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I have a dream: Ayuvayur Pharmaceuticals

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Vinay

Vinay was born at Ghaziabad, a town located in Northern India. He was born into a small family of four. At a tender age, he worked in the family owned salt coated snack making business. The family suffered hardships; the business did not do well. Later, Vinay had to take up studies more seriously than before. Resources were meager. Vinay could afford to gain a Master's degree in Hindi literature. The campus made Vinay a socialite and one who could steer organizations and groups well. Unfortunately, the business deteriorated even more and had to be shut down.

Vinay lost his business but did not lose "hope". He became an accomplished socialite. He networked well.

Vinay had been trustworthy and meticulous. He was committed to work. He was very professional.

Over time, he had already developed an understanding of distribution dynamics. Vinay could boast of an established social network and had an interest in technology and its marketing.

Ayuvayur, the new venture

Vinay's experiential knowledge and his past learning did not come as a surprise when he set up "Ayuvayur Pharmanceuticals". The firm was set up in 1993 and was located in the industrial hub of the city. The initial capital was less tangible since the firm invested only in hiring marketing agents. Initially, the company began functioning from a rented building. After which, it started commercial productions within its own premises in the subsequent year.

It was because of Vinay's social networking skills that he met Dr Varshneya who was introduced by one of their common friends. Dr Varshneya owned Varshneya Laboratories., which manufactured Ayurvedic medicines (herbal-based medicinal products). Here, Vinay got an opportunity in the form of an offer by Dr Varshneya to engage in the distribution and marketing of drugs that were manufactured by "Varshneya Laboratories". Later, Vinay agreed to initiate production based on loan-licensing. Under the circumstances, the original drug manufacturing company could part license the manufacture of the same drug, as per specifications and directions under close scrutiny by the competent authority.

Vinay had an internal control with self-belief. Vinay could propel and steer the firm well within a short time. Vinay could not have gathered funds easily. He resorted to overdrafts from banks on fake bills.

Vinay started Ayuvayur with a small amount of capital borrowed from friends. Later, when he could inspire confidence with people, he initiated the production unit with capital borrowed from the banks.

Vinay was a novice in the Ayurveda sector and had no formal degree or experience in manufacturing Ayurvedic drugs. Vinay had understood the need for medicines and the

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power of such drugs after the world had suffered on account of side effects of allopathic pills. Vinay had analysed the initial new venture idea, evaluated the potential new venture opportunities and finally decided to initiate the new venture.

Vinay and Ayuvayur

Vinay dreamt big for “Ayuvayur Pharmaceuticals”. To fulfill his dreams, few instant changes were invoked by Vinay. The main focus of the firm was upon tactical planning in making the product flow smoothly. Major changes were brought into the production-strategy and the distribution-strategy depending upon the customers’ needs. Distribution-dynamics had become a challenge to Vinay.

The business had 400 product licenses approved by the State Council of Ayurvedic and Unani Medicines. They obtained the licenses within the stipulated time. Udyog Mani is a consortium of government officials and local entrepreneurs. It resolves common problems via active participation in debates.

To initiate production, he hired a rented building in an industrial area. The business later decided to procure land and begin operations in its own premises. Later, it applied for registrations of its own product location and layout.

Investments were across phases. In the first phase, Rs 70,000/- were given for the purchase of land. 25 percent (not as per the real clauses) of the initial payments were made to the State Industrial Development Corporation (SIDC) which followed possession of land by Ayuvayur Pharmaceuticals. The balance was paid in installments. It had been possible because of Vinay’s personal goodwill and business relations. Finances were secured from the banks for Rs 10 lakh as term loans for machinery. It was mandatory to have an Ayurvedic graduate on the payroll.

Professionals were introduced into the business. Although, this was a time-consuming process, he continued to leverage his competence in expanding the customer base and the market.

Because of his entrepreneurial exuberance, the business received clearance from the authorities to secure approval to certain new pharmaceutical products. He used lean time in planning the execution.

The competitors could not muster as many licenses as Ayuvayur. They refrained from being a part of the “Udyog Mani”, thereby loosening the tactical opportunity of obtaining advanced licenses. Despite being in the pharmaceutical business, the competitors could only add three to five products to their business portfolios.

In case the licenses were cancelled, he had a back-up in the form of a series of loan-licenses from other companies and production would never stop. It was a smart move by an entrepreneur, inertly inbuilt to his attributes and apparent in his business model.

Ayuvayur had large competitors in its vicinity, but not as potential threats, since their product lines were narrow. Ayuvayur’s strategy was to produce as per market requirements. The firm believed in producing only those products which were in demand and not producing a product and then creating a demand.

Ayuvayur and Ayurveda

Widely regarded as the oldest form of health care in the world, Ayurveda is an innate medical system that originated in India thousands of years ago. The fundamentals of Ayurveda can be found in Hindu scriptures called, “Vedas” – the ancient Indian Books of wisdom in Hindu culture. The *Rig Veda*, which was written over 6,000 years ago, contains a series of prescriptions that can help humans in overcoming various ailments.

Ayurveda is a Sanskrit term made up of the words “Ayus” and “Veda”. “Ayus” means life and “Veda” means knowledge of science. The term “Ayurveda” thus means “the knowledge of life” or “the science of life”.

Ayurveda can be defined as a system that uses the inert principles of nature to help in keeping health sound. This is possible by keeping the individual's body, mind and spirit in perfect equilibrium with nature. The purpose of this system is to prevent illness, heal the sick and preserve life. Primarily, it is to protect health and prolong life. "Swasthya swasthya rakshanam" to eliminate diseases and dysfunctions of the body, "Aturasya vicar prashamanamcha".

Ayurveda promulgates that the universe is made up of five elements; air, fire, water, earth and ether. The representation of each element can be found in humans by three "doshas", or energies: "Vata", "Pitta" and "Kapha". If any of the "doshas" accumulate beyond the desirable limit, the body tends to lose its balance. Every individual has a distinct balance and therefore must maintain it. The primary objective of our health and well-being depends on getting a right balance of the three "doshas".

The eight branches in Ayurveda are:

1. "Bala" – pediatrics.
2. "Dramsta" – external wounds.
3. "Graha" – planetary related.
4. "Jara" – rejuvenation.
5. "Kaya" – internal medicine.
6. "Shalya" – surgery.
7. "Urdwanga" – E.N.T.
8. "Vrisha" – reproductory problems.

The aim of Ayurveda is not only healing the sick, but in preventing illness, at the same time preservation of life. Ayurveda is a "holistic" system of medicine. This means that it treats the person as a whole, not as a group of individual parts. Ayurveda is aimed at treating the mind, body and soul.

The Ayurveda-based pharmaceutical industry manufactures numerous Ayurvedic prescription drugs and consumer products. In addition, they also distill essential oils from pepper, clove, cardamom, etc. for export markets.

The industry consumes plant materials, which are sorted and processed in the factory premises according to traditional methods, as laid down in Ayurvedic medicinal prescriptions. Major raw materials used are dry herbs, green herbs, fatty oil and salt, minerals, liquids and sugar.

Ayurvedic pharmaceuticals capitalized on the traditional knowledge available on the science of health care. Their first product was "Beauty Improver", a skin care product. It was a market hit with the beauty conscious consumer. This vastly attracted competition and companies that had higher capabilities and capacity to imitate the product. A competitor manufacturer mirrored the product by reverse engineering, giving it a name "natural glow" but failed to capitalize any share of the market.

Ayurvedic pharmaceuticals had been constantly engaged in changing its plans as per market requirements. Apart from "Beauty Improver", Ayurvedic pharmaceuticals launched products for menses, constipation and cough. Their lead innovation was in producing the world's first body-odor capsules. There were only two forms of body-odor capsules available in the market, talum powder and (deo) spray.

Vinay strived to have solutions for killer-pneumonia (severe acute respiratory syndrome (SARS)). Because of bureaucracy and lack of professionalism on the part of government officials, it became difficult for him to obtain licensing and patents, that is where the process could not be put on market test. The laboratory had been engaged in conducting detailed research on human genomes.

The firms' knowledge management process had been tacitly defined. Each individual had been actively encouraged to acquire knowledge pertinent to his applications area. However, the challenge had been on branding their products.

Strategy to steer Ayuvayur

Vinay preferred debates, deliberations, and then resolutions. It occurred to him that if the managers connive to strategy making so easily, there is an organizational malaise. Strategic choices are intrinsically controversial.

Vinay depended on a coterie of friends who were also stakeholders and key persons in the business. Often, he would astound a debate and would intentionally generate conflict, even if artificially.

The strategic planning process is an intellectual debate and not a political fight. Hence, it should focus on ideas and decisions and not on personalities. A well planned social gathering over drinks or a meal can also go a long way towards smoothing ruffled feathers and creating a friendly tone. Yet, managing the tone is not enough; one has to be earnest about the role that plays in the conflict management process for it to be constructive.

The issue that insulated effective strategizing was the problem associated with lack of quality data required for a thorough examination of the strategic choices. Vinay had been conceiving the policy well, but could not have executed it fully because the data did not support deeds.

Being in a collectivist society and the importance of emotional values, Vinay, could not have retrenched those who had been with him for years since the inception of the unit itself.

Strategic management in Ayuvayur

Vinay sought to manage Ayuvayur strategically. He began evaluating and controlling the business and the industry. An assessment of the competitors and setting of goals and strategies to meet all existing and potential competitors was also undertaken. Reassessment of each strategy annually or quarterly to depict that competition based upon price differentiation or segmentation would be the best for the firm. Vinay had set up a managerial decision-making process and actions that determine the long-term performance of a business enterprise. It involved formulating and implementing strategies that should help in aligning the organization and its environment to achieve organizational goals.

Ayuvayur was seeded as a small and medium enterprise (SME) that should employ an entrepreneurial approach to strategic management. This is due to its comparatively smaller size and scope of operations, as well as possessing fewer resources with the firm.

Vinay still could not enhance the accountability of the business because he himself lacked knowledge about information technology. He neither had adequate finances to resource the use of such IT tools.

The entrepreneur and his business

Those who were friends earlier had grown to become stakeholders now. For Vinay, this was a welcome change, though management had become complex. He needed to strategize dynamically. He purported to be with the stakeholders but was at times concentrating on "corporate strategy". Corporate strategy is a combination of organizational decisions that evolve with the purpose of achieving an array of objectives important to the firm (Chen *et al.*).

Vinay was not munificent but he understood what generosity would do. Interconnectedness was always important for him. This gave him strength.

In order to lower the extent of control that the traditional stakeholders had on the Board Structure of Ayuvayur, Vinay started luring new investors. This provided a sense of professionalization to the Board and made the decision making more participative.

This time around Vinay was on a lookout for “innovations”. Ayurvedic could easily notify the new product. However, he had opportunities coming through collaborations. Vinay was not very keen on collaborations with small firms but he would collaborate with larger firms. Partnerships between new venture firms and larger established firms could be productive because of the complementary capabilities held by each. This would ensure exploration of, and exploitation of, societal resources well.

An Ayurvedic drug manufacturer could not have any negative externality associated with it. On account of this, Vinay seldom had a strategy, rather it had emerged as a challenge for him to set up a testing laboratory.

Any gradual decline in Vinay's atrophy could have been a setback for the firm. However, Vinay did enter into political circles to lobby and benefit.

Organizational structure

The structure was well defined (see Exhibit 1). There were three different departments represented by respective heads, technical, marketing, administrative and accounts. Vinay had an overarching interest in techniques and marketing. A general manager was appointed to give direction and professionalize the marketing department.

Issues related to Ayurvedic industry in India

While the industry is very receptive to innovation, the major challenges faced by the sector are many. Other than general problems like competition from other countries (in the case of Ayurveda, it is China), cost competitiveness and demand enrichment, investing in innovation and technology, it faces some unique problems like:

- availability of right and quality raw material, especially medicinal plants;
- standardization, and validation of Ayurvedic products as per the modern trials for selling larger market outside; and
- problems regarding the protection under IPR regimes.

Ruthless cultivation and forest destruction is of major concern. Since the demand for medicinal plants is derived from the demand for Ayurvedic medicines and related products, and mainly 80 percent of the Ayurvedic raw material consists of medicinal plants, the growth of Ayurvedic industry will consequently result in a similar increase in medicinal plant demand.

India supplies around 14 percent of the medicinal plants needed in the European Union herbal market. This shows that we have a comparative advantage in the collection and cultivation of some of the plants, while we have disadvantage in some others. As far as Ayurvedic medicines are concerned no such validation methodology has been used for generations together. Since the toxicity of the product is not known, the action of the product in the human body cannot be known and thus the modern medical community will not accept Ayurvedic product as a medicine.

Regardless of the form of herbal preparation, some degree of quality control (QC) is necessary. Currently, there is no organization or government body that certifies that a product is labeled correctly. Without proper QC, there is no assurance that the herb contained in the bottle is the same as that stated on its outside label. Currently, only a few manufacturers in India adhere to complete QC and good manufacturing procedures including microscopic, physical, chemical and biological analysis. In general, it is believed that if the active components of a particular herb are known, whatever forms the herb product is, the herb should be analyzed to ensure that it contains these components at an acceptable/standardized level.

The evaluation of the toxicity and adverse drug reaction of the herbal preparation has been a neglected area, as herbs are considered natural products and, therefore, safe. This lack of information makes it difficult to compare the benefit-risk profile of herbal medicines.

Standardization does not mean it is only for the products, but the collection, processing of raw material and the final product should also be standardized. Availability of the desired genotype of plant in the required quantity, free from toxic contaminants and with the desired therapeutic activity should also be critically considered. This issue gains relevance in the current context where many countries like the UK and Canada has banned Indian Ayurvedic products, with the allegation that most of these contain metal content, and similar allegations have been made about some products containing steroids.

Inadequacies in the intellectual property regime are of great relevance when community ownership and the secretive nature of traditional medicine is considered. In addition to this, in the case of traditional medicine, like Ayurveda, the grass-root innovations, which have high commercial significance, can be protected and equally shared is a major concern. Though we have some successful examples like Jeevani, at present, the requirements for protection provided under international standards of patent law and most national patent laws are inadequate to protect traditional knowledge and biodiversity. For example, traditional skills in manual and spiritual therapies are different from those in modern practice and there is no record of who was the inventor. Existing conventional patent law can and does protect pharmaceutical products. However, herbal medicines and herbal products are different from chemical drugs. The intellectual property standards established by the Agreement of Trade-Related Aspects of Intellectual Property Rights (TRIPS agreement) (1994) allows innovation to be protected by the discovery of new chemical components, know-how in producing the product, trademarks and trade secrets. However, for herbal medicines it is difficult to meet all the requirements of patentability due to their intrinsic characteristics.

First, herbal medicines are crude plant materials, such as leaves, flowers, fruits, seeds, stems, wood, bark, roots, rhizomes or other plant parts, which may be entire, fragmented or powdered. As such, it is often not possible to obtain existing patent law protection for herbal medicines by claiming the discovery of new chemical entities, which are novel, involve an inventive step and are industrially applicable. Second, herbal products are powdered herbal materials, or extracts, tinctures and fatty oils of herbal materials prepared by steeping or heating herbal materials in alcoholic beverages and/or honey, or in other materials. The production process is usually simple. There is no know-how or invention in the preparation process that is sophisticated enough to justify protection under existing patent laws. Third, except for pharmaceutical companies and industries, other holders of traditional knowledge, such as research institutes and practitioners, often do not have the financial and human resources that are necessary to obtain protection through trademarks. Fourth, it is extremely difficult, if not impossible, to keep knowledge a secret, because disclosure of the composition of the product is a prerequisite for registration of herbal medicines before the product can be sold.

Recent initiative of Government of India for small scale industries

Earlier, all the provisions related to the SSIs were part of legislation that was common for factories and industries alike. Later, the government enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 that defines a small enterprise as an enterprise where the investment in equipment is more than Rs 10 lakh but does not exceed Rs 2 crore. Bank's lending to the micro and small enterprise (MSEs) is reckoned for priority sector advances. As per extant policy, certain targets have been prescribed to banks for lending to the MSE sector. The targets for domestic banks and foreign banks are slightly different keeping in mind the limited presence of the foreign banks. The domestic commercial banks are expected to enlarge credit to priority sector and ensure that priority sector advances.

The banks have been advised to put in place loan policies governing extension of credit facilities for the MSE sector duly approved by their Board of Directors. Banks have, however, been advised to sanction limits after proper appraisal of the genuine working capital requirements of the borrowers keeping in mind their business cycle and short-term credit

requirement. Working capital limits to SSI units is computed on the basis of minimum 20 percent of their estimated turnover up to a credit limit of Rs 5 crore.

A composite loan limit of Rs 1 crore can be sanctioned by banks to enable the MSME entrepreneurs to use their working capital and term loan requirement through single window in terms of our master circular on lending to the MSME sector dated July 1, 2010. Cluster-based approach to lending is intended to provide a full-service approach to cater to the diverse needs of the MSE sector which may be achieved through extending banking services to recognized MSE clusters. A cluster-based approach may be more beneficial:

- in dealing with well-defined and recognized groups;
- availability of appropriate information for risk assessment;
- monitoring by the lending institutions; and
- reduction in costs.

The banks have, therefore, been advised to treat it as a thrust area and increasingly adopt the same for SME financing. United Nations Industrial Development Organisation (UNIDO) has identified 388 clusters spread over 21 states in various parts of the country.

As part of the financial sector liberalization, all credit related matters of banks including charging of interest have been deregulated by Reserve Bank of India (RBI) and are governed by the banks' own lending policies. With the enactment of the MSMED Act, 2006, for the goods and services supplied by the MSEMSE units payments have to be made by the buyers as under:

- The buyer to make payment on or before the date agreed between him and the supplier in writing or, in case of no agreement, before the appointed day. The agreement between seller and buyer shall not exceed more than 45 days.
- The buyer fails to make payment of the amount to the supplier, he shall be liable to pay compound interest with monthly rests to the supplier on the amount from the appointed day or, on the date agreed on, at three times of the Bank Rate notified by Reserve Bank.
- For any goods supplied or services rendered by the supplier, the buyer shall be liable to pay the interest as advised at (ii) above.
- In case of dispute with regard to any amount due, a reference shall be made to the MSEMSE Facilitation Council, constituted by the respective State Government.

A viable/potentially viable unit may apply for debt restructuring if it shows early stage of stickiness. In such cases the banks may consider rescheduling the debt for repayment, consider additional funds, etc. A debt restructuring mechanism for units in the MSME sector has been formulated and advised to all commercial banks. The detailed guidelines have been issued to ensure restructuring of debt of all eligible SMEs. Prudential guidelines on restructuring of advances have also been issued which harmonizes the prudential norms over all categories of debt restructuring mechanisms.

Viable/potentially viable MSE units/enterprises, which turn sick in spite of debt re-structuring, would need to be rehabilitated and put under nursing. It will be for the banks/financial institutions to decide whether a sick SSI unit is potentially viable or not. Viability of a unit identified as sick, should be decided quickly and made known to the unit and others concerned at the earliest. The rehabilitation package should be fully implemented within six months from the date the unit is declared as "potentially viable"/"viable". The rehabilitation package should be fully implemented by banks within six months from the date the unit is declared as potentially viable/viable. (Madhavan, 2007)

Imbroglia

The issues related to the Ayurvedic industry perplexed Vinay. Rapid challenges in internal markets were reasons to diversify into regional markets. At the same time opportunities for the firm in the regional markets of Asia and Europe were in abundance. The Indian Government

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intended to facilitate establishment of comprehensive R&D and testing laboratories. This would help in creating a lab where any manufacturer could get his product tested for quality and content. The lab would specialize in Ayurvedic- and herbal-based products.

Vinay was confused with the discovery of new drug which should be a permanent cure for SARS. Vinay wanted the drug to be tested in his own laboratory. He did not want the formula to be leaked out. He did not have the required finance to set up his own laboratory. He was not able to decide which way to proceed. If he agrees to the government, the formula for the drug would be exposed. If he does start on his own, he would instead have to abide by many formalities and government rules and regulations.

Does Vinay have the dynamic capability to strategize, based upon an innately designed decision-making process, one that is generic for the firm, way apart from the competitors, who would not even conceptualize such an imposed form of strategy?

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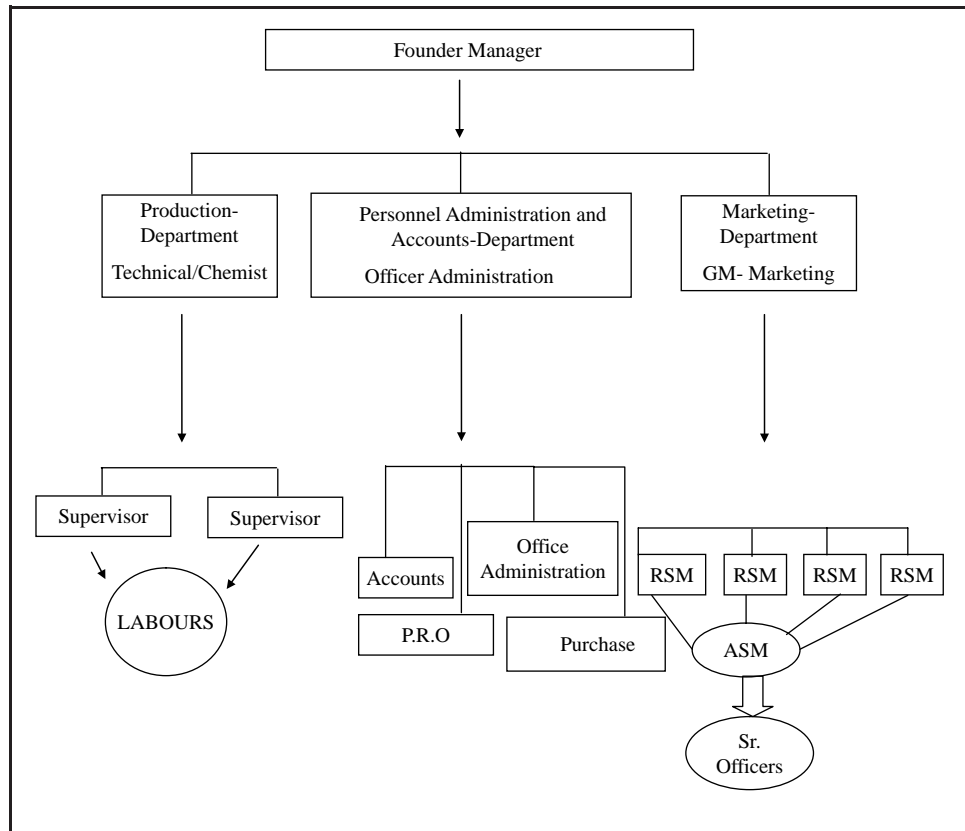
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Figure 1 Organizational structure



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