

## “CONSOLIDATION OR GROWTH?” POPY’S PREDICAMENT

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### ABSTRACT

Popy Umbrella Mart, a Small and Medium Enterprise (SME), is a success story for creativity and innovation and organizational change. By bringing hundreds of innovative products in Indian umbrella market it stands first to bag ISO 9001:2000 in umbrella manufacturing. Popy bagged the prestigious Rajiv Gandhi National Quality Award in the year 1999 for its efforts for bringing out quality products and for achieving excellence of operations in the field of umbrella manufacturing. Popy’s quality standard became the benchmark for ISI specifications for umbrellas in India. Popy is an inspiration to those who are reluctant to start business in Kerala, for fear of organizational culture and industrial climate, and an example of correct blending of experience with modern management for bringing excellence in performance. Popy has gone through a growth period and reached a critical mass – its “moment of truth”. With the chairman and managing director having different views on the company’s future, getting them to agree on the choice of growth strategy might perhaps depend as much on developing the right automation technology as on agreeing to expand production beyond the state. Which route should Popy take on its northward march? That is a question awaiting an answer

**KEYWORDS:** Popy, Family Production Units, Organisational Growth, Change Management

### INTRODUCTION

*The monsoon clouds had finally stopped their hide-and-seek game and turned their taps on full blast, drenching Kerala. Great for the parched earth but hard for the man on the road who had to wade through pools and puddles. Babichan sat on the window sill looking at the scene below, reminiscing about Popy’s journey. People & umbrellas were jostling for space in the crowded street. The staid black umbrellas had given way to ones in myriad hues, just as Popy was becoming a popular choice...*

Popy umbrella mart is a Small and Medium Enterprise (SME) located at Alleppey (popularly known as the Venice of the East) in Kerala, selling two lakh dozen umbrellas annually through more than 3,000 outlets. The first umbrella manufacturer in the world to get an ISO-9001 certification, Popy has a wide range of 118 varieties of umbrellas including a pocket umbrella which can be folded down to 4.5 inches. In its repertoire is the lightest umbrella weighing only 120 gm and a unique umbrella which offers protection from ultraviolet rays. Even with a daily production of 9600 to 12000 umbrellas, Popy is able to meet only half of the demand expected in Kerala and much more in India. It had to even temporarily remove its website from the internet on account of the backlog due to the additional demand from online customers from India and abroad.

A household name in Kerala, Popy bagged the prestigious Rajiv Gandhi National Quality Award in the year 1999 for bringing quality products and operations in the field of umbrella manufacturing. Its hallmark has been quality and innovation. With jingles that people hum, its marketing strategy has been instrumental in growing the business. Popy has

been adjudged the second most popular product in Kerala by the survey conducted by Dhanam Magazine<sup>1</sup>. In a state infamous for its militant labor & unfriendly industrial climate, Popy has been an inspiration to those who want to invest in the state. It has in the past been able to blend an understanding of the local culture with modern management techniques to raise a cottage endeavor into an industry.

### **Management History and Leadership**

Popy traces its humble beginnings to the pre independence era, when Kasim Karim Settu and Abraham Varghese were running an umbrella mart in Alleppey. After independence, Kasim Karim Settu sold his stock and returned to Pakistan. Abraham Varghese and Kumara Swamy Reddiar, a textile owner in Alleppey then started a partnership business under the name Radhakrishna Umbrella Mart. In 1954, after 12 years of partnership, they parted ways and Varghese started his own business, St. George Umbrella Mart. Though it started with nine employees, selling only 6000 umbrellas an year, St. George modernized into manufacturing and selling about 2500 dozen umbrellas per year. But in 1995, family reasons forced St. George to close down its business. In its place was started Popy Umbrella Mart by Varghese's son T.V Skaria (Babichan).

### **New Beginning**

When the new enterprise was being shaped, Babichan retained not only the employees and distributors of St. George Umbrella Mart but also the quality focus that his father had ingrained in his organization. Named after the youngest son, Popy as a brand name has found wide acceptance in Kerala. Now, cashing in on its tremendous utility value, Popy has turned the umbrella into a significant fashion statement. Change is a keyword in fashion and these changes are seen in the design, color and style of the umbrellas that hit the market every year. They have come a long way from the time when umbrellas were made only in black, to a stage when one can even think of carrying an umbrella that matches with the color and cut of one's dress. There has also been a substantial change in the technology used in umbrellas. Now, with a click of a small button the whole shade opens, protecting one from rain or sunshine.

The initiation T.V Skaria got into the business early on helped him understand the intricacies of all processes, from selecting raw materials to marketing and R & D. Traveling on work since 18, he visited Japan, Singapore and Taiwan to source raw materials and better understand their technology. The learning has helped him increase production to 1 lakh dozen umbrellas after starting Popy. Lot of designs Popy uses are created by the Chairman himself. A keen observer of the man-on-the-street, Skaria himself picks the colors of the season and talks to young children to figure out which cartoon character should adorn the new line of umbrellas. This is important because 25% of all umbrellas sold in the state are bought for children. In the midst of his son Davis Thayyils' taking over, production has reached 2.5 lakh dozens in hundreds of varieties. With 5000 distributors and agents currently associated with Popy, business is on an upswing and with another 8900 applicants waiting for a grant of distributorship, Popy could not wish for more! Around twenty five years ago, 50% of the umbrella demand in Kerala was met by manufacturers from other states while now Popy has captured their markets.

### **Product Innovation & Quality**

Two of their hugely popular commercial spots on television before the evening Malayalam news have helped

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<sup>1</sup> Dhanam magazine, 2005

Popy capture about 50% of market share in Kerala. These advertisements, along with their uncompromising quality and reasonable prices made Popy the market leader. During the time of school admissions, customers have been known to desert shops which do not stock Popy. An important contributor to this popularity has been the innovative ideas that Popy has built into such a commonplace object.

The attractions include an A C umbrella with ultraviolet coating to keep one cool even under a blazing sun, water proof umbrellas with WPWR coating, lighthouse umbrella which lights up when opened, Godfather umbrellas that can double up as a walking stick, gems umbrellas that are seamless, and finally, the children’s delight, an umbrella that shows cartoon characters when it rains! Popy has also brought out Teflon umbrellas that stay dry in rain, torch umbrellas that have an additional feature of a torch light that can come in handy at night, a five-fold Nokia umbrella that looks like a cell phone when folded and Popy Nano, the smallest big umbrella.

Skilled employees and stringent quality checks have made Popy a trusted brand. While giving freedom to its employees for creative expression and innovation, accountability has also been ensured with each product being given a serial number and a register maintained on who assembled the product and who made the stitching. Popy manufactures only prime quality products and does not have a system of seconds’ sale. The quality policy of the company aims at maintaining customer satisfaction and market leadership by virtue of product quality and competitive pricing.

Their quality objectives are:

- To maintain a friendly yet competitive spirit while manufacturing high quality umbrellas.
- To induct technological innovations to improve material strength and excellence of product.
- To encourage and reward all those who contribute to quality improvements.
- To uphold honesty, justice, decency and fairness in all dealings.
- To keep the company economically viable and oriented towards growth.

The retail prices of products are fixed in January every year and do not change through the year. An agent or a distributor is not authorized to offer discounts to boost sales. Every consumer with a Popy umbrella in his hand is a brand ambassador for Popy. Textile and stationary shops are the distributors and sellers of Popy. They have found that stocking Popy has helped boost the sale of other products in the shop. Notwithstanding the costs involved, Popy does not compromise on quality. With an average price ranging from Rs.100 to Rs.250 for a quality product, the customers are the beneficiaries in the deal, just as Popy wants it to be!

### **Organization Structure**

Umbrella manufacturing in Popy is highly labor intensive. With demand on the rise, Popy wants to scale up production from 800 dozens to 1000 dozens per day for the whole year. Faced with a shortage of skilled manpower, Popy has tried to automate its processes under the initiative of Mr. Davis, M D and son of the Chairman, but the quality of the final product has not been up to expectations. Developing an automated technique that gives the same quality as the hand stitched variety remains a vexing problem for the company.

Industrialization has not really taken off in Kerala, mainly on account of power problems, inadequate raw materials, strikes and labor unrests which are often used for political ends. Trade unionism in the state has progressed to a stage where there is a growing gap between leaders and members. Political considerations have taken an upper hand. A declining work ethos, disruptive competitions among unions and the unions' tendency to block modernization and introduction of technology have all made entrepreneurs wary of investing in the state<sup>2</sup>. The best option for the state therefore is small scale industries. SMEs, IT and education sectors are currently doing well. Given the compulsions of having to tread carefully on the labor front, Popy has managed to grow by creating an organization structure that manages with minimum direct employees, with a good part of the product assembly undertaken at Family Production Units (FPU).

Each FPU comprises of six to fifteen people from nearby households who buy material from Popy & assemble umbrellas according to the company's specifications. This has worked out to be advantageous for the company, by keeping unions away, as well as for many families in nearby localities by helping them become self-employed.

### LAN Organization Structure

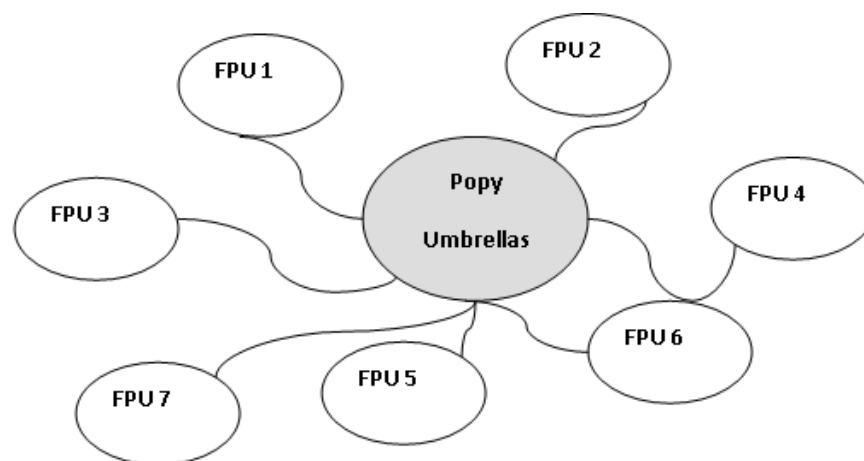


Figure 1

People of Kerala by nature prefer to work in their own enterprise rather than for someone. This **Local Area Network** structure, as we would like to christen it, combines the advantages of being a family enterprise and an out-sourcing model for Popy that brings in expertise and quality without the hassle of supervision or managing unions. Raw materials and technical inputs in the form of training are all that is required. A clearly laid out technical specification manual and stringent quality checks more than make up for absence of supervision. Each FPU which comprises members of an extended family together execute the job. Once the key member is interviewed and selected for association, Popy provides the initial training for all members. The FPUs are functioning independently and have not had quality or delivery problems till date.

The main factory has a relatively flat organization structure with minimal layers but most key decisions are taken by the MD. For company employees, the welfare schemes include loan facility for children's education, housing loan and personal loans for marriage expenses. As a responsible corporate citizen, Popy is also involved in a welfare society for mentally retarded children.

<sup>2</sup> Matthew Anand (2001) INDICATOR S.A, vol 7 No 4

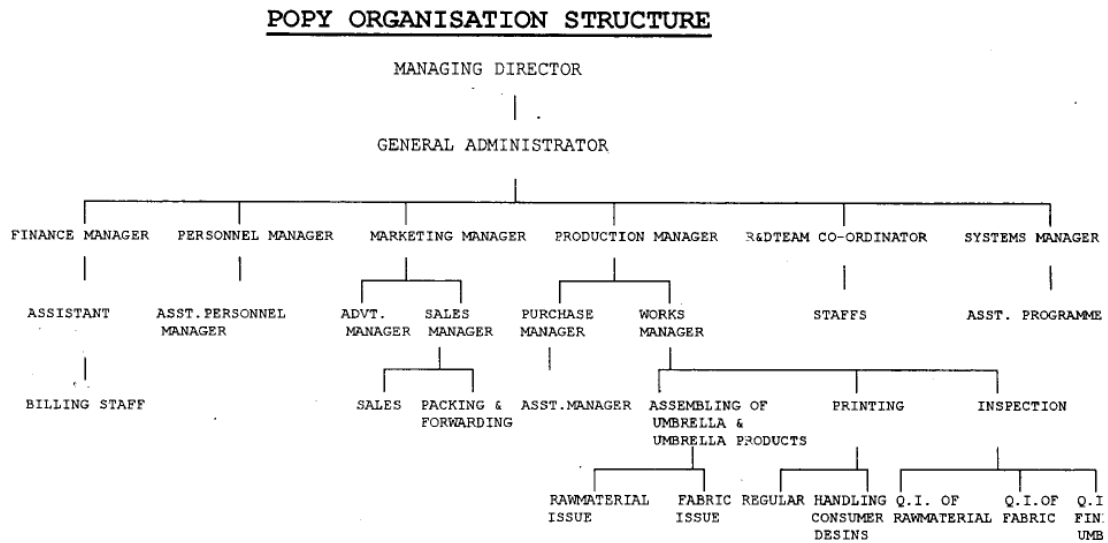


Figure 2

**Outsourcing, Collaboration and Joint Ventures**

About 65% of the components of Popy umbrellas come from Japan, Singapore, Dubai, Taiwan and Germany. Koyoto Company, Japan was initially reluctant to supply parts to an Indian company. They were apprehensive of doing business with a small group. But Skaria was able to win over the Chairman of Koyoto by showing the ISI certification and his role as the chairman of the committee. Cloth, the most important component of an umbrella should be able to withstand the lashing monsoons and the blazing summer heat. Taiwan, known for its superior umbrella fabric, was Popy’s choice for collaboration. Imported cloth from Taiwan comes to Popy’s factory in Dubai where it is cut and stitched in shape. For manufacturing the frame and stick, Popy has two joint venture partners, Fulex Steel Printab, in Falna, Rajasthan and Fuma Umbrella works in Thane, Maharashtra. The handle is made of virgin plastic material and the engraving done by German paints. The designs are prepared by Popy’s R & D department and sent to listed suppliers for production.

**Challenges Ahead**

Chairman is a veteran with years of hands-on experience in umbrella manufacturing. He worked as an employee for 12 years before becoming the Chairman and has been able to deal with all quality issues, people problems and financial troubles. He has successfully negotiated with suppliers and kept customers satisfied. However, Popy has not been able to scale up production. Unable to meet even half of the orders placed on the company’s website, it had to take its website off the net. But this is an ostrich-like approach to the problem of insufficient capacity.

At present their attention is on parts manufacturing as part of their vertical expansion process. Manual assembly needs to be automated if production can catch up with the increasing demand but without compromising quality. The baton of creativity and innovation now has to be passed on from the Chairman and MD to the employees especially those in the R & D department to ensure survival and advancement.

Despite innovations and smart marketing, the Popy brand now faces challenges on account of entry of cheap umbrellas from China. These can take away the mass market from Popy because mass market is price sensitive and the product happens to be seasonal. The life of an umbrella is less than two years and brand loyalty from customers cannot be

taken for granted. Popy needs to get on an overdrive to build the brand equity so as to sustain the imminent price war.

### **At the Cross Roads...**

**Even those who fancy themselves the most progressive will fight against other kinds of progress, for each of us is convinced that our way is the best way."**

Louis L'Amour; *The Lonely Men*

In a business context being increasingly dominated by global corporations, there is a need to develop SMEs to ensure a healthy balance of competition and local initiative. SMEs provide a much more focused direction for regional growth and offer opportunities for successful learning and continuous improvement to local players. But barriers to growth such as quality management resources, market intelligence and long-term strategy are stumbling blocks that have made the road ahead bumpy. The major triggers of change at Popy are the demographic trends of customers, life style changes, attitude to work and employment in the state and the new production processes that need to be embraced to scale up operations. Further, conditions that influence organizational change, such as stage of the organizational life cycle, age and size of the organization, and strength of current culture cannot be discounted. Our discussions with the Chairman and the Managing Director lead us to believe that the differences in their background and values could be one of the reasons for the reluctance to change from the management side, another being the unavailability of technology for automating the process without sacrificing the quality. The Chairman probably believes in status quo and wants to remain a local enterprise while the M.D would like to focus on economies of scale, innovation, automation, and outsourcing to assembling units outside the state for meeting the supply-demand gap. This is a big change for Popy. In the process it will have to address quality concerns as quality has always been its big selling point. Change involves unlearning something that is already present in the individual and organizational self, needs motivation and a mindset to enable the above. The Duo has to initiate the change that can be effected through stages and needs a combination of rationality and emotion mediated by technology. It remains to be seen which route Popy will take as both of them have very different aspirations and plans for Popy.

Using Greiner's Growth Model (1972) to describe Popy's current situation will help us put the problem in perspective. This model describes the phases that organizations go through as they grow. Any organization, be it design shops or manufacturers, construction companies or professional service firms - are likely to experience these stages. Each growth phase is made up of a period of relatively stable growth, followed by a "crisis" when major organizational change is needed if the company is to continue growing. If properly planned for, the "crisis" can become a transition point for the organization.

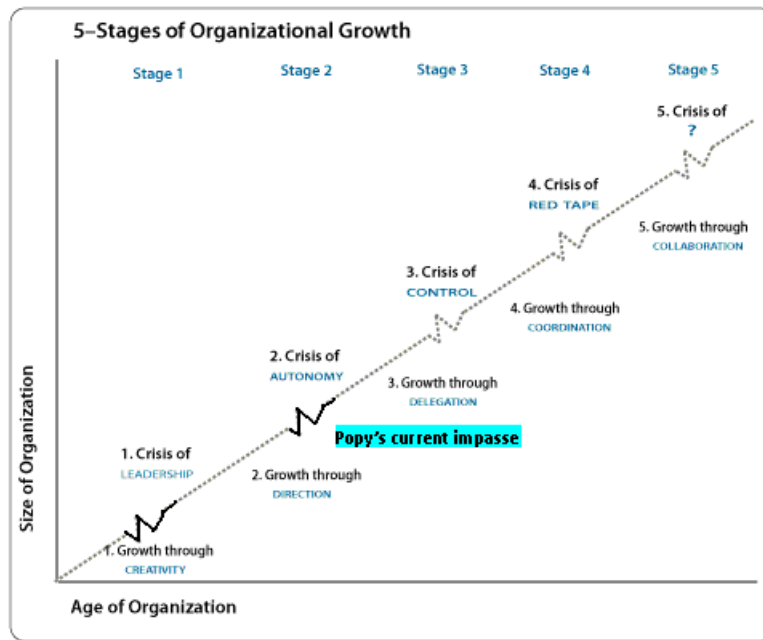


Figure 3

Popy has managed **Stage 1** well with the founders creating a quality product at an affordable price. This phase ends with a Leadership Crisis, where professional management is needed. With Mr. Davis playing an increasingly strategic role, the direction the organization needs to take is being worked out. But any future expansion (**Stage 2**) will require professionalizing management and delegating decision making. At this juncture of ushering growth through direction, Popy has to decide between the two approaches of staying local with steady growth vs. branching out beyond the state’s boundaries and expanding capacity there.

- **Localization & Steady Growth**

**“I am born in this place and I have the right to do my business here with success...”**

T.V Skaria, Chairman, Popy Umbrellas.

This would involve continuing with the FPU model and increasing production by adding more FPUs under the company’s fold. The growth process would then continue at the current pace but would definitely not be able to bridge the demand- supply gap. As 90% of the production is reportedly for the resident state consumption, the local sentiments of consumers - that it provides employment to local people of Kerala - cannot be discounted as a factor in customer preference for the product, in addition to strong quality and price considerations. This in a way is reflected in Chairman’s comment that he wants to ‘pay back’ his ‘debts’ to the state. The family setup in the production cycle does take care of a lot of issues such as supervision and labour militancy. So his argument appears to have merit. But increasing the number of FPUs would mean involving families who might not be in the vicinity. With distance, there can be difficulties in coordination and in organizing follow up training which in turn can affect the quality of the final product. Currently, there is trouble brewing as the Government has not taken kindly to this model of growth as it does not involve an increase in the number of permanent employees in the factory.



- **Branching & Rapid Growth**

**“It is a series of small crucial changes that can create significant differences in processes and can have a big impact on business competitiveness...”**

Davis Thayyil, MD, Popy Umbrellas

Change management, to be successful, needs to be all inclusive, with everyone from the CEO downwards ‘buying in’ and being committed to the vision of change. MD needs to address the concerns of Chairman to push through change. He can do so by keeping the FPU supply line undisturbed. As the FPUs cannot meet all the supply requirements, production expansion need not be at their cost, at least in the beginning. To meet the demand from outside Kerala (which is estimated to be large), and abroad, they can set up other units outside Kerala with complete mechanisation and outsourcing. However, they have to ensure that by using automated production process quality remains unmatched while the prices are kept competitive. Each type of umbrella becomes a product and so product differentiation will also justify price differentiation, if required. Within each product type they need to maintain price uniformity if that is a selling point.

The goal of maximizing share holder value should co-exist with the goal of developing organizational capabilities. In the new production units, the focus needs to be on building a corporate culture, with emphasis on processes and systems and on establishing a reward system that is competitive in the market. On the technology front, Popy is trying to automate the umbrella manufacturing process, but it still needs tweaking for meeting quality standards. The use of Computer Aided Design has been very successful. Plans are afoot to set up a new production facility in Chennai with its skilled and reliable workforce that can help augment Popy’s production. Successful HRM practices like skill training, competitive salary, incentives, participative management, promotion from within and performance appraisal also need to be implemented.

Davis, with his degree in business management, may lead Popy’s march of expansion outside the state. Until now, the firm was small, with Skaria solely responsible for all important decisions and actions. The organization’s goals were his goals, its strategy his vision of its place in the world. But as Popy stands at the cross-roads, more people inside the firm need to be involved in its management. Davis could take on the role of a corporate entrepreneur, moving the organization from a small family enterprise to one that is more ambitious and professional.

## **CONCLUSIONS**

An SME can be looked at as a phase in the life cycle of an organization and what stands between them & large corporations is the ability to recognize and differentiate between values that are core to their identity and those that need to undergo transformation in the process of growth & expansion. The struggle in several cases is because many of these values are inseparable from those of the promoters. Moreover, these values may also be divergent with those of the successors of the family business.

Popy has gone through a growth period and reached a critical mass – its “moment of truth”. With the Chairman and Managing Director having different views on the company’s future, getting them to agree on the choice of growth strategy might perhaps depend as much on developing the right automation technology as on agreeing to expand production beyond the state. Which route should Popy take on its northward march? That is a question awaiting an answer...



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