

# A CASELET ON RISE AND FALL OF AN ENTREPRENEUR

<sup>1</sup>Prof.V.R.RADHAAKRISHNAN

Associate Professor and HOD

Management Studies Department, Sri Ramanujar Engineering College, Chennai, Tamil Nadu, India

**Abstract:** *This case study talks about the story of a first generation entrepreneur who ventured into a small trading business with a meager investment from his mother. Initially he has started business as a proprietorship concern in Chennai in the year 1992. The case study also talks about how the promoter of this concern struggled initially to establish his business and which one had warranted to convert the proprietorship concern into a partnership firm. They were (DSAs) direct selling associates for many domestic appliances include the reputed foreign brands established in India. The case study says how they took distribution rights of an International Brand and also wants to become a manufacturer of some domestic appliances. The case study brings to the forefront, how greedy people were after business grows many fold. This case study also highlights the drawbacks of statutory provisions of a partnership firm and closure of the partnership firm in the year 2000.*

**Index Terms:** *Entrepreneur, Proprietorship, Partnership, Direct Selling Associates, Domestic Appliances, International brand.*

## THE OBJECTIVES OF THIS CASE:

- To understand issues and challenges in Partnership firm
- To figure out how people changes when the business grows
- To conceive that backbreaking work alone is not the success formula of a business

## INTRODUCTION:

A young, first generation entrepreneur, Krishnan, started a business as a sole proprietor, in the year 1992, in Chennai, Tamil Nadu, India with the small investment of Rs.500, which he got from his mother. Since he was already experienced in selling domestic appliances, he approached a portable water heater manufacturer who produced quality water heaters bearing the ISI mark, and that too at an economical price. The water heater manufacturer was also looking for a Direct Selling Agency in Chennai because he only had a few retailers in Chennai and the number of units sold every month, was very less, which did not even help them to achieve the breakeven target. Therefore, Krishnan thought it was the right time to market this kind of a unique product through DSA. Only DSA's can demonstrate and explain about the product and its features through door to door sales. The manufacturer fixed a target for Krishnan to which he agreed. However, he was not able to pay the caution deposit demanded by the manufacturer.

Krishnan did not want to lose this entrepreneurial opportunity and therefore, he approached the Managing Director and explained his position. Still, the Managing Director, refused to give DSA to Krishnan, without the caution deposit. The persistent Krishnan, again, approached the company and negotiated to pay and buy the water heater, piece by piece, and then resell it. The manufacturer agreed to this arrangement.

Krishnan took one piece as a demonstration kit from the manufacturer for Rs.500. With this demo kit, he commenced door to door demonstration in Chennai city. His tireless, hard work paid off and he started getting orders on a daily basis. Krishnan, then, approached his mother for a further funding of Rs.500 to purchase another water heater. He sold those water heaters at the MRP of Rs.700 per piece. He, thus, earned a profit of Rs.200 per water heater. Krishnan's investment multiplied through plough back of the regular profits.

## FORMATION OF PARTNERSHIP FIRM:

At that juncture, his friend Venkat joined him in the business. In 1993, Krishnan and Venkat, entered into a partnership to expand their business. They rented a small place in Chennai city, to carry out full-fledged commercial business. The same year, they approached the manufacturer and got the DSA appointment for the entire Chennai city. Initially, both the partners went on door-to-door demonstration for product sales. The next year, they added a few more products like emergency lights, coffee maker to their portfolio. Sales executives were appointed to sell their products through direct marketing. They also participated in trade exhibitions for business promotion and the business started growing. In 1995, they moved their business to the heart of the city and their sales turnover increased further.

In 1996, they started selling through Direct Marketing system an international brand of electric appliances. They achieved their sales target and therefore the multinational company extended the distribution rights for Chennai city, for one more year. The business grew by leaps and bounds and the life styles of the partners enriched. The business needed further investments. At that juncture, one of their common friends, Shiva was keen on becoming a partner and therefore they included him in their business. Though the business became more prosperous, the profit sharing among three partners resulted in the dilution of their individual earnings.

## FORMATION OF MANUFACTURING UNIT:

In 1998, the partners strategized and decided to become manufacturers of emergency lights instead of merely trading in the product. They sourced raw material from Bombay and Delhi and created their own brand. The new brand was promoted to their existing customer network which resulted in very good margins.

**THE CRUX OF THE ISSUE:**

Four years later, in 1999, Venkat and Shiva, nurtured ideas of venturing out on their own. Having learnt the basic entrepreneurial skills and techniques from the founder of the company Krishnan, they surmised that such an effort will garner greater profits for them, which need not be shared. Hence, both of them approached Krishnan, and expressed their desire, to part from the existing business and demanded their share of profit and their investment.

Thus, opened the bag of problems and woes, for the partnership firm. Venkat and Shiva refused to sign the necessary cheques which led to serious working capital problems. Further, a lot of money was invested in stock and other inventories. Krishnan was unable to concentrate on his business due to the non-cooperation of partners which lead to further deterioration in the business. Receivables also suffered and payments to creditors as well as employees fell into arrears.

Statutory provisions laid down for a partnership firm to continue business in its original name, it needed the consent of the other partners. Krishnan needed to pay goodwill money to the other partners to do business in the existing name. However, he was not a position to do so. Therefore, he was forced to settle the due monies to Venkat and Shiva and continue the business under a different brand name. In the meantime, Krishnan had also lost the distribution rights of the international brand of electric appliances. His reputation was destroyed because of the delayed payments to his creditors and they refused to supply on credit. Since he was not able to pay to his employees on time, many experienced executives left their jobs.

**CLOSURE OF BUSINESS:**

By the year 2000, Krishnan was unable to make good the huge financial vacuum created on account of the financial settlement to his former partners. All his backbreaking work for the past eight years went waste. With no alternative left, Krishnan, was forced to close down his business.

**QUESTIONS:**

1. Highlight the mistakes of Krishnan.
2. How could have, Krishnan, avoided the closure of his business?

*Note: This Case Study is a real case of mine. The actual names are changed because of privacy policy.*

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