HVK Packaging Private Limited:

Go Global to Stay at Home

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India–Going–Global had been contemporary issue of debate. In terms of GDP, export and import growth rates, India had been performing far better compared to the global averages. Thanks to the Economic Reforms (1990's) that were initiated in the era of globalization. Since than, the exports and imports opportunities have increased tremendously. But the future sustainable growth of India was depended significantly on the extent to which the industries can grab these opportunities at its operational levels.

The Case of HVK Packaging Private Limited was focused on the complexities of grabbing the global opportunities in line with the domestic scenario and management capacities. Increasing domestic competition enforced company to go global in order to survive in the domestic market. Interestingly and ironically, how can global participation strengthen the company's domestic base? Was the matter of concern.

Key Words: Globlization, domestic base, global strategy

World GDP grew between 3.5% to 5% in last 5 years, while the world merchandise exports and imports kept hovering around 12% to 16% and 13% to 21% respectively during these years. (IMF; 2008). In 2007, the global GDP grew at 4.9%, while it was expected to grow at 3.7% and 3.8% in 2008 and 2009 respectively. Similar trends in exports and imports were expected in near future.

Table 1 World GDP, Export and Import Growth Rates

Year	**2003**	**2004**	**2005**	**2006**	**2007**
GDP%	3.60	4.9	4.4	5.0	4.9
Export %	16.0	12.0	13.7	15.4	
Import %	16.5	21.6	13.4	14.5	

Source: Compiled From IMF (2008)

On the Domestic Front

In case of India the GDP growth rate increased from 6.9% to 9.7% between 2003 and 2006, almost doubled the growth rate of world GDP. While its merchandise exports and imports kept hovering around 19% to 30% and 25% to 39% during last few years. (IMF; 2008) In 2007 India grew at 9.2% and was expected to grow at 7.9 % and 8% in 2008 and 2009 respectively. Similar trends in merchandise exports and imports were expected in near future.

Table 2 India's GDP, Export and Import Growth Rates

Year	**2003**	**2004**	**2005**	**2006**	**2007**
GDP%	6.9	7.9	9.1	9.7	9.2
Export %	19.0	29.0	30.0	21.0	
Import %	28.0	37.0	39.0	25.0	

Source: Compiled From IMF (2008)

In line with the above scenario, the manufacturing sector and industrial output was expected to influence strongly the exports and imports of the industries in India.

About the HVK's Business

HVK Packaging Private Limited located in Gujarat since 1985, was India's leading packaging business house involved in manufacturing corrugated boxes, labels, printed cartons with wide applications in food & beverages industry, cosmetic industry and pharmaceutical industry. 70% of domestic raw material (semi finished paper acquired from Amritsar and Vapi) and 30% of imported raw material (finished paper imported from Russia and UK) fabricated the 40% of company's export orders (to Abu Dhabi, Brazil, USA, Nigeria) and 60% of domestic demand.

While HVK availed 30 days cash credit on purchase of domestic raw material, 90 to 120 Days were given to the domestic customers created massive working capital problems in the company. Moreover, 30 Days letter of credit facilities were available on imports and exports of HVK. But due to fluctuating freight rates of shipping, escorted to uncertain transportation cost. The 95% of fluctuating import freight rates and 40% of fluctuating export freight rates were to be bared by the company.

In the Crises

Reviewing the Union Budget 2008-09, Mr. Harry (Finance Executive) of HVK was worried about the financial crunch of the company as the main problem that troubled him was "How to make HVK Cash Rich", when the budget has been discouraging interest rates. Discussed the issue with Mr. Vishy (Production Executive), about the cost cutting in terms of increased use of imported raw material, which was cheaper to domestic market, it was found that freight rate trends were to be correctly forecasted before indulging into the increasing imports.

Table 3 Freight Rate Indices Market Average ($ per TEU)

	2003	**2004**	**2005**	**2006**	**2007**
Europe-Asia	749	742	815.5	792	749
Asia-Europe	1573	1772	1769	1475	1604
Asia-USA	1776	1895	1874	1743	1659

Source: Compiled From UNCTAD (2007)

Domestic Dilemma and Global Gains

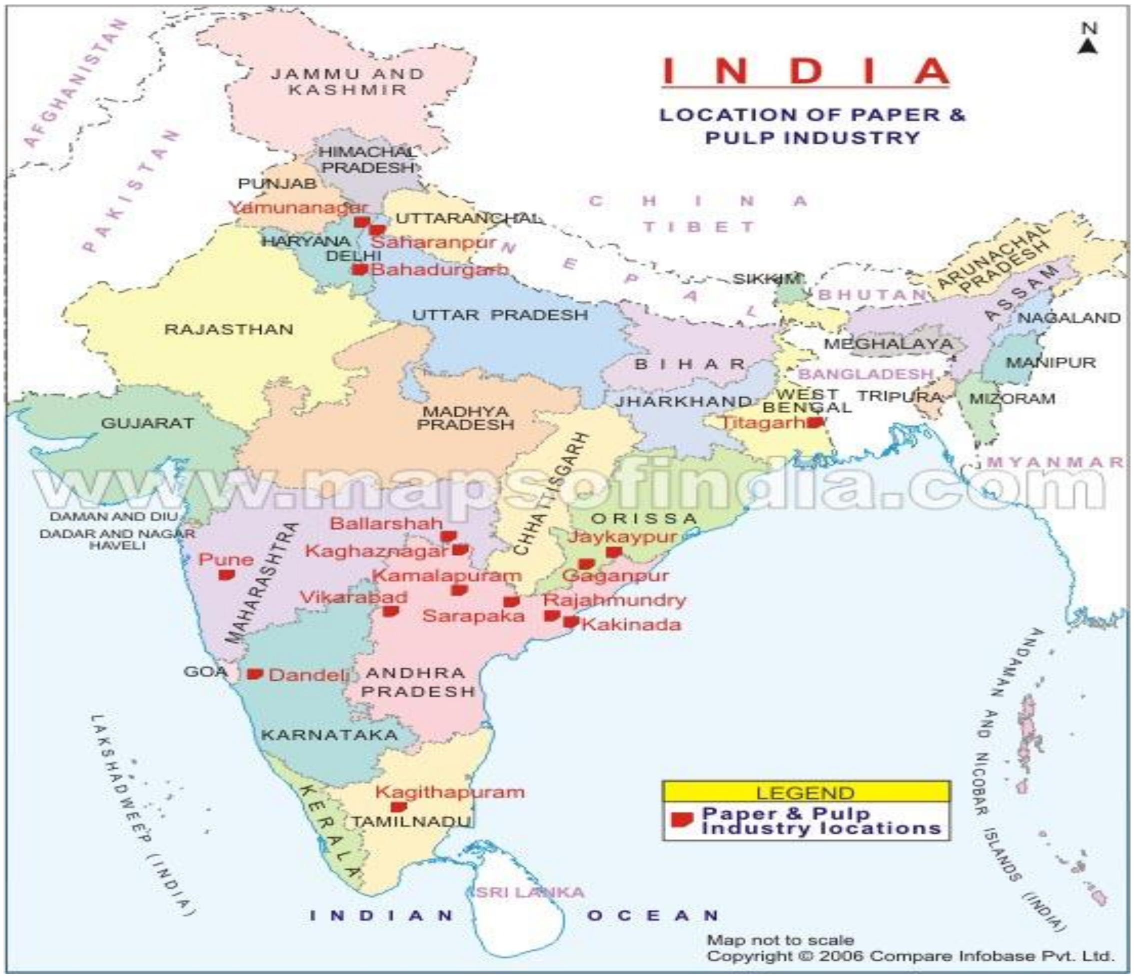
Mr. Vishy was expected to present the proposal of increasing imports from 30% to 50% to Mr. Krish (CEO). While Mr. Harry proposed to solve the cash crunch by increasing exports as it would have been increase the working capital turnover more than thrice. Though they both had logic in the proposals, as increasing imports would decrease the cost of production and increasing the exports would bring the cash earnings back earlier (within 30 days) compared to domestic market, Mr. Krish was with an opinion that as company has to bare 95% of freight variations in case of imports and 40 % of freight variations in exports, the uncertainty in freight rates may lead to more problems.

Mr. Krish opined that HVK has to be managed in a manner that facilitates earning from abroad and solves the cash crunch in domestic market. Therefore to become competitive in domestic market, it has to go global and earn for reducing the domestic crises.

Questions:

1. Will going global help stay in Domestic Market?
2. How imports can be increased subject to freight rates?
3. To what extent the exports will solve the domestic cash crunch?
4. How the domestic and Global share is to be managed?

Map of India (For formulating strategies)



Source: www.mapsofindia.com