

Interview: Ajit & Jasjit Singh, ACG, India

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For decades now, ACG has been building up its reputation in the global pharma space. The Indian Pharma industry, at the same time, increasingly is catching up with the Western manufacturers. How challenging was it for you to build up your reputation on the global scene?

A.S.: It has been an exciting challenge – in each of our businesses the world is dominated by a small number of well established suppliers. They are situated in countries known for high technology. For ACG Worldwide, it has been a gradual but steadily consistent process of gaining global recognition for our whole range of pharmaceutical ancillaries – capsules and capsule filling machines, blister packing and cartoning machines, fluid bed processors, packaging films, tablet tooling and machine vision systems and special purpose machines. Our goal has been to become a preferred supplier and offer better value to the world pharma industry through our products and services. Our teams have worked hard towards this end with great diligence and attention to detail. Building our reputation has also required a focus on research and development, quality, service, marketing and relationship skills.

J.S.: When we first reached a size of operations that could support meaningful exports the world did not seem to be interested. Even neighbouring countries such as Bangladesh had got used to importing pharma machinery and consumables from advanced countries. To supply the international market we realized we had to first sell India, then ACG and, only then, our products. But through decades of learning, ACG has refined its products and services to meet global expectations. More than half of our total production is now exported, a major part being repeat business.

How did you manage to convince these first clients?

J.S.: We were determined to succeed. We went to the customers with our agents or branch office

personnel, got a clear understanding of what they wanted and worked together with them and our agents in a spirit of real partnership. At the same time, we would actively participate in exhibitions, not only to showcase our own products, but also to understand what the rest of the world is doing. We also saw an influx into India of foreign pharma companies wanting lower cost manufacturing bases for global markets. This directly opened the door for us to MNCs who were increasingly looking for world class machines at affordable prices. We were perfectly positioned. As a representative of major MNC said: we are now facing huge worldwide competition in the generics and other segments from strong Indian Companies like Ranbaxy, CIPLA, Torrent, Zydus Cadilla, Alkem, IPCA, DRL. They are using robust, efficient, good looking and affordable Indian pharma machines, capsules and films from ACG and successfully competing with us. Why should we not do so as well?

As you mentioned earlier, you use local staff for your international operations. To what extent does this pose a challenge in terms of management?

J.S.: The biggest challenge when you start growing internationally and install overseas offices and factories is to embrace the culture that exists in the countries you enter. One has to respect local culture, but we also acclimatise our overseas teams into accepting the successful internal work culture and systems we have built up at ACG. At our factory in Croatia, it has taken 3 years to align the cultures.

Do you see lower costs in India as a durable comparative advantage for the country?

A.S.: Yes. While costs of skilled personnel are increasing fast its impact will still be lower than cost increase in Western countries. For example, if the average cost of American personnel is 10 times higher than Indian, a 3% increase in salary in the US will equal a 30% salary increase in India. Indian salaries, however, are not increasing at this rate. Thus, while the relative gap may be reducing, the absolute gap is, in fact, increasing. The bogey of red-tape and corruption in raising costs in India is greatly exaggerated. In my opinion, It does not much affect day-to-day operations nor handicap the growth and success of a well-managed enterprise. Today's bureaucrats in India are modern in their outlook and often ahead of industry in their speed, commitment and professionalism.

China is a big competitor in the game. What do Indian companies have to offer more?

A.S.: China is a bigger bulk drug supplier to the world, than India. In fact, India imports a large amount of APIs from China, at the cost of weaker Indian units. However, the government has not used non-tariff barriers in the expectation that Indian factories would strengthen and pharma prices be kept low. India has remained ahead of China in formulations development and export. The reason is structural. It goes back to the education system. Of all countries in the world, India produces the highest number of pharmacy graduates proficient in pharmaceuticals, and with a manufacturing orientation. Unlike elsewhere, a majority of these graduates are employed by the pharmaceutical Industry. In other countries, pharmacy graduates would mostly go into community pharmacy like drug stores or hospital pharmacies, quality assurance and sales. The rich influx of

pharmacy students into pharma production and R&D in India enhances the development of the local Industry especially its formulations capability. India is rapidly becoming a World Centre of Excellence in this area. Indian Pharma personnel are now training their overseas affiliates in how to produce medicines of quality, in large quantities, at economic prices – and yet make a profit. Some would call this high technology indeed.

Yet, what do you feel is missing to build a stronger “Made in India” brand?

A.S.: India is already widely recognized as a powerhouse of GDP growth. But as individual companies we need to do much more. A successful brand manifests itself in every interaction with its customers – these are its moments of truth. A brand must live up to its promise. It needs much media promotion and marketing. A short cut is the winning of global awards. This is newsworthy and helps create the right image for the brand, company and country. Several Indian Companies including TVS and the Sona Group have been recipients of the coveted Deming Award for quality. Recently, ACG won 2 awards from the Pharma Industry Association in Brazil for the best supplier of machinery and packaging films against competition from recognized global brands. In India, the awards and recognitions we have received have been numerous and frequent.

ACG itself now grew into the second largest manufacturer by volume of empty hard capsules, with significant presence worldwide. What do you see as the company’s competitive edge?

A.S.: ACG Worldwide is well funded and virtually debt-free. It is strong in strategic planning and manufacturing. We take great satisfaction in running a Company that respects and enriches its external and internal customers, creates a fair and challenging work environment. One that is socially responsible, manages strong R&D processes, sustains good relationships with government, and has products that anticipate the needs of the global market. We believe that all the above, as also the aesthetic designs of our buildings and workplaces, enhanced with our extensive art collection makes our people want to come to work every day. When you nurture all these values as priority, somehow the profits and growth follows.

J.S.: Ajit and I have always enjoyed building this business as one large family of stakeholders. The vision has never been just to make money or grow big. We look for satisfaction in our customers and excellence in all our actions. We charge a small premium on most of our products, but customers are not unhappy about this as we give back value. Growth and profits are a consequence, not a driver.

Professional management in an owner-led company... it is not always an easy task. How did you manage to combine the two?

A.S. : Being highly professional, yet owner-led, is a very strong combination. We have only 3 family members active in the Group of 3,600 associates. Jasjit and I are gradually handing over leadership responsibility to my nephew and Jasjit’s son, Karan. He is a qualified and extremely hard-working, bright, and well-liked individual. He is also a fast learner and seems to have imbibed both our strengths. Unlike most publicly quoted companies we cannot be bought or sold. We

assure continuity of ownership to our partners and associates and so can honour assurances for at least the next 40 years, as we move from this generation to the next. Our top management consists of competent, experienced and professional company presidents and corporate heads, some of whom are Directors in our Global subsidiaries. Several have come to us from larger companies or MNC's. Some live overseas. We have learnt you can manage a business from anywhere in the world, once it is on its feet. The family approves direction, gives quick decisions when asked for and provides extra resources. It also leads some longer term initiatives and provides the vital entrepreneurial spark. For me, my most important mentor has been my brother Jasjit. He is highly focused and technically quite brilliant. He has many patents to his credit and strong managerial and leadership skills. He is also a fast and fair decision maker.

J.S.: With his high quality education at Cambridge and Harvard and his previous experience in the corporate world, Ajit has always had a strong understanding of what a professionally managed company should be like. At ACG, personalities are taken out of decision-making, and a process is put in place instead. I have personally learned from Ajit, a visionary and a diplomat who is not happy with routine. He has the capacity to see potential, and is able to develop all the contacts needed to tap into that potential. As we grew, we realized we needed to bring in professionals. ACG would not have grown to such extent, if Ajit and I had not been able to delegate. Today, the Group's companies are run almost entirely independently by CEO's and their teams. We meet once a month to review progress and offer our assistance where needed. Then Ajit and I return to the Corporate Office to work on the future, help induct the best new talent and try to ensure we remain a learning organization.

How can you drive up performance in the group while sustaining a good team spirit?

J.S.: We try to create excellence in all we do, and develop people. There will always be those that perform better than others, so what we try to do is to raise the bar for everyone. To get good annual variable pay and special bonuses, our managerial associates are required to achieve well balanced objectives. If people underperform, it is generally their peers who apply the corrective pressures.

The group has also grown into an umbrella of companies...

A.S.: Our growth did not happen overnight, and ACG has indeed developed its strategy around an inter-related umbrella portfolio. Currently, ACG has focused more on the solid dosage form area. We can now supply virtually anything that a pharmaceutical company requires in this segment anywhere in the world. Do you have a particular example of what the Sci-Tech R&D centre has brought to ACG?

A.S.: Our R&D affiliate develops new pharma engineering design prototypes and mechanisms as well as novel drug delivery processes and platforms. Our customers know that every 2 or 3 years new models with improved functional designs and new products will be preferentially made available to them. SciTech also promotes R&D by holding or sponsoring scientific conferences, many of them in its own advanced learning centre. Over 2000 Pharma Industry personnel are

directly or indirectly trained by or at SciTech each year. Like the rest of the Group, SciTech also ensures that a reasonable portion of its experience is dedicated to social causes. For example, one such development has been a special wheelchair that can better cope with height differences. This novel prototype and concept was given free to the Fellowship of the Physically Handicapped (FPH). Another example was the development of protective semi-automatic diamond polishing machines for the quasi public sector Hindustan Diamonds Ltd. An early form of containment, this helped avoid dangerous contamination of the air around unshielded workers. When capacity is available we work on novel projects for the pharma and other industry. For instance, we developed a drug delivery platform for a leading pharma company by conceptualizing a system for laser-drilled tablets. This was new for India. Drug delivery for cancer patients as well as the very young and very old was facilitated by co-development of a lollipop form of drug delivery. While we also work on theoretical concepts and designs, most of SciTech's output has been commercialized. Notably, though most companies in India started R&D activity in the 1990's after considerable government urging and incentives, SciTech has been active since the 1970's. The past 3 years, we have witnessed expansion plans for 3 facilities in Shirwal. What was the vision behind these investments, and what additional capabilities did these units bring to ACG?

A.S.: We need to invest continuously in order to keep the supply of our products a little ahead of forecasted demands, upgrade our plants and processes, lower our costs and improve productivity. Our main product – capsule manufacturing – is a business which is characterized by high investment and generally low turnover. You only succeed as a large volume producer of a faultless product. We are also seriously looking at a couple of other geographical locations for global capability building by means of acquisition or greenfield investment. To supply Europe, we already have a plant in Croatia. Offices and warehouses in several countries are already in place to service much of the rest of the world. Our aim is to set up 2 or 3 new service and spares centres overseas each year. This increases our capability to be close to our customers.

You have always made it clear that ACG's growth should also be coming from its alliances, for which you already have established strong relationships with key players. What have these partnerships contributed to the ACG story so far?

A.S.: They give us a world view and new products. Our Joint Ventures have helped us stay ahead of others, expand into overseas markets and remain contemporary on a global basis. Through its import agency lines, ACG has given our many overseas partners successful access to India and we have helped build their brands in the Indian market. I do believe that foreign J.V. partners should increasingly use India as a sourcing base, and use the marketing strengths of both organizations to capture various segments of the world market. What are the priorities for ACG today?

A.S.: Continuous improvement of operations, accelerated investment and remaining a learning organization. We seek to infuse fun, enthusiasm and speed into our processes. It is truly satisfying to build a world class organization. And, together with our associates, to create a challenging,

rewarding and evolving place of work that our people, customers and other stakeholders can cherish being part of.

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