

## Drytech – Looking for Recipe for Expansion

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### Abstract

*Drytech is a 26 year old company that specializes in producing spray dried food additives. Their products are used by all major food and beverage companies in India. The company is now at a crossroads and contemplating its next stage of growth. The options before the company are either to penetrate deeper into the existing market or come up with new products or enter into new markets. The company needs to decide on the strategy that can decide its next trajectory. Keywords: Ansoff matrix, market penetration, product development, market development, diversification*

### Drytech - Company Background

Drytech Processes (I) Pvt Ltd is a company that specializes in producing spray dried food additives. Spray dried ingredients helps to increase shelf life of the product while achieving the naturalness of the product. They offer handling benefits due to its consistent fine powder form. Spray dried ingredients have reduced microbial load compared to dehydrated ingredients.

The company started with producing spray dried “gum arabic” in 1994 and is today Asia’s largest manufacturer of gum arabic. Over the years, the company has developed high level of expertise in the process of spray drying and has increased the product portfolio to include the following spray dried products:



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The case writer(s) R Sugant, Professor - Marketing & Chairman-Placements, SDMIMD, Mysore may be reached at [sugant@sdmimd.ac.in](mailto:sugant@sdmimd.ac.in) Author(s) have prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of the situation. The case is related to a sector and a specific company. The case is based on the information available in the public domain. This publication may not be digitized, photocopied, or otherwise reproduced, posted, or transmitted, without the permission of SDMRCMS, SDMIMD, Mysore. For Teaching Notes please contact [sdmrcms@sdmimd.ac.in](mailto:sdmrcms@sdmimd.ac.in).

- gum Arabic
- fruit and vegetable powders
- fat base powders
- caseinates (extracts from milk)
- natural colorants
- soluble dietary fibre
- beverage whitener.

The different products manufactured by the company and its applications are in exhibit 1.

Drytech with its more than two decades of expertise also produces speciality ingredients such as Tomato powder with 100% pure solids and fat powders loaded more than 80% fat.

The company has its production facility in Nagpur in the state of Maharashtra and the current production capacity is 6000 tonnes per year. Buoyed by the demand for its spray dried products, the company is planning to double the capacity to capacity to 12000 tonnes per year. The manufacturing unit is FSSC 22000:2010 certified, which is an international food safety management standard. The spray dried products are also Halal and Kosher certified.

Drytech has mastered the technology of microencapsulation which has made them the most preferred co – partners for manufacturing encapsulated vitamins and flavors. Drytech works with almost every flavour house in India for its flavour encapsulation.

**The significant milestones in the company history are as below:**

- 1994 - Drytech produced first powder granules
- 1995 - First export & association with the Pharma industry
- 1996 - New Technology for micro- encapsulation for flavors, fragrances and vitamins
- 1997 - Started manufacturing fruit and vegetable powder
- 1999 - First Certification ISO-9001:1994
- 2000 - Entered into the world of manufacturing powdered nutrition
- 2006 - Experienced the benefit of Ayurveda & manufactured herbaceuticals
- 2008 - Set up a new marketing office in Shanghai, China
- 2009 - Touched the world of infant nutrition

2010 - Became India's first company to manufacture 100 % pure tomato powder

2012 - Became Pioneers in manufacturing up to '80% fat' powder in India

2013 - Introduced a new product in India 'Bev-Mate' (Beverage whitener) – a substitute to milk powder Certificate of FSSC 22000:2013

### Customers

Drytech is one of the leading ingredients company in the food and nutraceutical industry and has the leadership position in many of their products in Asia. Drytech counts on major food and beverage and nutraceutical companies in India as their customers and include:

- |            |                       |
|------------|-----------------------|
| • Nestle   | • ITC                 |
| • Unilever | • Wrigley's           |
| • PepsiCo  | • Herbalife           |
| • Kerry    | • British Biologicals |
| • Bunge    | • Dr. Reddy's         |
| • Mondelez |                       |

### Advantages of spray-dried products

Spray dryers are used in the manufacturing of products that are sensitive to changes in temperature, such as food materials and pharmaceutical products. The process of spray drying involves the quick drying of liquid materials by the application of hot gases. Spray dryers usually have a nozzle to efficiently distribute the liquid into regulated amounts. They efficiently turn liquid solutions into dry powders. The swiftness of the process offers benefits to companies in comparison to techniques such as freeze-drying, which is typically more expensive

Spray drying technology was a breakthrough in science, offering several merits over previous technologies. Spray dryers serve to turn a liquid into a powder by quickly drying it with hot gas. The spray drying process can produce items that are powdered, granulated or agglomerated. The key advantages of spray dried products are:

**Speed and Versatility** : Spray drying's one-step ability to complete the drying process within seconds gives it an edge over other industrial drying techniques. In the food industry, fast drying plays a vital role in ensuring minimum overall flavor loss. The process operates on basic principles and lends itself to automation. The process is versatile and adaptable to a wide range of industries and their feedstock and product specifications. Virtually any feedstock that can be pumped — solutions, suspensions, slurries, melts, pastes, gels — can likewise be spray dried.

**Quality Control** : Spray drying produces powders of controllable particle size and overall quality. Other characteristics manipulated during spray drying include bulk density, degree of crystallinity and residual solvent levels. Being able to control these parameters makes the process desirable for industries like pharmaceuticals, where the optimum absorption of a drug depends greatly on particle size. In dyestuff production, powders of uniform consistency ensure their convenient dispersion into paint suspensions. The food industry puts a premium on moisture content, which determines a product's shelf life.

### **Future Growth – Strategic Options**

The company is at a crossroads now and is looking to scale the business to the next level. The company is in a dilemma as to what kind of marketing strategy to choose for growth. The management was looking at the classical Ansoff matrix for providing pointers for growth. The Ansoff Matrix was developed by Igor Ansoff and initially published in the Harvard Business Review. It is a core business strategy tool used by businesses globally.

Ansoff suggested that there were effectively only two approaches to developing a growth strategy; through varying what is sold (product growth) and who it is sold to (market growth). When combined with the Ansoff Matrix detailed above, it delivers four strategic options, each with a differing level of risk. The Ansoff matrix is given in Exhibit 2.

#### **1. Market penetration:**

Applying Ansoff matrix to their company, the Drytech management felt that the lowest risk strategy is for the company to sell its existing products into existing markets as it knows its

customers very well and they have developed deep relationship with them and even co-partnered with a few customers in development of some products. This strategy, termed 'Market Penetration' is possible where markets are still growing, or where organisations are prepared to use other elements of the marketing mix (such as price discounting and additional promotional activity) to penetrate the market at the expense of competitors. Drytech currently supplies to food and beverage MNCs like Nestle, Unilever, PepsiCo, Bunge, Mondelez, ITC, Wrigley's etc.

The Indian food industry is poised for huge growth, emerging as a high-growth and high-profit sector due to its immense potential for value addition. The Government of India has been instrumental in the growth and development of the food processing industry. The government through the Ministry of Food Processing Industries (MoFPI) is making all efforts to encourage investments in the business. It has approved proposals for joint ventures (JV), foreign collaborations, industrial licenses, and 100 per cent export oriented units.

The Indian food processing industry accounts for 32 per cent of the country's total food market, one of the largest industries in India and is ranked fifth in terms of production, consumption, export and expected growth. It contributes around 8.80 and 8.39 per cent of Gross Value Added (GVA) in Manufacturing and Agriculture respectively, 13 per cent of India's exports and six per cent of total industrial investment.

According to the data provided by the Department of Industrial Policies and Promotion (DIPP), the food processing sector in India has received around US\$ 7.54 billion worth of Foreign Direct Investment (FDI) during the period April 2000-March 2017. The Confederation of Indian Industry (CII) estimates that the food processing sectors have the potential to attract as much as US\$ 33 billion of investment over the next 10 years and also to generate employment of nine million person-days. Major multi-national companies are planning huge investments in India in the food processing sector. For example, US-based food company Cargill Inc, aims to double its branded consumer business in India by 2020, by doubling its retail reach to about 800,000 outlets and French major, Danone SA plans to focus on nutrition business in India by launching 10 new products in 2017, and aiming to double its revenue in India by 2020.

The Government of India also has taken several initiatives as outlined below to improve the food processing sector in India:

- Food processing sector has been assigned priority status for bank credit.
- 60 agri-export zones have been set up across the country
- Approval for 100 per cent Foreign direct investment (FDI) in marketing of food products
- In Union Budget 2017-18, the Government of India has provisioned Rs 8,000 crore (US\$ 1.2 billion) to set up a dairy processing infra fund.
- The Food Safety and Standards Authority of India (FSSAI) plans to invest around Rs 482 crore (US\$ 72.3 million) to strengthen the food testing infrastructure in India, by upgrading 59 existing food testing laboratories and setting up 62 new mobile testing labs across the country.
- The Ministry of Food Processing Industries announced a scheme for Human Resource Development (HRD) in the food processing sector. The scheme has the following four components:
  - o Creation of infrastructure facilities for degree/diploma courses in food processing sector
  - o Entrepreneurship Development Programme (EDP)
  - o Food Processing Training Centers (FPTC)
  - o Training at recognized institutions at State/National level

This industry is growing at the rate of more than 20% and the industry is expected to grow to \$ 482 billion by 2020. The list of top processed food companies and their sales is shown in Exhibit 3

## 2. Product Development

The second strategic option that Drytech can consider is to develop new products for existing markets (customers), through a 'Product Development' strategy. Here the 'Product' and 'Promotion' elements of the marketing mix will change (as a minimum). The success of this strategy is dependent on the organisation being able to effectively conduct research and insight into their customer and market needs as well as their own internal capabilities and competencies for driving innovation. The company can get into producing different products

and has to set up different production lines for the same. For example, Drytech can consider getting into the following products:

- Additives
- Preservatives
- Artificial sweeteners
- Colouring agents
- Trans-fats
- Dairy replacers (non dairy creamers)

In India health consciousness and since veganism are on the rise and hence, people are buying more and more non dairy creamers. Also due to lactose intolerance among the population, food processing companies are also increasingly using non dairy creamers.

Alternatively, Drytech can also get into producing finished products like ready-to-make soups, masala powders, purees, dried vegetable powders etc, as a contract manufacturer for its existing customers.

The packaged food has grown tremendously between 2012 and 2016 – registering a growth between 11% and 119% in volume terms and between 18% and 99% in value terms (refer exhibits 5 and 6).

### **3. Market Development**

The third strategic option involves taking existing products into new markets using a 'Market Development' strategy. This strategy will not involve investments in R&D and manufacturing. However, the company has to make key changes in the marketing mix since the buying behaviour of the new sets of customers is unlikely to be the same as their existing customers.

The spray dried products of Drytech can be used in industries like pharmaceuticals and nutraceuticals.

**Pharmaceuticals** :The Indian pharmaceutical industry is growing a CAGR 15%. Over the last five years the key companies in this sector and their sales are in Exhibit 4. The pharmaceutical

companies extensively use gum Arabic as excipient. Also the pharma companies use starch in manufacturing tablets. The pharma companies extensively use cheaper artificial colouring agents and hence opportunity for using natural colorants of Drytech is minimal.

**Nutraceutical sector :** Nutraceutical is defined as a food or part of a food that provides medicinal or health benefits, including the prevention and treatment of disease. A nutraceutical may be a naturally nutrient-rich or medicinally active food, such as garlic or soybeans, or it may be a specific component of a food, such as the omega-3 fish oil that can be derived from salmon and other cold-water fish.

The global nutraceuticals market is projected to reach USD 578.23 billion by 2025, according to a new report by Grand View Research, Inc. Rising health concerns are likely to drive the product demand over the next eight years. Increasing adoption of e-commerce and growing consumer awareness through social media are further likely to augment the demand for nutraceuticals over the forecast period. The Indian nutraceutical industry is likely to grow to US\$ 6 Billion by 2020.

The market has witnessed an increased focus on the ingredients used for manufacturing nutraceuticals. The demand for nutraceuticals is expected to grow at a rapid pace as consumers perceive these products to be healthier and more effective as compared to synthetic products.

The Indian nutraceuticals industry is divided under two categories - (1) functional food and beverages and (2) Dietary supplements with former constituting about 68% of the market and the later 32%.

#### **Dietary supplements**

- o Botanicals
- o Vitamins
- o Minerals
- o Amino acids
- o Enzymes
- o Others



**Functional food**

- o Carotenoids
- o Dietary Fibers
- o Fatty Acids
- o Minerals
- o Prebiotics & Probiotics
- o Vitamins
- o Others

**Functional beverage**

- o Energy drinks
- o Sports drinks
- o Functional juices

GSK Consumer Healthcare, Amway, Abbott Nutrition, Baidyanath group etc. are some of the major nutraceutical manufacturers in India. Many pharma manufacturers like Novartis, Cadila Healthcare, Himalaya etc. have also ventured into nutraceuticals. While dietary supplements are being dominated by pharma industries, functional food and beverages are being dominated by FMCG companies like Dabur.

Drytech can consider entering into pharma and nutraceutical industry. However the quality requirement will be much more stringent in the pharma sector and the company needs to adopt their manufacturing to the needs of the pharma sector.

**4. Diversification**

The final strategy in the Ansoff Matrix is 'Diversification', which is developing new products for new markets. It is a combination of product development and market development.

The Ansoff Matrix is used in the strategy stage of the marketing planning process. It is used to identify which overarching strategy the business should use and then informs which tactics

should be used in the marketing activity. At this juncture, when Drytech is at a crossroads, its top management should decide which strategy the company should adopt.

### Questions

1. What other products can Drytech manufacturer?
2. Discuss the merits and demerits of Drytech venturing into other markets
3. What strategy (of Ansoff's matrix) can Drytech adopt? Why do you think this strategy will succeed?

**Exhibit 1**

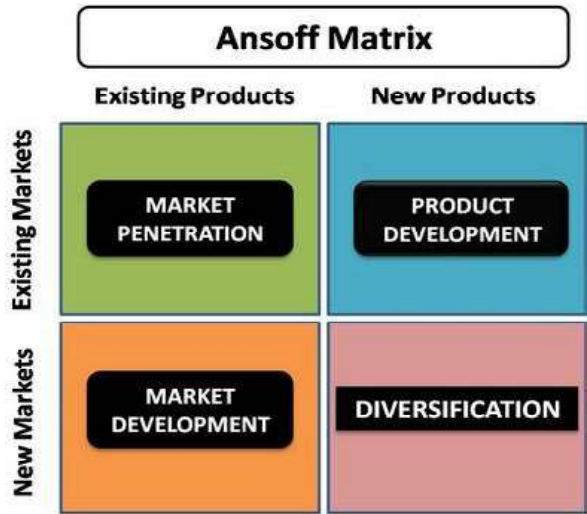
Product	Grades	Food Category	Industry Segment	Applications
<i>Spray Dried Gum and Hydrocolloid</i>				
Spray Dried Gum Arabic/Acacia E 414	<ul style="list-style-type: none"> <li>• Spray Aragum 401 / 501</li> <li>• Gum Arabic-Pulverized</li> <li>• Instant Aragum 411 / 511</li> <li>• Gum Arabic Flakes</li> </ul>	Hydrocolloid, Thickener, Stabilizer	Confectionery	• Sweet confectioneries (Chewy, Soft and Hard Candies) eg: Eclairs, Mentos, chewing gum etc.
	<ul style="list-style-type: none"> <li>• Spray Aragum 101 / 301 / 401</li> <li>• Instant Aragum 111 / 311 / 411</li> </ul>		Beverages	• Beverage Emulsions
	<ul style="list-style-type: none"> <li>• Spray Aragum 401</li> <li>• Instant Aragum 411</li> </ul>		Bakery	• Cereal Bars
	<ul style="list-style-type: none"> <li>• Spray Aragum 401</li> <li>• Instant Aragum 411</li> </ul>		Flavors	• Flavour Encapsulation
	<ul style="list-style-type: none"> <li>• Spray Aragum 501</li> <li>• Instant Aragum 511</li> <li>• Gum Arabic Pulverized</li> </ul>		Coating and Glazing	<ul style="list-style-type: none"> <li>• Coated Peanuts and dry fruits</li> <li>• Coated candies and chocolates</li> </ul>
	<ul style="list-style-type: none"> <li>• Spray Aragum 101, 301</li> <li>• Instant Aragum 111 / 311</li> </ul>		Pharma	<ul style="list-style-type: none"> <li>• Tabelling (Pharma)</li> <li>• Syrup emulsions</li> </ul>

Product	Food Category	Industry Segment	Application
<i>Spray Dried Fruit and Vegetable Powder</i>			
<b>Fruit Powders:</b> <ul style="list-style-type: none"> <li>• Apple 21701</li> <li>• Banana 21801</li> <li>• Lime 21201</li> <li>• Mango 21101</li> <li>• Orange 21301</li> <li>• Pineapple 21601</li> <li>• Papaya 22001</li> <li>• Indian Gooseberry (Amla) 32302</li> </ul>	Spray dried fruit powders	Beverage	<ul style="list-style-type: none"> <li>• Instant Beverage premix</li> <li>• Instant Milkshake mixes</li> </ul>
		Seasonings	Fruit Seasonings for: <ul style="list-style-type: none"> <li>• Fruit flavored Oats</li> <li>• Fruit flavored Wafers (Lime)</li> </ul>
		Bakery and Bakery Products	Fruit Flavored: <ul style="list-style-type: none"> <li>• Cakes Mixes</li> <li>• Cookie Mixes</li> </ul>
		Nutritional Products	<ul style="list-style-type: none"> <li>• Baby Foods</li> <li>• Weaning Foods</li> <li>• Health Drinks</li> </ul>
<b>Vegetable Powders</b> <ul style="list-style-type: none"> <li>• Tomato 21001/21011/21021/21001</li> <li>• Dehydrated Tomato Paste Solids 21010</li> </ul>	Spray dried vegetable powders	Savory and Seasonings products	<ul style="list-style-type: none"> <li>• Instant Soup Premixes</li> <li>• Wafer Dusting</li> </ul>
<i>Spray Dried Seasoning ingredients</i>			
<ul style="list-style-type: none"> <li>• Tamarind 22101</li> <li>• Cheese 43042</li> <li>• Cheese 43001</li> <li>• Cheese 43044</li> </ul>	Spray Dried Seasoning ingredient	Savory and Seasonings	<ul style="list-style-type: none"> <li>• Instant gravy mixes</li> <li>• Seasoning dust</li> </ul>

Product	Food Category	Industry Segment	Application
<i>Fat Powders</i>			
Corn Fat -32421 ( 50% fat)	Spray Dried Fat powder	Nutrition	<ul style="list-style-type: none"> <li>• Health foods</li> <li>• Baby Food</li> <li>• Weaning Food</li> </ul>
Groundnut Fat -32401 ( 50% fat)	Spray Dried Fat powder	Nutrition	<ul style="list-style-type: none"> <li>• Health foods</li> <li>• Baby Food</li> <li>• Weaning Food</li> </ul>
Coconut Fat -32441 ( 50% fat)	Spray Dried Fat powder	Nutrition	<ul style="list-style-type: none"> <li>• Health foods</li> <li>• Baby Food</li> <li>• Sports Nutrition</li> <li>• Body Supplements</li> <li>• Weaning Food</li> </ul>
HOSO Fat Powder – 32455 (75% Fat)	Spray Dried Fat powder	Nutrition	<ul style="list-style-type: none"> <li>• Health foods</li> <li>• Baby Food</li> <li>• Sports nutrition</li> <li>• Body Supplements</li> <li>• Weaning Food</li> </ul>
Canola Fat Powder – 32452 ( 60% fat )	Spray Dried Fat powder	Nutrition	<ul style="list-style-type: none"> <li>• Health foods</li> <li>• Baby Food</li> <li>• Sports nutrition</li> <li>• Body Supplements</li> </ul>
MCT Fat -32481 ( 50% fat)	Spray Dried Fat powder	Nutrition	<ul style="list-style-type: none"> <li>• Health foods</li> <li>• Baby Food</li> <li>• Sports nutrition</li> <li>• Body Supplements</li> <li>• Weaning Food</li> </ul>
MCT fat – 32482 ( 75% fat)			
Canola fat	Spray Dried Fat powder		
EPRO	Spray Dried Fat powder		
Flaxseed - 32411	Spray Dried Fat powder		

Product	Food Category	Industry Segment	Application
Caseinate			
Calcium Caseinate 31401	•Protein •Emulsifier •Stabilizer	Food Supplement	•Sport nutrition •Health Beverages
		Pharma	•Pharma concentrates
Sodium Caseinate 31451	•Protein •Emulsifier •Stabilizer	Bakery	•Whipped cream
		Food Supplement	•Baby Nutrition •Sport nutrition •Health Beverages
		Pharma	•Pharma concentrates
		Beverages	•Coconut water Premix
		Meat Industry	•Sausages •Other meat products

Exhibit 2



**Exhibit 3****List of Food & Dairy Product Companies – Top MNCs (Listed)**

Name of the Company	Year ending	Sales in Rs. Cr
Nestle India	Dec-17	10,009.60
Britannia Inds.	Mar-18	9,304.06
Mondelez India	Mar-17	5,748.94
GlaxoSmith C H L	Mar-18	4,316.52
Jubilant Food.	Mar-18	2,980.44
Perfetti Van Mel	Mar-17	1,644.02
Ferrero India	Mar-17	1,627.93
Heinz India	Mar-17	1,279.10
Hershey India	Mar-16	309.77

(Source: <https://capitaline.com>)**Exhibit 4****List of top pharmaceutical companies (Listed)**

Company Name	Year ending	Sales - Rs. Cr
Cipla	Mar-18	11,004.44
Aurobindo Pharma	Mar-18	10,041.96
Dr Reddy's Labs	Mar-18	9,359.30
Sun Pharma. Inds.	Mar-18	7,696.33
Ranbaxy Labs.	201403	6,864.94
Glenmark Pharma.	Mar-18	6,096.05
Cadila Health.	Mar-18	5,809.90
Torrent Pharma.	Mar-18	4,228.43
Piramal Enterp.	Mar-18	3,288.63
Ipca Labs.	Mar-18	3,193.40
Wockhardt	Mar-18	2,477.29
Natco Pharma	Mar-18	2,091.30
J B Chem & Pharm	Mar-18	1,254.73
FDC	Mar-18	1,062.20

(Source: <https://capitaline.com>)

## Exhibit 5

## Sale Volume of Packaged Foods – in thousand tons

Category	2012	2016	Percent Change
Baby Food	57	66	17
Baked Goods	2,477	2,758	11
Biscuits and Snack Bars	1,422	1,825	28
Breakfast cereals	24	53	119
Confectionery	361	536	48
Dairy	13,987	18,044	29
Ice Cream and Frozen Desserts	238	361	52
Oils and Fats	4,195	8,167	95
Processed Fruit and Vegetables	33	56	72
Processed Meat and Seafood	6	13	108
Ready Meals	18	32	84
Rice, Pasta and Noodles	1,727	2,669	55
Sauces, Dressings and Condiments	323	490	52
Soup	5	9	80
Spreads	23	31	35
Sweet and Savory Snacks	535	931	74

Source: Global Agriculture information Network report No: IN 7150



## Exhibit 6

Sale Value of Packaged Foods – in US\$ Billion

Category	2012	2016	Percent Change
Baby Food	0.417	0.621	48.8
Baked Goods	1.673	1.971	17.8
Biscuits and Snack Bars	3.078	3.897	26.6
Breakfast Cereals	0.174	0.304	75.0
Confectionery	2.824	3.529	51.8
Dairy	10.626	15.323	44.2
Ice Cream and Frozen Desserts	0.994	1.487	49.6
Oils and Fats	8.001	15.909	98.8
Processed Fruits and Vegetables	0.129	0.189	46.8
Processed Meat and Seafoods	0.110	0.167	52.2
Ready Meals	0.163	0.261	59.6
Rice, Pasta and Noodles	2.987	4.540	52.0
Sauces, Dressings and Condiments	1.292	2.020	56.3
Soups	0.046	0.070	51.3
Spreads	0.122	0.202	66.2
Sweet and Savory Snacks	2.139	3.824	78.8

Source: Global Agricultural Information Network Report No. IN7150

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