

# *Dahab Plastics Co.*<sup>1</sup>

AMMAN, JORDAN

## Case Description

This case focuses on a small family business whose owner, Amer<sup>2</sup> Dahab, uneasily contemplates changes to his business to counter swelling competition. Amer is the son of the founder of Dahab Plastics Company (DPC) from whom he inherited the business, and along with it, his father's deep-seated prejudices and mindset. Amer's business practices have been firmly rooted in the past. He openly boasts that he does business "the way my father did it."

Impending crises have forced Amer to consider how to best move his family business forward in the face of new challenges. Existing competitors are slowly capturing market share. Jordan's ascension into the World Trade Organization (WTO) has resulted in increased competition. Jordanian businesses can no longer hide behind tariffs that previously protected locally manufactured products. They must now compete with foreign businesses making inroads on their turf.

DPC was the first company in Jordan to manufacture plastic tableware. Its success flowed in part from such timing. Three major events in the Middle East contributed significantly to DPC's success. First, the 1973 invasion of Lebanon by Israel opened markets to DPC in Saudi Arabia previously served by Lebanese suppliers. Second, the Iran-Iraq war allowed DPC to penetrate the Syrian market since the war effort drained Syrian manufacturers' entire plastics output for 8 years. Lastly, the influx of expatriate Jordanians as a result of the Gulf War created a small economic boom. Returning Jordanians were accustomed to using disposable plastic-ware, and DPC capitalized on this change in local custom.

Amer realized that reliance on continued economic upheaval was a haphazard long-term business strategy. Also, Jordan's entry into the WTO effectively dissolved the economic shield on finished goods previously afforded by tariffs. Further, coun-

trywide acceptance of plastic-ware had fostered increased local competition. Amer must now deal with local as well as global competitors.

## Position in the Course

This case could be used in a variety of management courses, especially courses related to micro-enterprise development. There are issues relevant to strategic management, leadership and entrepreneurship. It could be also used in courses dealing with the export of goods from Third World countries.

## Teaching Purpose and Objectives

The purposes of this case are three-fold. First, it introduces students to the challenges of transforming a small patriarchal business into an enterprise that must compete in the international markets. Students should consider the complexities involved in introducing change in a setting shaped by a deeply rooted mindset where the boss' authority is dictatorial. The future of his employees is in his hands alone. Amer has run his business reasonably well to-date, but is unsure about what moves he must make to regain lost ground. He must exert greater efforts to protect his local market share. He also faces foreign enterprises that are no longer subject to steep tariffs. While the Jordanian government has lessened the tariffs on imported finished goods, it has yet to remove some remaining burdensome tariffs on imported raw materials used by Jordanian manufacturers whose output are used domestically. Removing this burden would enable private Jordanian businesses to better meet foreign competition.

Until recently, most of the local competition consisted of family-owned businesses. None were cutthroat; true competition was but tangential. All were profitable, as their product lines did not overlap for the most part. Some have turned to the

plastic-tableware line, however, thus competing directly with DPC's core products. In addition, foreign firms have begun seeking a share of the same trade.

Amer is considering a wide range of makeovers to his business. Adopting ISO [receiving International Standards Organization certification], adopting ABC [activity-based costing] accounting system, firing long-term employees, buying new machines, and exporting to Europe and US all appeal to his mechanical engineering background. Many small- to mid-size-business owners in Jordan considered these same alternatives in the late 1990's. Amer ponders these measures, but unfortunately as potential quick fixes. His failure to assess the relative merits of these approaches hinders his ability to chart the correct course to strengthen his firm.

Students may study this case as illustrative of an environment where many small-business owners fight for survival. Jordan is geographically located in a politically unstable neighborhood. Bordering countries had earlier forced Jordan to protect its industries by imposing tariffs. These same neighbors are now inhibiting Jordan's prosperity. For example, the Jordanian government has imposed an import tariff of 30% on raw materials if the raw materials have been imported. (Jordan has few natural resources. See country profile Appendix I for information on Jordanian natural resources).

Finally, the case could be used to explore the demographics of a country such as Jordan. Jordan has a population of 4.5 million people. Almost half of these people live in the greater Amman area. Opportunities for sales direct to consumers are limited. DPC's market primarily consists of small restaurant owners. Only two major companies might use DPC's product line.

## Questions for Discussion

1. **What are the major obstacles that Amer must overcome to enable DPC to compete successfully in a new business climate?**
  - a. Amer must distinguish between product lines that are profitable and those that should be discontinued. Small business owners in Jordan typically have little understanding of the costs associated with different products and the need to price accordingly.
  - b. Can Amer innovate? Most of his machinery is outdated. His production techniques originated 30 years ago when Amer's father ran the business. PET<sup>3</sup> and Styrene technologies are less labor intensive, more productive, and more adaptable to the needs of the market.
  - c. Existing tariff policies impact not only DPC but any company operating in Jordan. Amer must grasp the full import of these policies.
  - d. Amer and his relatives could buy their raw materials together to increase their purchasing power. However, lack of mutual trust hinders Amer's ability to lower his raw material costs.
  - e. Amer must overcome his lack of business understanding in the following areas:
    - i. Manufacturing schedules. Production schedules cannot be based simply on maintaining excessive inventory levels.
    - ii. New machinery purchases. Amer must consider existing or future customer needs.
    - iii. Business strategy. Relying on the happenstance of economic upheaval cannot supplant proper business forecasting. Amer presently has no plan.
    - iv. HR policies. DPC's sole policy at present is to pay a day's wages for a day's work. Benefits and incentives are not provided.
    - v. Quality control. DPC has no practical program - control points are non-existent.
    - vi. Marketing. Though Amer is eager to boost exports, DPC has no plan.
2. **How can Amer improve DPC's competitive stance in Jordan? Internationally?**

Consider the following:

  - a. Amer must examine the preferences of his local customers and the size of the market.
  - b. Amer must develop the abilities of his employees. Additional training, particularly in quality control, can bring down costs. DPC should also install a system to reward employees who introduce cost-saving measures while maintaining quality.
  - c. Amer should attempt to develop a cooperative buying group to buy raw materials. A non-partisan trade association would benefit all local business owners.
  - d. Amer should weigh the benefits of using high-quality packing boxes (better warehouse stackability) with custom-painted logos against the cost savings of a generic container with respect to customer gratification.
  - e. Amer should determine what degree and type of automation, if any, might reduce labor costs. All work-in-progress is presently moved by hand.
  - f. Amer needs to consider developing an international marketing plan for various regions: brochures, product sample packs, and the like.
  - g. Undertaking steps to win ISO certification would help Amer's credibility when entering markets that are not familiar with companies like DPC Plastics.
  - h. Amer should explore the benefits of joining International trade associations. Many embassies

have a section to help businesses develop potential customer leads, make licensing arrangements, participate in trade shows, and learn import/export requirements.

- i. Amer should look for alternate sources of raw materials. It might prove less expensive to purchase some materials from Israel. This would minimize the risk associated with single-source suppliers and product origination issues.

### 3. How could Amer benefit from ISO certification, given Amer's self-proclaimed level of quality?

- a. Amer would immediately gain credibility in the international markets such as Germany.
- b. The necessity of implementing consistent quality procedures would serve to pinpoint responsibility for substandard work, leading in turn to improved quality and therefore more satisfied customers.
- c. The ISO symbol on its boxes would further DPC's quality image and bring additional market clout, and thereby increase Amer's ability to charge more, setting a higher price for a product that had carried a perceptible quality guarantee.
- d. Furthermore, if ISO certification were realized and the promising European Union (EU) distributor brought on board, the styrene machine that is only being used for one shift could be utilized further. For example:

The styrene machines can make 94 items per minute (design capacity). If operated 24 hours/day, 5 days a week, this machine could meet the demand of the promising EU distributor seeking 25,000 cases.

$$94 \text{ items} \times 60 \text{ minutes/hr} = 5,640 \text{ units/hr}$$

$$5,640 \text{ units/hr} \times 24 \text{ hrs/day} = 135,360 \text{ units/day}$$

With the current product mix, 1 case = 1,250 units

$$\frac{135,360 \text{ units/day}}{1,250 \text{ units/case}} = 108 \text{ cases/day}$$

$$108 \text{ cases/day} \times 5 \text{ days/week} = 540 \text{ cases/week}$$

Amer figured that a ship-borne container would hold 760 DPC cartons — meaning that every 7 working days he could create a ship container of inventory. Additionally, were production brought to this level for 50 weeks, Amer could produce 27,000 cases of inventory to meet the needs of the EU distributor. Note that this scenario requires the

machine be running at design capacity. Furthermore, Amer would not be able to use it to meet local demand.

If this is the case, should not Amer purchase a second machine?

A second machine would cost Amer JD 232,000 in the year 2000.

(JD is the unit of currency called the Jordanian Dinar. JD 1 = US\$1.41)

Amer speculates that he would be able to earn JD 1.5 per case of product sold to the EU distributor. With the sale of 25,000 cases in a year, this would yield JD 37,500/year of extra cash flow -- giving a simplified payback period (i.e. not considering the time value of money in the calculation) of:

$$\frac{\text{Investment}}{\text{Annual Cash Flow}} = \frac{\text{JD } 232,000}{\text{JD } 37,500} = 6.19 \text{ years}$$

Using the stated interest rate of 23% on a ten-year loan, the NPV of this JD 232,000 investment is worth JD 113,400, derived as follows:

$$\begin{aligned} \text{NPV} &= \text{PV of Cash Inflows} - \text{PV of Cash Outflows} \\ &= 3.8194(37,500) - .129(232,000) \\ &= 143,227.5 - 29,928 \\ &= 113,399.5 \end{aligned}$$

This calculation shows that a second machine is a worthwhile investment even with a 23% interest rate from the bank.

Worthy of note here is that this plan calls for running the machine at design capacity, which exceeds operational guideline of operating equipment at 90% or less of design capacity.

### 4. How should Amer approach making the changes in Question 2 above?

- a. Who would implement them, and in what fashion and sequence?
- b. Precisely which employees would the various changes affect? How receptive are these employees to change? What reactions must be dealt with, and in what manner?
- c. What are the risks associated with delay?
  - i. New entrants may further erode Amer's market share.
  - ii. New technology that may make current product lines obsolete or no longer cost-effective.

- iii. The turn of the economic wheel may bring peace in the Middle East that in turn boosts the confidence of many international companies to expand into Jordan.
- d) Will the following features of the DPC's business model allow it to continue to operate until, and through, the next Middle East disaster?
  - The company owns all plant, property & equipment outright.
  - DPC maintains a solid and loyal customer base.
  - Amer's business sense will most likely overcome his pride in operating "like my father."
  - DPC has been longer in this business in Jordan and therefore better known than its competitors.
  - Its employees are loyal.
  - DPC enjoys some export experience in the Middle East/North Africa (MENA) region.
  - Though diminishing, DPC still has the largest market share in its domestic market.

ISO is not an official requirement for export to EU; however, without ISO certification, Jordanian products are not attractive to EU distributors.

- Many Jordanian businesses are known to suffer from excessive employee turnover. Loyalty often goes to the highest bidder. Employees will shift to another employer for a mere JD 5 to JD 10 increase per month (less than \$14).
- The workforce in Jordan is highly literate for a developing country – 86%.
- Employers hesitate to invest in developing their staff. Better-trained workers are more employable and may seek work elsewhere.
- A sense of "Family" plays an important role in employment dynamics. Employees value their time with their families. As a result, companies experience difficulty recruiting second- and third-shift workers.

## Other considerations

- Many smaller and underdeveloped countries have initially suffered from ascension into the WTO. Existing business rules and regulations in the new member country typically do not mesh with WTO standards. This prevents many of its businesses from competing outside the country. According to the WTO, however, membership tends to have a beneficial effect on the internal business climate.
- Many businesses are reluctant to automate, as labor is perceived to be inexpensive. This is true only vis-à-vis rates in Western Europe and the United States. Labor rates in Jordan are relatively expensive compared to neighboring Egypt, Syria, and Iraq.
- Financing is difficult to secure. Banks normally require security with a value three times the amount being borrowed. This situation could be termed as "negative leverage."
- Jordanian businesses do not distinguish marketing from sales. The marketing plan of most small businesses rarely extends beyond the flat statement: "We have x number of sales representatives."
- Many businesses seek ISO certification to take advantage of exporting opportunities to countries in the EU.

## Epilogue

- Amer and fellow businessmen broke down the trust barriers. They established a cooperative association and began buying raw materials.
- DPC achieved ISO certification and has further developed leads in Germany with the help of the German manufacturer from which it subsequently purchased new machinery. Yet, Amer has yet to receive a firm commitment from any distributor.
- The failure of the Jordan-Israeli peace talks continues to keep Israeli manufacturers out of Jordanian market. A consummation of such would open the Jordanian market to Israeli competitors. In that event, DPC must consider becoming a distributor of Israeli products.
- PET technology is becoming more widespread. Amer's cousin has grown steadily over the past several years, continuing to expand product lines using this technology. But PET has yet to replace the product lines that DPC now manufactures.
- Amer has yet to view his employees as assets to be nurtured and developed.

1. This note was written by Andrew Goldkuhle of the College of William & Mary.