THE COMPETITIVENESS PROGRAM (TCP)

A Sri Lankan Case Study of Firm-Level Competitiveness

Ceylon Biscuits Limited

Shehara de Silva & Christine Dias Bandaranaike

SUBMITTED TO
USAID/Colombo

IN RESPONSE TO
PCE-I-0098-00016-00 Task Order No. 841

SUBMITTED BY
Nathan Associates Inc.
J.E. Austin Associates Inc.

June, 2006

A Sri Lankan Case Study of Firm-Level Competitiveness

Ceylon Biscuits Limited

Colombo, Sri Lanka

June 2006

Prepared by:

Shehara de Silva

Christine Dias Bandaranaike

A study prepared for The Competitiveness Program (TCP) – a US Agency for International Development (USAID) funded project in Sri Lanka, implemented by Nathan Associates Inc. and J.E. Austin Associates Inc.

Acknowledgements

The authors would like to thank Mr. Mineka Wickramasingha Chairman Ceylon Biscuits Limited for allowing CBL to serve as our second case study under this project. Mr. Sunil Costa. was very helpful in coordinating the scheduling of interviews at CBL. We thank the CBL board members and staff for cooperating with our efforts. All our interview candidates (See Appendix) gave of their time most generously and spoke to us frankly of their experiences. We are also very grateful to our external interview candidates who helped us immensely by providing sometimes both an outside view and an historical perspective of the company.

We would also like to express our gratitude for the support of the staff and consultants at The Competitiveness Program (TCP). Finally, we are indebted to Jagdesh R. Mirchandani of TCP for critical reading and logical guidance towards the finished product contained herein. In all respects, this study would not be in the form it is in today without Jagdesh's support.

Contents

List of Figures

List of Tables

Executive Summary

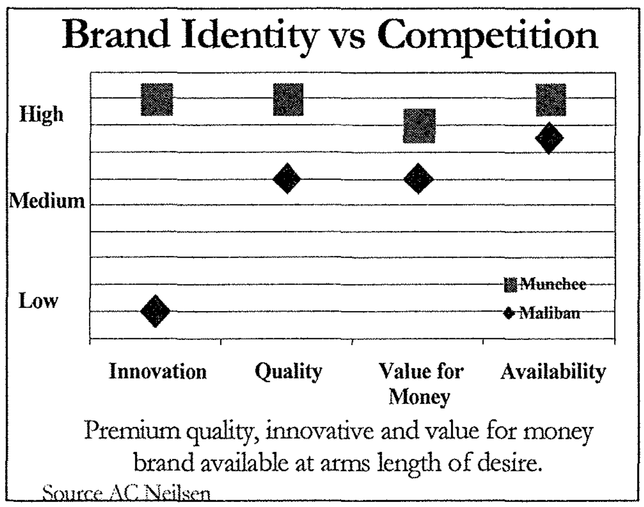
This is a classic tale of a market war that must surely go down into the annals of marketing history in Sri Lanka and be standard reading for business students. It is the saga of the decline of Maliban, one of the country's most iconic brands and the market leader in the biscuit category, and the stellar rise of Munchee, its underdog competition. As a sub plot, in the chocolate category, the legendary local brand of truly international quality, Kandos, plunges in market share and quality after the mysterious death of its founder and subsequent chaos of family battles for management control. Ceylon Biscuits Ltd (CBL), manufacturer of Munchee products, steps into the fray of the chocolate market with the Ritzbury brand, which now stands well poised to wield market leadership away from the number one brand Edna. While elements of luck and fortuitous circumstance play a role in any success story, in no way do they take away from the long road to victory that CBL has traveled.

Upon scrutiny, a familiar pattern emerges in the case of both Maliban and Kandos. We begin with family businesses founded on strong technology and a great product - as good as any in its category anywhere in the world. The pride of the nation, these were indisputable market leaders in one-horse races, controlling more than 80% of their respective market shares. Then corporate leadership tussles arose, clouding each company's true focus, creating an opportunity for their competition to gain a strong foothold in the marketplace. However, though brand equity has eroded for these two former market leaders, there is loyalty amongst consumers over 40 years of age for whom these brands evoke a sense of nostalgia for childhood and a bygone era. Both brands have shown great resilience to utter mismanagement and the travails of poor succession planning in family empires.

Today the biscuit industry in Sri Lanka is over 55,000 metric tones and worth about Rs. 8.5 billion[1] (US dollars 85 million). Innovation is at its peak, better products continue to emerge and several rural and suburban brands have recently entered the market with good packaging and quality products and have niche volumes of under 1%. Now some 49 brands constitute 15% of the market. The industry framework is still duopolistic with two brands owning 85% of the market.

Since the mid nineties the Munchee brand has stolen 30 market share points away from Maliban and stands ahead with an approximate 53 percent share. A 36 year old company that initially had a whole spate of product and packaging issues to get right, Ceylon Biscuits now produces world class biscuits of undisputable quality, and is growing with maturity and a strong sense of social responsibility. Vibrant, often clever, memorable communication that speaks of ear to the ground consumer insights characterize the company, and indicate that Munchee is above all rooted in the market. Munchee, which has the strongest distribution with a retail penetration of 95,000 outlets (on par with Sunlight and Anchor - two of the nation's flagship brands), dominates category visibility and is now sprouting an aura of a heritage brand.

CBL entered the chocolate market in 1991 with the Ritzbury brand and is yet at its early growth phase. Strategy here was more flanking and niche, initially building tremendous momentum with continuous innovation and product proliferation in chocolate enrobed[2] and filled products, including chocolate wafers, biscuits and other specialty products.



Premium quality, innovative and value for money brand available at arms length of desire.
Source AC Neilsen

[1] AC Nielsen
[2] "Enrobed": Technical term to refer to a confectionary encased in a coating – often chocolate.

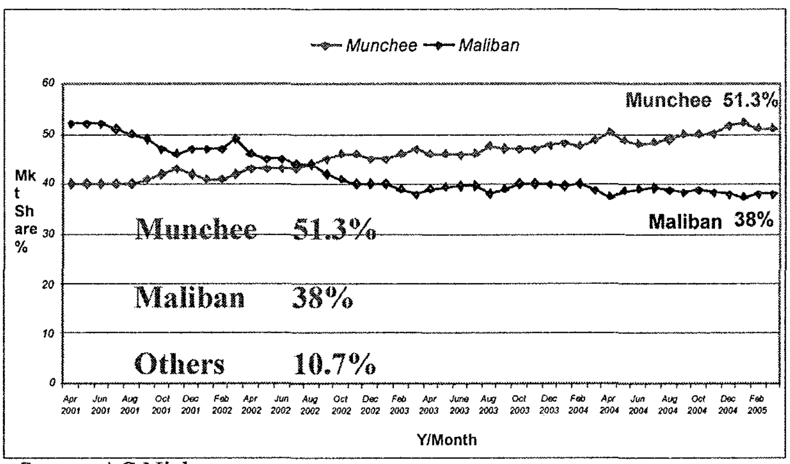
CBL is the only local chocolate manufacturer that processes chocolate beans with state-of-the-art equipment and achieves 100% air tight packing that is unique in the market. It is also the only local chocolate manufacturer that produces all its chocolate products totally in-house - (does not subcontract any part of the production – e.g. in coated wafer/biscuits).

CBL has now beaten Kandos to second place and now intends to concentrate on the dominant bar/slab segment of the market. At the high end, CBL's hand made chocolates are of excellent quality. It also has a strategic partnership with Ferrero, an international family-owned and managed confectionary company, to pack the *Tic Tac* brand for entry into India.

February 2005

VOLUME MARKET SHARE

TOTAL BISCUIT MARKET



Source:AC Nielsen

CBL's success factors

The following are some of the key factors that helped Ceylon Biscuits over its 36 year history to build the business to its present day stature.

Leadership

The interesting dynamics of the duality of CBL's leadership is a defining feature of its leadership model. M.P. (Mineka) Wickramasingha, CBL's present Chairman has always possessed the far sighted vision, business acumen and courage required to lead, take risks and make decisions. He is and has been the company's driving force or energy and has brought into the company the ideas, the networking and the strategic partners. His brother R.S. (Ramya), Deputy Chairman, soft spoken and gentle is the implementer who creates the products and manages manufacturing operations, with a focus on product excellence and quality.

Mobilizing others was a two pronged approach: the Chairman created the pressure and the drive, the Deputy Chairman carried through the detail, inspiring loyalty, commitment and quality consciousness. CBL has rarely been about just chasing results. Getting it right has been more important than getting the money in, so continuous improvement and innovation has been a shared pride. It is interesting to note there are no tensions apparent between the two brothers' families. Chairman Mineka Wickramasingha's two daughters, also fully qualified in biscuit and food technology, have entered the business and they in turn have complementary and polar personas - soft and tough.

Leveraging Partnerships

From his very first deal, which won him the CARE nutritional biscuit contract, Mineka Wickramasingha has been keenly aware of the power of relationships, particularly the need for transfer of technology and skills through strategic partners and other links. He initially tied up with Associated Biscuits Ltd (ABL) in 1981 and garnered Huntley and Palmer technology and knowledge on cracker manufacturing. Nabisco, which bought out ABL, continued to help CBL with technology transfer and several Italian and other machine suppliers have helped with new product development. Ferrero Rocher is now in a collaborative venture with CBL and no doubt similar business relationships further partnerships lie in the future.

Courageous and Audacious Pursuit of Goals

For decades Munchee was fired by a dream - to beat Maliban and become number one. On reaching this goal Munchee very successfully incorporated the victory into the company ethos as part of its pride in being the crowned and reigning leader. All advertising now carries a crown on top of the distinctive red yellow and grey oval Munchee logo. The number one position is further reinforced through increasing accolades, market awards and recognition - all treated with great fanfare. The culture of winning is now a defining characteristic and driver of morale. Munchee and CBL have the almost indomitable spirit now of saying "good is never good enough". *Stretch* goals with compounded growth in double digits are now expected and constantly set.

Strong Employee Relations

In a country rife with disenchanted workers grappling with galloping inflation, and disparity of middle-class incomes CBL employees are content, motivated and genuinely proud to work for the company and Munchee. They have been made to feel an integral part of the success. The Chairman's legendary tough stance on union activity in the problematic 80's, and more recently in 2001, and his leadership and participation on the factory floor to ensure orders were fulfilled left their mark. Charismatic leadership of the Chairman who is both loved and feared is balanced by a deep respect for the accessibility and fairness of the Deputy Chairman. Respect and credibility are high. Success breeds success and the strong bonuses and incentives of three to five months pay have added to the contentment of workers - but current labor loyalty is deeper than financial stability, and will be the bedrock of continued aggressive growth. Human Resource activities that now bond employees, such as innovative career counseling days for children and the Munchee Shishyadara scholarships to the poor and deserving, along with high market visibility help create the sense of "apey ma deyak"(ownership).

Delegation

Family businesses frequently suffer from a control fixation, where all decisions are made by family members. As a result, professionals hesitate to join for fear of becoming disempowered lackeys to a paternalistic culture. However as success has bred comfort, CBL has learnt to empower motivate and delegate key directors. Mineka Wickramasingha has picked good players. Displaying an intuitive knack for avoiding "high flyers" and "prima donnas" he has chosen those that are quiet workers, ideas people, talented, committed and occasionally idiosyncratic. Directors have demonstrated an aptitude for consistently identifying and recruiting capable and committed professionals, whose decisions they have generally respected and fully supported. While maintaining a clear command and control structure, they are open to input from professionals on key business issues. Most importantly, they are able to impart to all employees a genuine sense of pride for their achievements and recognize their contribution to the company's success.

Innovation

CBL's innovation has been multi pronged. In the area of product development, for instance, the idea of broad basing the *puff* category with chocolate cream is simple and obvious while yet opening a whole new segment. Packaging sizes were changed to address the issue of disparate disposable incomes. CBL developed 100gm packs at low cost across its range, introduced "tikiri packs"[3], odd sizes like the 130 gm super cream cracker and the 80 gm ginger biscuit and economy cracker packs of 500gm to replace the 2kg one so as to retain freshness and offer value for buyers such as factory workers, large families or chummeries. Putting a dash of flavour into the super cracker, developing the combination of *crumbly to the bite yet melt in the mouth sensation*, attempting to put vitamins that don't lose their potency when baked, and positioning for a small hunger (Podi badaginnata) as a bridge or means to stem hunger and skip a meal, made up an innovative communication campaign that showed sensitivity to changing consumer habits.

Using the cracker type formula for the puff was another brilliant move, as was the introduction of various shapes of cookies. i.e. 'Cookie Dane' (Wire cut, deposited & molded). One of the turning points for Munchee was the use and investment in innovative packaging - e.g. the use of metalized wrapping material that minimized UV penetration, eliminated rancidity, and was a better water vapor barrier, to better ensure freshness and achieve longer shelf-life in Sri Lanka's humid climate. A further packaging improvement was the use of "pillow pack" technology, which uses only 2 seals per pack, ensuring air-tightness.

Market innovation is often about finding solutions to meet imagined or real consumer needs – such as price points, tastes, and consumption patterns. CBL's marketing function works closely with production and sales to anticipate and influence consumer choice. This collaboration is perhaps mostly visible in the chocolate market where the company constantly strives to match imported international products and brands with

---

[3] For little children

equally good, affordable local products- e.g. Pebbles Vs Smarties/Gem, Chit Chat Vs Kit Kat and Go Nuts Vs M&M

Technology

The company is acquiring increasingly sophisticated technology and investing in capacity expansion. These include new technologies to produce high quality cream, and achieve an even spread of cream for all cream biscuits, metal detectors on lines to detect/reject metal contamination, metalized wrapping material to ensure freshness and a state-of-the-art line from Italy for higher productivity. The company recently transferred some machinery of average quality from its Indian plant to bridge production gaps in Sri Lanka, which is not consistent with the company's pursuit of quality excellence and is hopefully a short term stop-gap decision.

Communication and Marketing

Munchee has some of the strongest market penetrations of any product, Its products reach 95,000 outlets, over 45% of them at least twice a month. This has been one of the pillars of the product introduction success it has enjoyed. Integrated and often brilliant marketing communication has been a hall mark of Munchee brands in particular. Landmark campaigns such as Super Cream Cracker – 'Podi Badaginnata Super[4]' the Lemon Puff – 'Athi Vishishtai Sir![5]' – Ginger – Mood Fix Karanna Maru Inguru[6] – and the whole series of tikiri marie ads for instance the Tikiri Marie – 'Kohomada Tikiri Mole[7]' – First day in School, all provide compelling examples of how Munchee has been able to thoroughly capture its target audience.

There has been little real pressure on CBL's sales and marketing areas as the company has been more held back by capacity limitations (demand exceeded supply) - now being addressed, although marketing has undoubtedly garnered many accolades along the way. The company has also embarked on a strategic exercise of umbrella branding with its corporate brand campaign -'A Crowning Success' - an excellent strategy to bind its vision of being number one and ride the crest of that achievement to convey a message of dominance to the still strong brand equity of Maliban.

[4] Great for the small hunger
[5] Superlative Sir!
[6] Ginger is a mood fix
[7] How's the tikiri (littlie) brain

Today Munchee stands with the vision, will, strategies and some resources in hand, to achieve its dream of becoming Asia's #1 brand. The first outpost, India, has the world's largest middle class, although highly fragmented and complex. Though CBL's first joint venture entry into India was abortive, the company has learnt some lessons and is now attempting a different market model with direct investment into India, buying a former #3 player in biscuits, Bakemans, complete with factory equipment and employees.

The Maliban and Kandos brands may yet live to grow supreme once more or perhaps be bought over and given a second life. This case study however is not of them. It chronicles the characteristics of the victor, so that benchmarks are made and lessons learnt.

1 Background

The hallmark of any successful business is its competitive performance in the markets it operates in and its capacity to deliver continuous bottom line growth. Theoretically, best practices, capacity to innovate, strategic intent and vision, ability to attract good people, facility to leverage core competencies and clearly defined competitive advantage are characteristics often said to make a difference. This study undertaken by The Competitiveness Program of Sri Lanka (TCP) and funded by the Agency for International Development (USAID) attempts to look at the evolution and characteristics of a successful Sri Lankan business, and understand the external context, such as policy, and the internal drivers that made this success possible.

Sri Lanka was the first market in South Asia to open its economy. In many dimensions, its performance has been paradoxical; high quality of life with low levels of productivity, high literacy and education with low levels of graduate employment, high political and ethno-civil instability with a democratic system of governance and relatively progressive macro-economic policies hampered by dysfunctional infrastructure implementation. A study of Sri Lanka's international competitiveness seven years ago concluded that while the country's overall economic performance was above the Asian average (Sri Lanka's score was 80 against the score of 73 for Asia - excluding Japan and NICs) its international competitiveness index was much lower than the average for the same Asian group of countries (Sri Lanka's score was 34 against Asia's 45) (Price-Waterhouse-Coopers, 1998).

Notwithstanding studies that try and establish national level scores there are examples in Sri Lankan of companies that have developed world-class capabilities, products, partners and practices. Some of them have traveled a long and arduous route of product and quality development to build strong domestic brands with global brand ambitions and export competitiveness.

This study explores the evolution and success of one such Sri Lankan business group that has developed some of these capabilities. Ceylon Biscuits Limited is a family run public limited liability business that in recent years has being recognized as one of the most aggressive and innovative brand builders in the country. The company's umbrella brand, Munchee, is now feted as the brand of the year. Sub brands have won accolades and recognition for best turnaround brand and most innovative brand, and the company itself has won recognition for industrial practices and exports. It also moved into the chocolate market and has made considerable progress to fast emerge as a significant force, relegating a heritage and iconic brand to third place in the market .

Growth is hard enough to achieve at the best of times but we have chosen a firm that has managed and sustained a record of growth over a historical span of time encompassing ethnic and civil conflict, closed and open economic policies and downturns in markets, changing socio and economic behavior and increasing technological change. More recently CBL has made direct investment into India and is now poised to be the first Sri Lankan brand to go take an aggressive international acquisition path in the hope of brand building in one of the largest markets in the world. While the rest of local business bemoans the increasing Indianisation of the Sri Lankan market, this is one company that has not compromised on local values and expertise in building its local identity - and is unafraid to venture offshore in reverse predator ship of big brother's market. We will use an internationally prevalent template that is relevant to its business context to map out how the company drives its operations and where it is today in terms of globally established characteristics of excellence.

The Competitiveness Program (TCP) has embarked on this study based on discussions with the Secretary of the Ministry of Industries and Investment Promotion (MOIIP) and the Director, Office of Economic Growth, USAID. TCP is a USAID-sponsored project designed to help key industries in Sri Lanka achieve international competitiveness and is being implemented by Nathan Inc. and J. E. Austin Associates.

The program primarily provides technical assistance to private sector led industry-based initiatives to improve competitiveness. The program also partners with the Government of Sri Lanka and private sector groups to examine policy obstacles to improving competitiveness and to promote public awareness of competitiveness ideas as an engine for development in today's economy.

The MOIIP and USAID have expressed a desire to understand the following:

1. What were key business decisions over the course of a successful company's growth history and on what basis were they made?
2. What drove it to change business direction, diversify or implement aggressive growth plans?
3. What factors enabled management to take the risk, if any, associated with those decisions? What competitive challenges were faced?
4. How does an open market economy like Sri Lanka, continue to maintain a reasonable rate of growth performance without demonstrating a critical mass of business competency in competition?

In addition, USAID is interested in the following:

1. How did successful companies find or develop their managerial, professional and technical staff?
2. How have working conditions evolved in response to a more competitive global market place?
3. What makes a company the best in its class? How do its business practices differ from those of the rest, be they related to strategy, product technology, marketing or human resource management, or production operation?
4. What are the learning outcomes from best practices of an organization to others? Is it the leadership, core value, a workforce of high-IQ people, or a instinct for leveraging uneven playing fields in policy and access to capital which sets an organization above the crowd

2 Case Study Goals and Methodology

2.1 Objectives

- To provide insight into factors underlying the ability of select Sri Lankan Companies to compete successfully.
- To identify factors that enabled corporate successes- internal and policy related
- To highlight successful behavior of local companies for others to emulate

2.2 Methodology

While descriptive as well as inferential statistical techniques have proven to be useful in the discovery process of general business behavior, the in-depth company case-study methodology has sometimes produced even deeper understanding and insights into best practices of sustained company performance and success.

The initial approach will be to document a case study and analyze successful Sri Lankan owned businesses that have managed to grow significantly since the opening of the economy. The company chosen was screened for performance criteria - sustained year on year growth in turnover profits after tax over the last decade; earnings per share, market capitalization, total assets and high local market standing as a business success. Qualitative hurdles, such as being fully Sri Lankan owned and managed, and a subjective assessment of the company's inherent potential to offer key learning that would be of interest to other Sri Lankan businesses were also applied. It was important that the first firm selected was either a successful exporter or demonstrated ability to compete with global competitors in the local marketplace.

The methodology adopted was secondary historical research, financial analysis and interviews of key personnel as follows:

1. The study reviewed available published written material including, official and

other publications, data on company's history and performance, organizational structure, business strategy etc. Independent and internet-based research reinforced the analysis.

2. Interviews were conducted with key players in the firm familiar with the history, as well as others who could shed light on the historical development such as CEO, HR Director/ manager, Marketing Director, Finance Director, Business Unit managers, and any other relevant person. (See Appendix A4)
3. A structured questionnaire was used as a point of reference with the preliminary CEO interview, but all interviews were casual and free flowing (See Appendix A5)
4. With regards to the area of workforce development, interviews were also conducted with a few selected middle managers, and longstanding employees. Performance evaluation documentation was also reviewed

3 Competitiveness Context

Since the early 1990s, the Sri Lankan biscuit market has been dominated by two major brands: Munchee (produced by Ceylon Biscuits) and its main rival, Maliban (produced by Maliban Biscuit Manufactories). Together the two currently make up 85% of the Rs. nine billion plus biscuit market. However, this has not always been the case.

Founded in 1954 by A. G. Hinni Appuhamy, Maliban Biscuit Manufactories enjoyed a comfortable monopoly of the local biscuit market for decades. Mechanized by the early 1950's, Maliban set out with an early lead on its competitors and by the 1960's was reigning supreme in the biscuit market, a status that went unchallenged for nearly four decades to come. The company captured well over 85% of the biscuit market and maintained this market share through the 1970s and 80s as *the* household name for biscuits. Due to its sheer size Maliban monopolized all segments. In Sri Lanka, Cream Cracker, Lemon Puff, Ginger Nuts, Nice, Krisco and Cheese Bits all became synonymous with the brand name Maliban. The company established a reputation for quality and for strong production capability. Even Ceylon Biscuits gave over a third of its nutritional biscuit production contract to Maliban, at the request of the Ministry of Education.

The company loomed over its competitors as a giant. The Maliban family of brands includes Zellers chocolates, Little Lion bakeries and Maliban brand powdered milk. Both Zellers and Little Lion date well back into the 1960's and demonstrate the full gamut of the Maliban range and its one time financial strength. Zellers was #2 in the chocolate sector, (Kandos was #1) and particularly recognized for its brightly wrapped chocolate covered biscuits and presentation boxes. Little Lion too was a leading Colombo bakery, well known for its cakes. The Maliban range also extended to “aerated waters” (fizzy soft drinks) and more recently mineral waters and milk foods. These were the competitors that CBL faced when it entered the market in the 1960s as a minor player.

The Maliban businesses have declined over the years as the company fell victim to the “Third Generation Jinx” of family businesses: succumbing to the vices of complacency and inaction. The company has lost the zest and discipline of its founder. Struggling for leadership and vision and ignoring modern thinking and technology, Maliban has seen the erosion of its biscuit monopoly and decline in its revenues and product quality across the board. Both Zellers and Little Lion have deteriorated considerably over the years and now contribute almost nothing to the bottom line. Today, Maliban relies mainly on its biscuit and milk powder sales for its revenues. In contrast to this, CBL has aggressively pursued innovation and business expansion strategies, rather than being satisfied to simply pick up Maliban’s market share.

4 Cultural Context

4.1 Family Businesses

Ceylon Biscuits (CBL) is a successful family business. Global examples of successful family businesses in the confectionary industry range from Cadbury, Ferrero, Jacobs Suchard, Hershey, Mars, Weston Foods, Grupo Bimbo[8], Barilla[9] and Wrigley, while Sri Lankan family owned companies include Maliban Biscuit and Ceylon Chocolates. CBL is now a 36 year old business with its wider roots dating a further 30 years to a smaller biscuit company owned by its majority shareholders – the Wickramasingha family. CBL falls within the parameters of a family business as it has several generations of the same family directly involved in owning and running the business. Although its first chairman at inception Simon Wickramasingha held a largely non executive post, taking him into account, to date CBL counts second and third generation family members at its helm. In addition, family members own a controlling percentage of the company's stock.

Typically, many family businesses in Sri Lanka do not last beyond three generations or half a century, succumbing to the "Third Generation Jinx". How has CBL survived the pitfalls of other family businesses thus far? And what mechanisms has it put in place to avoid them in the future? Its present chairman credits the entrepreneurial spirit of Sri Lankan southerners as a factor. CBL certainly has a strong emphasis on hard work and drive. The factory is on the same premises as the head office, enforcing discipline and visible example as a must for all employees, especially the company's board.

---

[8] Mexico's leading bread maker and one of world's top bakers as well, offering more than 3,500 products including cookies and tortillas.
[9] World's leading pasta producer: more than 30 varieties sold in some 100 countries. Also makes sauces (#1 in Italy), bread, and crackers.

The company is passionate about quality, a sentiment that is well imbued into the younger generation of the Wickramasingha family by launching their careers in the area of Quality Control. Emphasis on higher education and practical training in the field has also played an important role. Unlike its rival Maliban, both CBL's present chairman and deputy chairman pursued university level studies, specifically in food technology, rather than business management. The second generation has followed this example to complete undergraduate degrees in food technology in the United States.

This thorough knowledge of the trade, particularly technical processes and formulations, among family members appears to be a distinctive feature of CBL. As one former marketing employee somewhat grudgingly commented "[the family] are just bakers through and through". This understanding is well appreciated and respected by present employees and technical personnel and as a result improves corporate communication and problem solving. To quote a technical employee, "family members can tell you [without leaving their seat] in which direction a particular cog in a machine should turn". In addition, the family's down to earth approach, both within the company and with respect to personnel adds a simplicity which is a signature element of CBL's manner of conducting business.

Another reason for CBL's survival as a family business is the company's professionalism and now growing willingness to open up to recruiting outside professionals. In fact, despite being children or nieces of the Chairman and DC, the only advantage taken by the younger generation appears to be one of access. The company is passionate about its product excellence and is willing to look outside to imbibe best practices and processes. There exists an enthusiasm and excitement towards progress and learning and trying something new which extends to new practices as well as new areas and markets.

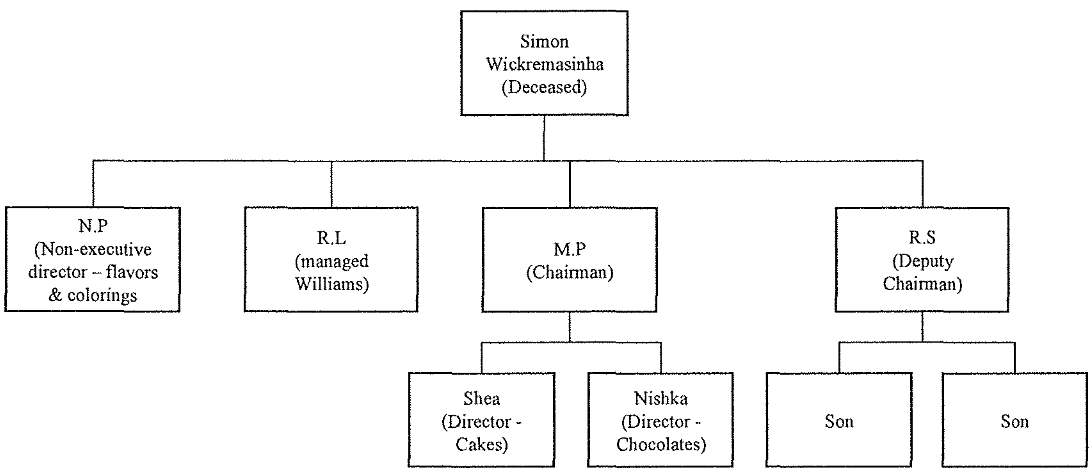
CBL has been unafraid to consistently look outside Sri Lanka for expertise. Despite its overt pride at being a homegrown Sri Lankan company, it has a history of leveraging international expertise, through partnerships, consultants, suppliers and other relationships. Although such relationships have been admittedly temporary in nature, the family and Chairman M. P. Wikramasingha in particular have shown they are consistently good at building strong productive relationships with related foreign professionals and companies.

4.2 The Wickramasingha Family

The Wickramasingha family of Ceylon Biscuits is a Sinhalese family from the deep south of Sri Lanka. Descended from Fredrick Wickramasingha, Simon (Arthur) Wickramasingha (1902-1984), a planter, took over a small biscuit factory in the 1930's from a local businessman named Williams. This handmade biscuit operation had begun at a time when all biscuits in the local market were imported. Faced with financial difficulties Williams was required to divest and approached the younger Wickramasingha who established the business as Williams Confectionary Limited (a.k.a Williams) in 1939 with 10 employees. Williams was mechanized in 1957 and grew slowly in size.

The family owned approximately 70% of Williams. Simon's four sons (N.P., R.L., M.P., and R.S.) all gradually became involved in the business. N.P. began a flavour and colour operation to complement the confectionary operations. R.L. (Ranjith) took over the helm at Williams. M.P. (Mineka) first went into *tea-tasting*, again to complement the family tea estate business, but when this endeavour proved unsuccessful, turned to the Family's biscuit business, Williams, which had been somewhat neglected but with untapped growth potential.

Figure 1 Family Structure



Having no prior knowledge of the biscuit industry, before joining Williams, Mineka first studied biscuit manufacturing in India, followed by four years of formal studies in Food Technology at what is now London South Bank University in the United Kingdom[10]. After several internships with bakers in both the United Kingdom and Germany he returned to Sri Lanka in 1961, full of new ideas and drive, and joined Williams as Production Director R.S. (Ramya) the youngest brother also undertook the same course of study at Borough from 1968-1972 and returned to Sri Lanka after himself completing similar internships in Europe.

10 At Borough Polytechnic, now London South Bank University

5 Company History

5.1 The Beginning

In the 1960's, Mineka Wickramasingha felt strongly that there was an urgent need for Williams to expand, but was not granted approval to import second hand machinery to do so. About the same time, an agency funding poverty alleviation[11] (CARE) looked at biscuits as a means of improving the nutrition of Sri Lankan school children. Buns and milk had been provided through state schools as nutritional supplements but for a variety of reasons a change was required. There were many articles in the newspapers of the day regarding the contamination of milk and that the buns provided were inedible.

Seeing the nutritional biscuit as an opportunity to further the expansion plans for Williams, Mineka Wickramasingha presented a proposal to CARE, developed a nutritional biscuit with a high protein content that met the requirements of both the agency and the Ministry of Education, and even launched two pilot projects for the program at Williams' expense[12]. Despite his initiative, the project was offered through a tender process. Market leader Maliban did not show an interest in the project and Williams was awarded the contract. However since the company was constrained by the lack of space at its own factory premises in a residential area of Dehiwela, it launched Ceylon Biscuits Limited (CBL) as a 30% owned subsidiary to manufacture the high protein biscuit for the school children of Sri Lanka.

Williams decided to set up CBL as a separate entity in order to fulfill the contract enabling it to take advantage of tax holidays and other incentives offered at the time.

---

11 This agency, CARE, is an international consortium of 12 member countries dedicated to the worldwide reduction of poverty

12 The two pilot projects were in Maradana and Kuliyapitiya. The latter was chosen strategically as it was part of the Minister of Industries' electorate.

Land for CBL's operations was purchased in Pannipitiya, which the latter occupies as its head office to this day, and the buildings were rapidly constructed. CBL imported two biscuit manufacturing lines from Germany, one for the nutritional biscuit (the CARE biscuit) and the other for consumer biscuit production. This in itself was a success as there were considerable obstacles to such imports, including the need to obtain a license for the import of machinery and restrictions on expenditure of foreign exchange. Thanks to Williams, CBL was able show the exports required in order to obtain both the license and the foreign exchange required for the acquisition.[13]

CBL was funded by a combination of quasi debt and equity. Simon Wikramasingha, Williams' owner, contributed Rs. 200,000 to the company's start. However, funding requirements were much higher due to the steep cost of machinery. CBL issued Rs. 5 million in preference shares to the Development Finance Corporation of Ceylon (DFCC) then the only long term source of funds. Despite this, the company next ran into a financial obstacle when it was required to provide a guarantee on the letter of credit for import of the biscuit machines. E.B. Creasy, a large English trading company, agreed to provide funding in exchange for a 30% equity stake, provided that it was given CBL's biscuit distribution. For the remainder of the funding, William's distribution assets, including its fleet of vans, were all liquidated and the proceeds invested in the new entity for a total equity component of Rs. 2 million. CBL's shareholding structure was as follows:

Williams Confectionary.. 30%
The Wickramasingha family......................................30%
E.B. Creasy (through Steele Brothers, a UK company)......30%
Workers...5%
Other individual investors..5%

Though nine months of research had gone into the formulation of the CARE biscuit at Williams, CBL continued to refine the formulation. Most ingredients for the biscuit were supplied from the United States by CARE, while CBL was responsible for

13 Requirement of the governments Foreign Exchange Earned Credits (FEECs) program to control foreign exchange outflow in the 1960s and 1970s.

sourcing the sugar and packaging materials required. American wheat flour was good for making bread but was difficult to use in the making of a good biscuit. CBL struggled with this challenge and others, including the requirements for a 13% milk content and soy oil instead of fat. During the 1970's closed economy CBL's contributions of sugar and packaging material too became challenges due to difficulty of obtaining materials.

However, CBL overcame this problem through innovation; it used cane molasses ("Uk Pani") as a substitute for sugar and solved the problem of obtaining square cartons to house the biscuits by changing the shape of the biscuit itself, from a square to a small round one. These were then packed into paper sacks and the biscuits were measured out to children using a scoop.

> **Nutritional Biscuit Program**
> *CBL's involvement with the school biscuit program continued until the program was terminated in 1988, at which time it was catering to 1.3 million school children Research undertaken by an American university documented that this program had a positive impact on the nutrition of these school children, with reduced incidence of illness such as blindness. The biscuit was tested in the US for its content and the agency offered CBL US$ 10,000 for the recipe so that it could commence the program in other developing countries – however, CBL chose to gift the recipe.*

At the time of award of the contract, CBL agreed that 30-40% of the immense contract requirement be given to Maliban Biscuit Manufactories (Maliban), the dominant player in the biscuit market. Despite this reduction, the huge volumes generated by the CARE biscuit kept CBL's activities dedicated to its manufacture during most of the 1970's. This contract moved the company from the Williams' one ton plant to an eight ton plant and a 27 ton a day operation within six weeks of commencing business. On July 28, 1968 CBL began production. It ran three shifts a day from the start and in 1971 declared a 105% dividend to its shareholders.

5.2 The Early Years

Using the second plant it had imported for commercial purposes, CBL introduced its range of biscuits to the market under the brand name "Munchee"[14]. It produced a

14 The name Munchee had been used before for the wafers produced by Williams' small wafer plant.

range of five to six different biscuits, two of which were its own innovations, namely Hawaiian Cookies and Milk Short Cake. It also produced the generic biscuits Nice, ginger and date biscuits However, CBL's efforts and marketing these biscuits in the local commercial market in the 1970's were lukewarm at best. Its distribution was, as promised to E.B. Creasy, conducted through Darley Butler, Creasy's subsidiary. Darley Butler at the time accessed about 5000 outlets, approximately 40% of the market and distributed CBL's biscuits along with its own hardware and battery products.

The domestic biscuit market at this time was clearly dominated by Maliban, which had a 90% plus share of the biscuit market, but local biscuit manufacturing was simply unable to keep up with the domestic demand. Following the opening up of the economy in 1978 imported biscuits flooded the country, attracting much attention from international players, including Nabisco, an American company that was later to play a role in CBL's growth[15]. CBL entered the open economy era with a staff of about 300 and a manufacturing operation that included both automated and manual production lines. Realizing there was immense potential in the local market, CBL imported a brand new line in the early 1980's, tripling its commercial production capability and prepared for full scale entry into the domestic market.

The line that CBL purchased from the United Kingdom was a hard dough line, which could handle hard as well as cracker dough (see inset). While CBL's first line (a soft dough line bought in 1968) was able to produce all its early market entries it was not able to produce Marie or Cream Crackers. With the new installation CBL was able to begin the manufacture of generic hard dough biscuits such as Marie and Cream Cracker, which made up the largest share of local biscuit sales at the time. Competitor Maliban made over 80% of its turnover on Marie biscuits and CBL was waiting for the opportunity to take some of this market share.

Biscuit Technology

Biscuits are primarily classified into three types: soft dough, hard dough and fermented dough. The primary difference between soft and hard is that hard dough is mixed for a much longer period of time and as a result can be used for layered biscuits. Hard dough also requires more specialized machinery.

15 In the late 1980's Nabisco was to become CBL's shareholder and strategic partner

5.3 The Open Economy Years

In 1981 UK biscuit giant Associated Biscuits (ABL) showed interest in entering the Sri Lankan biscuit market[16] and came to Colombo for negotiations to setup a biscuit factory with a potential local partner.[17] CBL seized the opportunity of a possible tie up with ABL. Aggressively campaigning against Maliban for the ABL tie up, CBL sealed the deal with ABL by successfully negotiating the divestiture of E.B. Creasy's shares to ABL, thus providing ABL with a 30% equity stake in CBL.

The tie up with ABL spelled tremendous potential for CBL. The company's Munchee brand name was already established. Its most popular product at this time was the Hawaiian Cookies – a unique coconut biscuit with a toasted flavor. This biscuit was CBL's signature biscuit through the early years and its eye-catching yellow packet became synonymous with the Munchee name. However, CBL was yet to break into Maliban's market. This it was able to do as a combination of its investment in new technology and the ABL tie up.

As a result of the partnership CBL had the opportunity to manufacture and distribute the Huntley & Palmers (HP) cream crackers and wafers on behalf of ABL in Sri Lanka. This was the opening that the company needed to break into the commercial production market. Alongside these popular biscuits, CBL introduced and distributed its own line of Munchee cream crackers and wafers. The Munchee cracker was distinctive from its sister HP cracker, due to its longer fermentation which intensified its flavour. Once introduced the cracker gained acceptance and market share. However, the wrappers available locally were inferior and insufficient to protect the product from high humidity, resulting in quality decline and short shelf life. ABL was quick to detect this and closed down HP cream cracker production in six months. This proved to be an opportune moment for CBL as the Munchee cracker was by then positioned to take over.

---

16 Associated Biscuits was formed in 1921 by the merger of Peek Frean and Huntley & Palmers, (world renown for its Cream Cracker). The company was however bought over in 1982 by a US biscuit company – Nabisco. Subsequently it was spun off by Nabisco, acquired by Danone and renamed Jacobs Bakery.

17 The Maharaja Organisation

CBL also benefited greatly from the exposure and technology transfers it received from ABL, especially from the manufacturer of Cream crackers and Wafers for Huntley Palmer. Participation in fairs and interaction helped CBL to keep abreast with technological advances. The association with ABL was cordial and the resulting exchange of information was beneficial to CBL. The company purchased a second hand line from ABL to commence production of Wafers and sales increased significantly over the years.[18].

Following its entry into the hard dough biscuit area, CBL, like its competitor Maliban, dedicated the bulk of its production to cream crackers and Marie biscuits. While Maliban still maintained a clear dominance of over 80% of the biscuit market, CBL's turnover grew steadily[19] with the company investing in yet another plant, with an even greater capacity by the late 1980's. By this time CBL had begun its own distribution efforts. It was supplying around 40 distributors using a force of 40 salespersons and the company as a whole had grown to a total staff of approximately 500.

The end of the 1980s saw the end of CBL's relationship with Associated Biscuits. Due to divestitures overseas Nabisco[20] replaced Associated Biscuits as CBL's strategic partner. Nabisco at this time was the biggest biscuit manufacturer in the world. CBL found Nabisco professional and very strict. On one occasion when CBL suffered a loss of Rs. 400,000, Nabisco even flew its area president in on an investigative visit and seconded an accountant to oversee CBL's books for three months. CBL however used this exposure to develop a close and highly cordial relationship with Nabisco. Through Nabisco CBL received full exposure to international biscuit manufacturing operations and was even able to obtain another second hand soft dough machine (its fourth biscuit machine) This machine CBL dedicated to a new innovative line of cream biscuits, introducing chocolate, orange and lemon creams to the market. However the relationship ended a few years later when Nabisco's shares in CBL were divested to a Hong Kong based investor[21].

18 During the 1980's loose wafer sales amounted to approximately 15% of turnover
19 Turnover grew well over 100% over the period
20 Nabisco (National Biscuit Company) a US based maker of cookies and snacks is now a subsidiary of Kraft Foods NA
21 This divestiture was following Nabisco's acquisition by Kohlberg, Kravis & Roberts, a wall street private equity firm. The Hong Kong based investor, now a personal friend of the directors' provided access for CBL to export to China.

5.4 Strategic Company Reforms

By this time CBL had established a sound footing for itself. The company had weathered the difficult times of the 1988/9 JVP terror campaign and emerged from that unrest scarred but intact. The late 1980's and early 1990's were characterized by managing crises, with tight budgets, personnel problems, and labour unrest. Although the company felt it was difficult to recruit the ideal caliber of staff, the early 1990's turned out to be a telling time for demonstrating staff loyalty and responsiveness. CBL had held motivational seminars to inspire its people to work together and to foster a company spirit and reaped the benefits of these initiatives during its business downturns. In a cohesive attempt to tackle the loss, CBL held companywide discussions with staff to gather suggestions on cost reduction and to garner support to go forward. The contributions gathered and cooperation received proved so fruitful that the following year the company was able to turn the corner and even make a profit.

5.4.1 Portfolio Diversification

CBL now set out to concentrate its effort on growth and the early 1990's marked a period of rapid expansion. The company expanded its activities into chocolate production under the brand name Ritzbury in 1991, importing a chocolate machine for individual chocolates and an enrobing plant to make chocolate coated biscuits and wafers. This business was further expanded to include chocolate fingers following the acquisition of the Maharaja Organization's Baker's Man biscuit factory in the mid 1990's. It also began a line to manufacture Pebbles – multicolored Nestlé Smarties look-alike chocolate candies. On the Munchee side, CBL scrapped its second hand wafer plant, investing in one from Austria with greater capacity and newer technology and bought a new soft dough plant to replace the former CARE biscuit plant, which had been operational for nearly three decades.

5.4.2 Product Leadership

CBL now slowly set about reorganizing itself operationally. It concentrated on areas such as *Quality Assurance* and *Product Development* as well as keeping up with the latest manufacturing technology.

Quality Assurance

Around this time the company was receiving a number of complaints regarding its biscuits - breakages, poor taste, quality etc. Rather than ignore the issue, CBL decided to place an emphasis on investigating the cause of the complaints, and took corrective action, including formula changes, to reduce the high number of returns at the time. Setting up better procedures for packing, product handling and transportation, the company prepared for its future growth. It conducted daily taste tests of its own products and organized regular taste panels to compare its products with those of its competitors'. It also methodically documented the specifications of all products being manufactured – knowledge that had previously been passed on through practice and word of mouth. As the demands on the Quality Assurance department began to rise, the company decided in 1996 to seek ISO certification[22].

Today, quality assurance remains an area of particular pride for Munchee. The department plays a critical role in product testing and development of production process controls and systems. High hygiene standards for toilet habits and hair, together with regular swab tests of employees is strictly enforced.. Every shipment of incoming materials is tested for quality and those that fail are rejected. Following a complaint, products are collected from customers and subject to laboratory analysis. In 2004, CBL received HACCP certification for food safety together with SLS certification for its biscuits[23]. With these in hand CBL became the only confectionary company in Sri Lanka to acquire all relevant quality certifications for its line of business i.e. SLS, ISO 9001:2000, ISO 14001[24] and HACCP.

Product Development

Product development also became an area of increased focus. While CBL had begun operations with a line of distinctive biscuits, along with some generics. However, in the recent years the push for higher turnover had resulted in innovation playing a secondary role. Some of the biscuits that had made Munchee distinctive, were neglected in favor of more mass consumer products. CBL began to concentrate on its

---

22 International Organisation for Standardization's quality system certification mark (ISO 9009)
23 Hazard Analysis and Critical Control Points food safety certification (HACCP) and SLS 251 certification both by the Sri Lanka Standards Institute (SLSI)
24 The international environmental management standard ISO 14001 is a voluntary initiative aimed at improving company environmental performance

formulations and potential improvements to flavor and quality. The company also began to actively investigate and keep up with new technologies and machinery by participating regularly at trade exhibitions and through membership in industry associations.

> *This interest in understanding its customer and also in the rural market through its wider distribution reach marked a break the company's marketing efforts and the beginning of a new level of market growth for CBL.*

5.4.3 Distribution

Around this time CBL took the decision to rethink its methods of distribution and undertook to overhaul its sales and distribution efforts in favor of a much bolder plan. Up to this point the company had depended almost completely on wholesalers to sell its products as a hassle free means of managing its distribution efforts. As a result, while CBL had the logistic and cost advantages of maintaining a lean sales team, the company suffered due to its dependence on the enthusiasm of its wholesalers to push its products. CBL decided to bite the bullet and invest heavily in its sales force. It expanded its distribution reach, increasing its number of distributors, changed the demarcation of sales regions into much smaller areas for more intensive sales efforts and recruited the regional and senior sales personnel required to cope with this new direction.

5.4.4 Customer Intimacy

With the changes to its sales force, CBL was forced to face up to the fact that it was very removed from its consumers. The company recognized that it had been paralleling the moves and decisions made by Maliban rather than acting on real consumer insights. CBL's focus had been very much "product centric" - concentrated on improvement of its formulation and production technology. It developed its products in isolation and once developed attempted to market them. Little attention had been paid to market research, even on an informal basis. Moreover, CBL began to understand that its customer was a new, youthful generation whose tastes and style were very different from the consumer of the previous ten years.

Beginning in 1996, the Board itself acknowledged this changed attitude by beginning to go to the field on a regular basis to a top down attempt to gauge market perceptions and trends. The newly developed sales force provided feedback from consumers and distributors and the company took the further step of setting up a separate subsidiary to plan its marketing activities and to become more responsive to market needs and gaps. The holding company became primarily responsible for improving product quality and procedures.

5.4.5 Image Building

CBL also recognised that in order to grow it had to become a better known name as a company. Partly as a result of its multiple brand names, CBL itself was relatively unknown as a corporate entity. Embarking on a campaign to raise the profile of the company, CBL engaged the services of a consultant, and set out to gain greater corporate recognition for itself among both consumers and the business community. The public's lack of knowledge of the breadth of the company's activities was hindering its activities as a holding company, particularly for purposes such as tapping the capital market. With the help of its consultant, CBL set about establishing a public image for itself. This was done primarily through the print media. Every week or so, an article regarding the company and its various corporate activities and latest initiatives, including its export plans and CSR, appeared in the newspapers.

6 Competitiveness Behaviour

6.1 The Biscuit Wars

Around 1995, CBL had hit a wall in terms of increasing its turnover. Limited by its existing production technology and consumer tastes, t its highest growth opportunity lay in the Marie biscuit market. While CBL's Marie[25] biscuits now made up 50% of total production, the company was unable to meaningfully increase its sales and market share of the Marie category. It had attempted a variety of marketing activities including extensive advertising, merchandising and trade promotions, but was still not able to take sufficient market share away from Maliban. The Munchee Marie biscuit was at this time essentially a knockoff of Maliban's Marie and used very similar packaging. However, despite much effort and testing, CBL was not able to exactly reproduce the Maliban Marie flavour. Although market share was a (then) respectable 10% and despite fervent urgings from its own sales team to the contrary to be more like Maliban, CBL decided that the time had come to change tactics and be different in order to try to break through the turnover barrier.

> *This encounter was the first of a series of "small wars" by CBL against Maliban's turf. Tikiri Marie, Lemon Puff (2001) and Super Cream Cracker (2002) all these campaigns came under this strategy where CBL focused on a specific product and aimed to gain market leadership in the category.*

6.1.1 The Tikiri Marie Campaign

Munchee hit on the winning concept of launching its own Marie as "Tikiri" Marie - a petit sized Marie biscuit - using an aggressive campaign entitled "Tikiri Molé"[26] to bring the little biscuit to the attention of consumers. The campaign targeted children with the use of attractive advertising and proved a real turning point in Munchee's growth and image. The biscuit was so successful that the smaller sized Tikiri Marie

[25] Marie is a generic semi sweet biscuit.
[26] "Little brain". This campaign has been copied in India.

became the number one Marie biscuit in the Sri Lankan market, with a phenomenal 50 per cent of Marie market share and eventually forced the giant Maliban to acknowledge Munchee as a significant market player by playing copy cat and resizing its own Marie.[27] Part of Munchee's success with Tikiri Marie stemmed from Maliban's complacency and its failure to react to this attack on the Marie category.

> ***Tikiri Mole Campaign***
> *The new Tikiri Marie biscuit had 22 biscuits compared with 17 in the former size per 100 gm pack. This "more for money" feature, combined with targeting the biscuit specifically at kiddy consumers allowed Munchee Tikiri to take on a new exciting look very different from the look of the Maliban Marie biscuit with its dated red packaging. The eye-catching yellow pack worked with the "Tikiri Mole" campaign that focuses on little ones' brain power and was accompanied by a catchy song.*

The Tikiri Marie campaign brought into effect other changes at CBLsuch as the introduction of Munchee's "keep fresh pack"[28], which ensured better product freshness. Following its success with Tikiri Marie CBL expanded the use of the fresh pack to the entire Munchee biscuit range.. The company also commenced a Tikiri Marie scholarship program for school children in 1997 entitled Munchee Tikiri Shishyadara which it continues to this day. Now in its eighth year, the program provides 120 deserving children with scholarships of Rs. 1000 per month for one year with fresh applicants being selected annually.

By 1998, the cunmulative effect of the changes made through the 1990's, resulted in CBL acheiving a 30% market share of the biscuit market (up from 20% at the start of the 1990s) and topping the Rs. 1 billion turnover mark. This was a major milestone for CBL, both internally and externally. The company was becoming better known, both to consumers for its brands and quality products and to the industry for its investments in good technology. CBL reinforced this reputation by committing to a Rs. 500 million expansion program - Rs. 300 million of which was spent on a large state of the art plant from Italy. "Plant 6" as it was known, was CBL's largest capacity plant thus far with five lines that could handle both hard and fermented dough. This action by CBL sent a strong message, to its staff and associates, about CBL's optimism and confidence in the company's future growth potential With the

[27] The large Marie category has been replaced in the domestic market by the smaller size.
[28] Air tight packaging

commercialization of this new plant, CBL planned to introduce a new range of biscuits to tackle Maliban head-on.

6.1.2 The Lemon Puff Battle

CBL's next strategic attack on Maliban came in 2001 with its Lemon Puff. The Munchee Lemon Puff had a solid 30% market share but as was the case with Marie, failed at growing sales further as a "me too" product. CBL decided to re-launch Lemon Puff, by promoting it as a sandwich biscuit with a higher quantity of lemon cream. The campaign was heralded by an intensive television campaign directed at capturing the attention of a new market[29]. What the company did not reveal in its advertising was that the cracker itself had been vastly improved, through a new formula and upgraded technology. It was in fact a noticeably better overall sandwich biscuit than Maliban's Lemon Puff rather than just being a look alike with more cream.

Going against the advice of its advertising company, Munchee replaced the traditional yellow packaging, synonymous with the Lemon Puff category, with a white wrapper. The superior moisture and odour barriers of the new metalized wrapper combined with the new pillow pack technology, which used only two seals to achieve increased air-tightness, better preserved the crispness and freshness of the sandwich biscuit. This had been a problem that had plagued both companies' puffs for decades. Consumers who tasted the Munchee Lemon Puff for its extra cream (not enough cream was a complaint associated with both Lemon Puffs for years) were pleasantly surprised and rapidly switched loyalty to the Munchee Lemon Puffs. Thus Munchee demonstrated that it was in touch with tastes of its consumers and used their feedback to improve its biscuits.

The impact of the product changes were felt immediately. Munchee's market share in puffs went up from 30% to over 50% within a mere four months following this re-launch, and grew the entire puff category from 12 to 16%. As a result, Maliban's share of Lemon Puff which had been a staggering 70% plummeted to 29%.

---

[29] Munchee's first television ad proclaimed the end of the era of children eating the cream out of lemon puffs and discarding the biscuit with the launch of its improved Lemon Puff.

By now Munchee had 45% of the local biscuit market and was vying with Maliban for market leadership. CBL's next big challenge was clear – take on Maliban in the cream cracker market. Despite Munchee's success at growing its sales, Maliban still had nearly 75% of the lucrative cracker market while Munchee was at a meager 23%. The Maliban cream cracker was well accepted and entrenched in the market. CBL had to find a way of breaking through with an innovative cream cracker to take on this market.

6.1.3 The Cream Cracker Assault

The following year, in 2002, CBL re-launched its cracker as a "Super" Cream Cracker, enriched with vitamins in a bold campaign, with live broadcast of two music shows held simultaneously in Colombo and Anuradhapura before massive crowds As they had done with the Lemon Puff, CBL used a new metalized pillow-pack withy a contemporary look to break away from the traditional solid red "Maliban" packaging synonymous s with cream cracker and re-formulated the cracker to deliver a crisper and tastier product. The Munchee strategy of delivering a superior quality product that convinced consumers to switch brands proved a success and the results were phenomenal. Cracker sales grew, expanding its own market not merely taking over competitor share. Growth in sales nearly tripled and Munchee's market share in cream cracker immediately doubled to 40%, reaching 50% the following year.

Today, of the total cream cracker category, which makes up 20% of the total domestic biscuit market, Munchee owns a 60% share.. Super Cream Cracker accounts for 30% of the company's turnover, with a profit margin of over 25%. Munchee continues to fight aggressively for market share. Its most recent marketing campaign entitled "Podi Badaginne"[30] targets the large 500 gm pack market, previously serviced by loose crackers. The focus is to use the cracker as a substitute for a full meal for chummary factory workers who are already provided with two meals from their work place. The company has again demonstrated its knowledge of customer needs and changing trends and lifestyles in Sri Lanka as the record 128% growth of this heavy use pack from 2004 to 2005 shows.

30 Small hunger

6.1.4 Recent Advances

As a means to entrench itself as a key player in the puff category and grow both volume and revenue, Munchee targeted the yet unexploited potential of flavoured cream puff biscuits. After many trials, of different flavors, in the Indian market, Munchee settled on Chocolate to be the first line-extension of the Lemon Puff. In May 2004 Munchee launched the successful chocolate puff in Sri Lanka, which. not only increased Munchee's share of the puff category from 57 to 67% but also grew market share of the entire puff category from 16 to 20%. Interestingly, sales of the chocolate puff did not cannibalize the lemon puff market, but instead ate into the Maliban chocolate cream market, one of Maliban's few remaining strongholds. Further Munchee was able to price the chocolate puff at a premium due to its unique status. Expectations for sales are high for the future.

Having taken leadership of and grown the two puff and cracker categories, Munchee continued its efforts to increase growth by improving its sales and distribution operations. CBL once again expanded its distribution capabilities to increase retail penetration. It was now firmly established in more outlets which it serviced more frequently. CBL also redesigned its sales territories, set up new service frequencies and streamlined its entire distribution process to get its products to consumers faster. Munchee's retail penetration now exceeds that of Maliban, and at 95,000 plus outlets in Sri Lanka exceeds most other brands as well. In addition, Munchee focused on the single category of 100 gm packs of generic biscuits – as an option for the consumer sector constrained by disposable income. Pricing for the category overall was also made slightly more attractive. This 100 gm category now provides Rs. 1 billion in revenue to the company.

6.2 Business Expansion

Beginning from the 1990's, CBL began looking at other areas in the food and confectionary industry to expand its businesses activities.

6.2.1 Ritzbury

One of the first areas CBL explored was one naturally complementary to its existing line of business: chocolate. At one time, the company had produced chocolate for Nestlé and had some exposure to Nestlé's chocolate operations. Launched in 1991, Ritzbury chocolates began with chocolate coated (enrobed) biscuits. The company went through much teething pain in developing the right quality chocolate for its use. It struggled to develop a workable formulation - one that tasted good while withstanding the melting and rancidity caused by the tropical Sri Lankan weather. Ritzbury gradually developed its market by first growing its range of coated biscuits, then expanding to chocolate candies and hand made chocolates, and only recently moving into the traditional "slabs" - the largest market category. The company's strategy is to provide innovative eye-catching products to its consumers and thus differentiate from its competition.

Ritzbury's first entry was *Chunky Choc* (chocolate covered biscuits sandwich with butterscotch cream filling), followed by *Chit Chat* (chocolate coated wafer with hazelnut cream) and *Chocolate Fingers* (chocolate coated "finger" biscuit). Another innovation for Sri Lanka was *Pebbles* (brightly colored, sugar coated chocolate candies). The Ritzbury range includes *Nik Nak*, (chocolate coated vanilla cream wafer), *Go Nuts* (colored chocolate coated peanuts), *Choosy* (liquid chocolate stick) and *Choco-La* individual nuggets.

Although it started out originally as a poor number four, Ritzbury recently beat Kandos (Ceylon Chocolates) to the number two spot in the chocolate market. However, at 21% vs. 42% Ritzbury has only half the market share of market leader Edna and a long way to go to become number one. Further, Edna has itself shown to be very aggressive and quick in bringing out innovative products to the chocolate market. Ritzbury for its part, offers over 60 differentiated items, at the full range of price points and with a dedicated sales force certainly provides its consumers affordability and access. Despite being a small local brand, it offers consumers a complete range of chocolates and chocolate coated products and for other products frequently provides comparable alternatives to more expensive imported products. Examples are Pebbles as an alternative to Smarties, Chit Chat to Kit Kat and Go Nuts to M&Ms. Yet, apart from the hand molded specialty chocolates and coated biscuits products, the company has yet to fully convince local consumers that the quality of its slab range is on par with that of imports or Kandos.

By 1997, following its first biscuit war and having grown its market share in the biscuit market to a respectable 30%, CBL began to focus on sales of Ritzbury. One hindrance to improving growth CBL realized was the then single chain of distribution it used for both biscuits and chocolates. In practical terms what this implied was that once a retailer had gone through purchases of the more established Munchee list of biscuits they would have little money left for Ritzbury chocolates. Ritzbury sales were materially affected and it became evident that an alternative would have to be sought out. One option was to increase the breadth of the CBL range in order to afford to maintain a second line of distribution.

6.2.2 Pancho Snacks

With this in mind, CBL decided to enter the snack food market in 1998 under Ritzbury. Named Pancho, this snack range was made up primarily of extruded snacks. However, despite the company's sustained efforts with Pancho and the separate sales force, the impulse buy snack market proved a disappointing arena for CBL. Despite the introduction of two products under a new line named Catch Me together with with a re-launch of Pancho in 2000, the company found that it could only succeed in this market with a near continuous stream of promotions. Although CBL persevered in snack foods for nearly five years, it was eventually forced to close up this operation and admit failure.

With the aim of an expansion of its range still in mind, CBL next entered a completely unfamiliar food market. In 2000 due to its own financial difficulties, Vanik Incorporated, an investment bank, was selling its 79% stake in Soy Foods (Lanka) Limited, a public listed company manufacturing textured vegetable protein (TVP) nuggets. Soy Foods was a loss making number four player in the market but had pioneered a number of soy products under the brand Lanka Soy. CBL seized this opportunity to expand its range, encouraged by its present Managing Director who had experience in the soya area. CBL purchased the stake in Soy Foods at Rs.9/share[31] and took over operations in September 2000; by 2002 the company had been successfully turned around and had become a viable entity.

31 Soy Foods traded at Rs. 72 per share on June 6,2006.

This was the success story that CBL had been searching for. The Soy Foods line allowed CBL to maintain a dual distribution network, one for its biscuits and another for chocolates and soy. The effects of this isolation of chocolate sales from biscuits were immediate and notable. By 2002 Ritzbury had made impressive inroads into its competition and grown market share to over 15%.

6.2.3 Lanka Soy

In 2000 when CBL bought over management of Soy Foods (Lanka) Ltd. from Vanik it was a loss making company. Despite being the pioneer in the local soy market, Lanka Soy was at the time selling only 50% of the volumes of the market leader Raigam, with a 15% market share. The company's growth was stagnating in a rapidly growing market, and many smaller competitors were cashing on its market with look alike products. The ambitious strategy set out for a turnaround of the company was to aim to make it not merely profitable but the market leader.

CBL decided that not only was it necessary to grow Lanka Soy's market share, through a fresh look and product, it was going to grow the total product market through a change in positioning. Thinking very innovatively, the company decided what was needed was to position soya not just as a vegetarian food, but as a more economical substitute for the protein content of a main meal. Touting advantages such as convenience, price and the lack of freezer requirements together with newly introduced catchy features such as interesting shapes and flavours, a whole range of new branded soy products were launched under the Lanka Soy umbrella.

Given that at the time, chicken flavored soya was the most popular soya product the company decided it would introduce interesting flavors to accompany new presentation efforts. In order to take the competition head on, it improved the taste of its traditional range, while also increasing its product range. It developed not one but a range of chicken flavors, under the brand Chikosoy, consisting of tandoori, masala, roast and chilli chicken flavors. For the traditional vegetarian market, it introduced the Vegesoy range – a further four flavors of mushroom, hot and spicy, Chinese chop suey and Indian rasam. But its piêce de résistance was a completely new entrant - Malusoy[32]. This range of not merely fish but also seafood flavors truly tapped into a

32 Malu (Fish)

very strong local preference for seafood. Malusoy comprised spratts, devilled prawns, cuttlefish and ambul thiyal flavors.

Packaging for the four new sub brands was done using a range of appealing eye-catching colors, with a unique logo designed for each. Advertising again interestingly was carried out individually on a sub brand basis. For example, Malusoy used a two column poster conveying the advantages over canned fish. The company also took the extra step of providing a sauce sachet to provide a one step cooking process. Emphasis was placed to introduce the cooked product to consumers by way of cookery demonstrations and street promotions. In particular, Malusoy was aimed at areas with little coastal access. Sales efforts were overhauled, re-demarcating a network to reach 35,000 outlets with designated representatives for supermarkets, catering and restaurant sectors.

The results were strong. By early 2002 Lanka Soy's market share had jumped to 25% hitting 30% and market leadership a year later. Malusoy to CBL's surprise turned out to be Lanka Soy's front runner in sales. The strategy to offer consumers, as a household, their daily main dish at a price less than half the price of canned or fresh sea food was highly successful. Within 24 months Malusoy sales exceeded 500,000 packets a month, making up over 14% of the total soy market. Due to the sudden launch of many interesting products at the same time Lankasoy established itself as trend setter and frontrunner of the soya product market.

6.2.4 Tiara Cakes

CBL's next expansion was within the local confectionary business –the lucrative Rs. 4 billion plus local cake market. CBL's main biscuit and chocolate operations had traditionally taken place at its home factory located along with its head office in Pannipitiya. However in 2002, the company invested Rs. 1.5 billion to set up CBL Foods International (CBL Foods), a Board of Investment (BOI) approved company in Rannala, about one hour away. Awarded a 10 year tax holiday, CBL Foods has a mandate to manufacture bakery products and chocolates – the former includes a new line of cakes under the brand name Tiara. The new venture commenced operations in September 2004 with a new line of "portion cakes" – individually wrapped sponge layer cakes, marketed under the Tiara sub brand Okay, The product line also includes swiss rolls.

CBL Foods boasts a state of the art plant intended primarily for cakes and a "Clean Room"[33] to guarantee freshness for a shelf life of up to eight months. Due to production constraints faced elsewhere however the 110,000 square foot modern facility also includes manufacturing and packing for chocolates, wafers and biscuits - the latter including both hard and soft dough. CBL expects that its group tax slab will come down to 32.5% as a result of CBL Foods' tax advantaged status and the shifting of these manufacturing of chocolates, wafers and biscuits, which previously came under Ceylon Biscuits' tax slab. The company uses a formula to determine profit and is taxed at the preferential rate of 15% on its export.

6.2.5 Other Snacks

In 2004, CBL invested Rs. 50 million to acquire a 60% stake in Cecil Food (Pvt) Limited (Cecil Food) – an organic manufacturer of dehydrated fruit products, fruit juices, desiccated coconut and cashews primarily for the export market. Though the company had been in existence for 10 years and exported to 20 countries, it was facingfinancial difficulties. CBL brought to Cecil Foods the financial strength and management experience that it needed, while the founder retained a 25% stake. CBL's main interest in Cecil Food was its exposure to rural agriculture and its export and local market potential.

The company presently exports to countries including the US, UK, Germany, Taiwan, Australia, New Zealand, Malta, UAE, Saudi Arabia, Qatar and Bahrain. Armed with CBL's financial backing the company has overcome its working capital needs. CBL's infusion of capital has enabled the purchase of new equipment and is now looking at expanding sales to tap the local market. Cecil Foods also has a 100% owned subsidiary Cecil Fruit Canneries which concentrates on natural fruit juices for both the domestic and export markets. CBL intends to launch this range to the domestic market by introducing a line of fruit juices in novelty pouches.

---

[33] A Clean Room has air filtered to remove mould, air conditioning and humidity and pressure controlled to prevent outside air entering. Uniforms for a special dust free material almost fully cover workers.

6.3 Export Markets

CBL has also set its sights on growing its revenues through tapping sales in overseas markets. Although CBL had been exporting biscuits from inception, around 1997, the company began to export regular container loads to the United States, Canada, Australia and India, while also investigating at lucrative export markets such as the Middle East. India became a particular focus, with the company beginning its own marketing effort there. By 2000 CBL was also exporting to the US, Canada, Australia, UK, Sweden, the Middle East, Hong Kong, Mauritius, Fiji Islands and the Maldives. Although the export sector took a long time to stabilize, export orders now go out to 36 countries, exceeding Rs. 110 million in value (USD$ 1 million) in 2004/5.

Exports to the UK, Middle East and Canada are mainly to the so called ethnic markets catering to the Sri Lankan diaspora, but in other countries demand is slowly establishing into in the established biscuit market through chain distributors. While most exports are under private labels – that it, outsourcing for foreign biscuit companies - CBL has managed in some instances to establish its own brand. This is particularly the case in Australia where the company has taken the additional step, as it did in India, of setting up its own marketing effort by establishing a company representative as market manager. Australia is now the main export market for CBL, having overtaken the United States. CBL also enjoyed some recent success making inroads into western Africa.

6.3.1 Entry into India

There are four accepted methods for a company to enter a foreign market: exports, licensing, joint ventures and direct investment, which often represent an evolution in the degree of interest the company develops once it is present in the market. Beginning with straightforward exports from the mid 1990s and early exports of containers to India in 1999 CBL took the next step in developing the Indian market by investing Indian Rupees 3.6 crores (36 million) to purchase Parry's Confectionary based in Pondicherry, about an hour from Chennai. Setting up a 100% owned subsidiary Ritzbury India, CBL began manufacturing operations for the first time outside Sri Lanka. The acquisition provided CBL with a six line 350 ton a month manufacturing plant. The company entered the Indian market with the Munchee and

Ritzbury brands, for distribution in Tamil Nadu and Kerala. While the chocolates were manufactured in Sri Lanka, most of the Munchee range was baked in India. CBL produced nine varieties of biscuits including Marie, Glucose biscuits and several creams at the Pondicherry plant.

This manufacturing base in India proved to be both a blessing and a distress to CBL. On the one hand, it became a strong negotiating tool for CBL at a time of labour unrest.[34] CBL was able to take a tough stance, threatening closure and the moving of its entire manufacturing operations to its base in India. However, on the other hand, distribution arrangements provided by Parrys proved to be less than satisfactory. The company began a losing battle in trying to distribute its products. Revenues were far below expectations and Ritzbury India further faced a number of detrimental tariffs in South India. Despite a Free Trade Agreement with India, and a reduction of duty to 3%, the state sales tax in Tamil Nadu was increased by 8% for imported goods effectively nullifying any duty concessions. Following a second acquisition in India, CBL decided to completely dispose of its Chennai operations at a loss, dissolving Ritzbury India.

In 2003 CBL heard about the sale through court auction of Bakemans, once the third largest biscuit manufacturer in India with a market share high of 13% of the total Indian market. Outbidding its Indian competition in July 2004 CBL successfully acquired the assets of Bakemans at a cost of Rs..300 million . Along with the premises the company also gained six biscuit lines from the acquisition, two of which it chose to bring to Sri Lanka for installation at CBL foods to allay its present capacity constraints. Based in Patiala in the state of Punjab, CBL set up CBL India with plans to commence commercial production in the near future, using one biscuit line.

Having recruited Bakemans former CEO, who had been directly involved in the company's rise to its one time number three position, CBL has ambitious plans for India and its manufacturing operations there in the future. Tentatively speaking of a

[34] In April 2001, at the instigation of the Janatha Vimukthi Peramuna and reneging on a binding collective agreement signed the previous year, CBL's factory employees resorted to a go slow and stopped working overtime, asking for a higher bonus, severely affecting production and export commitments.

"Munchee-Bakemans" brand name, CBL aspires to become number three in India within two years of operations and have the same type of success at retail that Dilmah has achieved in India[35]. CBL's challenge in India is to find a mass consumer line of biscuits similar to Marie and Cream Cracker in Sri Lanka. Glucose biscuits are an area that the company will have to examine, given their present popularity in India, but to compete with established players such as Parle-G and Britannia, CBL will need both a reliable distribution network and an attractive proposition for the Indian consumers to give it a try. The use of the Bakeman name, which would certainly aid the latter, is presently an issue. If CBL is able to use the Bakeman brand name in some form it will cut down market establishment time considerably. CBL's strength is that it has the innovation to develop a product to suit this market and it has proved in Sri Lanka that it has the quality and taste to convince consumers to switch to its brand. What remains to be seen is whether it will have sufficient insight into the Indian market to correctly select what that winning product and distribution strategy should be.

6.3.2 Other Indian Ventures

In 2004 CBL entered into an agreement with Ferrero of Italy to distribute and undertake manufacturing on Ferrero's behalf. Ferrero is the world renowned producer of Nutella, Tic Tac and Ferrero Rocher and Mon Cherie brands of chocolate and another family owned business. Presently the agreement entails the manufacture of boxes for Tic Tac, Ferrero's signature mini mint, intended to be extended to the manufacture or finishing of the mint pill also. CBL distributes Ferrero Rocher's foil wrapped boxed chocolates, Nutella and Tic Tac for Ferrero in Sri Lanka and India. Manufacturing commenced in August 2005, packing pills imported from Australia into the boxes. Distribution is intended for Sri Lanka, Africa, India and Pakistan.

The linkup with Ferrero is another example of CBL's chairman's dynamic personality and relationship building skills. Following initial contact in India, CBL's directors visited Ferrero's head quarters in Alba, Italy, which Ferrero reciprocated with a visit to Sri Lanka. The company has expressed an interest in using Sri Lanka as a base for South Asian activities, moving its present activities from India, convinced of CBL's

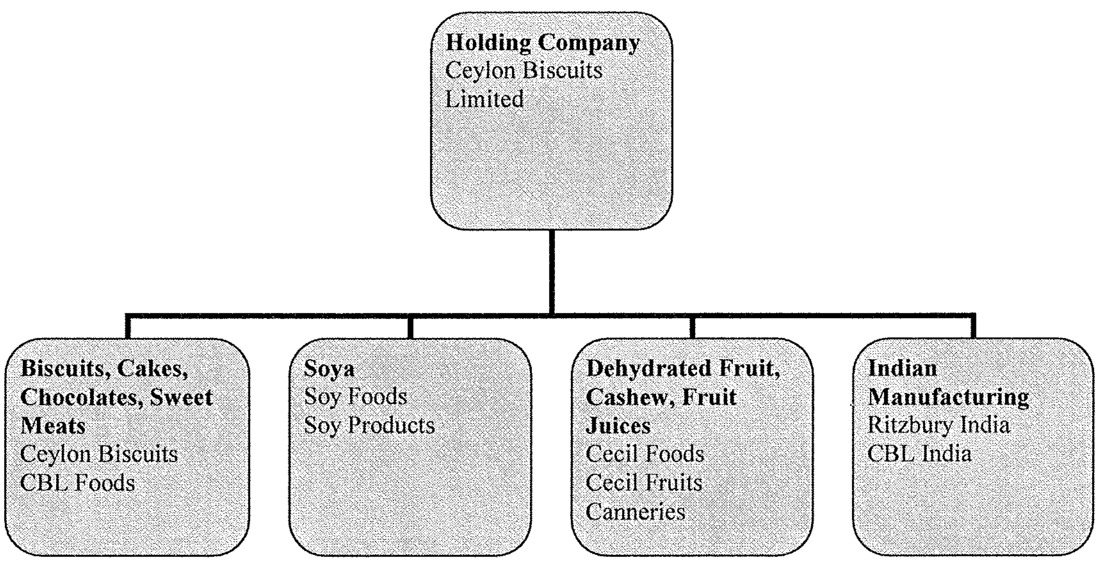
35 Dilmah Tea which has a distribution tie-up with Dabur Foods of India is present in over 2000 retail outlets in India.

abilities as a business partner. CBL in turn hopes the association will expand its knowledge base through contact with the 60 year old Italian family business.

7 Ceylon Biscuits Today

Munchee is presently the biscuit category leader in Sri Lanka with a market share of approximately 50%, and leads in Marie, Puff, Cream Cracker and Nice categories. Ritzbury its chocolate arm is number one in chocolate coated products and number two in the overall chocolate category, with its sights set on defeating Edna to become the market leader. Soy Foods is presently market leader in the soy category and has just concluded a long term initiative to lower costs and increase profitability.

Figure 2 Current CBL Business Units



7.1 Manufacturing Operations

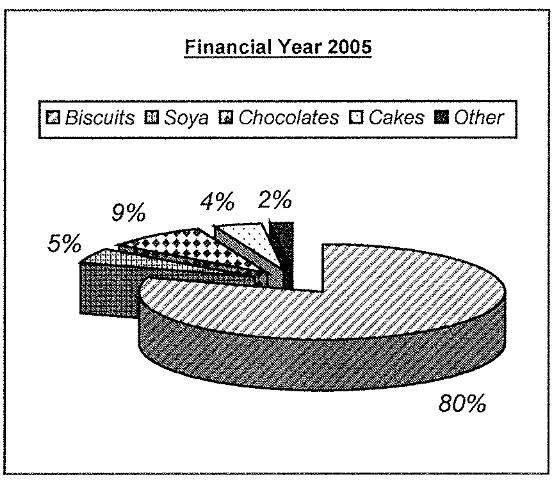
Manufacturing operations for the bread and butter brand of Munchee biscuits remain mainly in the hands of the parent company at head office, Munchee biscuits are primarily manufactured at CBL's original Pannipitiya location, with some production now being supplied by CBL Foods (a CBL subsidiary) located at Rannala. In addition to its Tiara and Okay cakes, CBL Foods also produces some lines of Ritzbury chocolates . Any future expansion in production capacity for CBL willmost will likely take place at Rannala, due to CBL Foods preferential tax status and available space. Soy Foods (Lanka) which has a a separate manufacturing facility in Ratmalana,. also markets its products through a separate distribution network than used by Munchee and Ritzbury. Export of Lanka Soy is an area to be explored, with a few preliminary container loads having been shipped out to Malaysia. Cecil Foods' production is based in Avissawella. Its range of organic products presently targets the export market, though plans are in place to enter the local market shortly. Finally, the Indian operations in Patiala remain the engine of future growth. CBL firmly believes that it must look outside Sri Lanka for growthif it is to become a regional player. India, with its estimated biscuit market of 600,000 tons per annum in comparison to Sri Lanka's 50,000 is a prime target for sales expansion.

In summary, CBL's current business activities are all in the food arena and primarily focused on biscuits, chocolates, cakes, Soya and now dehydrated fruit products and natural fruit juices. To date, nearly 80% of the company's turnover comes from the well established Munchee biscuit area, but that contribution is expected to fall in the future as recently introduced areas particularly cakes gain market acceptance.

7.2 Business Unit Contribution

Biscuits

Turnover from Munchee biscuits, the biggest contributor to group turnover, grew 30% in the financial year 2004/5 and early results for 2005 show this trend continuing. Past years sales have grown at a similar overall pace, although specific products have shown even higher growth rates at times of changes and innovation. Profit margins on biscuits range from 20-25% with products such as Super Cream Cracker, Tiffin and Chocolate Puff being the most profitable. Biscuit sales are presently constrained primarily by production capability, with demand strong and the company intending to increase its



production lines in 2005/6. To try to keep up with demand, CBL has brought down two lines already from its recent acquisition in India and plans to import a new 2 ton per hour machine from Italy, expected to be installed in early 2006.

Chocolates

Chocolates displayed a strong growth spurt during the financial year, overtaking Kandos (Ceylon Chocolates) the longest established player in the chocolate area. Ritzbury is presently second to market leader Edna but intends to focus on slabs in the future to try to narrow the market lead gap. Chocolate sales are expected to continue to contribute a steady 10% to group turnover in the future. Margins on chocolates are a minimum 25% with an average margin of 30% over the financial year.

Soya

Soya sales now contribute approximately 5% to group turnover. Although Soya turnover grew by only 10% in 2004/5, profitability of Soy Foods increased sharply with the program of cost cutting measure put recently in place as a result of efforts of more than a year. Profit before tax grew a significant 64% and profit after tax increased a healthy 41% from Rs. 12.8 million to Rs. 18 million over the past year.

Cakes

Cakes became the most recent entrant into the CBL range as commercial production began in October 2004. Despite many struggles with new technology and formulation and the challenge of entering a completely new market, cakes contributed a solid 4% to group turnover in just over five months of sales. The range of cakes launched last year have shown a surprising level of acceptance in the market and will have a considerable impact on the next financial year's results. CBL expects the new cake area to grow to 10% of turnover by 2005/6 and to be the high growth area for the next few years and the primary means of reducing Munchee's share of group turnover.

Other

Other contributions come from the dehydrated fruit products and fruit juice area, as well as such ventures as Q Soft, CBL's Enterprise Resource Management subsidiary.

7.3 Group Performance

While CBL's overall growth has been strong over the past five years with revenues more than doubling from Rs. 1.9 to Rs. 5.2 billion over the period, profit increases have been even higher due to various tax benefits. In 2005 CBL's group turnover grew 48% to Rs. 5.2 billion and net profit after tax grew 63% to Rs. 533 million, the highest ever in the company's 36 year history. Sales surpassed the previous year across all areas of biscuits, chocolates, Soya and exports. The tremendous bottom line growth clearly indicates the contribution accrued from CBL Food's tax advantaged status. In comparison the 2004 figures were 11% top line and 23% bottom line growth.

On average, overall profit margin has been near 9% over the five year period. This is taking into account F/Y 2001/2 which differs due to both the industrial unrest that CBL faced for two months of that financial year as well as the exhaustion of the tax benefits afforded by the 1988 Investment Tax Allowance.

Figure 3 Group Revenue and Growth

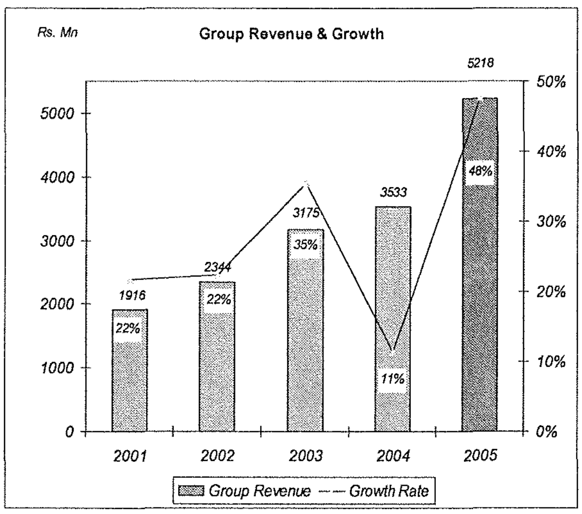
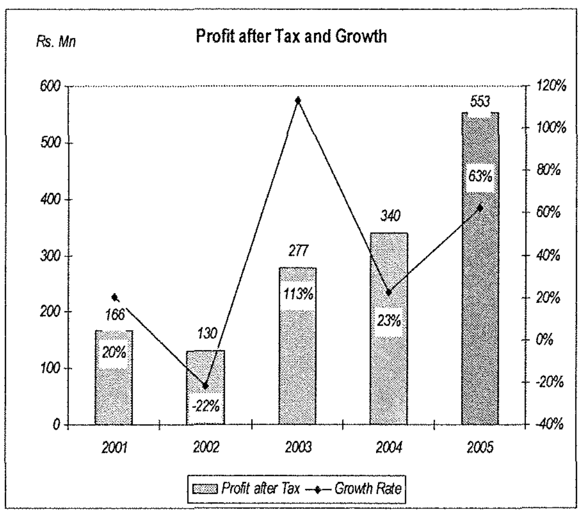


Figure 4 Profit after Tax and Growth



The company's latest earning per share figure (EPS) is an astonishing Rs. 53.12 and more impressively has grown from Rs. 36.75 in 2003. This EPS figure reflects the extraordinary growth that CBL has experienced over the last 10 years. EPS in the late 1990's was actually in the Rs. 3000 range on the company's original ordinary share capital of Rs. 390,000 (made up of 39,000 Rs. 10 shares).

However corporate actions in 2000 and 2002 grew share capital significantly. The year 2002 in particular saw a bonus share issue that increased share capital from Rs. 12 million to Rs. 84 million, the present day value with 8.4 million common shares issued. Dividend payouts have reflected such earnings and been equally attractive with dividend rates of 70% in 2001 and 2002. On a comparative basis, once the adjustment is made for the bonus share issue, 2003 and 2004's dividend payout figures rise to 104% and 140% respectively.

Figure 5 EPS & Dividend Payout

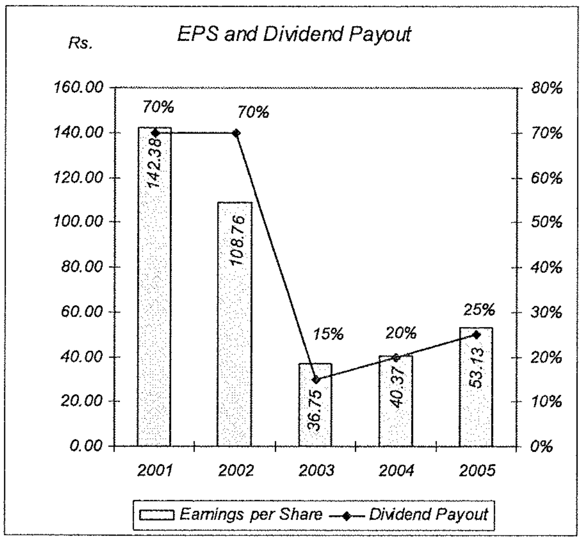
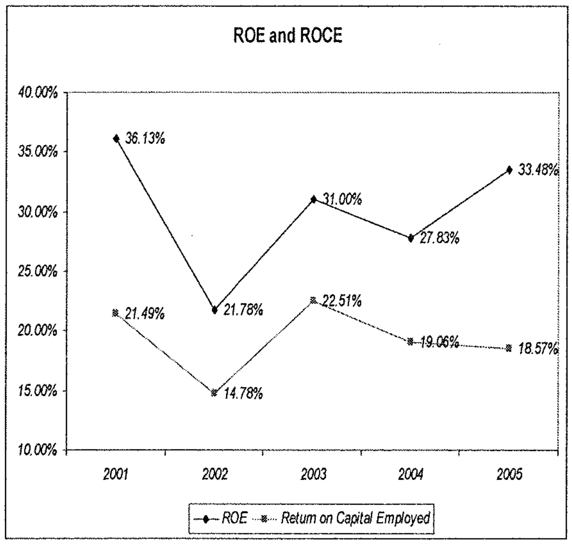


Figure 6 ROE & ROCE



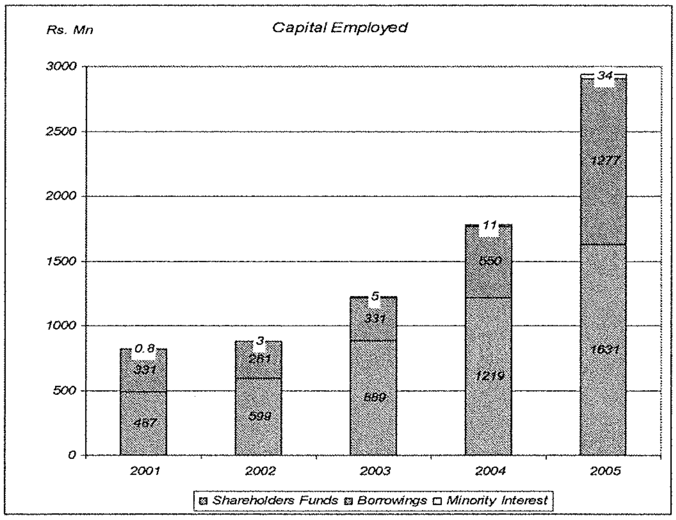
Return on Equity (ROE) and Return on Capital Employed[36] (ROCE) have both roughly tracked each other through much of the five year period. Both are at high levels, with ROE well into the 30% range. The reason for this is three fold: CBL's heavy investment in technology has paid off by making it the lowest cost biscuit manufacturer among its competition. Further the company has consistently run three shifts a day seven days a week for its operations, resting its machines only a few hours a week for preventative maintenance. In addition, efficiency has also increased by leaps and bounds over the years. Productivity which was eight kilo per person? hour four years ago is now 14 kilo.

Significant divergence between ROCE and ROE occurs in 2005 however with ROCE dropping to 18.5% despite ROE increasing. This is a result of the sharp increase in borrowings as a share of Capital Employed rather than the use of internally generated

[36] Capital Employed is made up of Shareholder Funds, Borrowings and Minority Interest

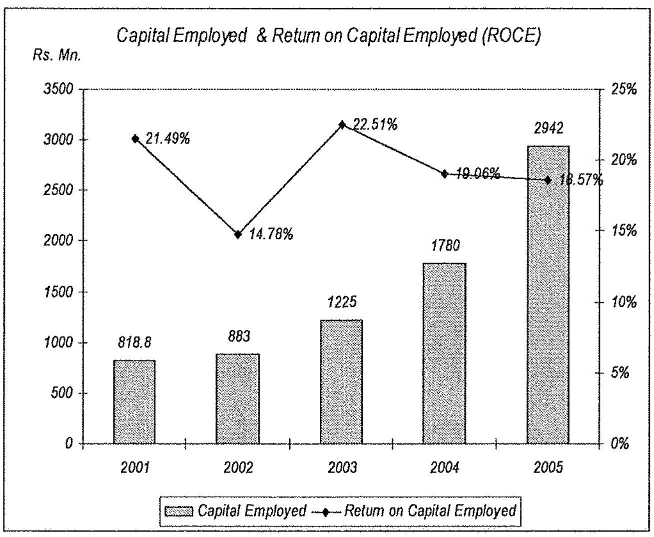
funds as was historically largely the case with the company. Such borrowings have been made up specifically as long term loans to finance recent acquisitions, such as the Bakemans plant in India as well as new manufacturing plants for its local operations.

Figure 7 Capital Employed

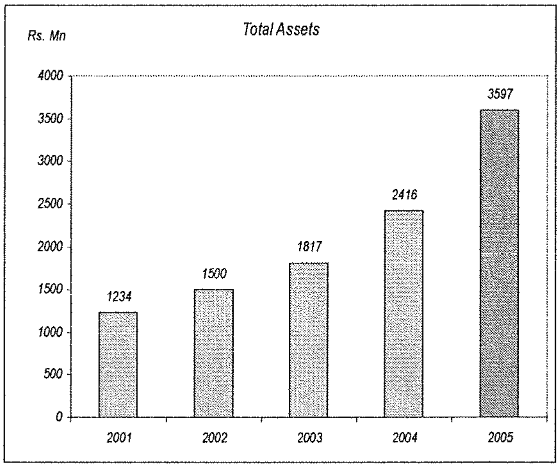


As Capital Employed indicates, in the past financial year borrowings increased more than 130% from Rs. 550 million to Rs. 1.27 billion with shareholders funds registering a much smaller 25% increase from Rs. 1.2 million to Rs. 1.6 billion. Borrowings now make up 43% of Capital Employed compared with 31% in the previous financial year.

Figure 9 Return on Capital Employed

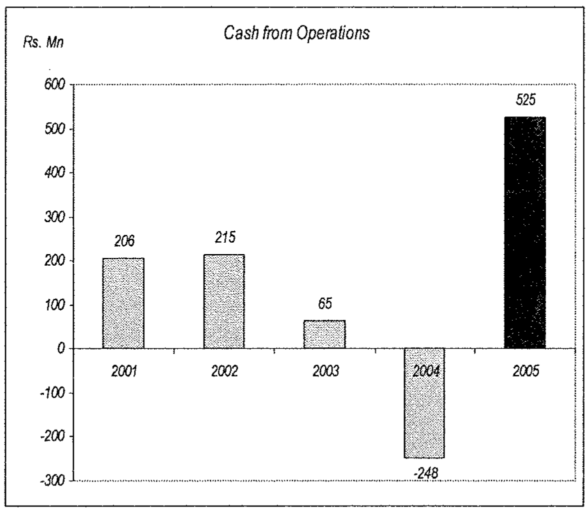


The benefits of the 65% growth in Capital Employed between 2004 and 2005 have not yet been represented in Return on Capital Employed. ROCE over the past year has slowed. While the new Italian plant will show immediate effects in terms of increasing production and productivity they will register in the following. The Bakemans acquisition will most likely take two to three years to show meaningful contribution to Profit after Tax.

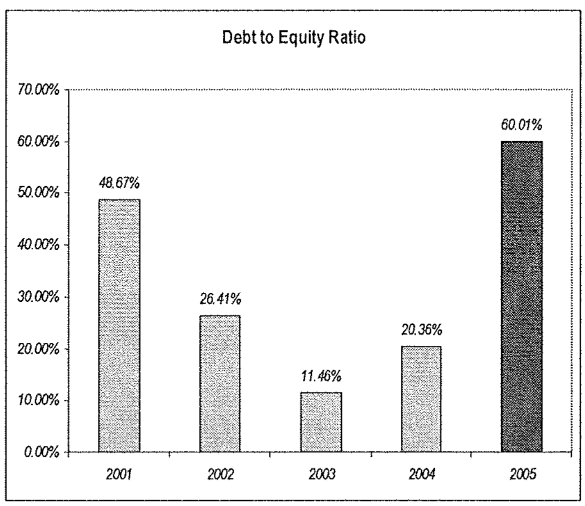


Total assets have nearly doubled over the past two years, again as a result of the Bakemans' purchase, the new plant and land acquisitions. CBL's Cash from Operations (COP) moved down considerably in 2003 and 2004, entering significant negative territory in 2004. This reflects the inability of CBL to generate sufficient cash from its operations alone to cover its expansion strategy.

However COP has recovered strongly in 2005 to reach Rs. 525 million, indicating the ability of the expansion program to generate turnover and profitable margins. While much of this cash will be spent on repayment of the borrowings of the past two years this level of COP if continued will allow CBL sufficiently leeway to finance future expansions and acquisitions that come its way.



The company's long-term debt has risen from 11.5% to 60% over the past three financial years. In 2003 CBL had cleared out most of its long term debt while shareholders' funds had also risen by over 50%. The company was well positioned financially to begin an expansion program. However, 2005 saw a dramatic leap in borrowings as long term borrowing nearly tripled.



7.4 Path Forward

Ceylon Biscuits faced with production capacity constraints for its biscuits, as demand has grown well beyond forecasts. It has adopted the following three pronged approach to increase capacity: a) bringing down two biscuit lines from India from its Bakemans operation for immediate capacity expansion, b) importing a brand new large capacity plant from Italy and c) future capacity expansion of its Indian manufacturing operations . CBL's future growth will come from increasing exports of its established products and diversifying by leveraging its domestic logistics and distribution capabilities to market its other products. The company is also increasingly open to looking at new opportunities, an example being manufacturing for Italian chocolate maker Ferrero.

The company's core competencies for the future will be investment in technology, financial strength, sales and marketing competency and focused management. Key challenges will be dealing with its production restrictions and becoming able to compete on a global basis by 2007. CBL's greatest test will be when the Indo Lanka FTA final phase permits Indian biscuits to be imported duty free beginning 2007.

CBL intends to examine becoming listed on the Colombo Stock Exchange over the next few years. Since the desire for listing does not seem to be driven by financial needs only, it is still unclear what CBL will gain from this step. The company wishes to formalize its procedures in order to firm up its financial transparency and professionalize its organization structure and operations to ensure future continuity and success.. There is a sentiment that going public will enforce the discipline required to ensure this.

CBL is well poised with a business model to ensure ongoing value creation. It has spent time building strong brands that have future earnings potential. The brands have proven their competencies in that they have been replicated across new markets with success. However there are some concerns that need to be explored.

1. Sustaining growth

CBL may not have the structures in place to cope with the expanded business complexity of its operations as its growth has been considerable in a short period of time. The very simplicity of its key executive team has been a great strength but if and when the Chairman eventually reduces his level of involvement in the future he will need to have expanded and strengthened his senior management team. The potential risk is that the company may choose to go in for short term consultancies to meet immediate high level human resource needs and that such consultancies will bring *intellectual* consultants rather than those who have proven their worth in the market place - where brands are built.

2. Identifying succession.

This is the single most important gap affecting CBL's future growth. It seems clear as of now that succession planning will be key as both the Wickramasingha daughters, hardworking and committed as they are, seem to want to fight shy of putting in as much time and commitment into the business as their father did. Chairman Wickramasingha sees this succession process happening sequentially through a combination of external board placements and going public. The expectation is that the latter will help the company attract CEO caliber external talent for the future. It must be noted that while no company can be driven by non executive board members, we do strongly recommend that the following competencies be brought in at the board level.

a. A financial controller/ treasurer and IPO manager – a skills level of financial planning not currently present.
b. A top Indian of the caliber of Tarun Das whose help in bringing in Indian business contacts has been immense to the John Keels Group.
c. An businessman with significant international experience whose multinational exposure and regional experience in setting up operations in foreign markets are the type of skills needed by CBL. An example might be someone in the league of Lalith de Mel, who was brought in by Hemas Holdings.

3. Local market capacity.

Up to now demand for CBL products has exceeded its production capacity. However with its aggressive capacity expansion program, there is potential that future capacity could exceed local demand. The challenge at that time will be whether CBL can drive an increase in local market demand or whether the demands of larger external markets will dictate production priorities, strategy and formulations? One of CBL's strengths has been not falling prey to the ever increasing Indianisation of market experts unlike brands like Anchor, and companies like Swadeshi Industries and The Maharaja Group The big issue is, given the need to build strong Indian competencies and market expertise as the company ventures into India, will such expertise begin to dominate CBL's Sri Lankan strategy too? Will the company try and rationalize products to meet Indian palettes, and will excess local production capabilities become they driver of this strategy.

4. Managing export markets

Export marketing could be more aggressive - the model adopted by Munchee for Australia of establishing a marketing office seems the proven route to establish and develop key markets. We see some amazing possibilities for synergies for CBL in inviting someone of the caliber of Merrill J. Fernando Chairman Dilmah to its board, perhaps even offering Dilmah some equity in an export division or forming a separate export company, who could help with establishing relationships with some of Dilmah's retailers and distributors c in Australia[37]. One way or another, the use of a different model to fast track export market expansion is advisable.

5. Managing Indian market entry

This is the second greatest challenge facing the company. India is an amazingly dissimilar market to Sri Lanka despite certain cultural similarities. It is fragmented with over 15 million retail entities, the largest number in the world. The organized retail sector in India is only 3%. However, over 51% of its population is under 25 years of age and the fastest growing sector is the retail high-end supermarkets - expected to grow over three fold in the next five years (from US$8 billion to US$25 billion). Beginning with three malls in 2003, India had 25 by 2005 and is building 200 more. The pace of change is phenomenal. It makes sense to enter this high-end retail

[37] Dilmah is now the third best selling tea in Australian supermarkets and globally among the top 10 best selling brands of tea.

market rather than grapple with the millions of the mass retail trade who are price sensitive and far too fragmented[38]

6. Going Public.

This is possibly the best strategy for family businesses that want to avoid potential succession or family related issues and/or realize the true value of their wealth tied up in their business assets. It is also the most successful way to transit from family management towards attracting the best available market talent. CBL could study some experiences of Hemas Holdings in this area. Ideally, a public issue should be undertaken while the current Chairman is still on board as he has the market presence, communication and negotiating skills to really lead CBL to that next level.

7. Attracting talent

Human resources hires mainly to fill jobs, rather than actively looking for available and recruitable talent to match future potential company needs. This is true of most companies. The great skill will be for CBL to actively bring in and put weight behind the best of the next generation of managers, in key skills areas, at twenty, thirty and forty year old year slabs. An aggressive recruitment program of executive trainees and investment in a foreign business school exposure for key managers is now needed.

8. Focus on core competencies/Refocus on Sales and Marketing

CBL's passion for quality, capacity to build brands and technological and production innovativeness are great competencies to be retained. Skills like marketing and sales are always unstable. Such skills are in demand, pressures are great and often new challenges are looked for in different cycles of growth. No proper product management system or category management is in place. It is important to have some depth to the marketing department. And while CBL's success speaks volumes for the capabilities of its current Director of marketing there is a need for a diversity of approaches and opinions so that marketing efforts do not grow stale. Key mid level appointments need to be made.

---

[38] Frontline report- November 18 2005 quote Krish Iyer chief executive of Piramyd Retail

9. Customer intimacy /Product leadership / Managing brand TOM

In spite of CBL making all the right moves, and succeeding in achieving higher scores than Maliban in most of the consumer research categories (see chart below), Munchee is still behind in brand Top-Of-Mind (TOM) recall. This is despite Munchee having strong market noise levels in share of voice and especially with the competition making so many mistakes.

	2004	**2004**	**2005**	**2005**
Category	**Munchee**	**Maliban**	**Munchee**	**Maliban**
T O M Recall	31 (L)	65	38 (L)	55
Unaided Brand Recall	85 (L)	90	90 (L)	91
Consumption of Brand	82 (L)	82	86 (H)	82
Consumed most often	48 (L)	52	58 (H)	45
Always fresh	71 (H)	70	78 (H)	66
Very tasty	68 (L)	67	78 (H)	65
Hygienically packed	70 (L)	74	79 (H)	70
Worth the price	62 (L)	68	73 (H)	66
Winning brand	58 (L)	59	62 (H)	56
Products are of quality	61 (L)	70	70 (H)	65
Market Leader	57 (L)	60	61 (H)	54

Part of the gap between Munchee and Maliban in "top of mind recall" can be explained by the long history of Maliban as a market leader, and that it was the dominant player for a very long time.

8 Key Findings

8.1 Impact of Government Policy

The socialist policies of the 1960s and 70s certainly had an influence on Ceylon Biscuits. The company's very inception was an indirect result of these policies – a government sponsored program to provide a universal source of protein and nutrients to the nation's children. The company reports however that it was dogged by anti industrialist thinking from the then Department of Industries, including the difficulty to obtain a license[39] to import machinery and parts. However, despite these difficulties it persevered in its efforts to begin the project, even proceeding with two pilot projects at its own expense prior to receiving approval, in order to convince the necessary officials of its capabilities. It believed firmly that, given the regime at the time, its chosen business opportunity must work within the state's program and policy.

In the 1970s the company achieved such growth by sticking to this core nutritional biscuit success and grew within the structure of the socialist state sector. CBL maximized production and supply of the nutritional biscuit to schools, reaching 1.3 million school children at the program's peak. The company further expanded its range in 1973 by developing a new product Thriposha also for the state nutritional program. Using its own research and development resulting to a famous anecdote of the use of a (unused) cement mixer to attempt to make up the formulation, CBL conceived a precooked cereal based food. The Thriposha Program was a pioneering initiative in South Asia to provide a cereal-based, vitamin and mineral-fortified supplementary food to undernourished children and pregnant/lactating women and was an important part of Sri Lanka's nutrition program.

[39] Ordinary General License (OGL)

From a taxation perspective Ceylon Biscuits was set up as an independent company to take advantage of tax benefits offered. As a result the company benefited from a five year tax holiday and was exempt from Business Turnover Tax (BTT) for three years. Further advantages were to ensue by taking CBL public in the 1970s but were not realizable due to difficulties in breaking into the closely knit brokerage community at the time.

Only towards the end of the 1970's with the change in policy regime towards capitalism did CBL look at other markets. The company took advantage of the open economy to import a new biscuit line post 1977. While CBL may have recognized the tremendous potential of the biscuit market at this time, the company was faced with many business opportunities offered by the new open economy model. Lacking its own expertise to face the new market and eager to take advantage of the UNP government's pro growth incentives, the company ventured into several partnerships. Business areas included biscuits with Associated Biscuits, garments and hotels[40].

The Free Trade Zone and its apparel sector offered many policy incentives and tax holidays that CBL tried on more than one occasion to reap. Its first attempt was a joint venture[41] which was subsequently divested. It was at the still fledgling stages of the industry and was a somewhat half hearted attempt using second hand machinery. Next, CBL's chairman visited Germany and obtained manufacturing orders from Esprit, a designer clothing brand, but soon after the 1st shipment, the quota system was introduced and the garment factories in the free trade zone were not given European quotas. The operation ceased and the company was sold.

Towards the end of the 1980's, once again lured by the tax incentives, CBL collaborated with a Danish knitwear manufacturer to relocate his factory in Sri Lanka. However, this too proved to be a failure as the Danish collaborator ran into financial difficulties and did not repatriate export proceeds. These were both BOI projects. CBL was again forced to divest. On the hotel side, the sector crashed following the 1983 ethnic riots and tourism in Passikudah where the hotel Sun and Fun was situated was wiped out as the east coast became part of the war zone.

---

[40] In partnership with local politico/businessman Esmund Wickramasingha.

[41] With Hans Zieg, the second in command of A. Baur and Company

In the 1990's following the resumption of business activities after the JVP terror campaign of 1987-89 CBL returned its focus to its core biscuit area and began diversification/expansion into the confectionary industry. Though the 1980s had offered taxation advantages for expansion CBL had not been sufficiently focused on biscuits and was too wary of the unstable economy to commit funds. Now with the growth in market share to over 30% that came in the 1990s and the Investment Tax Allowance (ITA) of 1998, CBL seized the opportunity by embarking on a Rs. 500 million expansion program. The company imported a brand new state of the art Italian biscuit plant at a cost of Rs. 300 million. The ITA allowed an 80% write off against future profits of capital expenditures incurred in manufacturing for export against income taxes. This allowance lasted the company until 31st March 2002 and contributed meaningfully to the company's growth over the period.

In 2002 when as a result of exhaustion of the ITA, profit after tax fell 22% CBL was forced to look elsewhere for tax savings. The company decided to set up a BOI approved company, CBL Foods International with an investment of Rs. 1.5 billion. CBL Foods enjoys a 10 year tax holiday and commenced operations in 2004. In addition to its exports of biscuits, CBL has also entered into the ventures to manufacture dehydrated and juiced fruits primarily for export purpuses, taking advantage of entitlement of export oriented companies to a concessionary tax rate of 15% of qualified export profit[42].

8.2 Management Style

Over the past five to ten years Ceylon Biscuits has been deliberately attempting to bring a culture of professionalism into the organization. The company has begun performance monitoring and set up a Human Resource (HR) department, headed by the General Manager HR. With a wider mandate than just labour management, the HR department now focuses on crucial areas such as personnel training and development. and succession planning that have been largely ignored in the past, and is firmly established within the organization.. The company continues to strengthen its board, bringing in outsiders to contribute to its future strategy planning.

[42] Earned from the export of non-traditional goods.

8.2.1 Leadership Profile

Mineka Wickramasingha is a path breaker who can create a road on seeing possibilities. The early opportunity he seized with the nutritional biscuit for CARE international is emblematic of his ability to see market potential and create new markets. The dogged perseverance he demonstrated is another characteristic - the greater the problems on raw materials and resources the harder he tried. Lesser men starting out on the path of entrepreneurship might have caved in, or looked for easier paths. Instead he had a vision and he fought to achieve it, keeping his faith in the process.

There are many lesson here for today's entrepreneurs. One is that risk taking is one thing; but staying the course with courage and belief in one's vision is equally important. The other is that early entrepreneurs in Sri Lankan achieved so much with little state assistance in an era of exchange controls and controlled markets - quite unlike today's relatively free market economy. The CARE biscuit was brought out in such an era where tortuous permits and licenses led to a highly non business friendly environment and where imports for any purpose were extremely difficult to obtain. In CBL's case, there were no proper oils and fats, flour was of inconsistent quality and had a monopoly supply situation and the import of machinery was locked into a swathe of papers and license restrictions.

Despite these and other repressive business environment issues of the then closed economy, Mineka forged ahead with conviction and developed a working formulation which he constantly modified until he reached a product formulation for the CARE biscuit that was later gifted to the development agency for use amongst the world's poorest nations. This predicates another characteristic of the early entrepreneurs in Sri Lanka. They were tough businessmen who toiled for their profits, were frugal, had little time for posture and show and were rooted in societal responsibility.

Mineka Wickramasingha wanted to give something to the world and make a difference. He saw the tremendous potential of the CARE biscuit project. He knew he would make money on it, but agreed to share the part of the massive contract with Maliban. He was not greedy, he could afford to be big about it and he was. He showed business savvy and maturity and shared the pie with his competitor realizing his own limitations and understanding that delivery and keeping the business was more important than blocking competition: win–win as they say in business. This is an early example of "co-operation" that the Harvard Business School and Michael Porter would advocate a decade later. This is an important facet of entrepreneurship to know when to stop and be happy with a profit on a business and move onto other challenges.

At the level of adaptive leadership competencies, he was a mature leader - strong in communication at times of crises. For instance in 2001 the Marxist-Leninist JVP took control of CBL's employees union and refused to accept the terms of the then binding Collective Agreement. Chairman Wickramasingha took the JVP leadership head on and said he would close down the factory if they were disruptive and take the business to India. He then went public on television and spoke to the nation so that public opinion was leveraged in his favour[43]. This is the classic lesson that most businesses ignore - in crises they go into ostrich mode instead of remembering to communicate.

Based on the interviews, a non-scientific assessment of his EQ (emotional quotient) suggests that Mineka Wickramasingha would score high on self management, relationship management and social awareness, but low on his capacity to control his temper - which in the early years was apparently quite legendary, but which has now mellowed with time. Perhaps this was the "fire in the belly" that Lee Iacocca spoke of[44] - the passion to succeed.

Ceylon Biscuits, the organization itself, was quite intuitively just and built loyalty through shared challenges. Thus even before top outside professionals ran its Human Resource division, employees were kept abreast of outcomes and successes and made a part of the quest to become No. 1. The overall company culture thus was bonded as one in empathy and its leadership drew high respect and credibility. Wickramasingha

43 The company took a very strong position regarding the unrest, standing its ground and refusing to pay more than what was agreed in the Collective Agreement. While the matter was ultimately resolved amicably, presently regular monthly meetings take place for union concerns and the relationship is now very harmonious.

44 Lee Iacocca, was President of Ford Motor Company, President and Chairman of Chrysler Corporation and co-author of a highly popular autobiography.

played the charismatic chief, leading from the fore, decisive, driven, passionate about what he wanted and yet capable of knowing old hands by name and working the factory floor beside them when labor crises hit and orders needed to be met.

8.2.2 Leadership Diagnostic

Leadership models are possibly the most important facets that need to be built into Sri Lankan businesses. The spirit of entrepreneurship is helped by cultural environment and socio-ethnic values but it ultimately boils down to a set of characteristics that can be developed and adapted. It is in this context that we attempted a leadership diagnostic of Chairman Wickramasingha. The diagnostic was performed on competencies of business leadership, commonly acknowledged in existing management and Human Resource theory. The writers attempted to rate the Chairman on each individual competency, based on his responses and those of board members, and employees during the series of interviews. Overall he rated very favorably on the following leadership characteristics, with particularly high ratings on the first 6.

- Formulates visions
- Takes risks
- Explores new territory
- Invokes passion
- Networks
- Is Adaptive
- Takes the long view
- Initiates change
- Transforms
- Empowers
- Encourages diversity
- Acts morally
- Is fair
- Manages the detail
- Is accessible
- Is task driven

In summary Mineka displays dynamic leadership and strong credibility. Corporate leadership is at times one of posture, in which management attributes are cultivated that is why credibility is important. His is a leadership model that is driven from the respect of his achievement, the credibility of his discipline and his charismatic commitment to driving that which he envisions. He scores extremely highly as a visionary who inspires his people and reaches for the stars. He has also developed the ability to delegate and let competent professionals get their way on issues he may not always agree with. This shows the maturity and ease that success has bequeathed him. Mineka also displays significant flair in building and nurturing great strategic alliances like his ABL and later Nabisco relationships. This is a skill that is generational perhaps, in that negotiation skills and the type of cosmopolitan confidence are rare attributes in the younger generation of local entrepreneurs, and do not seem to be present even in his children . However Mineka's weaknesses are shifts of momentum or energy and a high temper that can leave some room for tension and may hinder building trust based empathy.

8.3 Shared Values

The CBL business culture is essentially that of the Wickramasingha family. It is one that is simple, friendly, family oriented and caring, with a life commitment to longstanding staff. Like all family businesses vestiges of feudal culture prevail, but more in charisma and the loyalty it generates than in archaic practices. A recent "proud to be Sri Lankan-with a shade of "sinhalakama" attitude pervades the ethos. This is possibly generated more from the marketing team but one that cuts across, to all employees as well as to its CSR initiatives.

There are a few interesting characteristics about CBL that differentiate it from most family businesses. For example, there are no third generation family complexities or issues apparent, perhaps as only one of the brothers' children have yet joined the business. There do not seem to be issues about heirs. The younger generation conduct themselves with discipline and quiet decorum despite their significant westernization. They live a moderate lifestyle. They are passionate about continuous improvement while as young mothers with families are juggling family life and work pressures.

Professionals are welcome and permitted to grow without family pressure from undisciplined family members. The culture of discipline is strong and family members don't moonlight - they earn their keep. They win respect by knowing their business. Their knowledge based edge is a key differentiator as they are all highly qualified in Biscuit technology.

Interesting too is the ritual of the working directors' lunch which is often eaten together in a small lunch room. Top management sit together and catch up on a range of issues across a dining table in a manner of relaxed togetherness unseen in the corporate sector. Many companies have formal and informal dining but the practice of clocking off to sit together daily is rarely performed with such easy familiarity.

From our assessment of the company, characteristics that represent CBL are:

1. Proud to be Sri Lankan
2. Family oriented – life commitment to employment
3. Feudal but caring
4. Risk taking / Entrepreneurial Spirit
5. Business acumen
6. Simplicity/frugality
7. Strategic contacts cultivated
8. Product passion
9. Far sighted/ high vision
10. Yin and yang complementarities of style-Chairman/Deputy chairman
11. Disciplined work ethic

8.4 Strategy

When we discuss Strategy, we are looking for a pattern or plan that integrates the organizations' major goals policies and programs into a cohesive whole. A lack of cohesion itself could be a deliberate strategy. Traditional strategy commentaries look for a tidy fit of maximizing relative internal competencies in the strategy adopted. Typically the marshalling of resources is based on where a company wishes to go vis a vis a clear understanding of the category and environmental risks and opportunities.