

E.S. Patanwala Afghan Beauty Products, Mumbai, India

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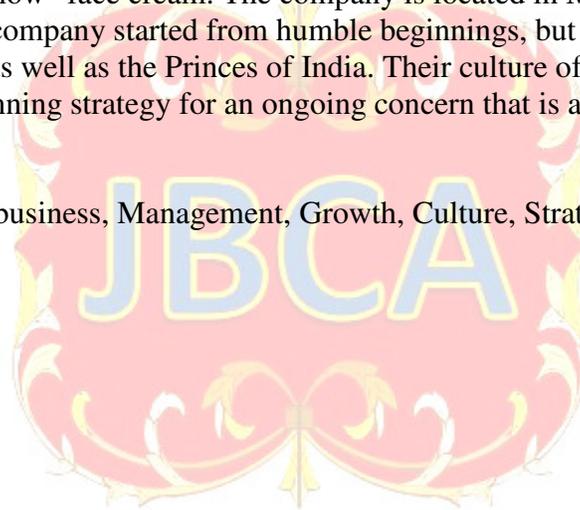
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ABSTRACT

Patanwala Afghan Beauty Products is a line of soap and skin care products that includes the legendary “Afghan Snow” face cream. The company is located in Mumbai, India. Established in 1909, the company started from humble beginnings, but soon enjoyed patronage from the English gentry as well as the Princes of India. Their culture of honest work, reliability and diligence was the winning strategy for an ongoing concern that is about to celebrate its 110th year in business.

Keywords: International business, Management, Growth, Culture, Strategy



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INTRODUCTION

India is a magic land of contrasts and surprises. Its people are both beautiful and self-deprecating, resourceful and daring, smart, as well as humble. The people have a gift of personality that sets them apart, and the land is beautiful, diverse and unique. While running a business in any country is complex, one should understand India and Indians if one is to ever make a profit there. Ideally, the business should be started by a local, but not just any local for a company of size and one that seeks a sustainable competitive advantage. Someone with the grit and business savvy of a Patanwala would have an edge over any competition. A legendary Indian business person began a company that is still operating one hundred years later.

In the company's website for their flagship product "Petals," one understands and appreciates the company's pride in their heritage. In the "About Us" section they write: "A young man by the name of Ebrahim Sultanali Patanwala (as indicated in Figure 3) set foot in Bombay in the early 20th century leaving his humble home in Jhalra Patan, a small principality in Rajputana (Current day state of Rajasthan). He found a job with a perfumer and picked up the rudiments of blending perfumes. Astute work, sincerity, honesty, diligence and good fortune paved the way for the start of a new business. He started manufacturing hair oil called "Otto Duniya" and over time it became quite successful. Very soon he started his own laboratory and office in Bombay. He established Messrs. E.S.Patanwala in 1909 and started selling oils and perfumes, some of which were imported. With growing expertise, his perfumes and oils grew in popularity. His creations gradually drew patronage from the English gentry and princes of India. Maharaja Jhalawar, Maharaja Patiala, Maharaja Gwalior and Maharaja Kota became a part of his choice patrons. Ambitious for greater success led him through Europe and in spite of a rudimentary knowledge of English; he established contact with the largest maker of aromatic chemicals in the world, Leon Givaudan of Switzerland. With their training and guidance, he developed a face cream that was to become a household word for skin care in India." (Patanwala, 2018)

Generations of such entrepreneurial Patanwalas can be found to this day in Mumbai. In an article for The Indian Express, writer Mohammed Thaver (2018) wrote: "This quiet, leafy road to the north end of the Byculla Zoo seems an unlikely home to a cosmetics giant, a brand that once sponsored the Miss India beauty pageant and roped in top women actors to endorse their products. E S Patanwala Road is in fact named after Ebrahim Sultanali Patanwala, creator of 'Afghan Snow' (as indicated in Figure 2), advertised then as 'India's first and foremost beauty cream'.

Launched in 1909, it would go on to become a one of the most popular household beauty cream brands through the 20th century. The product was manufactured in India, along with a Swiss aromatic chemical manufacturer and unwittingly named by an Afghan king.

Today, two buildings — the Patanwala building where the product was manufactured and Patanwala Mahal where the family resided — still stand on the road as testimony to the time when the company churned out cartons of the popular product from that location.

It continues to manufacture Afghan Snow. Sameer Patanwala (2018) has gathered details about the glorious past of the brand and uploaded it on their website. "Patanwala left his home in Jhalra Patan at the beginning of the 20th century. He started out blending perfumes and manufacturing a hair oil called 'Otto Duniya'. He was quite successful in it and soon established contact with Leon Givaudan of Switzerland, the largest maker of aromatic chemicals in the world and developed a face cream. The bottle for the cream was imported from Germany and

labels came from Japan,” Patanwala (2018) says. There is also a tale about how the cream came to be called Afghan Snow.

“King Zahir of Afghanistan had convened an audience with Patanwala along with a few other select entrepreneurs on his visit to India. The king was presented a hamper with all Patanwala products; and the pearly white cream was in a jar without a name. When the king saw the cream, he remarked that it reminded him of snow in Afghanistan. Patanwala then asked if the cream could be named ‘Afghan Snow’, a request the king agreed to,” Sameer Patanwala (2018) says.

In fact, in its initial years of production, the packaging mentioned the connection with the King of Afghanistan. Curiously, initially during the Swadeshi movement, Afghan Snow got listed as a foreign product and was boycotted. E S Patanwala then contacted Mahatma Gandhi and informed him that it was actually an Indian product, being manufactured in Byculla near the Victoria Gardens in Bombay. “It is then Mahatma Gandhi wrote in his newspaper that we boycotted this product, but this was a wholly Indian product and we appreciate that such a nice product is from India and he endorsed the product,” Sameer Patanwala (2018) says. Such was the reputation enjoyed by Afghan Snow that it sponsored the first Miss India pageant, won by Indian classical dancer Indrani Rahman. The Patanwala family no longer resides on the ES Patanwala Road. Sameer, a fourth generation Patanwala, involved in the venture, now operates from Abdul Rehman Street in south Mumbai. “There was a major fire at the manufacturing unit in Byculla after which we moved it to Ghatkopar and then to Ankleshwar. Even today we produce Afghan Snow and we are soon planning to re-launch the cream.” (Thaver, 2018)

PATANWALA AFGHAN BEAUTY PRODUCTS

E.S.Patanwala is a pioneering name in skin care products since 1909. Patanwala Afghan Beauty Products was started because Mr. Ebrahim Sultanali Patanwala had learned the trade first hand as a young man and had forged a relationship with the largest maker of aromatic chemicals in the world, Leon Givaudan of Switzerland. With their training and guidance, he developed a face cream that was to become a household word for skin care in India. Sameer Patanwala, age 45, the great grandson of E.S. Patanwala, now runs the company and has added a brand called *Petals* which includes a diverse line of delicate soaps. (As indicated in Figure 4)

HOW IT BECAME A ONE HUNDRED-YEAR-OLD SUCCESS STORY

The company’s success was the result of outstanding interpersonal skills and relationships, the paternalistic care of employees, the honest dealing with suppliers and distributors and the trust from the customer (as indicated in Figure 1). Sameer had learned well from his business school education and more practically, from his father and uncle who ran the business before him. Although many of the theories involving motivation, strategy and management control he learned in school were useful, his father’s and uncle’s examples of standing tall during challenges and uncertainty, as well as the importance of personal relationships with suppliers and distributors were perhaps even more important. He could not do anything that did not enhance the image that his great grandfather, father and uncle had established in a land of 1.35 billion people (Indiaonlinepages.com, 2018).

CORPORATE CULTURE

E.S. Patanwala's corporate culture is relationship oriented. The importance of reputation and honesty have been ingrained from generation to generation. Each executive has been careful to nurture the relationship with each customer, supplier and distributor. Positive organizational cultures are known to strengthen company performance (Dizik, 2016). The Patanwala's have been savvy negotiators, but their belief was that savings could not come at the expense of squeezing suppliers into bankruptcy. Motivation was important for employees and management; money as a motivator had proven results for structured and routine jobs and tasks, while more intrinsic rewards such as recognition and autonomy had a greater impact for jobs where cognitive ability, intelligence and creativity were necessary. Positions of leadership in the company were staffed primarily by trusted family. A younger cohort was responsible for technology and information systems. India was still bureaucratic, corrupt and a difficult country for business, even though advances had been made. In addition, workers didn't have the same work ethic that a business would expect in Japan, Germany or the U.S. While the U.S. was listed 2nd in the ranking of the 2017-2018 Global Competitiveness Index (World Economic Forum, 2018) India was 40th. The Trump Administration's disastrous trade war was threatening the U.S. ranking, but India wasn't on a fast track to number one any time soon.

BUSINESS STRATEGY AND DECISION-MAKING

Sameer Patanwala's broad smile was etched in the DNA of the Patanwalas. An optimist, like his great grandfather before him, and like his uncle Ebu, who had recently retired but had trained Sameer Patanwala after his return to India from the United States. Sameer led the business by sheer attention to detail and long-established relationships with distributors throughout India. This business model had held the company through prosperous and difficult market cycles at a time when India was closed to outside industries. Today India had become hip, and much as China had become the "go to" destination for business due to its promise of the largest population, India was now the "new China." There were now new potential threats to the business from outside firms. Sameer gathered his management team at the always warm (despite the air conditioning), dark, wood-paneled modern conference room. After much discussion, the last words from Sameer to his management team were: "We need to decide in what kind of business we want to be, whether by maintaining the status quo while protecting our brand from competitors foreign and domestic, or by expansion beyond India in this new global marketplace. We have created a good brand with a loyal customer base and that is worth a lot, even to potential buyers from abroad. I want a list of proposals and ideas by the end of next week, when we will meet to decide our future." Patanwala is asking his management team to decide between the grand strategies of growth or stability strategies (Pearce, 1982).

Using the research work of Geert Hofstede TM (as indicated in Figure 5), India scores very high in Power Distance and in Long-Term Orientation in comparison to the United States. This suggests that Indians rely on supervisors for leadership and decision-making and doesn't reward individual achievement as much as business does in the United States. In looking at Long-term Orientation, India prefers a balance between change and reliance on past traditions and norms while the United States is more change-oriented. The United States is viewed as being a culture of Indulgence, weak control over personal desires and impulses, while India is one of Restraint, resulting in doubt,

pessimism, and acceptance of limits imposed by social norms. While India and the United States might share a common language and past ties to the United Kingdom, our cultures are different and businesses reflect their individual culture. (Hofstede, 2018)

EMERGING MARKETS RISK

India has the world's third largest GDP (Gross Domestic Product) at \$4.7 trillion and has the world's second largest population with 1.2 billion inhabitants. This sheer volume of customers has the potential to remake the global retail landscape. India has a history of being a poverty-stricken land and while there are still abundant areas of misery, India's economy has been greatly stimulated. (Monahan, 2015)

Despite its tremendous potential and promising forecasts, India is still an emerging market, subject to instability. India's rupee slid to an unprecedented low in September 2018. (The Economic Times, 2018) Headlines such as the depreciation of the rupee are a daily preoccupation for international executives since it almost always means lower revenues, unless one is importing a product from a country whose currency devalues against the home country's currency. While the United States isn't the least corrupt country in the world, we are currently 16th according to Transparency International, an agency that ranks all countries based on a strict standard of what constitutes corruption, India is 81st on that list. (Bloomberg BusinessWeek, 2018) Note: [The informal sector in India is large, and since it is informal, it is difficult to estimate its percentage of the Gross Domestic Product, but by some estimates it could account for almost 50%, it also accounts as much as 75% percent of the people employed. Rankings often underestimate the informal sector. When this occurs, corruption could be much higher than reported.] Corruption and government regulations take a toll on businesses and executives in India and highlights the obstacles of some Emerging Markets. If one imagines a theoretical business that creates a solution that fixes tire punctures of tire inner tubes: the roads are bad, there are many flat tires and business is good. Now imagine you have 300 people working for you and being a good boss, you pay your workers well and give them hefty bonuses. Then the Government starts improving the roads and at the same time tubeless tires are introduced and as a consequence your sales drop. The labor laws in India are such that if you have over 100 workers then you cannot lay off your workers or furlough them. The government will not allow you to close down either (unless you declare bankruptcy) so finally you go bankrupt and if unable to pay the workers their due, you end up charged as a criminal and you go to jail. If your firm had more than 500 union workers, the government would raise the excise tax 122%. That puts the product out of reach of your low-income customers and substitutes infiltrate the market at ¼ the price (possibly allowed by corruption). Since there was no way to reduce the workforce and adjust to current production, you had to give extremely lucrative deals to get some employees to resign or had to wait for their retirement. You had to borrow at a high interest from the market because, while financial liability was a civil offense, worker's liability was a criminal offense. You learn your lesson that it's too risky to expand and hire more workers, and that one is better off with contract labor. These regulations mean that one is better off keeping the business under 100 employees. Corruption is rampant and bribes for services are common. A company such as E.S. Patanwala may face pressure to pay up for getting formulae for the products approved by

the Drug Dept. (India's Federal Drug Administration) or to get a clean chit for the manufacturing plant from the Pollution and Control Board. Property for any business that needs to be officially transferred to the new owner/tenant can take years to process. Using the research work of Geert Hofstede™ (as indicated in Figure 5), India scores very high in Power Distance and in Long-Term Orientation in comparison to the United States. This suggests that Indians rely on supervisors for leadership and decision-making and doesn't reward individual achievement as much as business does in the U.S. In looking at Long-term Orientation, India prefers a balance between change and reliance on past traditions and norms while the United States is more change-oriented. The United States is viewed as being a culture of indulgence, while India is one of restraint, resulting in doubt, pessimism, and acceptance of limits imposed by social norms. While India and the U.S. might share a common language and past ties to the United Kingdom, our cultures are different and businesses reflect their individual culture.

THE CURRENT STATUS AND FUTURE OUTLOOK OF THE GLOBAL BEAUTY AND PERSONAL CARE MARKET

The global beauty and personal care products market size is anticipated to reach USD \$716.6 billion by 2025, registering a Compound Annual Growth Rate of 5.9% during the forecast period. (Dublin Global Newswire, 2018) Key findings are:

- The demand for the beauty and personal care products market is expected to increase owing to rising aging population and growing consciousness to maintain youthful skin and a good appearance. The skin care/sun care segment is expected to register the highest CAGR (Compound Annual Growth Rate) of 6.2% over the forecast period.
- The U.S., China, Japan, India, and Mexico are expected to witness considerable growth over the forecast period owing to robust industrial development and extensive urbanization.
- The key players in this market include Avon Products, Inc.; Beiersdorf AG; Coty Inc.; Kao Corporation; L'Occitane International S.A.; L'Oréal Group; Procter & Gamble; Mary Kay Inc.; Shiseido Company, Limited; Unilever Revlon, Inc.; and The Estee Lauder Companies Inc.

The Asia Pacific market accounted for the largest share of the market in 2017 and it is expected to witness a significant gain in revenue share over the forecast period on account of its large population and the popularity of the e-commerce distribution channel across various industries in this region. Additionally, Japan, China, and **India** are expected to be the key contributors to the growth of the organic products segment in the region over the forecast period. (Research and Markets, 2019)

The graphs in Figures 6 and 7 show the importance of India in the personal care market. Eighth in the world, the Indian market rivals that of France. In addition, the preponderance of hair care products as well as oral care could be product ranges that Patanwala could exploit to grow the market. (Statista, 2019)

SUMMARY

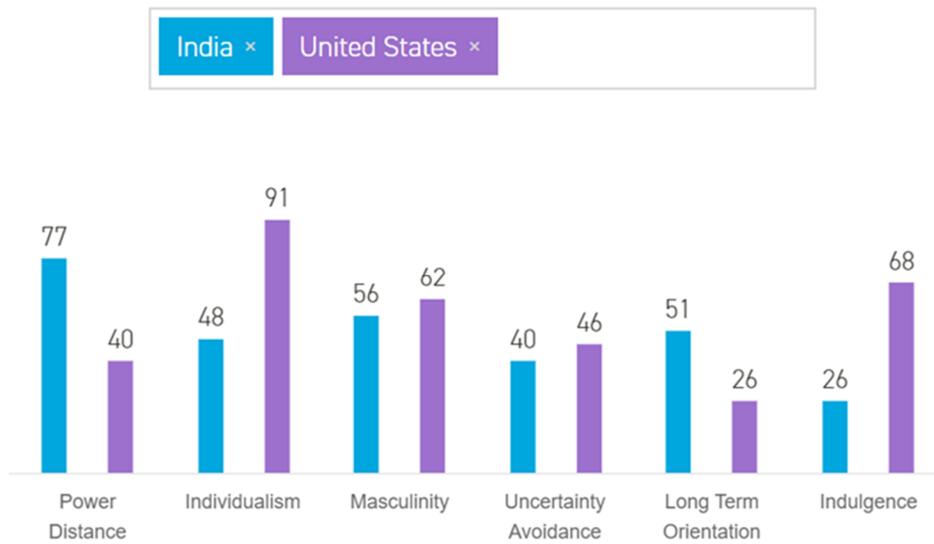
Patanwala Afghan Beauty Products has been successful because of their intimate knowledge of the local business environment, an understanding of the cultures in which they operate, and a strategy of growth based on differentiation.



(Figure 4) Company Founder Ebrahim Sultanali Patanwala



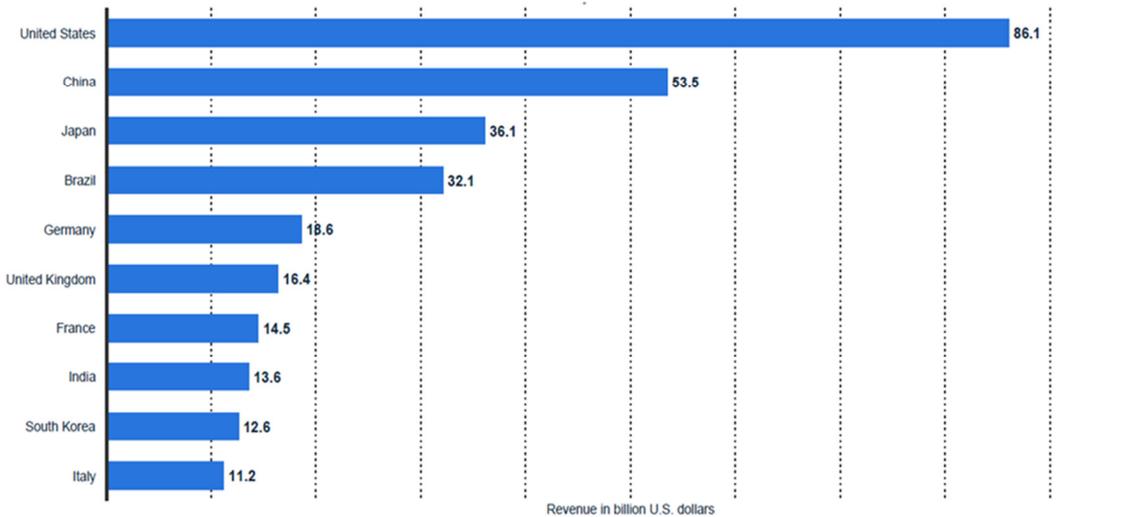
(Figure 5) India Culture compared to United States Culture (Hofstede-insights, 2018)



(Figure 6)

Leading cosmetics, fragrances and personal care products markets worldwide in 2017, by revenue (in billion U.S. dollars)

Leading cosmetics & personal care products markets worldwide 2017, by revenue



Note: Worldwide; 2017
 Further information regarding this statistic can be found on [page 32](#)
 Source(s): Euromonitor; ABIHPEC; [ID 717673](#)

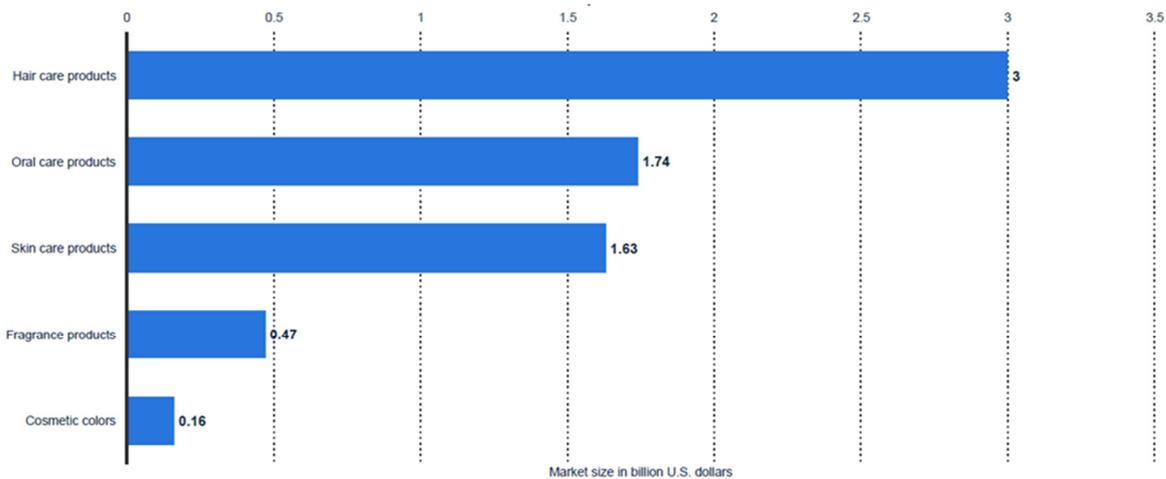
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[Global overview](#)

(Figure 7)

Market size of the cosmetics industry across India in FY 2016, by category (in billion U.S. dollars)*

Market size of the cosmetics industry in India FY 2016 by category



Note: India; FY 2016; India's financial year starts in April and ends in March. For example, FY 2017 started on April 1, 2016 and ended on March 31, 2017.
 Further information regarding this statistic can be found on [page 37](#)
 Source(s): Redseer; [ID 576645](#)

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[Indian market](#)

Is a successful family business in India applicable to the U.S.? Patanwala is in an enviable position to market to the Asian-Indian American population, both with the right products and their knowledge of the culture. Based on the last Census the Asian-Indian American population is now the third largest Asian-American subgroup. (Chacko, 2019)

1. Using Porter's Strategy Model, what business strategy has worked for Patanwala Afghan Beauty Products?
2. Sameer presented two future options to consider: protecting the value of the brand along with fighting off competitors or growth outside of India. What aspects of the company's past and its culture would support each option? Considering Porter's Strategy Model, are there any other options that should be considered?
3. How can Sameer determine the value of the company's brand in the United States? What product characteristics drive customer demand for skin cream products in the United States? What is the role of the FDA (Food & Drug Administration) in overseeing cosmetic products?

You are in the company's Management Team. What do you recommend?

1. Maintain the status quo of a business working well, why is growth desired or necessary? Why change what has been successful for 110 years?
2. Find a U.S. distributor(s) to expand the company's reach and find a large market. Does the product have a reach beyond the Indian-American market in the U.S.? How could it be marketed to the general population in the U.S.? Could the company offer very good quality products at a very low price? (There is nothing unique about soaps, shampoos and creams, they are primarily a commodity).
3. Find U.S. investors to provide the capital to expand the company's marketing and market within India.
4. Sell the brand, good will, factory and distributor network to a company such as Shiseido or other similar competitors who would be interested in the lucrative and expansive Indian market. The company has many desirable advantages for a foreign company, because they would already have all the licenses in place and also a ready production unit. The company is known for technology that makes outstanding transparent soaps that are in high demand throughout the world and are expensive to make in the western world.
5. Expand into hair care and oral care, the most sold personal care items in India.

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TEACHING NOTES

1. Cultural Issues – Instructors may want to stress the cultural differences between the two regions. For example, the U.S. tends to be more individualistic in nature, while India tends toward focusing on the community. India also has a much higher power distance stand than the U.S.
2. Strategy – Present Porter’s Strategy Model and identify which strategies are demonstrated in this case and what strategies are used by major companies in the cosmetics field such as L’Oréal, Unilever, Ponds, Cetaphil, Gar Laboratories, or Renova.
3. Political Environment-- Have students research and discuss the Swadeshi movement and how politics can affect a business. How does corruption impact Indian businesses?
4. Challenges unique to Emerging Markets—The rupee just plummeted against the U.S. dollar in September 2018. How will that affect the company and its future plans?
5. Shipping Costs/Issues—Shipping costs to get product to distributors continue to increase. The distance from Mumbai to Ludhiana in the Punjab, for example is 1,100 miles. How can the company keep these costs under control?
6. Marketing—Direct to consumer marketing and personal sales (party-plan, network marketing and multi-level marketing) are widespread in India (as well as in the United States). Should the company consider an independent distributor network similar to Avon’s or Mary Kay’s?