WASH RIGHT LIMITED

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Abstract .
Wash Right Limited is a company promoted by a large industry house of south India with no prior experience in consumer durable industry and was fighting tough battle with national and international players.
The company had acquired a superior technology through the JV, and its sales were expected to grow at 20 to 30 per cent per annum. The company experienced a significant growth in its sales during the first three years of its operations, and its actual growth rate averaged about 30 per cent per annum. Over this period, the company established its name, and its products became well-known in the market. As the competition intensified in the 'washing machine market,-and the general market slow-down conditions engulfed the entire economy, WRL started experiencing a decline in its sales and profits. This started happening from the beginning of 2008.
One of the main reasons for the declining profits was a huge interest liability which had doubled during the last one and half years. This had happened because of the large amount of short-term borrowings. The continuous increase in inventory levels was identified as the reason for significant increase in short-term borrowings. Given the group's standing in the market, it did not face any problem in borrowing from its bankers.
Accounts receivable does not indicate any significant increase since most of the distributors are paying in time to a very large extent. Account receivable and cash requirements of the company are about 12 % of sales. Accounts payable constitute about five per cent of sales. The management of the company identified inventory level major issue causing financial problems.
It was suggested by VP (production) that WRL should convert to “Just in time” inventory model but management was not sure if it can be implemented given vendor's attitude. Cutting down production was a difficult proposition in view of the fact that the company had already entered into an agreement with its suppliers to supply the raw material. The VP (Marketing) suggested several promotion strategies and options to reduce the inventory levels of the company **.**It was found that one of the reasons for over-stocking the raw material has been the foreign exchange fluctuations on which WRL has no control.
After analyzing the past trends obtained from the order processing system, the management of WRL has observed that 5 percent of orders are partially delivered. The order processing system does not have the provision of monitoring the partially fulfilled orders.
The management was of opinion that a 2 month credit period allowed to big retailers such as big bazaar, next, reliance etc. should be reduced to one month but could not work out due to buying power of these big retailers.
It was pointed out by CEO that there is urgent need for training of staff at all levels and in all divisions of the company. He suggested that divisional heads must collect details for training needs before training program can be initiated.
Top management confirmed that in recent times, there has also been mounting pressure on the company to introduce new product models in the market.
CEO was not convinced about the viability of WRL and made the report to MD to sell the plant to an American multinational which had shown interest . CEO believed that consumer durable segment is not their core competence areas and they will stick to industrial goods for which the company is known for. The MD was not sure if the CEO observations are correct and wanted your opinion what he should recommend to board.

Key words : sales, market, production

The washing machine market In India was valued at Rs. 1500 crore in 2006 and is growing at the rate of 22% per year. The fully automatic and semi-automatic sub category is growing at the rate of 40% and 17% respectively.
Some of the major players in the category of washing machine market in 2006 were as follows.:

- Videocon
- IFB
- Onida
- Samsung has market share of 17%
- LG is the leader with 27% of market share.
- Whirlpool has a market share of 17%.

All the players in the washing machines market are technology driven and bring out new models with superior technology almost every year.
It is seen that that all players use their channel partners for sales and use innovative marketing techniques to penetrate the new markets and improve upon the market share.

Demand Drivers in Washing Machines Sector

Some of the factors that are responsible for the growth in washing machine segment are: Increase in disposable income, rapid urbanization, increase in nuclear families, increasing number of working women, growth in per capita income, greater variety of choices, increasing consumerism etc.

Washing machine market in the years 2006 and 2007

In 2006, the major players controlled 85% of the market while in 2007, the share of major players in washing machine market has been reduced to 70%, and the rest 30% of the market is controlled by smaller players. In 2006, the sales for washing machines was about 1.8 million units, while in 2007, the total market is a whopping 2.2 million units.

Further, compared with most other countries, the penetration levels of 9% in washing machines in the Indian market are quite low. Looking at the geographical distribution of the washing machine markets in India, the study reveals that, "geographically the market for washing machines is not distributed uniformly, with the bulk of demand coming from North and West, 41.5 per cent and 26.1 per cent respectively. While south accounts for 24.4 per cent of the total demand, the eastern region merely accounts for 8 per cent." An industry overview reveals that the organized washing machines industry consists of players of Indian origin as well as multinationals, the latter having craved out a sizeable market presence during the last few years, the study said.

The washing machines demand is characterized by concentration in the urban areas, with the contribution in rural areas at only 10 per cent; analysts said adding that in urban areas, the market is skewed more towards the metros and other large cities.

Wash Right Limited (WRL) a south based washing machine manufacturer was started as a joint venture company by a leading industrial group in 1998 with no prior experience in consumer durable industry. The company received state-of-the-art technological know-how from a well-known Japanese company, which is an important global player in the automatic washing machine product segment. This joint venture provided WRL with an opportunity to establish its brand in the highly competitive domestic market, without facing much difficulty. In the initial phases, the main business of the company was to assemble and manufacture washing machines. The company had acquired a superior technology through the JV, and its sales were expected to grow at 20 to 30 per cent per annum. The company experienced a significant growth in its sales during the first three years of its operations, and its actual growth rate averaged about 30 per cent per annum. Apart from its brand name, another advantage the company had was in terms of its pricing policy. The company had cost and technology advantage, and therefore, could keep its prices significantly lower as compared to its competitors. Over this period, the company established its name, and its products became well-known in the market. The company entered into MOU with 40 well-known distributors all over the country, who were appointed as sole agents for distributing the company's products. WRL also had an agreement with other 300 agencies which agreed to display and sell its products.

As the competition intensified in the 'washing machine market,-and the general market slow-down conditions engulfed the entire economy, WRL started experiencing a decline in its sales. This started happening from the beginning of 2008. The company made a number of changes in the manufacturing process to reduce costs, and was, thus, successful in reducing the prices of its products. However, this did not halt the process of decline in sales. The company's sales dropped by about 10 per cent during, the current accounting year. It was for the first time that the company suffered set back from its operations. The deteriorating market position started creating tension between the company and its JV partner. The company began delving into developing an action plan to handle its deteriorating financial condition.

One of the main reasons for the declining profits was a huge interest liability which had doubled during the last one and half years. This had happened because of the large amount of short-term borrowings. The continuous increase in inventory levels was identified as the reason for significant increase in short-term borrowings. Given the group's standing in the market, it did not face any problem in borrowing from its bankers. The current borrowing rate is about 15 per cent per annum. The management of the company generally uses a required rate of return of 17 per cent (before tax) to evaluate any financing decision. The financial records of the company showed the following inventory position at the end of current accounting year 2008-09:

	Amount (Rupees in lakh)	Equivalent in months	Past experience
Raw material	300	2 months	1 month
Work-in-progress	225	1 month	1/2 month
Finished goods	1,000	4 months	2 months

The financial data on inventory suggests that the current inventory levels are considerably higher than the levels suggested by the company's past experience.

It was suggested by VP (production) that WRL should convert to "Just in time" inventory model. He presented a brief to management as follows:

"JIT is an integrated set of activities designed to achieve high volume production using minimal inventories of raw materials, work in process, and finished goods. Parts arrive at the next work station "just in time" and are completed and move through the operations quickly. JIT is also based on the logic that that nothing will be produced until it is needed.

JIT aims most directly at reducing cycle times, improving quality, flexibility and various costs, improving quality, and reducing various costs. In these pursuits the JIT concept employs cross trained employees organisation of resources in to self contained "work cells**", reduced inventories** precisely labelled, quick change over of equipments, high level of maintaince and house keeping, close partnership with suppliers and customers, deliver schedule closely synchronised to demand.

It sounded very real and needed for WRL but management was not sure if it can be implemented and if done so what preparations WRL need to make.

Accounts receivable does not indicate any significant increase since most of the distributors are paying in time to a very large extent. Account receivable and cash requirements of the company are about 12 % of sales. Accounts payable constitute about five per cent of sales. The management of the company identified inventory level major issue causing financial problems. The company decided to work out a plan to reduce the inventory levels other than JIT discussed above. Of course, one of the options before the company was to cut down the production for the next year, and suitably adjust the stock level and new production to the projected demand for the next year. This was a difficult proposition in view of the fact that the company had already entered into an agreement with its suppliers to supply the raw material. Any change in the purchase plan for the next year would result in paying substantial compensation to its suppliers for not honouring the contract. Also, since most operations of the company are highly mechanized, a cut down in production would result in a huge idle capacity and large stocks of raw material. The company was also contemplating to manufacture new models of washing machines, but its immediate problem was reducing the existing stocks. Bringing out new models in the market would mean substantial efforts in promoting the sales of the company in the near future. The top management of the company asked its marketing team to brainstorm on this problem and come out with feasible solutions.

The VP (Marketing) had suggested the following promotion strategies options to reduce the inventory levels of the company and increase sales:

1. The company could explore selling its washing machines on discount. The company had recently reduced the price, and the existing price after this reduction averaged about Rs 10,000 per unit. The reduction in price had averaged about five per cent. The company did not experience any significant impact on sales. The previous studies on market behaviours to price responses in this category of product suggested less sensitivity to price reduction or discounts in the lower range. However, a price reduction above 10 per cent indicated a significant association with the increase in demand. Using these findings as the basis of their argument, the marketing team proposed a plan of providing discounts up to 12 per cent. It provided an estimate of about 35,000 units to be sold during the next quarter after implementing the suggestion of proposed discount.
2. The company could, alternatively, explore the possibility of introducing exchange sales scheme. The recent successes in television and other electronic goods market has indicated that this option has contributed significantly to the sales of many television companies in India. The marketing team had done some analysis of the number of machines and their average years of useful life in selected regions where the exchange schemes had been successful. Most of the existing machines owned by the households did not have new features which the company's product offered. The marketing team argued that there was a good chance of exchange scheme becoming popular provided the customers-were offered an attractive exchange scheme. The marketing team gave an estimate of selling about 1,40,000 units in the next one year, provided the scheme offered, off-setting Rs 3000 to Rs 4,000 of the price to customers who purchase company's product in exchange for their existing machines. The actual deduction, however, would depend on the condition of the machines and for that, the company would be required to prepare detailed guidelines.
3. The third option, which the marketing team proposed, was aimed to bring all-round reductions in the inventory levels. The marketing team was aware that the company's operating cycle consisted of raw material, work-in progress, and finished goods holding periods. If the production takes place as per the sales plan, the total inventory holding period of the company works out about 3 and 1/2 months. Of this, the finished goods holding period alone is 2 to 2 and 1/2 months. The company, therefore, has to hold finished goods for this period to sell its products in the market. Recently, due to a slow-down in the market this period had increased to 4 to 4 and 1/2 months. As a result, the working capital requirement of the company has increased significantly. The marketing division of the company recently explored the possibility of selling the goods to its customers under a scheme which would deliver the machine after me and 1and 1/2 months of placing the order. A pilot test was carried out with a select group of customers. Based on the results of this pilot study, the proposed scheme would offer following package to a customer: on paying an advance of Rs 1,000, the customer could order the product which would be delivered after 1 and 1/2 months of time. As per the terms and conditions of the scheme, the customer, through this scheme, would get a benefit of Rs 1,500 for this waiting period. The field tests had indicated that a section of customers would not mind waiting for 1 to 1and 1/2 months and taking this benefit. The marketing team gave an estimate that about additional 2000 machines could be sold per month through this scheme.
4. A recent survey in this product segment showed that the customers had expressed concern for rapid technological changes in the product profile. Many customers had indicated preference for waiting and deferring their purchase decision till the period they get a technologically advanced product. In order to ensure that the company did not lose on sales because of this factor, the marketing team proposed that customer would be given a choice to replace their machines after every three years by paying a sum of Rs 6000 any time after the third year. The scheme would remain valid for one year and after that the exchange price would increase by Rs 1,000 every year.
5. It was found that one of the reasons for over-stocking the raw material has been the foreign exchange fluctuations. About 45 per cent of the total raw material constituted imports. The company had a policy of overstocking raw material to the extent of 25 per cent of its requirements. This was considered necessary to take care of delays in getting the supplies through imports, and also to cover for foreign exchange fluctuation risks. The company does not experience any problem in getting local supplies of raw material on time. One of the reasons for high borrowings was to finance this excess raw material inventory. The marketing team suggested reviewing the policy of overstocking raw material under the current scenario. The Director of Finance estimated that on an average about 20 per cent of the raw material was stocked to buffer foreign exchange fluctuations, and this helps the company to gain on an average 20 to 25 per cent of this investment per annum.

The distribution and MIS system followed by WRL is as follows:

Each city is divided into sales regions and is assigned to a travelling salesman.WRL has coded the complete details of each store/shop on various routes within each city. These details include the name of the store/shop, its address, turnover, locality, population statistics of the area in which the said store/shop is situated, the income group, etc. Each salesman is assigned to a particular predefined route and complete details of each shop/store on that route are handed over to the salesman. He is provided with a van to carry the stocks for delivery to the shops on his route for previous orders and also to collect new orders. He is expected to visit each shop at least once a week to fulfil pending orders and to collect new orders. All items marketed by the company have also been coded into the product database with information on price, size, weight, variety, brand name and the

manufacturer, etc.
All the enquiries/orders pass through regional office. Quotations are issued from by the regional sales staff that reports back to head office about their success (for the delivery of the order) or failure and the reasons, a large number of products are sold as per the standard price list. This constitutes to about 95% of the total range. Only 5% of the products that are customized and/or meant for special customers do not follow the standard price list. The standard price-lists are issued directly by head office and passed on through regional offices.

A couple of years backward got order processing software to manage its orders and the invoicing process. The system was installed at the head office. The software is a menu driven one, which allows the user to capture the order and invoice details. The salesman visits the shops and collects the orders in a standard format, which are processed by the computer department of the company under the order processing system. The order processing system processes the order for the availability of the item and allocates the stock to the orders received from the salesman. Once the allocation is made, the duplicate issue slips are printed-one for the van and the other for store to draw the items and put them in containers. The salesmen collect the containers as per the issue slip and deliver it to the shop. The company sells most of the goods against credit or post dated Cheque payment. The salesmen returns the issue slip, duly acknowledged by the shop owner with a Cheque or cash and material receipt acknowledgement to the accounts department for further processing. The issue slip plays the role of withdrawal, delivery and billing.

The data that is captured by the order processing system includes:

- Division
- Region Code
- Salesmen Details
- Distributorship
- Product Details
- Invoice Value
- Cost
- Gross Profit

The orders are processed by the computer system. Order processing systems generate issue slips (in duplicate) after checking the inventory levels. The systems manage after checking the inventory levels. The system also helps in updating the inventory. After delivering the products as per the shop order, acknowledgement is obtained from the shopkeeper and it is used for the billing and accounting purpose by the system. The data captured through the slip includes:

- Shop Code
- Shop Name
- Order No.
- Route No.
- Issue Slip No.
- Product Details
- Ordered Quantity
- Issued Quantity
- Amount
- Date

After analyzing the past trends obtained from the order processing system, the management of WRL has observed that 5 percent of orders are partially delivered. The order processing system does not have the provision of monitoring the partially fulfilled orders, because of which the shops do not get the complete delivery, which leads to lost sales. The ordering procedure is faulty, as every time a fresh order is booked, old orders are not referred back to. As a result, the shopkeeper diverts that space to competitors' products.

Costs are always known at the time of invoicing *for* most of the products listed some additional price needs to be added for customization. The customization quotes are provided by the HO based in Chennai.
Order processing system also helps in doing some limited amount of sales analysis as per the following parameters:
Division wise sales analysis
Distributorship-wise sales analysis
Region-wise sales analysis
Product-wise sales analysis Salesmen-wise sales analysis
These sales analyses can be carried out only on the current data. The software does not support any level of comparison with the past data. Some level of forecasting is also possible with this software. Forecasting is based on the current data only. Managers can also compare the actual performance with the forecasted sales.
VP (Finance) has complied the following accounting details based upon the sales forecast for the company's operations for the period April-December 2009.

ALL FIGURES ARE IN LAKHS

Sales			**Over heads**				**Research and Development**	**Distribution**
		Materials	**Wages**	**Production**	**Administration**	**Selling**		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
April	1000	400	100	44	30	16	8	10
May	1200	600	112	48	29	17	9	10
June	800	400	80	56	30	15	7	12
July	1000	600	80	46	29	14	9	12
August	1200	700	100	56	30	19	11	14
September	1400	800	100	54	30	20	12	14
October	1600	900	100	58	31	22.5	12.5	16
November	1800	1000	110	60	31	21.5	12.5	15
December	2000	1100	116	64	22	23	15	16

Cash Balance on July 1 was accepted to be Rs 150 Lakhs.

Expected capital expenditure:

Plant and Machinery to be installed in August at a cost of Rs. 40 Lakhs will be payable on September 1. Extension to research and development amounting to Rs. 10 Lakhs will be completed on August 1, payable Rs. 2 Lakhs per month from completion date. Under a hire purchase, Rs. 4 Lakhs is to be paid each month.

Cash sales of Rs. 200 Lakhs per month are expected. No commission is payable.

A sales commission of 5 percent on (Credit) sales is to be paid within the month following the sales

Period of credit allowed by suppliers	3 months
Period of credit allowed to customers	2 months
Delay in payment of overheads	1 month
Delay in payment of wages	1 month

Income tax of Rs.100 Lakhs is due to be paid on October 1. Preference share dividend of 10 percent on Rs. 200 Lakhs is to be paid on November 1.

Ten percent calls on ordinary share capital of Rs. 4 00 Lakhs is due on July 1 and September 1.

Dividend from investments amounting to Rs. 30,000 is expected on Nov. 1.

The management was of opinion that a 2month credit period allowed to big retailers such as big bazaar, next, reliance etc. should be reduced to one month.

Annual budgets are prepared at the regional sales managers', divisional managers' and head office levels to manage expenses and profits. Actual expenses are compared with those budgeted on monthly basis and the monthly expense statement the accounts, department prepares the expense control statements. Profit and loss statements are prepared at the divisional levels on the basis of the monthly sales reports and monthly expenses statements. These profit and loss statements are consolidated at the head office to produce the final profit and loss statement.

It was pointed out by CEO that there is urgent need for training of staff at all levels and in all divisions of the company. He suggested that divisional heads must collect following details before training program can be initiated**.**

(a) TASK DESCRIPTION ANALYSIS

1. List the duties and responsibilities or tasks of the job under consideration, using the Job Description as a guide.

2. List the standards of work performance on the job.
3. Compare actual performance against the standards.
4. Determine what parts of the job are giving the employee trouble -where is he falling down in his performance?
5. Determine what kind of training is needed to overcome the specific difficulty or difficulties.

Training programmes are a costly affair, and a time consuming process. Therefore, they need to be drafted very carefully he later pointed out.

At the outset, the top management of the company appreciated the efforts of the marketing team to generate various options to reduce inventory levels. The options looked very attractive but had number of financial and managerial implications.

With increase in competition and advancement in technological options, the management of the company wants to review its information requirement and to develop an efficient and effective information system. Challenges being faced by the company may include product selection, inventory management, customer satisfaction, transportation and logistics, etc

Top management confirmed that in recent times, there has also been mounting pressure on the company to introduce new product models in the market. The financial requirements for these expansions would be considerable. The company had identified a model for heavy duty use which was expected to have good demand in the market. The new product decision would not involve any major capital expenditure.

Staff officer to the CEO of the company was asked to collect reports from respective VPs on the following.

1 What are the Sales promotion options for increasing sales . The top management is interested in knowing the complete financial implications of each of the options suggested to develop a comprehensive marketing plan .
2 Prepare a Cash Budget in respect of 6 months from July to December from the information given in the table in the case to enable management to plan for financial requirements.
3 Is JIT a viable option for WRL? Your report must include a 25 slides PPT presentation for and against JIT with specific reference to WRL and in South India.
4 Applications, role and implementation of new technologies like ED I, Bar Code and RFID to achieve an efficient procurement and distribution system for WRL.
5 Task description and training need analysis for a typical sales officer of WRL who visits distributors and is responsible for achieving sales targets.
The respective reports were submitted to CEO but he was not convinced about the viability of WRL and made the report to MD to sell the plant to an American multinational which had shown interest . CEO believed that consumer durable segment is not their core competence areas and they will stick to industrial goods for which the company is known for. The MD was not sure if the CEO observations are correct and wanted your opinion what he should recommend to board.

BRIEF PROFILE

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Dr. Brahm Sharma has PhD in Management ,MBA from Western Illinois University , USA and BE (Mechanical) from NIT Jaipur.
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Dr. Sharma is a staff mobility professor under ERASMUS+ program of European Union and is a shortlisted expert for project evaluation . He visits Europe regularly for lecturing in several B Schools and universities.
Dr. Sharma is organizing committees member of several conferences held in Europe and had been presenting research papers on regular basis in Europe and India. Dr. Sharma has published several research papers in Indian and European journals in diversified areas.