

CANDLELIGHT BAGS: A CASE STUDY OF FAMILY BUSINESS MANAGEMENT

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Abstract

Candlelight Bags and Covers cc is a family owned and operated business based in Jacobs, Durban, South Africa. The original founders are Devan Naicker and Patty Naicker. Since its inception in 1994, the company has grown from concentrating on upholstery to the repairing of FIBC (Flexible Intermediate Bulk Container) thereafter becoming a prevalent FIBC and sling manufacturer in South Africa. The product range covers Unipak Slings, Paraweb Slings and Woven Polypropylene Bulk Bags (FIBC) such as Conductive Bags, Conventional Bags, Omega Bags, Coated or Uncoated Bags, U Panel Bags, Daffel Bags, 4 Panel Bags and Liquid Bags. The fabric utilized is high tenacity woven polypropylene which comes in various GSM (gram per square meter), which is dependent on the density of the product being placed within the bag. The webbing (loops) also has various applications depending on the workload limit. Economical and durable, woven polypropylene bags offer packaging for grains and other dry goods common in the agricultural, construction, chemical, mining and consumer goods industries. Woven polypropylene bags come in a variety of sizes, colours and styles with custom printing capabilities. Candlelight Bags currently employ 47 employees.

Key words: Manufacturing, Family Business, Strategy

The vision statement read as follows

The vision is to transform the company into a modern and dynamic polypropylene woven bags manufacturing company that is fully equipped to play a meaningful role on a sustainable basis in the economy of South Africa. To explore new markets and products to promote and expand sales of the company through good governance and foster a sound and dynamic team, so as to achieve optimum prices of products for sustainable and equitable growth and prosperity of the company.

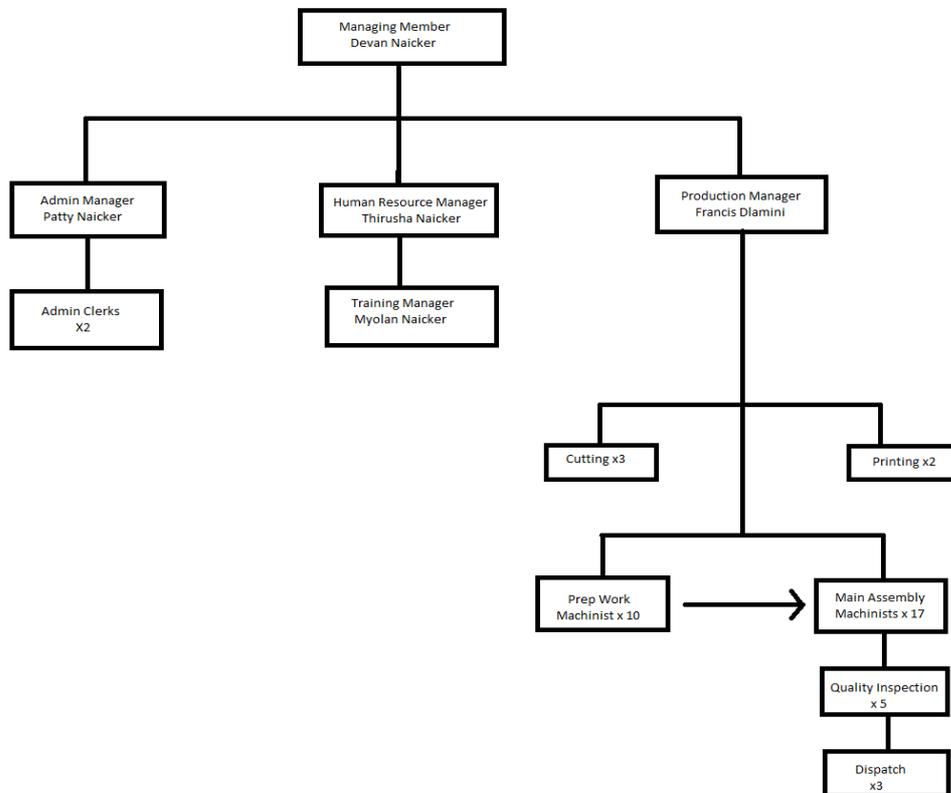
The mission statement read as follows:

The mission is simply to provide the highest level of quality in everything that is offered to all customers, whether it is FIBC or other finished products and services. Consistently striving to meet and exceed the customer's expectations and remain committed to continually advancing the technology and services to meet customer requirements. Continuous commitment to excellence begins with the people that are employed and the service provided.

The long-term objectives of Candlelight Bags and Covers cc are

- Achieving technological governance.
- Solidifying the company's brand name.
- Having stronger national sales competencies than rivals.
- Entering into the international trading markets (becoming a global competitor).
- Increasing the market share and increasing the profit margins.
- Persistently cultivating superior quality and standards of product performance.
- Ensuring the product evolves ecologically to make the company sustainable.

The Organogram of Candlelight Bags and Covers cc



Industry Description

Operation and Production Processes

The input process consists of receiving of raw materials. Then follows the creation of a job card where the customer’s specifications are indicated. The fabric and webbing is then cut. The fabric then moves to the printing machine, thereafter for bag preparation. The required raw materials (fabric that is cut and printed, webbing, top and bottom fabric) move into the main assembly area where lean manufacturing- Kaizen Method is adopted. Once the bag is completely manufactured it undergoes quality control auditing. All passed bags are baled and despatched to a storage area. The output processes are the completed FIBCs as per customer specifications.

A General Overview of FIBC Manufacturing Process (Custom Bulk Bag, n.d.)

Extrusion

The mix of virgin polypropylene granules, ultra violet inhibitor, calcium carbonate, and sometimes colour pigment are being melted and converted into tapes in an extrusion plant. At the end of the extrusion line these tapes are wound on bobbins of a required size. This is the first stage of process which determines the tensile strength of the tape.

Weaving

Extruded tape bobbins are loaded in the circular/tubular weaving loom or setup for the flat loom. Here the tapes will be woven into fabric of a required specification and size and will be wound in roll form. These woven fabrics are used for the body of the FIBC.

Coating

Polypropylene fabric is laminated with a semi-clear film that is bonded to the woven material to create a moisture barrier. This is an optional process as per the requirement of the customer.

Cutting

The fabric in rolls is then run through an automatic cutting machine and will be cut to a specific size. This automatic process is adopted to get better accuracy in cut size.

Printing

The body fabric panels are then fed into a printing machine to make a printing impression on the fabric.

Webbing

Heavier polypropylene tapes along with multifilament thread are woven into webbing which forms the lift loops of the bulk bag.

Sewing

All the components used to manufacture the bulk bag is brought together. All the gathered parts are assembled to form an FIBC or bulk bag by highly skilled and trained labourers under the supervision of technically qualified supervisors.

Inspection

Every bag will be inspected by a technically qualified person from the quality control department to ensure that each and every bag produced is safe to use.

Top Lift Testing

Random bags will be selected from a particular lot and will be tested to ensure the safe working load (SWL) is achieved. Generally these tests are conducted with the sample bags before commencing production, but also after completion of the production random samples are taken for top lift test to ensure the weight rating is met or exceeded.

Packing / Bailing / Palletizing

After the bags are produced, inspected, and tested they are compressed with the help of a press and neatly packed as per the requirement of the customer.

Storage

Once the bags are baled/palletized, they are immediately shifted to a clean storage room.

Strategic Management Implementation

Competitive Analysis:

The competition in this industry is moderate. The market is essentially oligopolistic in nature. Recent years have marked significant growth of FIBC products globally through the newer application areas for FIBC such as rail, pharmaceutical, ceramics, fibre, rubber and paint.

Bargaining Power of Supplier - High

A few factors which increase the supplier powers are (a) presence of few suppliers, (b) presence of large number of purchasers and (c) high costs of switching suppliers. There are large firms that provide the raw materials for FIBC production. Due to the wide applicable nature of polypropylene in a variety of spheres, there is a pronounced range in demand. To cater to these diverse demands, there are some firms focusing on producing a single product with features making it suitable for only a specific usage. A classic example is B & A Webbing that only supplies webbing for the manufacture of FIBC. Webbing is used for the lifting slings and edging of woven bag construction. Webbing greatly assists with the general construction, shaping and reinforcing of all sling and bulk bags. There are also firms that are producing two or more related products that serve as raw material to produce a finished product in another firm. An example of a company is Spilo, whom provides webbing as well as polypropylene for the manufacture of FIBC. Spilo has also recently forward integrated into the actual manufacturing of FIBC, becoming a powerful rival to existing FIBC manufacturers. Since there are a few industries supplying essential raw materials (webbing and polypropylene) to a greater number of FIBC manufacturers, bargaining power of these suppliers are high. As regards to switching costs, the figures are high for switching polypropylene manufacturers because of their small numbers. Supplier power is highly reinforced when a supplier has control over prices.

Bargaining Power of Buyers – Moderate to High

Due to the wide applicability of FIBC in many industries, it is evident that buyers in this industry are huge and they range from small to big sized firms. The end user industries for FIBC to name a few are; Unilever SA (Pty) Ltd, Nestle SA, CepakiEkor, Tongaat Hulett's Sugar Refinery, Associated Additives, Idwala Carbonates, Goswell Development. These companies purchase enormous quantities of FIBC and demand concessions at times. Each of these encompasses several sectors requiring FIBC usage, from mining to fertilizers to food. In this case, buyer's power is largely determined by firm size and its scale of operation. FIBC are regarded as standardized products, which mean that the level of product differentiation is low. There are international suppliers which provide national buyers with FIBC, but with the depreciation of the rand to the dollar, this may play in favour to local companies. The buyers are highly concentrated and often purchase in bulk which provides them with a power for bargaining. Buyer switching costs from Candlelight Bags to another company is low and FIBC is not a substituted product, further enhancing buyer power.

Internal rivalry – Low to Moderate

Since there are a relatively small number of FIBC manufacturers internal rivalry is low, as there is sufficient growth for each firm. Although there are a wide variety of users for FIBC, local market growth rate has not been able to meet the aggressively growing demand. This has resulted in the importing of FIBC to meet the local demand, from companies such as Belmitex and Flexi-Tuff. The international competition provides existing local companies with competition. Rivalry increases as it becomes less costly for buyers to switch brands. Candlelight has strengthened its relations with its customers that have been in business since inception. About 30% of the customer's accounts for nearly 85% of sales which gives them enough opportunity to widen relationships with the remaining 70% of customers. Though the industry is not stagnant but due to the presence of small industries such as Candlelight Bags, Multi Tarp & Bag, it becomes mandatory for bigger ones such as Tufbag to steal business from their smaller counter parts in order to expand their output, but customer loyalty plays an imperative part when quality and reliability of the FIBC comes into account. On account of the low differentiated nature of FIBC, no firm has a superior competitive advantage in terms of product design. Last but not least, the exit barrier is very high. The reason is that the initial capital investments for manufacturing plants are huge and firms rather lose for a few years than quit the business.

Threat of new entrants – Low to Moderate

One of the most deterring barriers in this industry is the high capital requirements. The initial capital investments for manufacturing plants are gigantic owing to the purchasing of machinery and technology. Barriers to entry are evident in this industry where initial capital costs are very high. High set-up costs deter initial market entry, because they increase break-even output, and delay the possibility of making profits. Newer entrants must be knowledgeable about the industry and market, as it depends on machinery and fabric know-hows. As the number of entrants grow in an industry the net market demand gets distributed among them resulting in the eroding away of profits of the existing players in the concerned market. Due to the fragmented nature of the industry, sometimes new entrants face difficulty in case it does not achieve a substantial market share to reach the minimum efficient scale; it usually stands at a cost disadvantage. The nature of the product offered in the industry is homogeneous as companies offer a product that's identical in respect. Due to no product differentiation newer entrants cannot enter the market and manufacture an "innovative" bulk bag. A conventional bulk bag for Nestle SA would be manufactured and designed exactly the same if Candlelight made it or Tufbag. Access to raw materials, technological know-how are however difficult for a new entrant as the industry is already having few players already engaged in competition. Thus each of them is having contracts with a fixed set of suppliers as well as customer base, thereby indicating the fact that it's very difficult for a new entrant in this scenario to steal business from existing players. Economies of scale are another challenging barrier. Established firms have advantages in research and operating experience, which help them reduce the cost per unit over time. They have an adequate number of customers, which enables them to operate in large-scale,

reduce costs and compete with low price. Due to the increase in demand of product the South African government has fortified and subsidised the Asian countries to open manufacturing plants which will be off detriment to the local firms.

Substitute Products – Low

Despite the low differentiation, materials for FIBC manufacturing are very hard to be replaced by other substitutes. The reason is that, with each product produced, the manufacturer has already designed a suitable formula and built the plant accordingly. If the materials change, the formula must be changed also, which probably leads to the change of the whole manufacturing plant. The switching costs are relatively high and the customers are not willing to change their suppliers. Due to the cost and effectiveness of FIBC there are no other products that would provide the service as a FIBC would. Therefore, the threat of substitutes is very low.

SWOT Analysis:

Strengths:

- The use of modern marketing and communication tools such as WeChat. Social media helps find new customers and expand the customer database. Social media increases brand awareness and reach with little to no budget. It improves market intelligence and the ability to get ahead of your competitors. It allows you to receive instant feedback from your customers' perspective.
- Multi-skilled employees is an advantage to Candlelight as staff are equipped to do the tasks of any staff that either leave or are absent. Knowledge management and the retention of tacit knowledge is a competitive advantage. This prevents reduced productivity and downtime. Skilled employees add to a knowledge-based workplace and economy.
- Solid financial status: Having funds that are easily accessible facilitates a competitive advantage to Candlelight Bags. These funds can be utilized to further recruit new skilled staff, continuous training and development of staff, purchasing of newer technologies or growing the company.
- ISO 9001:2008 certification. The International Standards provides Candlelight with improved quality thereby enhancing customer satisfaction and increasing sales. This also increases market share by increasing productivity and competitive advantage.
- BEE A1 level rating. Candlelight benefits from the government's preferential procurement policies. This rating also puts them at an advantage to apply for tenders and attain funding from DTI and SIDA.
- United Nations Certification sets Candlelight apart as most international countries acknowledges that the product is of a high quality. Due to this accreditation it makes it so much easier for Candlelight to export bulk bags.
- Family owned enterprise: Trust is essential in all businesses, but especially so in a business where trade secrets can be discussed openly to family members. Control is another benefit of a family owned enterprise. Flexibility in a family owned enterprise provides great leverage. There is also less risk of family members wanting to strike and cost the company, as this would be a loss to them as well.
- Low-cost and economies of scale allow for greater sales and profit margins being achieved through lean manufacturing.
- FIBC has low differentiation and cannot be substituted with another low cost product. This is a benefit for Candlelight as is it provides a competitive advantage.
- There is an increased buyer demand for the industry product. Due to the cost of FIBC most industries have moved to the utilization of FIBC.

Weaknesses:

- High absenteeism. When staffs take unscheduled time off it means the employees who turn up have to work harder to fill the gap. It spreads unrest and, left unchecked, creates a culture in which absenteeism is normalised. It increases the overtime overheads.
- Weak brand image may suggest poor reputation to buyers. A company's brand represents their market identity—who they are, what they do, what kind of quality they provide, their reputation for trustworthiness, and more. Brand awareness influences the decisions of a variety of customers, including both end consumers and businesses. Due to Candlelight's brand not being strong this does not portray Candlelight as a reputable company to do business with. The website of the company is not updated and does not include current growth and certification.
- Poor advertising of products. Candlelight does not effectively promote the product. The target market is diverse so using tactical advertising in all industry publications need to be implemented.
- Inefficient Quality Control due to lack of in-house testing facility. Candlelight's QC methods are only visual checks. There are machinery available that tests the durability and strength of bags produced.
- Limited international trade experience. Due to lack of experience and expertise Candlelight only exports bags to the Swaziland, USA and Australia, when there are other countries that utilize a greater capacity of bulk bags.

Opportunities:

- Broaden exports to countries such as Northern Europe, Canada and Africa. Due to the demand of product in numerous fields newer international avenues can be targeted. Training can be done to understand trade regulations in the different countries. This will boost productivity for Candlelight.
- Investing in "Tensile Strength Press Machine" for QC testing of bag strength. For the period of 2015 Candlelight had grievances from 4 of the customers pertaining to bags that burst, it would be beneficial to invest in testing machinery to reduce annual complaints to zero.
- Investing in technology to allow for company expansion. Candlelight currently only manufactures FIBC but there is a huge demand for the actual weaving and extruding of polypropylene into fabric. There are only 4 companies in South Africa actually weaving and extruding polypropylene. Candlelight has funds to invest in an extrusion and weaving machine which can save on costs. Candlelight can weave their own polypropylene for FIBC manufacture as well as sell this fabric to other producers of FIBC - Backward Vertical Integration. This will also serve as a great low-cost strategy.
- The recruiting and training of employees to handle newer technologies and software on machinery. This will prevent idle machinery as staff will know how to use the machine without any wastage in time and costs.
- Widen product development through Liquid Bulk Bags. Due to the low cost of FIBC, there has been an immense demand for Liquid Bulk Bags. Candlelight can increase its product range which will add to its competitive advantage and they will also become a one-stop shop.
- Broaden market development. The opening of Fairbreeze Mine in Empangeni is a great prospect for Candlelight to attain a new customer in the mining industry. Candlelight has vast knowledge in the production of bulk bags for the mining sector and this would be of great advantage to them. Tronox is a leading global mining company which can possibly place Candlelight in the forefront of further global development.
- Accomplishing ISO 14001:2015 certification which specifies the requirements for an environmental management system that an organization can use to enhance its environmental performance. ISO 14001:2015 is intended for use by an organization seeking to manage its environmental responsibilities in a systematic manner that contributes to the environmental

pillar of sustainability (ISO, n.d.). This will help achieve Candlelight's long-term objectives and vision pertaining to sustainability.

- Widen geographical coverage in South Africa. The possibility of opening a manufacturing plant in Johannesburg as there are numerous clients that utilize Candlelight's products. Save on logistical costs.

Threats:

- Unreliable source of electricity (Eskom). Load-shedding or interrupted electricity cuts are disastrous for productivity. This ultimately results in machine downtime and orders not delivered on time. The reputability of the company is diminished because orders are not met.
- Unionisation. The power of the unions in South Africa is aptly demonstrated by the impact of striking. A constantly striking workforce cripples the economy as well as the organisation. In 2015 Candlelight suffered due to constant unprotected strike action by employees. The major cause of this resulted from employees being unhappy because they were on short-time. Unfortunately in times where there are less orders Candlelight cannot afford to pay wages to all staff that are not productive. The strikes in the mining sector also resulted in less orders being placed causing a reduction in turnover in 2015.
- Imports. Companies such as Flexi-Tuff and LC Packaging are importing FIBC which results in added competition to local firms. There has also been an increased demand in companies such as Tongaat Hulett's to import a certain percentage of FIBC. This jeopardises local growth and increases the risk of liquidation in small companies in the industry.
- Water restrictions in the EThekweni District poses a huge problem as the cutting and printing machine at Candlelight has a built-in water-cooling system to prevent the machine from burning up and malfunctioning. A lack of water will result in the machine not being able to work effectively thereby increasing machine downtime and reducing productivity as well as increasing short-time of employees.
- Permits and Tax Incentives given to the Chinese to produce FIBC and to also trade in South Africa. This does not protect local companies and can result in unemployment and a paradoxical effect in GDP.
- Drought caused a reduction in turnover due to less bulk bags being ordered from the agriculture and fertilizer industry.
- Growing bargaining power of suppliers. This is a resource weakness as suppliers can bargain the price of the good which could be detrimental as the business may just break-even or experience a loss from sales.

Candlelight's Marketing Strategy

- The use of modern marketing and communication tools such as WeChat. Social media helps find new customers and expand the customer database. Social media increases brand awareness and reach with little to no budget. It improves market intelligence and the ability to get ahead of your competitors. It allows you to receive instant feedback from your customers' perspective.
- One-on-one marketing. The managing member promotes the products through direct presentations of samples of bags to the procurement officers at various companies.
- Internet marketing. This is a vital source of advertising where the webpage hosts the location of the factory as well as the products and services rendered.
- Trade show marketing. These shows are industry specific where gatherings of customers are invited to sample all that the industry has to offer.
- Newsletter marketing. Specific to the industry where organisations can promote or highlight some of the newer products and services offered.
- Niche Marketing. Design and develop new products such as Liquid Bulk Bags. These will benefit the oil and fruit juice industry.

- Brand Marketing. The branding of products with manufacturing details, safety working instructions, work load and handling of bags.
- Referral Networks. Create a strong relationship with current companies so they will add you onto their database so their sister companies can access your information and order bags.
- The use of marketing companies such as Saatchi Saatchi. The building of brand and promotion of products internationally and nationally.
- Follow up questionnaires. This provides feedback to the organisation regarding the quality and reliability of product.

Human Resource Strategy

- Multi-skilled employees is an advantage to Candlelight as staff are equipped to do the tasks of any staff that either leave or are absent. Knowledge management and the retention of tacit knowledge is a competitive advantage. This prevents reduced productivity and downtime.
- The recruiting and selection of staff. The employment selection process includes a screening interview. Staff background and previous employment/qualifications must be matched to the acquired job. Thereafter a face-to-face interview will take place. If properly qualified the candidate may be practically tested i.e. show their skills in utilizing a sewing machine etc.

Problems experienced in the company:

- Unionisation and striking. Leads to downtime.
- Electricity cuts affect productivity.
- Absenteeism increases overtime and decreases productivity.
- Strikes with taxis or service delivery, staff do not turn up to work. Productivity is dampened.
- Importation of FIBC by the Chinese people.
- Suppliers of raw material striking.
- Many corporate companies are still dominated by whites and this makes it difficult for non-whites to get business from certain companies.

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