

Hot Breads¹

Kathmandu, Nepal

“**Y**es, yes, I’ve heard all of your arguments and you do have points. However, we must protect our procedures and our recipes,” Mr. Sharma insisted. “If we hire locally, the workers will leave us after we have trained them and they will sell our secrets to our competitors. No, we must wait for Madras to send us more people.” Mr. Sharma, the owner-manager of the most successful bakery in Kathmandu, was adamant about waiting for new Indian bakers to be assigned to Nepal, even though he was a bit unsure of himself. He sat at one of the tables in his store, discussing the most pressing problem of the moment—their shortage of trained bakers—with two of his executives.

“But we have been waiting more than two months, ever since Ramesh and Ali went back home. My bakers are complaining about the long hours, the customers are complaining that quality is down and that bread comes out later and later every day. We have to do something.” Shubash, the executive chef, himself from India, was no less adamant and quite sure of himself, though of course he would eventually say, “Yes, sir,” or risk continuing the conversation indefinitely. Mr. Sharma was unlikely to fire or even reproach him for his dissent; it was more the boss’s style to wear down any opposition until the rebel agreed just to end the discussion.

“I realize that, of course. I will call Madras again soon, tomorrow perhaps,” Sharma continued. “They have been very busy, but I am sure they will send us people as soon as they can spare them. You can manage for now, Shubash.”

Subha Ratner, the customer service manager and the third member of the meeting, had been sitting quietly ever since he presented his argument some time ago. Realizing that once again they would take no action toward solving their ongoing problem, Subha had allowed himself to become absorbed in what was happening at the counter. The driver was preparing to make his second delivery to the local supermarket (because not enough products had been ready in the early morning to fill their daily order). He excused himself to supervise more closely. Shubash used the interruption to check on the kitchen. All three men knew that they would have to have another meeting on this issue tomorrow—and every day—until it resolved itself, so this meeting’s sudden breakup was not unexpected or problematic.

Background on Nepal and Kathmandu

The Royal Kingdom of Nepal is a small country in South Asia, sandwiched between powerful China and India. It is perhaps best known for its geography. The southern part of the country is flat and formerly a malaria-ridden jungle, a place where princes and Maharajas hunted tiger. Prince Siddhartha, the Buddha, was born here. The northern regions are dominated by Himalayas, including Mt. Everest, the tallest mountain in the world. The land in between, the “Middle Hills,” harbors Kathmandu, Patan and Bhaktapur, cities that were once important stops on trade routes out of China, as well as home to numerous Hindu shrines. These hills are home to another source of Nepali fame: the Gurka soldiers of

Exhibit 1
MAP OF NEPAL



the British army. Famous for their bravery and toughness, they were recruited from the mountain villages of Nepal.

The Gurkas are not the only resilient inhabitants of this country. Hardship, in fact, is a way of life for most Nepali citizens. The country has the distinction of being among the five least developed countries in the world. The estimated per capita annual income is only US\$160. Ninety-one percent of Nepal's population is involved in agriculture, most as subsistence farmers. Many of the children, especially the daughters, of these farmers work rather than attend school and as a result the literacy rate is a paltry 40% (while literacy among women is only 25%). These conditions shorten the average life expectancy of Nepali men to 54.4 years, and women to 51.6 years.

Nepal is a country of extremes, and at the other extreme of the social spectrum is the elite, the former ruling classes. These few control most of the money in the country. They are concentrated in the capital city, Kathmandu. Their children are educated abroad, in Delhi, London and the United States. They, along with the diplomats and the expatriates from various international aid agencies, give Kathmandu its unusual style, distinct from the poverty of the rest of the country.

Now, however, a middle class is emerging in Kathmandu. Domestic workers in expatriate homes, staff of various embassies, tourist and "trekking" guides and porters, carpet weavers and handicraft producers are developing wealth formerly unknown to their castes. This middle class, comprising less than seven percent of the population, who work in manufacturing and service industries, is causing a change in the country. They have created a market for education, which entrepreneurs are more than happy to fill.

They also demand a more representative government. Nepal has been a constitutional monarchy since 1990. However, the Congresses have been supremely ineffec-

tive, leading the King to dissolve them repeatedly and call for new elections. The middle class is beginning to develop a taste for luxuries—imported fabrics and medicines, foods tasted in expatriate kitchens and movies and music from foreign countries. Nearly all of Nepal's imports come from India, its neighbor to the south.

Nepal's ties with India are stronger than just economic. Nepal is the only official Hindu state in the world, and about 80% of the population practices Hinduism. Many major Hindu shrines are located in Nepal, making it a pilgrimage spot for India's Hindus. Nepali, the official language of Nepal, is similar enough to Hindi that Nepal's cinemas feature Hindi movies and much of the populace understands and can communicate in Hindi.

The Hindu caste system is perhaps more salient in Nepal than in India. The prejudices that accompany the caste system are an omnipresent and socially acceptable aspect of everyday life in Nepal.

Hot Breads

Hot Breads was the brand name of an Indian organization based in Madras. The company produced European quality pastries, both sweet and savory, and breads and cakes.

The bakers (breads and pastries) were required to go through a rigorous training procedure in Madras. Training lasted from three months to one year, depending on the needs of the organization and the potential of the individual, and included general instruction on ingredients and baking techniques as well as specific recipes (confectioners, the men who baked the cakes, were trained in Calcutta). Bakers were then assigned to stores, where they continued learning as apprentices. A French baker visited each store at least once a year acting as a consultant, evaluating the baked goods, making suggestions and teaching new techniques.

The Hot Breads organization had stores in major cities all over India and was investigating possible new locations in Dubai and various African cities. The Nepal outlet is actually a franchise of the organization. Mr. Sharma, a Nepali, bought the exclusive right to use the Hot Breads logo in Nepal and set up a limited partnership which he called Himalayan Health Foods. Himalayan Health Foods pays a monthly royalty fee to use the Hot Breads brand name. They purchase certain supplies, including chemicals and packaging materials, from the parent organization, and receive consultation visits, advice and similar forms of support.

Himalayan Health Foods and Its Founder, Sharma

The advice component was very important here, as prior to starting Himalayan Health Foods, Sharma had

**Exhibit 2
PORTRAIT OF HOT BREADS AND KATHMANDU**



Two waiters in front of bread rack in Hot Breads store



Vegetable vendors in Kathmandu



Hot Breads store front, Durbar Marg, Kathmandu, Nepal



Delivery man

no experience in bakeries, or indeed in the food industry at all. He was an economist, a former Fulbright awardee to Cornell University and a former UN consultant. Friendly and urbane his English was flawless. He belonged to a wealthy, powerful Brahmin family. As was traditional in Nepal, the Sharma family stored most its wealth in land and consequently had large holdings in Kathmandu. The family owned many Western-style (and therefore luxurious) homes, which they rented to expatriates from various aid organizations.

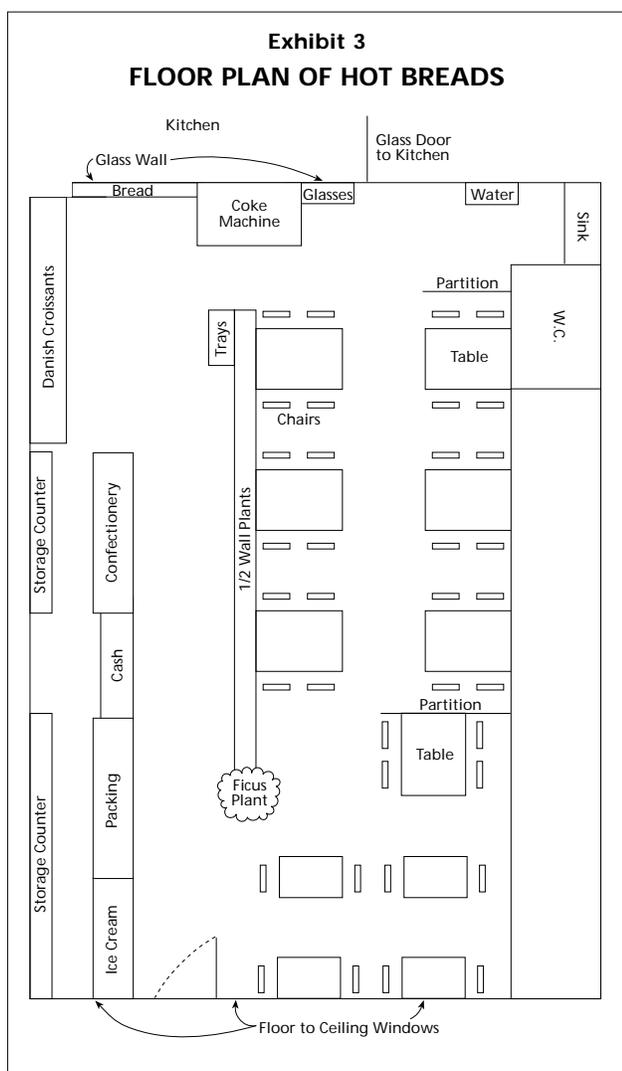
Sharma sensed a change was underway in Nepal, however slow in coming. The social atmosphere was gradually shifting from unquestioning worship of the monarch to a more democratic ideal. To date, the Congresses had been supremely ineffective, but they were learning, and people continued campaigning for

representation. In its periodic elections, the country enjoyed universal suffrage for those 18 years or older. They provided pictures on the ballot to accommodate the illiterate. More and more government-controlled businesses were being privatized, a movement encouraged by the aid agencies that were a significant source of funds for the government. (Aid agencies contributed in excess of US\$286.5 million in 1990, or 40% of the government's total expenditures.) The government further bolstered new enterprises by offering them a five year tax holiday. Financing for new ventures was becoming more readily available, as banks loosened their lending regulations and the number of private finance companies increased monthly. Stocks in approximately ten companies were traded publicly, and Nepalis with a bit of discretionary money were enthusiastic, albeit somewhat unsophisticated, investors.

Interestingly, many of the entrepreneurs taking advantage of this atmosphere were not native Nepalis but Indian immigrants. In Nepali culture, family and religious obligations were much more important than business. As a result, Indian entrepreneurs dominated the private business scene. This caused a lot of resentment among the Nepalese. Sharma was careful to distance his business from the Indian organization even though he capitalized on their superior recipes and technical training.

Hot Breads Bakery, Kathmandu

A consequence of this distancing was that Nepali Hot Breads developed its own unique floor plan. Although most of his bakery and confectionery items mirrored those sold in Indian Hot Breads outlets, Sharma had different ideas for the presentation of breads and pastries. The usual Hot Breads formula called for breads and pastries to be kept behind the counters. Shoppers would tell a counter person what they wanted; he would then package it and tell the cashier what to charge. Sharma



conceived of a new plan: a self-service area where customers could deliberate over their purchases without delaying others. In Hot Breads Kathmandu, customers used tongs to select items from attractive racks of baked goods, then carried their purchases to the counter where the cashier totaled their bill while a counter person packaged their selections.

In addition to the takeout bakery, Hot Breads Kathmandu also had a full service restaurant, serving sandwiches and pizza in addition to baked goods and tea and soft drinks. Finally, the shop featured an ice cream counter equipped to serve sundaes as well as dishes and cones. The back wall of the shop was all glass, exposing the ovens and the counters where the bakers worked so that customers could see the condition of the kitchen. Other rooms in the kitchen area housed the confectioners, the sandwich grill, the bread cooling/slicing area, the staff kitchen and the store-room. The executive office was in another building behind the shop. Located as it was in the most expensive rent area in Kathmandu, Hot Breads made careful use of space.

The staff was an odd mix of Indians and Nepalese. The bakers were all South Indian, trained in Madras and sent to work in Kathmandu. The confectioners were North Indian, trained in Calcutta. All others—the waiters, cashiers and counter attendants, the bakers' helpers and the cleaners—were all Nepalese, most of them natives of Kathmandu. This made for an awkward working atmosphere in Nepal's extremely caste-conscious society. Differences in skills and in social castes created a pecking order that was frequently contradictory as well as counterproductive.

Finally, caste traditions caused another oddity for the organization. Both Sharma and Subha were Brahmin. Strict, practicing Brahmins were restricted in what foods they could eat, where and in whose presence they could eat, and by whom the food could be prepared. Though both men tasted the foods produced in the bakery, they seldom ate there and never took food home to their families. The rest of the staff similarly restricted their diets; most ate only traditional food provided by the staff cook. As a result, taste-testing and suggesting new products was done almost exclusively by customers.

Business as Usual

Apart from these difficulties, businesses in Kathmandu faced myriad crises. Electric power was unreliable, even with the expected load sharing (planned blackouts in different areas of the city during peak usage times). Supply lines were even less dependable, and on more than one occasion essential ingredients were held in customs for months. Time and strategic "gifts" eventually got them released, but due to storage conditions,

Exhibit 4

AVERAGE MONTHLY SALES

Year	Month	Average Daily Sales Total	Bakery
Opening 1994	Feb	13,562	7,866
	Mar	30,622	15,005
	Apr	28,996	13,918
	May	31,107	14,931
	June	24,897	14,938
	July	27,001	15,931
	Aug	39,521	20,551
	Sept	55,743	26,199
	Oct	60,142	25,861
	Nov	57,614	25,350
	Dec	52,882	25,912
	1995	Jan	47,203
Feb		45,968	24,823
Mar		49,925	22,966
Apr		46,111	18,906
May		37,565	14,275

many of the shipments were unusable when they finally did arrive. Local supplies were difficult to obtain with certainty, and their prices varied widely. As a result, Hot Breads was forced to carry large inventories of their most essential ingredients. At one time, for example, they had a six-month supply of margarine.

To complicate matters further, the staff was capricious, particularly during the major holidays. Because of difficulties traveling around the country, staff members who returned home for holidays might return a few days or even a few weeks later than expected. Since Nepal has an inordinate number of holidays—the country celebrates Hindu holidays with week-long vacations, recognizes Buddhist holidays in similar fashion, and accommodates the important holidays of its numerous ethnic groups with additional days off—erratic absences could become a major disruption.

Equipment posed another problem, since the ovens, mixers and other special equipment were all imported. Repairing them and finding spare parts was a monumental task. These and other obstacles were dealt with somewhat haphazardly; management addressed them when they occurred, when they threatened the business, or, in the worst case, when they became big enough to

overshadow all other concerns awaiting their attention.

Today’s Crisis

The priority of the moment was a nagging production issue. Although within a month of its opening, Hot Breads had had a full complement of trained bake staff—ten Madras bakers assisted by three Nepali helpers—over time those numbers dwindled to just six bakers. For the South Indians, Kathmandu’s climate, particularly its winters, was practically unbearable. Many found the separation from their wives and families difficult. The Nepali dislike of Indians was another sore point. These and other factors led to several bakers ending their contracts early, leaving the bake staff with a skeleton crew. For the past two months, this crew had been forced to work 11- and 12-hour days, seven days a week, to keep up with demand. Morale was low, quality was substandard, and the bakers were reporting for work later and later each day. This last trend was having a direct effect on sales.

Because of the unusual composition of Kathmandu’s population, Hot Breads’ customer base was about 45% local Nepali, 30% expatriate and 25% tourist. Nepalis generally shop in the afternoons and early evenings, buying bread for the next day. Expats and especially tourists more likely visited the shop in the morning, buying bread for the day or eating in the cafe. Unfortunately, because of the bakers’ late starts, very few products were ready when the shop opened at 8 a.m. Croissants and Danish were often not ready until 10 a.m., and breads did not come out of the ovens until 2 or 3 p.m. Consequently, foreign shoppers were often disappointed in the selection of goods available when they stopped in. In fact, a marketing survey showed that while many expats regarded Hot Breads’ products superior to those of competitors in the city, they shopped there infrequently because of the irregular selection. The survey indicated that expat and tourist demand might increase by as much as 50% if more product was available before noon.

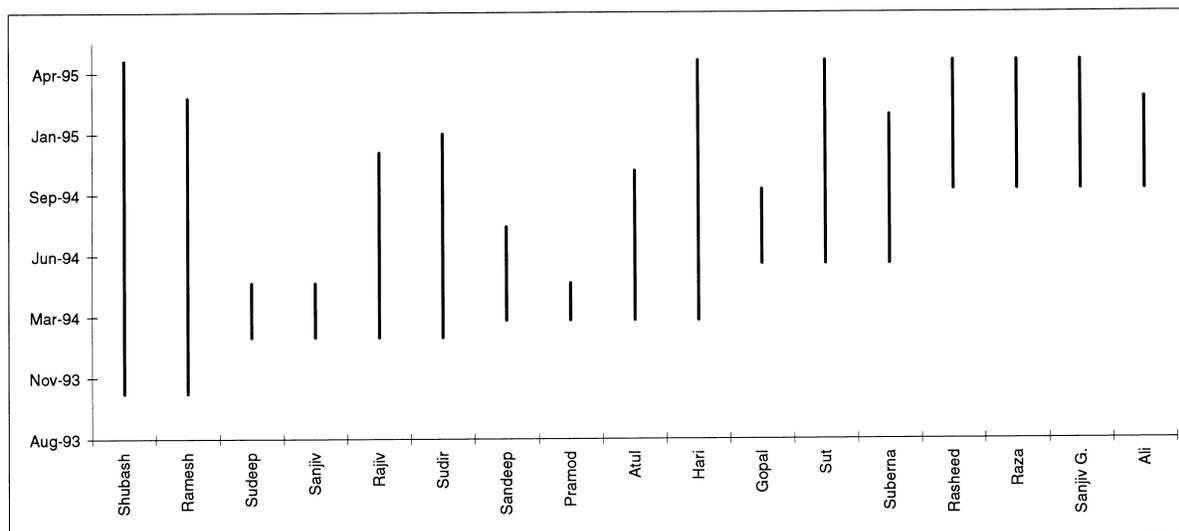
Although Subha, the customer service manager, was already aware of this issue, the results of the marketing survey made it much more salient in Sharma’s mind. Evidence of a real loss of sales elevated this baker understaffing problem that Shubash (executive chef) had complained about for some time from a mere annoyance—(“You can manage, Shubash,” was his favorite refrain)—to a genuine crisis requiring immediate attention. In a series of meetings, the three men discussed possible solutions to the matter.

“I have some friends who are bakers in the Annapurna Hotel and the Everest Hotel (two five-star hotels in the city). Perhaps I can persuade them to leave the hotels and come to work for us. We could offer a lead baker

Exhibit 5
INDIAN BAKERS AT HOT BREADS, KATHMANDU

Arrival and departure months for bakers from Madras, India

Name	Shubash	Ramesh	Sudeep	Sanjiv	Rajiv	Sudir	Sandeep	Pramod	Atul	Hari	Gopal	Sut	Suberna	Rasheed	Raza	Sanjiv G.	Ali
Arrival	Nov-93	Nov-93	Feb-94	Feb-94	Feb-94	Feb-94	Mar-94	Mar-94	Mar-94	Mar-94	Jun-94	Jun-94	Jun-94	Oct-94	Oct-94	Oct-94	Oct-94
Departure		Mar-95	May-94	May-94	Dec-94	Jan-95	Aug-94	May-94	Nov-94		Oct-94		Feb-95				Mar-95



position a slightly higher salary than they make now, maybe two weeks off for the Dasain holidays. Hiring them could solve our production problems immediately." Subha, himself highly skilled, knew skilled service people all over the city. Various friends of his had been helpful in solving past crises.

"They will have different methods, different recipes. My bakers will not work for Nepalis, and certainly not for Nepalis who have not been Hot Breads-trained," Shubash declared.

"We could set up a separate night shift, all Nepali or all Indian, to produce breads and pastries for the morning," Subha answered.

"Himalayan Health Foods cannot afford to pay the salaries they will expect," Sharma said. "The Indian bakers accept a much lower salary." For Sharma, committing money for anything other than capital investment was painful. "Besides, if we teach them our recipes, then they will go to work for someone else, or for themselves, selling products exactly like ours."

Because Hot Breads was such a success in Kathmandu, imitators were a serious concern. Nepal had very lax copyright laws and a host of people ready to copy any enterprise that was successful. A rival bakery had already surfaced, and the shop was laid out just as Hot Breads; it even had the words "Hot Bread" incorporated into its sign. Customers at the Hot Breads bakery fre-

quently asked about the "other Hot Breads outlet" farther down the street. Since only Hot Breads recipes and techniques set Sharma's operation apart from imitators, he was very protective of them.

Shubash again advanced his plan. "We must recruit new, unskilled local workers. We can subject them to a trial phase, where they work as helpers and do not learn recipes. Then if they perform adequately, we can teach them as apprentices." Shubash had suggested this solution several times before.

"But the time that will take . . ." Subha worried.

"That is why we must start immediately," Shubash snapped.

"No, I do not trust Nepali workers. They do not work as hard as Indians," Sharma lamented. "They will learn what they need to know and then they will leave to work for someone else, or they will ask for more money. Madras must send us more bakers." Rightly or wrongly, Sharma was convinced that Nepalis would betray him.

"Sir, we asked for help three months ago, then two months ago, then again last month," Shubash reminded him. "The Hot Breads organization is expanding so rapidly that there simply are not enough trained bakers to go around. When they do finally get here, we have no assurance that they will have had any more than the most basic training. Worst of all, given our past experi-

CASE STUDIES

ence, half of them will decide they cannot live here and will go home, requiring that Himalayan Health Foods pay travel expenses for yet another person. We must begin to become more self sufficient.”

Shubash and Subha had previously discussed the situa-

Exhibit 6 HOT BREADS EXPENSES March 1995		
		<u>Sub-Totals</u>
Salaries		82,950 RPS
Professional Staff	14,300 RPS	
Bakery (Bakers and Helpers)	23,100 RPS	
Confectionery	11,700 RPS	
Cooks	9,900 RPS	
Service	22,300 RPS	
Utility boys	1,650 RPS	
Rent		60,500 RPS
Durbar Marg (shop)	45,000 RPS	
Thamel (apartment housing Indian personnel-- 10000 + 500/man)	15,500 RPS	
Royalty		154,768 RPS
Grindleys (Loan)		135,420 RPS
Utilities		40,554 RPS
Electricity		
Durbar Marg	20,216 RPS	
Thamel	750 RPS	
Gas		
Durbar Marg	15,203 RPS	
Thamel	225 RPS	
Water		
Durbar Marg	1,500 RPS	
Thamel	35 RPS	
Phone	2,625 RPS	
Suppliers		462,595 RPS
Bhat Bhateni	112,062 RPS	
Nirmal	24,500 RPS	
Rhabi Bhawan	150,365 RPS	
Dairy	90,850 RPS	
Bluebird Supermarket	45,183 RPS	
Hot Breads Corp.	39,635 RPS	
Services		1,700 RPS
Laundry Service	350 RPS	
Tailor (uniforms)	500 RPS	
Artist (sign)	850 RPS	
Travel		14,780 RPS
Cab in city	350 RPS	
Ramesh (one-way passage to Madras)	7,215 RPS	
Ali (one-way passage to Madras)	7,215 RPS	
Misc.		6,000 RPS
Gasoline	4,000 RPS	
Medicine (for Shubash)	2,000 RPS	
TOTAL EXPENSES MARCH 1995		<u>959,267 RPS</u>

Exhibit 7 BAKERS' SALARIES		
NEPALI RUPEES		
Baker	Current Monthly Salary	Comparable Nepali Salary
Shubash	3,000	4,500
Ramesh	2,800	4,500
Hari	2,500	3,500
Sut	2,500	3,500
Rasheed	1,600	2,500
Raza	2,500	3,500
Sanjiv G.	2,500	3,500
Ali	1,600	2,500
TOTAL	19,000	28,000
Average	2,375	3,500

tion at length. Though they had different solutions in mind, both agreed that waiting for help from the Indian organization was untenable. Since he was not Nepali, Shubash found it easier to disagree openly with Sharma.

“Yes, yes, I have heard all of your arguments, but . . . ” The discussion broke off once again as each turned his attention to the immediate demands of operating the store.

NOTES

1. This case was written by Julia Kreisinger Henker of the University of Massachusetts. It is intended as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.