



## **CASE WRITING WORKSHOP**

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### **ARSH STAR – Dubai UAE**

On March 12, 2009, immediately prior to attending the board meeting to discuss the introduction of a new luxury AHMAD TEA product into the UAE market, Mr. Reza Ghassemi, General Manager of Arsh Star, received an urgent call indicating that their bank would regretfully reduce their total credit limit by AED1.5 million. This amount was intended to cover the gap in working capital for the launch of the new product.

### **Ahmad Tea of London**

AHMAD TEA of London (ATL), a global provider of high-quality tea, introduced itself on the company's website:

“AHMAD TEA of London draws upon knowledge and experience gained from three generations of family activity in all areas of the tea trade, from plantations to blending and packaging....The commitment to quality remains today. It is reflected in the image, branding and packaging of the entire AHMAD TEA product range and has led to sales in more than seventy countries, spanning across five continents.”<sup>1</sup>

Based on ATL's website:

“The company is committed to buying and blending the very finest teas. To do this, our expert tea tasters in the United Kingdom sample hundreds of teas from gardens around the world in search of suitable leaves to make the perfect cup.”<sup>2</sup>

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<sup>1</sup> WWW.AHMADTEA.COM

<sup>2</sup> *ibid*

ATL was offering blended products from a variety of tea growing regions in India (Assam and Darjeeling), China, Kenya, and Sri Lanka (Ceylon). Their products included Victorian Range, Gift Teas, Fruity Black Teas, Green Teas, and most importantly Specialty Black Teas. Each group of products also divided into different subgroups based on flavour and packaging. For instance, blends of Specialty Black teas ranged from Ceylon, Darjeeling, and Decaffeinated Earl Grey to English Afternoon, and Primetime. Packaging types included teabags, foiled teabags, and caddies.

ATL relies on local distributors to deliver its products into more than 70 countries. In the UAE Arsh Star is the sole distributor of 18 items of ATL teas.

## **Arsh Star**

In 1987, Dr. Mohammad Ghassemi had established a partnership general trading company in Dubai. The company started its distribution network in Dubai and gradually covered the entire UAE. Later the company got the privilege of becoming the sole distributor of ATL products in the UAE.

In 1996 Dr. Mohammad Ghassemi's son Reza moved to Dubai, after graduating from the UCLA (USA) to take on the responsibility of the company as general manager. Under Reza's management the scope and scale of the business kept growing. In 2008, the Ghassemi family utilized their financial resources to achieve their goal of turning the company into a pure family-owned business through buying back the share of other partners. The company was now called "Arsh Star."

The market for tea traditionally was stable and not prone to financial squeezes. As a result, Arsh Star was confident on the stability of sales in the coming years [see Exhibit 1]. ATL products had obtained a good reception in the UAE. In the last eight years, the population increased at one of the highest rates in the world and still was expected to grow.

On the other hand, Arsh Star faced fierce competition with Lipton, the largest distributor of a range of tea products in the UAE. Lipton was a mighty rival which obtained market power due to its scale, variety of products, and constant advertisement campaigns. The advantage of ATL over Lipton was the higher quality of the teas.

## **Tea, from Bushes to Cups**

AHMAD TEA maintained a long-term relationship with prime tea producers. The company was packaging its products mainly in India and Sri Lanka. Luxury packaging like gift packs was done in the UK. Based on Arsh Star's orders, ATL prepared the final products in three weeks and shipped them from Sri Lanka, India, and the UK to Dubai. Shipped goods needed eight days from Sri Lanka, and 21 days from India and the UK, to reach Dubai. Upon the reception of the

goods to Jebel Ali Port in Dubai, AHMAD TEA Middle East, ATL's liaison office for the region which also was located in Jebel Ali, Dubai, delivered the documents to Arsh Star against full payment into a local bank account of ATL [see Exhibit 2].

In a single day, the port could release the goods against documents. Then the tea packages were resting in Arsh Star's warehouse in Dubai for an average of 45 days. Mr. Reza Ghassemi further explained the distribution mechanism: "Traditionally, supermarket, groceries and large retailers do not hold extra inventory in addition to what they have on their shelves. They expect a constant flow of ATL products which enables them to keep the business running without any warehouse. Upon the order of retailers, we send them full-of-products trucks and replenish their shelves."

The distribution network of Arsh Star comprised of 20 trucks and delivered tea packages to 150 retailers including Carrefour, Union Coop Society, and Lulu across the UAE twice a week.

## **Cash Flow**

As a result of the long term relationship, ATL extended some level of credit to Arsh Star that was enough to cover the safety buffer for the distributor. Further, ATL did not require a letter of credit in order to ship the products and all orders would be based on open account.

In the last ten years, the UAE retail market evolved into a deferred payment system. Previously, retailers were giving post-dated cheques as securities for receiving goods. Later, due to high competition among distributors, cheques had been removed from the system. Therefore, in 2008, Arsh Star would grant three-month credits to retailers with no request for any post-dated cheques.

One advantage of cheques was said that distributors could request their banks to discount the cheques. In this regard, Mr. Reza Ghassemi said: "With the extinction of cheques from the distribution system, Arsh Star is deprived from an effective instrument for funding the gap in the working capital."

Given that distributors were thirsty for cash, some retailers like Carrefour offered the option of payment of the sold items in a month at a cost of 1.5% per month. This means distributors received cash in 30 rather than 90 days and would bear the interest for two months.

## **Relationship with the Bank**

Arsh Star obtained a number of banking relationships with some local and international banks. Nevertheless, it concentrated its activities with one particular local corporate bank. Arsh Star's strong relationship with the supplier gave them the opportunity to save on expenses of opening LC's and/or collecting documents. The company mainly needed the bank to receive facilities to

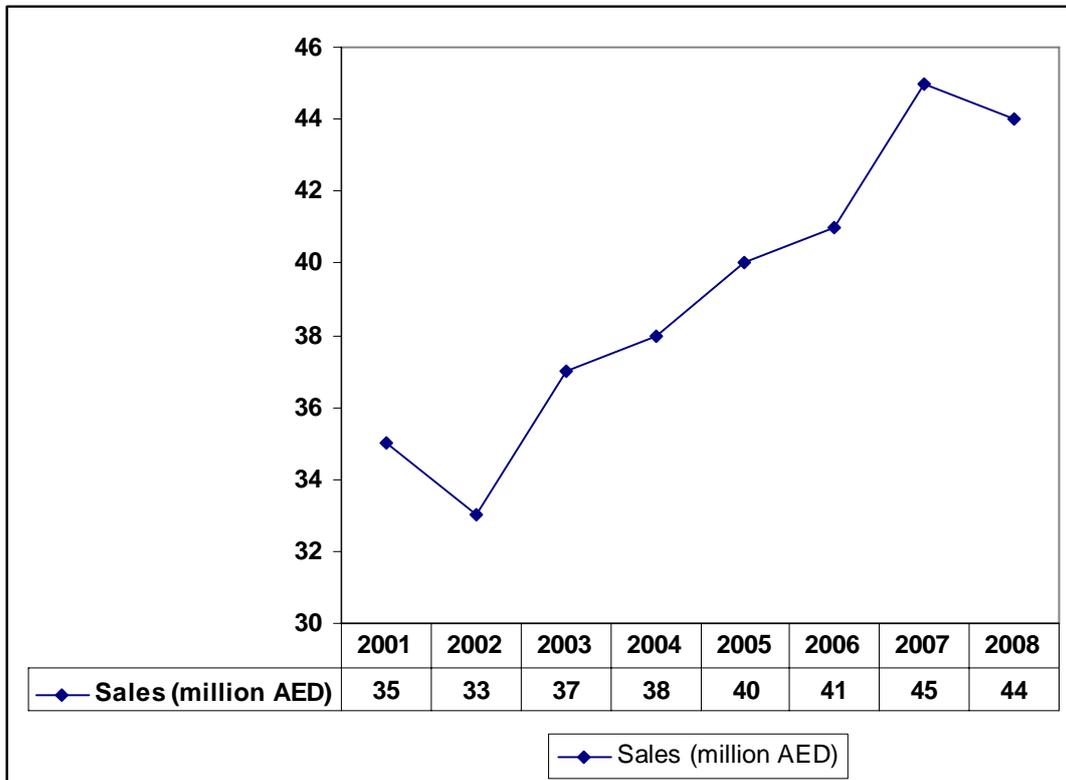
manage its gap in working capital. In essence, these facilities were short-term advances and long-term small business loans (SMLs) were not common in the UAE.

The bank had been growing constantly for a decade and had a sound financial status. In 2007 no expert could predict that the mild credit crunch occurred in the US sub-prime housing market could spill over to the UAE market.

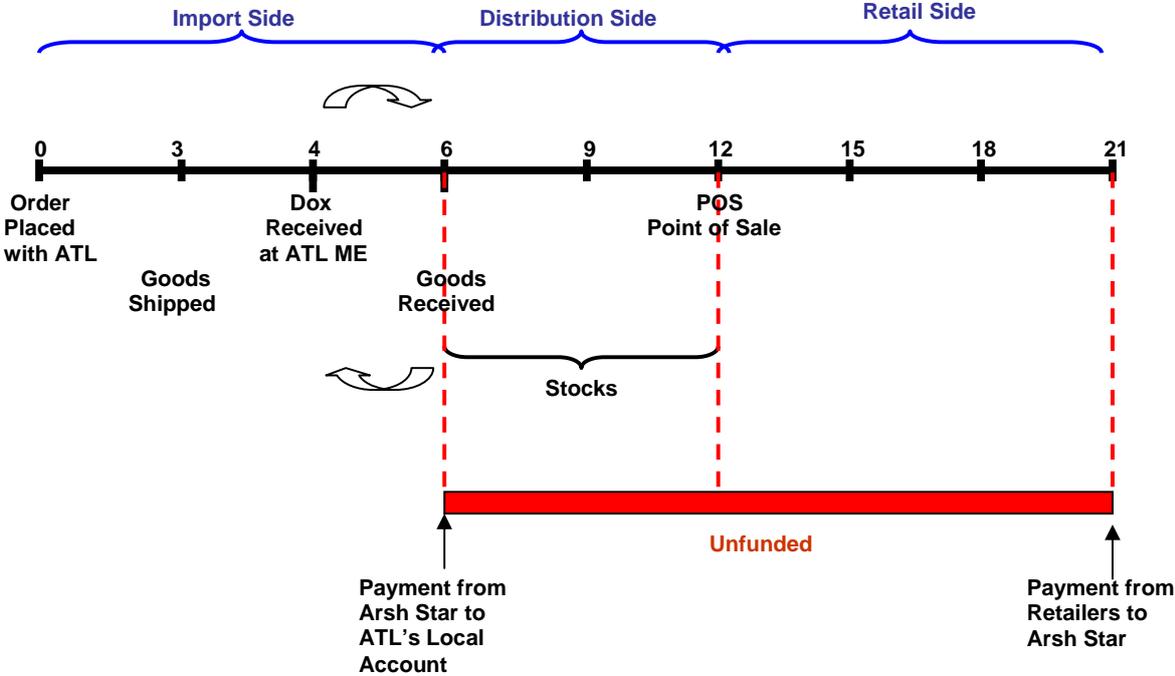
## **Conclusion**

On March 12 2009, Reza received a shocking call from the bank informing him that Arsh Star's total credit limit had reduced from AED 6 million to AED 4.5 million. Actually, Arsh Star had been utilizing only AED 4.5 million on average for the previous 12 months. However for the expansion of luxury gift teas an extra AED 1.5 million was needed to fill the gap in working capital. Reza was mulling upon the alternatives he might have as he was walking into the meeting.

**Exhibit 1**  
**ARSH STAR**  
**The Sales Trend of Arsh Star – in million AED**



### Exhibit 2 ARSH STAR Diagram of Flows of Cash and Goods



Open Account; 3 weeks

Differed Payments from retailers; 12 weeks