:

Customers : Domestic and global SAARC.
(target market m Scope)

Value preposition : Customized as per customer segments

Capabilities/Competencies: Develop process, implement ERP, (leverage ERP advantage for Gati associates); this will help in creating entry barriers. Data management department and innovation in product launches.

Revenue/Pricing : As per customers value model and competitive strategy and branding.

Competitors : Many, branded and non-branded.

Output (Offerings) : Differentiated through customers groups and prices

Strategy : Growth using organic and inorganic ways by creating more wedge in offerings through investment in functional level strategies and entrepreneurship.

Create Value:

Resources/Assets : Financial soundness, organization setup, process, ERP, data mining, fleet of vehicles and GA.

Process/Activities : Well defined authority and responsibility origination structure.

Value networks:

Supplies : Contract based, GA and origination owned supplies.

Customer information : Collection through own networks, market reports and data analytics.

Customer relationships : Value producer with enchasing capabilities.

Product/service flows : Through own and GA on contract and relationship based , both domestically and abroad markets.

Capture value:

Cost : Best cost through management of cost leadership coupled with focus and differentiation strategies.

Financial aspects : Gati should develop an asset light model were in capital assets are minimized and GA and knowledge management and relationship works more.

Profit : Coupled with cost leadership, focus, differentiation and asset light model coupled with relationship orientation (GA, suppliers and customers) profit will definitely increase and create competitive wedge between the competitors and Gati.

Author's Profile

Prashant Salwan

The author is a faculty of Strategy and International Business at Indian Institute of Management Indore. He has designed and delivered company specific executive programs in the area of strategy, international business and general management programs for multinational corporations.