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Aim and Scope

The objective of the Journal of Applied Management Research (JAMR) is to provide a national forum for discussion of advancements in Marketing, Human Resource, Finance, Operations and System Management. The Journal publishes high-quality research articles in all these areas. The Journal particularly encourages articles dealing with national and international issues, practical experiences, and pedagogical aspects including case research, developments in the emerging nations, service management and other non-traditional and innovative areas. Purely theoretical articles should make significant contribution to the existing knowledge.

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Content

WOMEN-AN EMERGING SEGMENT IN FITNESS MARKET
– A CASE ON RAMBO FITNESS EQUIPMENTS PVT LTD

A. Latha

Learning Objectives:

- To enable the students to understand the role of consumer motive in understanding the consumer behavior in the field of fitness centre
- To equip the students to analyze and interpret primary and secondary data to describe the trends in fitness centers
- To equip the students to device marketing strategies with respect to Segmenting, Targeting and Positioning

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ABOUT RAMBO FITNESS EQUIPMENT PRIVATE LTD:

Rambo Fitness Equipments Pvt Ltd is a company serving the society by guiding people into healthy life style. The organization was founded in the year 2005. Rambo started their first showroom in Tamil Nadu. Since then the company is consistently expanding their operations across India.

Rambo Fitness Equipment Pvt Ltd imports fitness and health care equipments and distributes it through 62 branded retail outlets in India. The company has 14 direct showrooms in 8 cities of South India and well connected with 39+ dealers across all parts of India. Direct branches are available at Chennai, Bangalore, Coimbatore, Mangalore, Trichy, Thanjavur, Erode, Salem, Madurai, Cochin, Cuddapah, and New Delhi.

Providing reliable services, on time delivery, cost efficiency and uncompromising quality are the core facts which made Rambo to reach almost 10, 00,000 customers within a very short span. The organization has a strong Marketing staff of 60 sales people, 30 service engineers and 30 support staffs. The organization has products to support fully Commercial Gyms, Apartment Club House, Corporate, Institutions and Home use in both Cardio & Strength Series. Welcare has unique products like multipurpose Treadmills (4 in 1 and 7 in 1 models) which makes customers save space and money.

BUSINESS DIVERSIFICATION:

With enormous exposure in selling fitness products to clients across India and ongoing demand for the fitness centers across India, now Mr. Ramesh, Founder and Director of Rambo Fitness Private Limited is interested to go for business diversification by opening up fitness centers for both men and women. Academic reviews reveal that 50% of the customers visiting GYM are predominantly women. This made the management of Rambo to explore the market further to decide whether to open an exclusive Women fitness centers or Unisex centers.

To understand the requirement of Women segment, M/s of Rambo have conducted a survey with 280 women visiting gyms at various locations in Coimbatore. Further investigation and analysis on women behavior and fitness market reveals that, to become fit is one of the major motives of the women visiting the gym (Exhibit IV). Women in general expect and consider a well qualified trainer, flexible time and a high quality environment as major selection criteria before choosing the gym. (Exhibit V). More importance is given to Quality of professionals, Availability of latest equipments and service charges (Exhibit VI).

GLOBAL REVENUE THROUGH FITNESS CLUBS:

The recent statistics report says that the global health and fitness club generated revenue of 84 billion US dollars during the financial year 2014. While next to Europe and North America, Asian countries are leading in generating maximum revenue through fitness clubs.

GROWTH IN FITNESS MARKET – INDIA

As per the industry report published by Smerger – a private market network for business and investors, it is found that the fitness industry in India is worth Rs.4, 500 crore and is growing at the rate of 16 – 18% annually. The Industry reports suggest that the fitness sector is expected to reach Rs7, 000 crore by 2017. Further the report reveals that the majority of the market is dominated by unorganized retail sector (72%) while the organized fitness centers accounts for 28%. The report also states that there are 21,000 fitness centers available in India. (Exhibit I)

Since the contribution from organized fitness centers is relatively very low, there is a tremendous scope for new players to bring brand differentiation, qualified trainers and affordable pricing. The report titled India fitness services and equipment Industry states that increasing obesity and disposable income provides better scope for growth in future. The report further claims that there has been an increasing trend and demand for premium fitness service.

In another report published by PWC Research and Analysis it is found that fitness and slimming market in India comprises 50 billion INR and on an average the overall growth accounts for 25 – 30% every year. The report further states that fitness service contributes for 50% of fitness and slimming market. While the remaining market is dominated by Fitness Equipments Industry (20%), Slimming Services (like weight loss treatments) (10%) and Slimming Products (10%) (Exhibit II).

LEADING PLAYERS IN INDIA

The secondary sources claims that Talwalkers, Fitness First, Golds Gym, Ozone Fitness and SPA, Fitness One are the leading players in India. The leading fitness chains in India have grown aggressively and doubled their centers. After their venture into Tier I cities the retail chains are now planning to expand their target into Tier II and Tier III cities. (Exhibit III).

QUESTIONS FOR DISCUSSION

1. Will it be a good move for Rambo Fitness Private Limited to step in to fitness centers? Justify your answer.
2. Do you recommend Rambo fitness to focus women as an exclusive segment? If so how do you address the special requirements of Women segment?
3. Offer your suggestions to differentiate Rambo fitness in offering fitness services compare to the leading fitness centers in India?

EXHIBITS
EXHIBIT I

EXHIBIT II

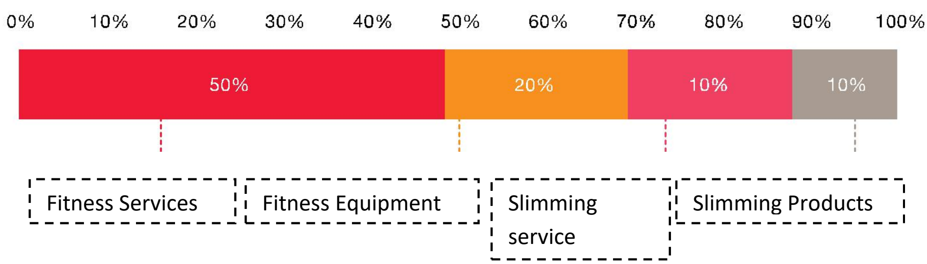

EXHIBIT III

Source: Pwc research and Analysis

Leading Organized Fitness Clubs In India

Name of the Fitness Center	Origin	Total Centers	Total Membership	Distribution In India	Distribution Other countries
Talwalkers	India	150	2,00,000 in India	80 cities & 19 states	Srilanka
Fitness First	UK	07 clubs in India &370 clubs across the world	1 Million members all over the world	Delhi and Mumbai	15 More countries
Golds Gym	California	85 Gyms + Franchisees	3 million members all over the world	100 + cities and 19 states	22 More countries
Ozone Fitness and SPA	India	25 Gyms	10,000 Members in India	16 cities + 6 States	Nil
Fitness one	India	100	10,000 Members in India	11 cities + 3 states	Nil

EXHIBIT IV:

DESCRIPTIVE STATISTICS ON CONSUMER MOTIVES

Out of 1200 fitness centers located in Coimbatore, data has been collected from 29 fitness centers located in the area of Ramanathapuram, Saibabacolony, R.S Puram, Thudiyalur, Gandhipuram, and Saravanampatti. Data has been collected using the questionnaire from 280 Women respondents visited the gym at the above locations. The analysis yields the following results.

S.No	Consumer Motives	Mean	Std. Deviation
1	Gym enhances my fitness state	1.32	0.492
2	Gym is very helpful in controlling my weight	1.72	0.566
3	It is very helpful to maintain my health	1.8	0.6688
4	When I go to gym I feel relaxed	1.81	0.4802
5	Helps me to achieve and keep me active throughout the day	1.81	0.6271
6	Used for social interaction	2.34	0.7838
7	Good source to increase my body mass	2.77	0.9444
8	Because of my friends interest and motive	3.47	1.3331

Scale value: Strongly agree [1], Agree [2], Neutral [3], Disagree [4], Strongly Disagree [5]

EXHIBIT V:

DESCRIPTIVE STATSTICS ON SELECTION CRITERIA

S.No	Selection Criteria	Mean	Std. Deviation
1	I prefer a gym which provides great support and quality staff(trainers)	1.51	0.633
2	I choose a gym which best suits my time	1.6	0.5835
3	High quality of environment urge me to choose the gym	1.64	0.623
4	I choose a gym nearer to me(location)	1.77	0.8171
5	I choose a gym which don't have any complaints	1.8	0.6454
6	I choose a gym which delivers and provides lots of activities, programs and equipments	2.11	0.7534
7	I prefer a gym which provides value for money aspects(economic price, offers)	2.18	0.6923
8	I choose a gym which provides pleasant atmosphere	2.21	0.7374
9	I prefer a gym based on family or friend opinion or brand status	2.63	0.9557

Scale value: Strongly agree [1], Agree [2], Neutral [3], Disagree [4], Strongly Disagree [5]

EXHIBIT VI:

DESCRIPTIVE STATSTICS ON FACTORS OF IMPORTANCE

S.No	Satisfaction	Mean	Std. Deviation
1	Quality of professionals	1.26	0.4863
2	Availability of latest equipments	1.53	0.5275
3	Price and service charges	1.65	0.6765
4	Location, infrastructure	1.67	0.6854
5	Customer response, complaint handling services	1.85	0.567
6	Additional facilities (yoga, parking, locker...)	1.98	0.5614
7	Atmosphere(music, lighting)	2.35	0.7897
8	Security and reliability of services	2.42	0.772

Scale value: Strongly agree [1], Agree [2], Neutral [3], Disagree [4], Strongly Disagree [5]

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TEACHING NOTE

LEARNING OBJECTIVES

1. To enable the students to understand the role of consumer motive in understanding the consumer behavior in the field of fitness centre
2. To equip the students to analyze and interpret primary and secondary data to describe the trends in fitness centers
3. To equip the students to device marketing strategies with respect to Segmenting, Targeting and Positioning.

SUGGESTED TEACHING APPROACH / CONCEPT

The case builds around the marketing concepts specifically - Consumer Behavior, Segmentation, Targeting and Positioning. The case addresses the opportunities available in the field of fitness centre. The case highlights the changing behavior of consumer towards fitness centers. The case also specifies the existing level of competition, and seeks suggestion to address the special need of women as a niche segment and strategies to differentiate Rambo Fitness from other fitness centers.

QUESTIONS WITH ANALYSIS

1. Will it be a good move for Rambo Fitness Private Limited to step in to fitness centers? Justify your answer.
Rambo fitness (P) Ltd can consider venturing in to fitness centers. The following points can be brought under the discussion to justify the decision

a)As Rambo Fitness (P) Ltd has already got a good network and expertise in the field of fitness market, It is good to venture in to fitness service.
b) Rambo can leverage the existing knowledge, existing business partners and dealers in the field of fitness industry in shaping the fitness centre service.
c) The secondary sources also highlights the growing demand for fitness service

2. Do you recommend Rambo Fitness to focus on women as an exclusive segment? If so how do you address the special requirements of women segment?

a) As per the report it is clear that more than 50% of the crowd visiting fitness centers are predominantly women. Hence it is essential to consider and capture this growing market while venturing in to fitness market.
b) As per the primary report it is clear that the existing issues with respect to obesity, intention to be health conscious and being fit are the major motives behind visiting the Gym. Quality trainers, Availability of latest equipments, Nominal charges and location are the major criteria that women consider in general while preferring the fitness centre services. Hence it is recommended to Rambo to open up an exclusive fitness centers for women. Rambo Fitness Equipment P Ltd can initiate their services in the state of Tamil Nadu as it is their home town and later expand to other parts of India.

3. Offer your suggestions to differentiate Rambo Fitness in offering fitness services compare to the leading fitness centers in India?

Number of gender specific fitness centers is very less in India especially in South India. The penetration of organized retailing is severe in case of tier I Cities. While the level of penetration is very low in case of tier II & tier III Cities. Rambo can use their specialized knowledge in identifying the modern equipments, and professional trainers and offer gender specific services in the state of Tamil Nadu and penetrate into other markets in future.

POTENTIAL AREA OF USE OF THE CASE

The case can be used as a part of Marketing Management course. The case can be used to explain the concept on Segmentation, Targeting and Positioning.

KEY POINTS OF THE CASE STUDY

1. The case explains the significance of evaluating secondary and primary data in evaluating the existing market potential and consumer behavior in the field of fitness industry
2. The case describes the application of Segmenting , Targeting and Positioning in the field of fitness service centers.

STORE, SHOPPING AND SPORTS

Dr.B.Poongodi

Learning Objectives:

- To explain customer Segmentation, Targeting
- To analyze various marketing strategies used in Decathlon
- To discuss the significance of Perceptual Mapping

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DECATHLON

Decathlon is a network of innovative retail chain and brands providing enjoyment for all sports people. Decathlon started with a store in Lille, France in 1976, founded by Michel Leclercq. It started to expand abroad a decade later, to Germany in 1986, Spain in 1992, Italy in 1998, Portugal, the United Kingdom in 1999, China in 2003, India in 2009, Malaysia in 2016 and Southeast Asia in 2012. Today, there are more than 850 stores in 22 countries. The company employs more than 60,000 staff from 80 different nationalities. Decathlon is euro 7 billion company.

The retailer stocks a wide range of sporting goods, from tennis rackets to advanced scuba diving equipment, usually in large superstores which are sized at an average of 4,000m². Decathlon Group also owns 20 brands, with research and development facilities all over France to develop the latest innovative designs, registering up to 40 patents per year. Each brand represents a different sport or group of sports, with a dedicated product development and design team. The company produces its own products, and has grown internationally. To provide a broader and more efficient range, it offers products best suited to each use, Decathlon created its own brand in 1986, which was fully managed by its subsidiary Decathlon Production. Today, Decathlon produces over 50% of the items that are present on its shelves. Decathlon is positioned just as GO SPORT and offers a wide multi-sport platform.

The three components of Decathlon are,

- Function performed: Sporting accessories
- Technology used: Advice on sale of stock

TARGET AUDIENCE

All kinds of sports and its players offering a wide range of choice Decathlon tries to cater to the needs of different consumers by equipping themselves with all kinds of accessories. Online delivery has been introduced in Belgium, France, The Netherlands, United Kingdom, Germany, Turkey, India, Japan, Italy, Singapore, Spain, Brazil, Portugal, Romania, Ireland, Mexico and recently, Vietnam. In late 2016, an online only delivery service has been introduced in Tunisia as preparations has open the first store in Tunis have already started. In February 2017 Decathlon opened its first store in Bogota, Colombia. With an initial payroll of 60 Colombian collaborators, the French company arrived in the country attracted by conditions such as a stable economy and a high-potential market. "A geography that offers sceneries with mountains, rivers, lakes, natural parks, the Amazon, two oceans and growth of the purchasing power of the middle class, makes Colombia a very attractive country for companies like ours," says Augusto Felix, CEO of Decathlon for Colombia.

DECATHLON INDIA:

In India, Decathlon products can be bought directly through their stores subsequent to change in India's FDI policy and approval for Decathlon in February 2013. Decathlon had received approval for 100 per cent FDI in single brand retail in February last year. The company has committed Rs700 crore investments in the country. In addition to this, Decathlon products are also available online through their online resellers. People at Decathlon assert that they live to a common purpose on a daily basis: "to make the pleasure and benefits of sport accessible to all". Though spread across varied geographies Decathlon is proud about its strong and unique company culture, reinforced by its two values: Vitality and Responsibility. Innovation is placed at the heart of its activities: from research to retail, including design, production and logistics. Decathlon has its twenty Passion Brand teams channel where they put in all their energy in developing technical, good-looking and simple products, always at the lowest possible prices. These products are aimed at all sports enthusiasts, from beginners to experts, and are sold exclusively at Decathlon. In India, it already has stores in Bengaluru, Hyderabad and Coimbatore. Decathlon opened its first store in Coimbatore in the state of Tamil Nadu and made a recent entry in the Chennai market. At first glance the metal sheet structure of the Coimbatore store looks like any other warehouse. But once inside, you are greeted by row upon row of shelves running over an area large enough to accommodate a few tennis courts. The shelves are stocked with equipment covering over 40 indoor, outdoor and adventure sports. Also on offer are accessories for, horse riding, cycling and, of course, cricket and football.

TRY IT, BUY IT
Children cycle down the aisles or try out skateboards in a fenced off enclosure. In another part of the store, a salesman sets up a tent for a potential customer. More than half the products are made in India, which is important to keep prices low. The prices vary with the range of products for beginners and going up to the professional level.

SPORT IN THE CITY OF COIMBATORE
Though Coimbatore is less known for its sports activities, presently due to urbanization, city dwellers have started to accept sports as an integral part of their life activities. Coimbatore is often referred to as "India's motorsports hub" and the "Backyard of Indian Motorsports". Nehru Stadium, built originally for football also hosts athletic meets. The stadium has been renovated with Korean grass for field sports and a synthetic track around it for athletics. Apart from the stadium, other sporting venues include the Coimbatore Golf Course, a 18-hole golf course and Coimbatore Cosmopolitan Club, which is more than 100 years old. Coimbatore Flying Club is located in the Coimbatore airport premises. The city hosts its own annual marathon called Coimbatore Marathon as an event to raise cancer awareness. Coimbatore District Chess Association (CDCA), established in 1940 is the oldest chess association in the country.

DECATHLON IN COIMBATORE
This French multinational sports-goods chain Decathlon's store in Coimbatore, is located at Neelambur, a place just 20 km outside the city on Avanashi Road. On a visit inside the store one would be excited to notice products for almost all sports categories. Nearly 44 sports products are kept over there and Decathlon allows customers give a try on the sports goods. Located on the NH 47, the store is spread over a vast shopping area, with spacious playgrounds and a big parking lot. Mr.Rajkumar, the Customer Care Team Member explained the operations and marketing practices of Decathlon, Coimbatore. He highlighted the customized messages sent to the individual customers' mobile phone about the events and offers through their robust customer relationship management software. He shared some of the promotional activities done at Decathlon, Coimbatore.

Table 1 : Promotion at Decathlon	
Customer Type	**Promotional Measures**
School Kids	Kids are encouraged to use the ground in and around the store which attracts the children. They can try out the products and then go for it. Attractive ambiance and eye catching information are displayed.
College Students	Special sports events are organized
Middle Aged And Working Professionals	The cost of the products is reasonable. The quality of the products is at its best which satisfies the middle aged and working professionals
Elderly People	Many health related equipment's are available that attracts elderly people. Floor executives give suggestions for health issues and recommend appropriate health equipment.
Women	Very reasonable rates and attractive products on different colors and varied features are quite attractive to any customer segment including women.

Some of the other general sports retailers in Coimbatore include Cosco Sports, Maharani Sports, Veda Sports and Samy Sports in the main city neither allow trials nor have playing space. Decathlon store in Coimbatore witnesses 1500 footfalls on an average during weekends, out of which 60 % is converted to a sale. A group interview with 20 customers revealed that they perceive and position the Decathlon's Gym Equipments in the high price – highly unique category whereas a bicycle in a less unique and a high price category.

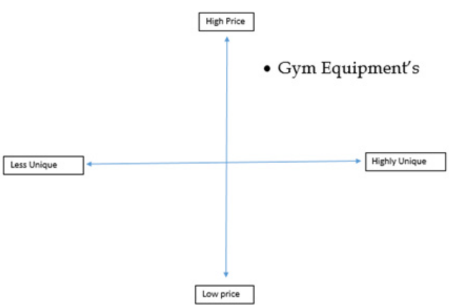

Chart. 1 : Consumer Perception 1

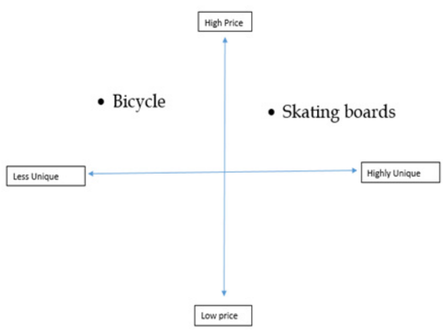

Chart 2. : Consumer Perception 2

Further interview with the same group of customers revealed their opinion (Table 2) on some of the psychographic parameters.

Table 2 : Psychographic Parameters			
PARTICULARS	**AGREE**	**DISAGREE**	**NEUTRAL**
Family outing is good	15	5	0
Reading books is my weekend activity	9	8	3
Sports is important for healthy life	20	0	0
Exercise keeps you fit	13	5	2

Decathlon gives a memorable experience and compels anyone to visit again. The marketing approaches, customer management and in-store experience has no comparison with any other sport store in Coimbatore. It's the place that unquestionably assures Sports for All.

QUESTIONS FOR DISCUSSION

1. Explain customer segments of Decathlon in global, national and local perspective.
2. What is targeting? Analyze various strategies used in Decathlon to target a particular segment in comparison with any other sport store in your town.
3. Discuss the significance of perceptual mapping. Suggest how Decathlon can overcome the perception on its bicycles.
4. Who should be the target customers and explain how should Decathlon target them?

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SYNOPSIS

The case discusses various marketing approaches used by the retailers for segmenting, targeting and positioning with the help of Decathlon Sports, Coimbatore. Decathlon Sports is a network of innovative retail chain catering to the sports segment with all sports brands. The retailer manufacture, stock and sell a wide range of sporting goods, from tennis rackets to advanced scuba diving equipment, usually in large superstores. Decathlon tries to cater to the needs of different consumers by equipping themselves with all kinds of accessories. Online delivery has also been introduced in a few countries. In India, Decathlon products can be bought directly through their physical stores. Though spread across varied geographies Decathlon is proud about its strong and unique company culture, reinforced by its two values: Vitality and Responsibility. Though Coimbatore is less known for its sports activities, presently due to urbanization, city dwellers have started to accept sports as an integral part of their life activities. Various marketing approaches catering to specific segments are presented. Product positioning through perceptual mapping is also elaborated.

TARGET GROUP

Students specializing in Marketing, Marketing Professionals, Teachers, Tutors, Professors in Marketing

TEACHING STRATEGY

Case Presentation and Discussion

CASE INTRODUCTION

The case is about Decathlon Sports India Private Limited, a large sports retail outlet located in the city of Coimbatore. The case elaborately discusses the origin, goals and objectives of the sports retail spread across the globe. Decathlon has its presence in France, Germany, Spain, Portugal, Italy, United Kingdom, China, Malaysia and India. In India, is located in Bangalore, Coimbatore and Chennai. The Coimbatore store is located on the national highway in the city outskirts. Coimbatore is a second tier city in the state of Tamil Nadu located in the western region. The case also details about the growing sporting activities in Coimbatore in the recent years due to urbanization. Various promotional activities by the sports retail customer segment-wise have been narrated. Some of the sports products as perceived and positioned in the customers' mind are also illustrated.

CASE ANALYSIS

Customer segments of Decathlon

Customer Segment refers to the process by which the firms try to understand the heterogeneous market by viewing it from different angles and grasping the commonalities as well as differences contained therein and then divide the whole market into groups each homogeneous within itself, sharing certain common characteristics. Decathlon has segmented its customers as given below,

1. School Kids
2. College Students
3. Middle Aged and Working Professionals
4. Elderly People
5. Women

The above segment is based on the engagement of people in the day to day life. Decathlon has created these segments only to develop marketing activities. For example, sports events are arranged for college students during Saturdays and Sundays. The attraction for the working professionals is mainly the affordable cost of the products. The price and quality are leveraged for the working group as it is done in any consumer goods. While segmenting is done with an importance to the marketing activities in Coimbatore outlet, it may not be the same at international and national level. Bangalore and Hyderabad outlets in other states stocks adventure accessories which is not given more attention in Coimbatore outlet. This may due to the concentration of IT industry working professionals and their lifestyle in Bangalore and Hyderabad.

TARGETING

Targeting means picking up of the market segments suitable for the firm. The target market selection is a crucial part of marketing strategy as all customer segments cannot earn profit to the firm.

VARIOUS STRATEGIES USED IN DECATHLON TO TARGET A PARTICULAR SEGMENT

THE KIDS SEGMENT

The kids are given trials and demo inside the store. The location of the store in the outskirts is in a spacious area that has volleyball, basket ground. The store layout inside is planned in such a way that the kids can try bicycles and skating inside the stores. Thus the kids are motivated to play in the presence of their parents within the store which largely turns a profitable sale.

College Goers and Working Professionals: Weekends are the days this segment is available for sporting activities. Events are planned for these segments by approaching the sport coach in the colleges. The information reaches the individual customer's mobile phone by SMS. The teams that play and the audience during the event days are potential buyers.

These strategies are specific to Decathlon where the other sports stores in the city Cosco sports, Maharani Sports don't have trial spaces or grounds inside their retail outlets.

SIGNIFICANCE OF PERCEPTUAL MAPPING

Perception Mapping is used to graphically portray consumer perceptions of products/brands. The map helps the marketer to understand how a given product/brand is perceived by the consumer in relation to other brands, on various product – attributes. This relative plotting helps him to understand the position of the product/brand with that of its competitors. The information can be utilized for developing strategies to move the brand to a better position.

The perceptual mapping in this case is done for selected products. As only the brands manufactured by Decathlon is available in the particular store, the relative positions of the competing brands of Gym Equipments, Bicycle and Skating boards are not explained by the perceptual map.

The Gym Equipment and Skating board are perceived as high unique and high priced items by the customers whereas the bicycle is not perceived to have unique features. There are many offers in the bicycle segment by the competitors with a lot of added features. There are specific retail outlets selling and servicing only the bicycles for almost the same price range. This has made the customers to position the bicycle in high priced, less unique segment.

SUGGESTION

Decathlon shall project the unique features of their bicycle brands through events and special attractive display boards inside the store. Decathlon can also organize bicycling events and races in the city to improve its positioning in the customers mind.

Target customers: The target groups shall be based on age and lifestyle. Decathlon can focus on customers based on lifestyle like Health Conscious Customers, Customers who like to stay Indoors and Customers who take up many Outdoor activities. Decathlon can target them by organizing joint programmes with hospitals, movie theatres, restaurants, schools and colleges.

CONCEPTS DISCUSSED IN THE CASE

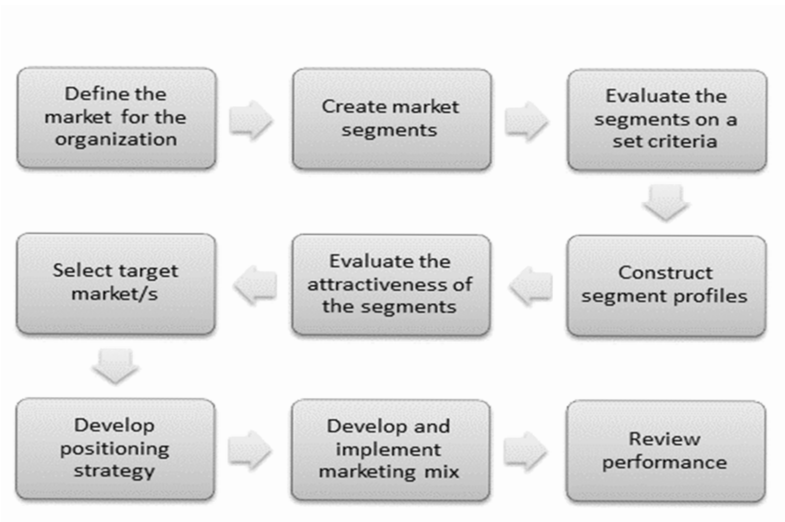
Segmenting, Targeting, Positioning concepts in Marketing

BACKGROUND READING

Market Segmentation is the practice of dividing customers into groups of potential buyers that have similar preferences and buying habits. In targeted marketing a specific groups of customers is the focus of marketing efforts. Today segmentation, Targeting and Positioning is a familiar strategic approach in Modern Marketing. It is one of the most commonly applied marketing models in practice. The STP process demonstrates the links between an overall market and how a company chooses to compete in that market. It is sometimes referred to as a process with segmentation being conducted first, then the selection of one or more target markets and then finally the implementation of positioning. The goal of the STP process is to guide the organization to the development and implementation of an appropriate marketing mix. Market Segmentation can be defined as the process of splitting a market into smaller groups with similar product needs or identifiable characteristics, for the purpose of selecting appropriate target markets. Targeting an organization's proactive selection of a suitable market segment (or segments) with the intention of heavily focusing the firm's marketing offers and activities towards this group of related consumers. Positioning is the target market's perception of the product's key benefits and features, relative to the offerings of competitive products. The basic approach is,

Segmentation -->Target Market --> Positioning (And Marketing Mix)

While this basic model is a good starting point for understanding the overall process, there are a number of smaller steps that should also be understood, which are outlined in the following diagram.



The need for market segmentation includes the following,

1. There are enormous variety of variables that play in influencing a market
2. Really, every single consumer is a separate market (complete segmentation). This is impossible, and inefficient, so we look for wide groups / classes / categories / segments of buyers who share a relatively dependable need or buying response
3. Organization can't serve all customers equally and there comes the need for grouping and segmenting the whole market into manageable sizes

Though there are many criteria on which customers can be grouped, segmenting based on demographic profile is very popular as there exists a strong correlation between demographic variables and consumer needs, wants & usage.

In targeting, to identify the segment that gives ample opportunity for the organization to explore and grow is done. Though there are different ways of targeting, targeting by differentiating one's offer is popular.

The pros and cons of Undifferentiated Marketing

- Ignore segment differences and go after the whole market with one offering
- Marketing plan to reach the greatest number of buyers, and focuses on the common need everyone shares
- Pro: Advertising is cheaper, research is cheaper
- Cons: Difficult to create a product that satisfies everyone

In case of Differentiated Marketing

- Target several segments and design separate products for each
- Reason why the major hotel chains have so many brands
- Typically yields more sales than undifferentiated (three brands in one city versus 1 brand)

Product positioning is an important element of a marketing plan. Product positioning is the process marketers use to determine how to best communicate their products' attributes to their target customers based on customer needs, competitive pressures, available communication channels and carefully crafted key messages. In positioning, the marketing department creates an image for the product based on its intended audience. Product positioning is the process resulting in the product acquiring a particular image which stays in the mind of the consumer. Product positioning is aimed at

- Strengthening the meaningfulness of the message to the consumer
- Appealing to a focused customer segment
- Differentiating the product from the competition in the perception of the consumer
- Deciding how to deal with the competition

The practice of positioning is a new discipline in marketing and is accordingly subject to radical changes. Previously rational arguments explaining product use predominated. Currently, however, product use has an increasingly emotional or results-oriented basis in a world of ever expanding product range.

HIGHLIGHTS AND KEY POINTS OF THE CASE STUDY

Segmenting, Targeting, Positioning, Perceptual Mapping, Promotional Activities

THE ICE IS MELTING NEED FOR STRATEGIC DECISION

M. DEEPA

LEARNING OBJECTIVES

- To analyze the entrepreneur behavior.
- To analyze the challenging situations faced and the decision taken by the entrepreneur.

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It’s about Glaicier Park, a well reputed, two decade old ice cream parlour in Coimbatore, Cross cut road.
A very young, enthusiastic and dream oriented person Mr.Sendil Rathnaa had a vision to be an entrepreneur in the town know for entrepreneurial skills, born to parents who are entrepreneurs, Mr.Sendil never wanted to look back, soon after completing his under graduate course in Bachelor of Business Management from PSG in the year 1996 and Post Graduate Diploma in Finance from PSG IM in 1997, he wanted to start an enterprise of his own, but had no idea of what he wanted to start. That’s when his brother introduced Mr.Sendil to his friend who owned an ice cream shop in Tirupur, a nearby district of Coimbatore.
In 1997, Ice cream was a luxurious dessert, only in big parties and marriages ice creams were served, though there were small vendor walking door to door with the ice cream trolley to sell ice cream. To see a unique shop for Ice cream in Tirupur sprouted an idea in Mr.Sendil to explore the market for Ice cream lovers. Mr.Sendil had already decided in his mind that he will step into a business which gives profits on a daily basis; he was not for investing huge amount in raw material and then waiting for profit and loss accounts to tell what he has made at the end.

Thus he decided to enter into the venture of starting an Ice Cream Parlour.

He had his ancestral land in cross cut road, and his father was having a provision shop in that property, a provision shop in cross cut road was not bringing in the expected profit. Hence he decided to start his new Ice Cream Parlour in Cross Cut Road. In the year 1997, Cross Cut Road had very few shops but was not as crowded as today and one big advantage for him was there was no competitor for him. Hence he had a great location advantage.

On December 4, 1997, Mr.Sendil became the proprietor of Glacier Park, a 20 seater ice cream parlour. It was the first of its kind parlour in Coimbatore. To start his dream was not that easy for him, he took a loan amount of Rs.14.5 Lakhs from City Cooperative Bank. It was a huge debt, as the loan amount was not small, for which he needed to pay a monthly interest of Rs.42000 to the bank. Apart from that he had to procure every day raw materials, salary for the staffs and the variable expenses had to be met.

When he started his business, he had no idea of how to make ice cream and how he was going to attract his customer and from where he was going to get his qualified employees. He hired two persons, who were working with Madras Milky Way and those two employees took care of the operation part of it and Mr. Sendil completely took care of the customer hospitality. He built a loyal customer network, most of his customers were college students and Mr.Sendil himself being very young and enthusiastic could easily establish a good rapport with his customers. He started to learn making ice cream from his employees, first few months was really difficult as he could not see any revenue out of the business, He had to spend a good amount of money in ambience, according to him ambience for an Ice cream parlour was very important, and that should be as cool as the ice cream itself. Coimbatore market had a traditional crowd, they preferred to eat big meals and end it with coffee, and the young crowd was also coffee lovers who like to spend time in coffee shop rather than in an Ice cream parlour, it was real big challenge for him to attract people to walk inside the ice cream shop. During the first few months he sensed that, it was the teenage people who walked in more than the middle aged, so he had to design his ambience according to the likes of the young mind.

Months passed by still he was struggling hard to make an impact but never wanted to quit from where he had started. There came a day when his dreams of being an entrepreneur and sustaining his business became a real big question mark. It was February 1998, when a bomb blast shook entire Coimbatore and one of the most affected and dangerous place was Coimbatore cross cut road. People stopped walking to cross cut road, for more than 20 days his shop was closed, he would open his Ice cream Parlour but couldn't see even a single customer walking in, that was the most difficult times for his business, but whatever may be the case 4th of every month he had to pay interest to his banker from whom he had taken a loan amount of Rs.14.5 Lakh, he had to pay his staffs, he had to pay his electricity bill, all payments were to be paid but had no income flow. To meet up with that situation, Mr. Sendil has to pledge jewels of his mother, which he still feels to be the most difficult and unhappy thing which he had done. But was determined that he will make the business into a great success.

Days passed by, and months rolled on, he was still struggling to establish himself, that's when he started analyzing the complete scenario, most of the people who walked into his shop are kids and youngster and the kids are the ones who compel their parents to get ice cream and mostly the young college students walk in after doing their purchases in the nearby shops. That's when he strategically moved, he recruited college students on a part time basis to work. Those students were encouraged by providing good part time wages and a family kind of an atmosphere. Those students referred Glacier Park to their friends, quality of Glacier Park Ice cream and snacks also attracted many customers, demands from his young customers became high, they were not satisfied only with Ice creams, hence milk shakes were introduced later sandwiches and many small snacks were introduced. Which attracted more crowds, not only ice cream lovers but also snack lovers and people who wanted a very cool atmosphere walked in; it became a place to share smooth feelings and emotions.

Mr. Sendil Rathnaa started making good money and his debt from bank also got over, his 20 seat Glacier Park was renovated stage by stage and expanded to accommodate 220 people, Separate halls for birthday parties and celebrations attracted more people to walk in, Glaicier Park became the centre spot for college students for their Birthday celebrations. Mr.Sendil became a name known to many college students; he offered employment to many students as part timers.
No official promotion was done to promote his Ice cream parlour; it is all done by word of mouth, his staff base increased from 2 to 20. Mr.Sendil Rathnaa was known for his helping nature, he pays the college fees of students who work as part-time staffs in his Parlour. During the time of examination they are given special permission to study for the next day exam. He is not only an entrepreneur but also has become a role model for many youngsters.

Earlier he had no competition, more number of people used to step in cross cut road for all kinds of purchases, especially during festival seasons and marriage occasions and during those times customers for his shops was also more, but times have changed, Malls in Coimbatore have attracted more number of people and the very rich looking ice cream parlours with attractive ambience in malls have taken away his loyal customers. Now it is time for Mr.Sendil Rathnaa to have a strategy to think, to make his conventional type of business to a contemporary type. He needs a turnaround strategy, Mr.Sendil Rathnaa has not done any kind of advertisements and from the past 20 years he has not started any additional branches in spite of being well known in the market, when his friends wanted to start a franchisee, he did not give his brand name and did not step into franchisee mode, when many of them approached him with orders he refused to take party and marriage orders, in non peak seasons most of his infrastructure remains idle. He has so much potential to expand and grow but he has not done the expansion. With Ice cream parlours like Ibaco, Boomerang, Cream Stone and the Malls in Coimbatore attracting more customers, his business needs to be looked upon soon and should plan a quick strategy to succeed and sustain.

QUESTIONS FOR DISCUSSION

1. What do you think are the positive features of Glaicier Park?
2. In spite of challenging market situation, do you think Glaicier Park can overcome all the challenges and still sustain?
3. What kind of promotional strategy will bring back the glory of Glaicier Park?
4. If you are Mr. Sendil Rathnaa, what will be your next move?

TEACHING NOTE
CASE SYNOPSIS

Mr. Sendil Rathnaa is the proprietor of Glaicier Park, a well known Ice cream parlour in Coimbatore. Though he had faced many challenging situations in his business, he could overcome it with his timely decisions and great people management skills, but now it is the time for him to think and plan his next move, as the external atmosphere seems to be having a direct impact on his business. The case is about a general business case which throws light on the real challenges of a young entrepreneur and his next move. The author has written the case to understand the entrepreneurial skills in starting a new business and the decisions he has taken to sustain his business.

Glaicier Park, is a name well known in Coimbatore for Ice cream, the Proprietor has not thought of expanding his business even when the market was highly potential for him to expand and grow. The case is to examine the next best move for Glaicier Park as it is facing challenges from malls coming up in the district and the young crowd preferring to spend more time in Ice Cream Parlour's located in Malls.

TARGET GROUP

The Target group for this case is any Business Management students and Entrepreneurship students who likes to get the basic idea about the real entrepreneur's interest, challenges and strategic decisions.

The case can also be taught in strategic management subject about the external forces which have a direct impact on the business and the time for next strategic move.

Hence the Target group can be BBM, MBA and Entrepreneurship students.

LEARNING OBJECTIVE

To analyze the entrepreneur behavior.

To analyze the challenging situations faced and the decision taken by the entrepreneur.

TEACHING STRATEGY

Case method is a powerful student-centered teaching strategy that can impart students with critical thinking, communication, and interpersonal skills. Having students work through complex, ambiguous, real world problems engages students with the course material, encouraging them to "see it from an action perspective, rather than analyze it from a distance"

DISCUSSION QUESTIONS WITH DETAIL ANALYSIS

1.What do you think the positive features of Glaicier Park?

> The Positive feature of Glaicier Park is the entrepreneur himself, who has the never give up attitude and Glaicier Park has location advantage of being the only ice cream parlour in that area and its employees who are youngsters which attracts more young crowd as customers.

2. In spite of challenging market situation, do you think Glaicier Park can overcome all the challenges and still sustain.

> Definitely yes, Glaicier Park can really overcome all the challenges and still sustain by good promotional strategy. Cross cut road is a prime area in Coimbatore, customer footfall has definitely reduced because of malls but Cross Cut Road still attracts lots of customers to walk in for quality and considerable price goods. Hence if Mr.Sendil Rathnaa does good promotion and adds few more varieties of desserts it can definitely bring back the lost glory.

3. What kind of promotional strategy will bring back the glory of Glaicier Park?

Mr. Sendil Rathnaa can look into social media marketing, Mail order marketing, and product gate ways as a promotional strategy to promote his business.

4. If you are Mr.Sendil Rathnaa, what will be your next move?

If I am Sendil Rathnaa , my next move will be to attract as many customers as possible for my parlour by defining new strategy. I will definitely make use of the location advantage. I will make my parlour more visible with lots of picture of new desserts and will make it attract more kids and youngsters to walk in. My ambience will be designed in such a way that people would love to come and visit often. I will use social media marketing. I will take party and marriage function orders and make my brand more visible.

BACKGROUND READING

The case is written based on Primary data, hence no web links were given for the students to refer but students have to thoughtfully read the case and should know the basics of strategic management subject and Entrepreneurship subject.

AREA OF THE CASE

The case is positioned as Business case. It's a general management case; it can be used in Strategic Management subject and in Entrepreneurship Subject.

HIGHLIGHTS AND KEY POINTS OF THE CASE STUDY

- It is an original and unpublished case, written based on primary data collected from the Entrepreneur himself.
- Entrepreneur's characteristic like determination, hardworking, people management, decision making is a key point to be noted in the case.
- Younger generation likes and dislikes their need for part time job and social security is another highlight of the case study.

FINANCIAL STATEMENT ANALYSIS OF AVIRATE EXPORTS

Dr. P. MOHANAMANI

LEARNING OBJECTIVES:

- Prepare and analyze the cash flow statement of Avirate Exports.
- Introduce various ratios to analyze the financial statements of Avirate Exports.
- Based on the ratios computed and their comparisons with industry ratios, assessing the possibilities of extending credit facility from the banker's perspective.

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AVIRATE EXPORTS

Adithya, a qualified textile engineer, had worked for almost 18 years in a leading garment manufacturing unit in Tiruppur, had left his job to open Avirate Exports, with some trustworthy labors whom he had known for many years. Adithya knew competition was stiff in this export sector as there are more small scale and large scale manufacturing units existing. Adithya felt that there is a dire need of good quality dresses in the market not only in India but also abroad. He was confident that if he is able to provide garments at reasonable prices, a sizeable share of the market which is still not penetrated by large companies could be captured. He started Avirate Exports during April 2010 at his residential premises, half of which he converted into a small factory. The installation of machines, which he procured from other vendors at subsidized rates and procurement of raw materials, was not a problem to him as he had good experience in the field. The only problem he faced was in getting a good designer for designing modern dress styles for children. As he felt his exposure to design is much limited he hired a designer Mr. Raghav, who had recently passed out from National Institute of Fashion Technology, Pune. With the right people in pool, Avirate Exports started getting orders beyond its numbers and the businesses started to reach new heights.

INDIAN GARMENT MANUFACTURING INDUSTRY

With China leading the global textile trade, India ranks second with 8 percent of the total. India contributes nearly 4 percent of total textile exports and 3 percent of total apparel exports in the world. India has the highest number of looms - 1.8 million shuttle looms at 45 percent of global capacity and second highest number of spindles in the world with 40 million spindles at 23 percent of global capacity.

The textile and apparel industry contributes significantly to the Indian economy. It accounts for 14 percent of total industry output and nearly 5 percent of Gross Domestic Product. It provides direct employment to 38 Million people and is the largest foreign exchange earner, contributing nearly 20 percent to India's total exports. In the last three years, the sector has attracted a total investment of US$ 5,770 million, representing 1.22 percent of the total FDI attracted by the country.

USA and European Union (EU) together are the major consumers of textiles. They account for nearly 64 percent of clothing and 39 percent of textile consumption in 2015. Among other countries Japan, Australia and New Zealand are significant consumers of Indian Textiles.

FINANCIAL POSITION OF AVIRATE EXPORTS

When Adithya started business in 2010 he and his wife were the only share holders. He borrowed funds during the initial years in the form of mortgage loan for both short term and long term requirements of the business. In the subsequent years he continued to borrow money from his banker. Axis bank is his banker. Adithya had very little difficulty in procuring the mortgage loan as he mortgaged his house as collateral, which is of very high value to the bank. Adithya was not particularly concerned about short term loan and long term loan; he continued to withdraw money and use the funds wherever needed. Avirate Exports maintained daily accounting records pertaining to vouching, cash maintenance, receipts and payments and financial statements were prepared monthly, quarterly and annually as per statutory requirements and the same were audited by professional accountant. The business started generating profits and Adithya felt like successful entrepreneur. As the business expanded and the number of clients increased, his financial problems also increased. He faced difficulty in recollecting money from his customers as he had no structured system of keeping record of his credit extension to customers. He also started to observe stocks piling up in his factory as the orders were not dispatched in time. He also noticed the machines used in his factory are outdated and needed funds for purchasing new machines. The factory space was not sufficient and a larger location is need of the hour. In total he needed minimum 50 million to continue with smooth operations of his business. Adithya needed the loan to meet cash and investment requirements of Avirate Exports. He submitted a detailed proposal and project report to the bank along with the financial statements (Exhibit 1 and Exhibit 2) of previous years.

Adithya is eagerly waiting the decision of the bank, anticipating it to be favorable and envisioning in taking Avirate Exports to next orbit.

	2013-14	**2014-15**	**2015-16**
SALES:			
Cash	175	520	932
Credit	1624	4168	6987
Total Sales	1799	4688	7919
Cost of Goods Sold	615	1936	2958
Gross profit	1184	2752	4961
OPERATING EXPENSES			
General Expenses	28	117	342
Administrative Expenses	14	109	110
Selling and Distribution Expenses	21	185	187
Depreciation	232	286	389
Interest Expenses (on Borrowings)	57	105	172
Profit Before Tax(PBT)	832	1950	3761
Tax @ 30%	250	585	1128
Profit after Tax (PAT)	582	1365	2633

Source: Company's audited Financial Statements

	2013-14	2014-15	2015-16
Assets			
Fixed Assets(net of Depreciation)	1700	2100	2850
Current Assets			
Cash and cash equivalents	35	95	110
Accounts Receivables	250	534	785
Inventories	280	820	1100
Total	2265	3549	4845
Equity and Liabilities			
Equity Share Capital (Shares of Rs.10 each)	1100	1200	1200
Reserves and Surplus	324	895	1325
Long Term Borrowings	474	868	1432
Current Liabilities	367	586	888
Total	2265	3549	4845

Source: Company's audited Financial Statements

EXHIBIT – 3 INDUSTRY AVERAGE

Ratio	Sector Average	Ratio	Sector Average
Current ratio	2.10:1	Gross profit ratio	40%
Acid test ratio(quick ratio)	1.10:1	Net profit ratio	19%
Receivables turnover ratio	6 times	Return on equity	26%
Receivable days	52 days	Return on total assets	11%
Inventory turnover ratio	4.52 times	Total assets turnover ratio	1.1
Inventory days	72 days	Fixed assets turnover ratio	2
Long term debt to total debt	24%	Current assets turnover ratio	2.7
Debt to equity ratio	33%	Interest coverage ratio	10
Return on fixed assets	28%	Working capital turnover ratio	7.5

QUESTIONS FOR DISCUSSION

1. Prepare and analyze the cash flow statement of Avirate Exports.
2. Compute various ratios to analyze the financial statements of Avirate Exports.
3. Based on the ratios computed and their comparisons with industry ratios, you as the loan officer of AXIS bank, will you grant the required loan?
4. What areas of improvements can you suggest for the future prospects of Avirate Exports.

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TEACHING NOTE

SYNOPSIS

Avirate Exports is a small scale garment manufacturing company unit, looking for additional funding from Axis bank to expand its business. Mr.Adhithya, proprietor of the business wants to conduct an analysis of his Avirate Exports based on financial statements so that he can understand the reasons for a possible loan rejection as well as other avenues he could take after analyzing the financial position of his business.

PREREQUISITE CONCEPTUAL UNDERSTANDING BEFORE THE CLASSROOM DISCUSSION

Students are expected to have basic understanding about the golden rules of accounting, basic knowledge about the financial statements especially for the beginners in accounting course in MBA program or for core course in Accounting in under graduate program. The purpose is to introduce the need, importance and how to analyze the financial statements of an organization.

CASE POSITIONING AND SETTING

The case is built around the financing concepts especially for the beginners in accounting course in MBA program or for core course in Accounting in under graduate program. The purpose is to introduce the need, importance and how to analyze the financial statements of an organization.

SUGGESTED SOLUTIONS

1. Prepare and analyze the cash flow statement of Avirate Exports.

The cash flow statement is prepared in exhibit 1. Once the cash flow is prepared, the discussion on analysis and interpretation can be done. From the cash flow statement it can be found that

- Cash generated from operating activity is increasing year on year. This is a good sign of business
- Cash from investing activity clearly indicates that Avirate Exports is using cash generated from operating activity to procure fixed assets.
- Cash from financing activity clearly mentions that the owner's infusion of additional capital into business and also funds borrowed from long term sources.
- Cash flow statement clearly shows that Avirate Exports cash generation is increasing year on year and indicates that the owners have used the cash to buy fixed assets from the cash generated.

2. Compute various ratios to analyze the financial statements of Avirate Exports.

Ratio analysis is the most important tool in financial statement analysis. The interpretations of ratios given are only indicative. No single ratio can provide a reasonable analysis of the performance of an organization.

3. Based on the ratios computed and their comparisons with industry ratios, you as the loan officer of AXIS bank, will you grant the required loan?

In the present case, only those that were possible with the help of available data have been computed. The ratios that are computed are then compared with industry ratios. Avirate Exports is a small manufacturing company; it is not listed in the stock exchange. Thus stock related ratios are not computed.

- The current ratio and acid test ratio of Avirate Exports are increasing year after year and is almost equal to the industry average.
- Accounts receivables ratio is also on par with the industry average of 6 times. Also number of days in accounts receivables is less in Avirate exports when compared to the industry average.
- But there is a problem in Inventory turnover ratios. It is less when compared with the industry average also the number of days of storing the inventory is very high (upto 136 days) when compared to industry average of 72 days.
- Avirate's debt to equity ratio is also not in proportionate to Industry ratio. Which means the owners should concentrate in the capital structure of their organization.
- All the profitability ratios such as gross margin ratio, net margin ratio are quite good and they are much high than industry average of profitability.
- Avirate Exports is able to effectively use the assets returns. These assets are good indicating a stable growth of the organization. Return on equity is good and more than the industry average.
- Based on various ratio calculations and their comparisons with the industry ratios, it can be concluded that Axis bank can grant loan to Avirate exports.

4. What are areas of improvements you can suggest for the future prospects of Avirate Exports.

The financial position clearly reveals following areas need to be addressed for better performance of the organization.

- The fast movement of inventory
- Ensuring proper management of funds
- Avirate Exports can concentrate on management of short term funds especially working capital management of funds.

EXHIBIT: 1 CASH FLOW STATEMENT

Cash Flow Statement	**2013-14**	**2014-15**	**2015-16**
A. Cash from Operations			
Net Profit as per income statement	582000	1365000	2633000
Add: Non - Operating Expenses			
Depreciation	232000	286000	389000
Less:Non- Operating Income			
Less: Increase in Current Assets and Decrease in current Liabilities			
Accounts receivables	250000	284000	251000
Inventories	280000	540000	280000
Add: Decrease in current assets and increase in current liabilities			
Current Liabilities	367000	219000	302000
Net cash inflow/outflow from Operations(A)	977000	2256000	3251000
B. Cash from Investing activity			
Purchase of fixed assets	-1932000	-454000	-853000
Net cash outflow from investing activity (B)	-1932000	-454000	-853000
C.Cash from Financing activity			
Inflow from issue of equity shares	1100000	100000	0
Borrowings (Long Term)	474000	394000	564000
Net cash inflow from financing(C)	1574000	494000	564000
Net cash inflow/outflow	619000	2296000	2962000

	2013-14	**2014-15**	**2015-16**
Fixed Assets(net of Depreciation)	75.06	59.17	58.82
Current Assets			
Cash and cash equivalents	1.55	2.68	2.27
Accounts Receivables	11.04	15.05	16.20
Inventories	12.36	23.11	22.70
Total	100	100	100
Equity Share Capital(Shares of Rs.10 each)	48.57	33.81	24.77
Reserves and Surplus	14.30	25.22	27.35
Long Term Borrowings	20.93	24.46	29.56
Current Liabilities	16.20	16.51	18.33
Total	100	100	100

Ratios	Computations	2013-14	2014-15	2015-16	Industry Average
Current Ratio	Current assets/Current liabilities	1.54	2.47	2.25	2.10
Acid test Ratio	Current assets-Inventories/ current liabilities	0.78	1.07	1.01	1.10
Receivables Turnover ratio(times)	Credit sales/Average Accounts Receivables	6.50	7.81	8.90	6.00
Receivables Days(days)	365 days or 52 weeks/ Receivables Turnover	56	47	41	52
Inventory Turnover ratio(times)	cost of goods sold or cost of sales/Average Inventory	2.20	2.36	2.69	4.52
Inventory days(days)	365 days or 52 weeks/Inventory Turnover	166	155	136	72
Long term debt to total capital (%)	Long term liabilities / total capital	20.93	24.46	29.56	0.24
Debt to Equity Ratio	Long Term liabilities / share holders equity	0.43	0.72	1.19	0.33
Gross Margin Ratio (%)	Gross Margin/Net Sales Revenue	65.81	58.70	62.65	0.40
Net Margin Ratio (%)	Net Income or PAT/ sales Revenue	32.35	29.12	33.25	0.19
Return on Equity (%)	Net Income or PAT/ Share holders Equity	52.91	113.75	219.42	0.26
Return on Fixed Assets (%)	PAT/ Fixed Assets	34.24	65.00	92.39	0.28
Return on Total Assets (%)	PAT/Total Assets	25.70	38.46	54.34	0.11
Interest Coverage Ratio	Earnings before Interest and Taxes /Interest	14.60	19.57	22.87	0.10
Total Assets Turnover Ratio	Total Revenue/ Total Assets	0.79	1.32	1.63	1.10
Fixed Assets Turnover Ratio	Total Revenue/Fixed Assets	1.06	2.23	2.78	2.00
Current Assets Turnover Ratio	Total Revenue/Current Assets	3.18	3.24	3.97	2.70
Working Capital Turnover Ratio	Revenue/Working Capital	9.09	5.43	7.15	7.50

E -MARKETPLACE AND SMEs BUSINESS OPERATIONS WILL IT PAY WAY FOR OPERATIONAL EFFICIENCY?

Dr. P. NALINI & Dr. R. GOKILAVANI

LEARNING OBJECTIVES:

- To enable the students to understand the determinants in choosing an E-Marketplace from SMEs perspective
- To equip the students to analyze and arrive the ways of adoption of e-marketplace services will improve their operation efficiency.

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E- MARKET PLACE – AN OVERVIEW

E-market place has transformed the way the market sells and buys goods and services. The E-business sites provide a technology infrastructure and help business firms to find suppliers as well the buyers using the worldwide internet. There are top internet based companies like Alibaba, Indiamart, Trade India who are playing significant role in business development of India's small and medium enterprises (SMEs). Most of these e-commerce companies were found in late 90s and early 2000s. E-marketplace is a type of e-commerce sites where the products and services provided by multiple third parties are listed. These third parties are the companies who take membership with a cost from these E-commerce sites. This listing helps the supplier to display new products, generate sales leads, getting freight quotes, etc. The buyers can also browse information about best prices, qualities, and terms, post their requirements. The members are also encouraged to advertise and they get many more benefits based on type of membership they own with these companies. The members are trained on how they can use these sites for business development and customer acquisition.

PLAYERS IN B2B E-COMMERCE

Alibaba.com

Alibaba.com is the world's largest online B2B trading platform for small businesses. It was founded in Hangzhou, eastern China. It provides the technology; infrastructure & marketing reach to help merchants, brands and other businesses that provide products, services and digital content to leverage the power of the Internet to engage with their users and customers.

Indiamart

India-MART is an Indian e-commerce company that provides B2C, B2B and customer-to-customer sales services via its web portal. The company is headquartered in Noida, India.

Trade-India

Trade-India is an online Business-to-Business (B2B) portal for small businesses based in India and around the globe. The portal was started in 1996 by Binny Khosla and is maintained and promoted under the flagship company, Info-com Network Ltd. The company is headquartered in New Delhi, India, and has branch offices in 35 cities across India.

SME's-An Overview

Small and Medium Enterprises (SME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. SMEs not only play a crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. SMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country. SMEs also play a significant role in the Nation's development through its high contribution in domestic production, significant export earnings, low investment requirements, operational flexibility, location wise mobility, low intensive imports, capacities to develop appropriate indigenous technology, import substitution, contribution towards defence production, technology–oriented industries, competitiveness in domestic and export markets thereby generating new entrepreneurs by providing knowledge, training and skill development .

Table 1-Definition of MSMEs in India

(As Per Micro, Small & Medium Enterprises Development (MSMED) Act, 2006)

Manufacturing Enterprises - Investment in Plant & Machinery		
Description	INR	USD($)
Micro Enterprises	upto Rs. 25 Lakh	upto $ 62,500
Small Enterprises	above Rs. 25 Lakh & upto Rs. 5 Crore	above $ 62,500 & upto $ 1.25 million
Medium Enterprises	above Rs. 5 Crore & upto Rs. 10 Crore	above $ 1.25 million & upto $ 2.5 million

Service Enterprises – Investment in Equipments		
Description	INR	USD($)
Micro Enterprises	upto Rs. 10 Lakh	upto $ 25,000
Small Enterprises	above Rs. 10 Lakh & upto Rs. 2 Crore	above $ 25,000 & upto $ 0.5 million
Medium Enterprises	above Rs. 2 Crore & upto Rs. 5 Crore	above $ 0.5 million & upto $ 1.5 million

The Problem

Despite their high enthusiasm and inherent capabilities to grow, SMEs in India are also facing a number of problems. Although SMEs increasingly use the Internet for a variety of commercial and production-related purposes, on an average they have a limited understanding of the full range of benefits of electronic commerce. This lack of awareness of the great potential of e–commerce is one important barrier to its adoption and usage. Inadequate investment, technology skills, barrier to changes and attitude of entrepreneur towards the new mediums are key things to be addressed by these e-commerce market players

The Approach

With all performance variables, the SME's those who are member of any E-commerce B2B market have seen sales growth, increased brand visibility, increased customer base and increase in international orders and their presence in global market. They have also increased their product quality, customer relationship and competition among global companies. They revealed it was the difficulty in Implementation and lack of technology. But even then the adoption rate is comparatively low. To understand the scenario, the data was collected from 61 SMEs who were involved in both manufacturing and trading. The questions were mostly placed in 5-Point Likert scale where 1 being low and 5 being high. A purposive sampling method was used in selecting SMEs for the study. More than 50% of the companies were aware of the E-marketplaces. Majority of SMEs have opted the services of two Indian players namely India Mart and Trade India. All these SMEs feel the information provided by the sites are very useful and informative. They also feel it increases their efficiency and ease to use. The usage rate of the global company Alibaba's services was found to be at nascent stage. Annexure 1 table shows the mean value of the various determinates for SMEs

QUESTIONS FOR DISCUSSION

1. What are all the determinants in choosing an E-Marketplace from SMEs perspective? Also suggest the suitable Marketing strategies for the e-commerce companies to capitalize on the identified determinate for marketing their services?
2. Suggest few strategies for SMEs on how the adoption of e-marketplace services will improve their operation efficiency.

Annexure 1				
Technological Readiness	**Mean Score**	**Trading Opportunities & Expertise**	**Mean score**
Organization has defined IT strategy	4.1311	Organization Able to find buyers worldwide	4.3934
Organization was willing to change to technology	3.6230	Organization Able to maximize your company turnover	4.2459
Organization has knowledgeable IT staff	4.2459	Organization Able to export your products worldwide	4.0164
Organization has adequate IT infrastructure	4.4590	Organization Able to create exposure	3.9508
Organization has integration between your existing information system	3.7705	Organization Able to stay up to date	3.6393
Operational Performance	**Mean Score**	**Brand Identity**	**Mean Score**
E-Marketplace has allowed to increase profitability	3.7869	Brand identity attracts customer to read more about company	4.4426
E-Marketplace has allowed to reduce transaction cost	3.4590	Brand identity exhibits latest products & promo	3.5574
E-Marketplace has allowed to improve its delivery time	3.4590	Brand identity increases Buyer's identity	3.2131
E-Marketplace has allowed to enhance its inventory turnover	3.7705	Brand identity gain trust	3.2295

E-Marketplace has allowed to reduce procurement cost	3.4426	Brand identity provides corporate identity	4.4754
Uses of B2B E-Marketplace	**Mean Score**	**Subscription Pattern**	**Mean Score**
Organization uses B2B to sell its products	3.2131	Reduce Negotiation Time & close deals faster	3.5574
Organization uses B2B to reduce search & procurement cost	3.3115	Subscription provides exclusive customer support	3.7213
Organization uses B2B to increase the product enquiries	3.6393	Maximizes your biz opportunity	4.3443
External Pressure	**Mean Score**	**Generate more Enquiries**	**4.1475**
Organization influenced by your customers	4.0984	Provide Easy to use online tools	4.0328
Organization influenced by your competitors	3.0820	Exclusive training on operational issues	3.4918
Organization influenced by your shareholders	1.2459		

TEACHING NOTE

SME and E-market place introduction (10 Minutes)

- Indian business is being classified on the basis of enterprises as large, medium, small & micro, SMEs contribution to economy is growing YoY
- Maturity levels of SMEs business and its systems gets increased, as a result industries started to use Internet as a medium to trade across the globe
- One such particular field is B2B ecommerce where tremendous trading opportunities and Business requirements is clearly seen across countries.
- E-Marketplace referred here as intermediaries that allows multiple buyers and multiple sellers to meet on an electronic platform to exchange information about products and services.

Everybody wins

For the marketplace owner: drop shipping allows a zero stock policy.

For the vendors: focus on product development and not at all on the selling platform becomes possible.

For the customer comparing becomes a breeze.

What are the challenges faced by SMEs (5 Minutes)

- Lack of infrastructure
- Information divide
- Limited human resources development
- Limited facilities for quality control and check

- Competition in international market
- Lack of standards

Benefits of using E-Marketplace (10 minutes)

- Wide range of Market coverage
- Greater potential for partnerships
- Updating information
- Flexibility in administration & communication
- Convenience (24/7 accessibility)
- Improved customer services
- Lower transaction costs
- Ability to enter supply chain for larger companies
- Information

The Major determinates findings (10 Minutes)

- Sales growth
- Increased
    - -Brand visibility
    - -Customer base
    - -International orders and global market presence
    - -Product quality
    - - Customer relationship
- Competition among global companies.
- Lack of technological support.

SUGUNA POULTRY PRODUCTION THROUGH CONTRACT FARMING

Dr. R. VINAYAGASUNDARAM

LEARNING OBJECTIVES

- Understand real-time challenges of Contract Farming in poultry sector
- Analyse the effective role in improving the economic status of the rural people by increasing their income
- To do comparative analysis of contract and non-contract farming
- Discussing the pros and cons of contract farming of chicks by Suguna Poultry Farms and estimate whether Contract Farming or non contract farming is profitable.

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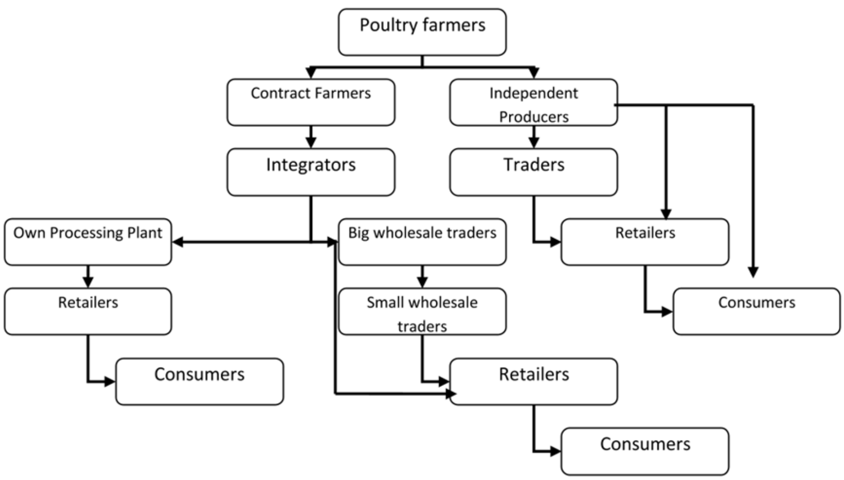
Contract Farming has become an increasingly important aspect of agri-business as well as poultry sector in recent years. Poultry farming could play an effective role in improving the economic status of the rural people by increasing their income besides providing nutritious food through meat and eggs. From the farmers' point of view, contractual arrangement can provide them with access to production services, credit as well as knowledge of new technology and moreover pricing arrangements can reduce the risk and uncertainty. Contract farming can act as an effective tool in mitigating risks faced by farmers while marketing of broiler produce to final consumer.

In a poultry contract, the hatcheries provide day old chick, feed and medicines to the contract growers. The contract growers supply land, labour and other variable like inputs. At the end of the production cycle the farmer receives a net price that is the price set by a group of poultry companies (not the retail price). Thus the farmers receive considerable price insurance. For the deviations of the retail price from the industry price, farmers receive an incentive. This practice lessens the incentives to default on the part of the growers and reflects the competition from the non-contract sector. The broiler contract is an instance of a production management contract where the processor supplies inputs and extension, credit, provides price insurance and monitors grower effort through inspections. The detailed monitoring is required because of the considerable credit advanced by the processor that provides more than 90 percent of the cost of production in terms of the value of inputs.

CONTRACT FARMING VERSUS NON CONTRACT FARMING



COST STRUCTURE OF POULTRY PRODUCTION AVERAGES PER CYCLE

Item	Contract	Non contract
Chicks value (Rs.)	81283.12	209430.9524
Feed & medicines (including vaccinations)	11928.59	6961.9048
Labour electricity and over head charges	9718	6280
	102929.71	222671

OUTPUT AND REVENUE: AVERAGE PER PRODUCTION CYCLE

Item	Contract	Non contract
Output (no. of birds sold)	7757.523	6209.52381
Mortality	747.5682	740.9524
Average weight of the total birds sold (Kgs.)	12917.16	13224.7619
Revenues from the bird sold	644566.2	377014.3
Average revenue / kg of bird sold	82.2	61.64026

The contract producers have larger chick size housed in their output though the kilograms sold is not very high the amount they receive on the whole is more, which is not in the case of non contract growers, this is because the company assures that the quality produced is of high standards and sells it to the trader where in it fetches more price and also the producer is assured of the price incentive when price fluctuations are observed where as in the case of non contract producers they sell the produce near the farm gate where at times they are not assured about the price risks, at times they might fetch high price according to the prevailing market prices and at times low price.

Major benefits come from reduction in transaction costs and assurance of regular income for broiler farmers. A comparative analysis of contract and non-contract farming techniques carried out by specifying how these can be overcome and can be advantageous to the producer for the overall development and improvement is given below

QUARTER	CHICKS TO BE PRODUCED
1	2700
2	2200
3	4700
4	6700
5	4500
6	2700
7	2000
8	3700

It may be assumed that the production for non contract farming is the minimum of the demand forecast and the cost of contract farming is Rs 100/chick. The non-contract farming cost is Rs 88/chick.

QUESTION FOR DISCUSSION

Evaluate and discuss the pros and cons of contract farming of chicks by Suguna Poultry farms and estimate whether Contract Farming or non contract farming is profitable.

TEACHING NOTE

LEARNING OBJECTIVES

- Understand real-time challenges of Contract Farming in poultry sector
- Analise the effective role in improving the economic status of the rural people by increasing their income
- To do comparative analysis of contract and non-contract farming
- Discussing the pros and cons of contract farming of chicks by Suguna Poultry Farms and estimate whether contract farming or non contract farming is profitable.

SUGGESTED TEACHING APPROACH / CONCEPT

- Concept : contract farming or non contract farming
- Group Discussion and Presentation
- Cost structure calculation –Poultry production averages per cycle, Output and revenue: Average per production cycle in contract and non- contract farming
- Discussing the pros and cons of contract farming of chicks by Suguna Poultry Farms

Brief answers for the questions given

The contract producers have larger chick size housed in their output though the kilograms sold is not very high the amount they receive on the whole is more, which is not in the case of non contract growers. This is because the company assures that the quality produced is of high standards and sells it to the trader, wherein it fetches more price and also the producer is assured of the price incentive when price fluctuations are observed. Whereas in the case of non contract producers they sell the produce near the farm gate where, at times they are not assured about the price risks, at times they might fetch a high price according to the prevailing market prices and at times low price.

POTENTIAL AREA OF USE OF THE CASE IS OPERATIONS-CONTRACT AND NON-CONTRACT FARMING TECHNIQUES

A comparative analysis of contract and non-contract farming techniques carried by specifying how these can be overcome and can be advantageous to the producer for the overall development and improvement

KEY POINTS OF THE CASE STUDY

- Comparative analysis of contract and non-contract farming
- Demand forecast and Cost structure calculation –Poultry production averages per cycle, Output and revenue: Average per production cycle in contract and non- contract farming
- Effective study on land, labour, other variable inputs, cost control and profitability.

VALARMATHI HATCHERIES

Dr.S.JAISANKAR

LEARNING OBJECTIVES

- To enable the students to understand the importance of location decisions.
- To equip the students to analyze and arrive at warehouse location using Center of Gravity and Factor Rating Methods.

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THE COMPANY

Mr. S.K. Shanmugam, a graduate in mathematics entered into a small business by selling poultry feed and vaccine in the year 1986 to poultry farms located in Palladam, a small town near Coimbatore. The timely distribution of the poultry feed medicine and vaccines to the poultry farms situated in the surrounding area resulted in a faster growth in sales of the company. The success in trading feed and medicine motivated Shanmugam to make a small beginning into the foray of poultry farming with 500 chicks in 1989. From that stage onwards, the poultry business grew steadily and reached 12,000 chicks per week in the year 1995 and thus the company emerged as Valarmathi Hatchery and became one of the leading poultry farms in south India. S.K. Shanmugam became the Managing Partner of the firm with his wife Smt. S. Nalini who looks after the administration and manages poultry operations from the central office located in Coimbatore. Due to increase in demand the company faced difficulty in getting timely supply of chicks which led to setting up of a breeding farm and a feed mill which was established in the year 2009. The products are poultry hatching eggs, day-old chicks, grown chicken birds, and meat. The meat products are sold under the brand name "VALAR CHICKEN". The services offered include trading birds, retail sales of poultry meat through company owned retail outlets, restaurants, with value-added products. The customers are benefited by cost effective protein and hygienic food. Beyond that, the core value is to offer customer satisfaction through their service.

THE COMPETITION

In spite of good business, Valar Chicken faced challenges in the highly competitive poultry market with respect to promotion and location. MNCs make huge investments in terms of publicity and advertisement and, when it comes to location advantage, it is the domestic closest competitors Suguna Chicken and Shanthi Chicken which are well positioned in the poultry market with higher market share. There are also a substantial number of other small enterprises that compete with Valar Chicken.

THE PROBLEM

Valarmathy Hatchery, distributes poultry feed to 94 commercial contract farms spread across 25 kms radius in various locations in and around Palladam (shown in Annexure I – Fig:1). Currently, the company satisfies the farms demand by distributing the feed using four company-owned trucks with two trips a week. The demand quantity and the demand locations vary from trip-to-trip and sometimes with half loaded trucks. For supplying lesser load the company will have to hire a smaller truck which leads to higher transportation cost in supplying feed. Shanmugam believes that an efficient supply chain would help to reduce supply and transportation costs across the chain which would help to compete with competitors' price. Shanmugam called for a meeting with Mr. Srinivasan, Manager-Logistics and asked to come with a solution that could reduce the distribution cost. Having a discussing with his team, Mr. Srinivasan suggested to install warehouses and stock feed in different locations.

Considering the suggestion, the company decided to invest in two warehouses. Supply of poultry feed to all the farms requirements are to be satisfied by these two warehouses and the existing feed mill.

THE APPROACH

The demand requirements of farms have to be satisfied by two warehouses and a feed mill. Based on the farm locations, the distribution area is divided into three strata (Strata 1 for warehouse A, Strata 2 for warehouse B and Strata 3 for feed mill). Demand requirements and the coordinate points designating a central location on the map with an arbitrary point relative to all the farm locations are also given in Annexure II - Table 1 & 2. Determining alternative locations for setting up the new warehouses in each location provides some advantages and some limitations. Therefore, it is necessary that some method of evaluating the attractiveness of sites must be arrived. Based on a survey conducted by its top management, the company has identified five factors that will determine the appropriateness of a site for setting-up new warehouses. The five factors include,

1. Site cost
2. Availability of skilled labour
3. Electricity
4. Quality of road infrastructure
5. Availability of mini trucks.

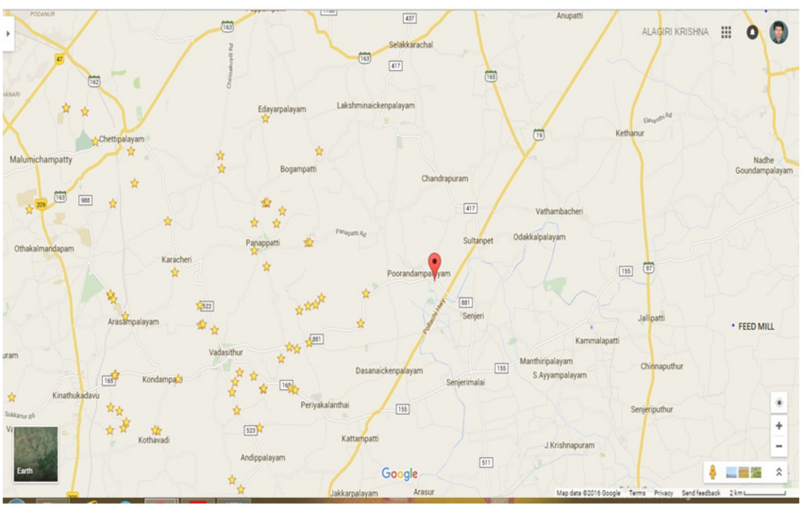
The company collected actual data on various locations pertaining to these factors listed in Annexure III - Table 3.

QUESTIONS FOR DISCUSSION

1. Identify and suggest suitable locations for installing the warehouses that could reduce the cost of transportation in distributing feed to the poultry farms.
2. What are the factors that you will consider important in locating the site? In case of alternative locations possible, how would you evaluate the sites to decide to locate the warehouses?

ANNEXURE I

Fig:1 Map Showing Location Names Of Poultry Farms And Feed Mill (Right End)



Source: Google Map

Farm No.	Demand (kgs) ‘000	X	Y	Farm No.	Demand (kgs) ‘000	X	Y
C4	15.53168	6	6	C34	13.4865	6	2.8
C5	15.53723	5.5	6.5	C35	16.34753	5.8	3.1
C6	21.23985	5.5	6.5	C36	23.56808	5.2	3.2
C11	17.34375	8.6	6.5	C36-2	21.09	5.2	3.2
C12	14.95448	9	5.7	C38	16.3059	12	9
C13	18.15405	6.2	10	C43	22.81883	12.5	5
C14	13.5198	6.2	11	C46	20.202	1.5	3.5
C15	17.01908	5.5	9.5	C47	15.77033	5.5	6.5
C16	12.21	2.2	9.2	C48	23.61525	7.8	7
C17	27.2283	3.5	12.5	C52	11.90753	12	4.5
C18	18.18735	3.5	12.5	D1	21.87255	3.8	11.8
C19	16.24208	4.2	12.2	D2	17.8488	3.8	11.7
C20	6.9375	4.8	11.5	D3	27.60015	4.3	12
C25	21.66998	7	2.5	D4	24.64755	4	12
C26	23.23508	7	2.5	D5	18.30945	4.2	12.9
C27	8.88	4.2	5.5	D6	20.97623	4.1	12.9
C28	14.37173	4	5.5	D10	19.79685	11	9.1
C29	12.71505	3	2.5	D16	24.48105	5	5.1
C30	22.28048	5.2	2.5	D18	18.46763	4.7	5
C31`	12.5541	5.8	2.5	D19	25.90185	5.1	5.5
C32	12.55688	5.8	2.5	D20	23.1324	6	6.3
C33	14.652	6	2.8	D21	21.87533	6	7

Table 2: Poultry farms considered for Warehouse B - Strata 2

Farm	Demand (kgs) ‘000	X	Y	Farm No.	Demand (kgs) ‘000	X	Y
C1	18.315	15	6	C56	14.985	11.2	3.8
C2	19.2585	13.5	6.5	C57	12.47363	10	3.5
C3	27.18113	13.1	6.4	C58	24.4644	10.2	3
C7	20.80695	11.5	12	C59	24.91673	11	2.5
C8	29.415	13	8.2	C60	13.88333	10.4	0.6
C9	21.45908	13	8.5	C61	12.4875	10	1
C10	25.9962	9.2	5.6	C62	16.3947	11.5	9.5
C21	23.199	9.5	11	D7	27.4225	10.6	13.5
C22	16.095	11.2	9.5	D8	32.9559	10.6	13
C23	24.90563	10.8	8	D9	19.11975	11	9.1
C24	10.8225	11.5	9.5	D11	23.14905	10.7	7.9
C37	3.35775	11.8	9	D12	18.15683	11.9	6.1

C39	16.095	12	9.3	D13	21.58395	11.6	5
C40	12.9204	13	11	D14	18.17903	11.2	5
C41	20.8125	11	9	D15	20.3796	12.2	5
C42	19.53323	11.3	7.2	D17	18.46763	12.5	7.1
C44	24.66975	15.2	6.7	D22	17.4825	9.6	8.9
C45	15.0294	13	6.2	D23	16.33365	9.6	13.3
C49	15.75923	10.3	4.2	D24	16.3725	4	11
C50	17.28825	10	4	D25	25.31355	4.6	12
C51	12.44588	10.8	4.2	D26	29.25683	3.8	12.3
C53	14.13863	12.5	3.8	D27	24.5643	8.9	1.1
C54	20.2575	12.2	4	D28	18.86723	16.3	13.7
C55	18.81173	11.2	3.8				

Data source: Valarmathi Hatchery Pvt, Ltd, City office, Coimbatore

ANNEXURE III

Table 3. Ratings of each location site against each factor

Sl.No	Location	Factor 1 (Rs.)	Factor 2 (score out of 100)	Factor 3 (Rs.)	Factor 4 (score out of 100)	Factor 5
1	Kondampatti	30 lakhs	60	6.5 lakhs	65	10
2	Arasampalayam	20 lakhs	80	4.5 lakhs	75	10
3	Panappatti	30 lakhs	85	3.5 lakhs	70	12
4	Karacheri	25 lakhs	70	4.5 lakhs	65	8
5	Vadasithur	20 lakhs	65	5.5 lakhs	55	9
6	Kothavadi	15 lakhs	70	6.5 lakhs	45	10
7	Edayarpalayam	25 lakhs	75	5.5 lakhs	50	12
8	Malumichampatti	35 lakhs	80	5.0 lakhs	55	8
9	Chettipalayam	40 lakhs	75	3.5 lakhs	60	9
10	Kinathukadavu	45 lakhs	70	3.5 lakhs	75	10

Data source: Valarmathi Hatchery Pvt, Ltd, City office, Coimbatore

TEACHING NOTE
LEARNING OBJECTIVES

- To enable the students to understand the importance of location decisions.
- To equip the students to analyze and arrive at warehouse location using Center of Gravity and Factor Rating Methods.

Area: Operations Management

Topic: Location Analysis

Center of Gravity method

Factor Rating Method

WAREHOUSE LOCATION ANALYSIS

Q1. Warehouse location using Center of Gravity method.

In general, transportation costs are a function of distance, weight, and time. The Center-of-Gravity approach is a quantitative method for locating a facility such that the warehouse is at the center of movement in a geographic area based on weight and distance. This method identifies a set of coordinates (x, y) designating a central location on a map relative to all other locations.

The starting point for this method is a grid map set up on a Cartesian plane. The value Wi is the annual weight shipped from that location. The objective is to determine a central location for a new facility.

The coordinates for the location of the new facility are computed using the following formulas:

$$x = \frac{\sum_{i=1}^{n} x_i W_i}{\sum_{i=1}^{n} W_i}, \quad y = \frac{\sum_{i=1}^{n} y_i W_i}{\sum_{i=1}^{n} W_i}$$

where

x, y= coordinates of the new facility at center of gravity

xi, yi= coordinates of existing facility i

Wi= annual weight shipped from facility i

The locations positions are identified using GPS (Global Positioning System). The points are located and Euclidean distance is calculated using the formula. Use Excel spreadsheet for calculation.

Determination of Location for Warehouse A

The location of Warehouse A is calculated using center of gravity model. The x,y coordinates and demand of each poultry farm are shown in the Table 1.

DETERMINATION OF LOCATION FOR WAREHOUSE A

The location of Warehouse A is calculated using center of gravity model. The x,y coordinates and demand of each poultry farm are shown in the Table 1.

FARM	X	DEMAND(W)	X * W	Y	DEMAND(W)	Y * W
C4	6	15.53168	93.19005	6	15.53168	93.19005
C5	5.5	15.53723	85.45474	6.5	15.53723	100.992
C6	5.5	21.23985	116.8192	6.5	21.23985	138.059
C11	8.6	17.34375	149.1563	6.5	17.34375	112.7344
C12	9	14.95448	134.5903	5.7	14.95448	85.24051
C13	6.2	18.15405	112.5551	10	18.15405	181.5405
C14	6.2	13.5198	83.82276	11	13.5198	148.7178
C15	5.5	17.01908	93.60491	9.5	17.01908	161.6812
C16	2.2	12.21	26.862	9.2	12.21	112.332
C17	3.5	27.2283	95.29905	12.5	27.2283	340.3538
C18	3.5	18.18735	63.65573	12.5	18.18735	227.3419
C19	4.2	16.24208	68.21672	12.2	16.24208	198.1533
C20	4.8	6.9375	33.3	11.5	6.9375	79.78125
C25	7	21.66998	151.6898	2.5	21.66998	54.17494
C26	7	23.23508	162.6455	2.5	23.23508	58.08769
C27	4.2	8.88	37.296	5.5	8.88	48.84
C28	4	14.37173	57.4869	5.5	14.37173	79.04449
C29	3	12.71505	38.14515	2.5	12.71505	31.78763
C30	5.2	22.28048	115.8585	2.5	22.28048	55.70119
C31`	5.8	12.5541	72.81378	2.5	12.5541	31.38525
C32	5.8	12.55688	72.82988	2.5	12.55688	31.39219
C33	6	14.652	87.912	2.8	14.652	41.0256
C34	6	13.4865	80.919	2.8	13.4865	37.7622
C35	5.8	16.34753	94.81565	3.1	16.34753	50.67733
C36	5.2	23.56808	122.554	3.2	23.56808	75.41784
C36-2	5.2	21.09	109.668	3.2	21.09	67.488
C38	12	16.3059	195.6708	9	16.3059	146.7531
C43	12.5	22.81883	285.2353	5	22.81883	114.0941
C46	1.5	20.202	30.303	3.5	20.202	70.707
C47	5.5	15.77033	86.73679	6.5	15.77033	102.5071
C48	7.8	23.61525	184.199	7	23.61525	165.3068
C52	12	11.90753	142.8903	4.5	11.90753	53.58386
D1	3.8	21.87255	83.11569	11.8	21.87255	258.0961
D2	3.8	17.8488	67.82544	11.7	17.8488	208.831
D3	4.3	27.60015	118.6806	12	27.60015	331.2018
D4	4	24.64755	98.5902	12	24.64755	295.7706

D5	4.2	18.30945	76.89969	12.9	18.30945	236.1919
D6	4.1	20.97623	86.00252	12.9	20.97623	270.5933
D10	11	19.79685	217.7654	9.1	19.79685	180.1513
D16	5	24.48105	122.4053	5.1	24.48105	124.8534
D18	4.7	18.46763	86.79784	5	18.46763	92.33813
D19	5.1	25.90185	132.0994	5.5	25.90185	142.4602
D20	6	23.1324	138.7944	6.3	23.1324	145.7341
D21	6	21.87533	131.252	7	21.87533	153.1273
SUM		807.0422	4646.424		807.0422	5735.203
			X			**Y**
	POINT		**5.75735**			**7.106448**

DETERMINATION OF LOCATION FOR WAREHOUSE B

The location of Warehouse A is calculated using center of gravity model. The x,y coordinates and demand of each poultry farm are shown in the Table 2.

FARM	X	DEMAND(W)	X * W	Y	DEMAND(W)	Y * W
C1	15	18.315	274.725	6	18.315	109.89
C2	13.5	19.2585	259.9898	6.5	19.2585	125.1803
C3	13.1	27.18113	356.0727	6.4	27.18113	173.9592
C7	11.5	20.80695	239.2799	12	20.80695	249.6834
C8	13	29.415	382.395	8.2	29.415	241.203
C9	13	21.45908	278.968	8.5	21.45908	182.4021
C10	9.2	25.9962	239.165	5.6	25.9962	145.5787
C21	9.5	23.199	220.3905	11	23.199	255.189
C22	11.2	16.095	180.264	9.5	16.095	152.9025
C23	10.8	24.90563	268.9808	8	24.90563	199.245
C24	11.5	10.8225	124.4588	9.5	10.8225	102.8138
C37	11.8	3.35775	39.62145	9	3.35775	30.21975
C39	12	16.095	193.14	9.3	16.095	149.6835
C40	13	12.9204	167.9652	11	12.9204	142.1244
C41	11	20.8125	228.9375	9	20.8125	187.3125
C42	11.3	19.53323	220.7254	7.2	19.53323	140.6392
C44	15.2	24.66975	374.9802	6.7	24.66975	165.2873
C45	13	15.0294	195.3822	6.2	15.0294	93.18228
C49	10.3	15.75923	162.32	4.2	15.75923	66.18875
C50	10	17.28825	172.8825	4	17.28825	69.153
C51	10.8	12.44588	134.4155	4.2	12.44588	52.27268
C53	12.5	14.13863	176.7328	3.8	14.13863	53.72678
C54	12.2	20.2575	247.1415	4	20.2575	81.03

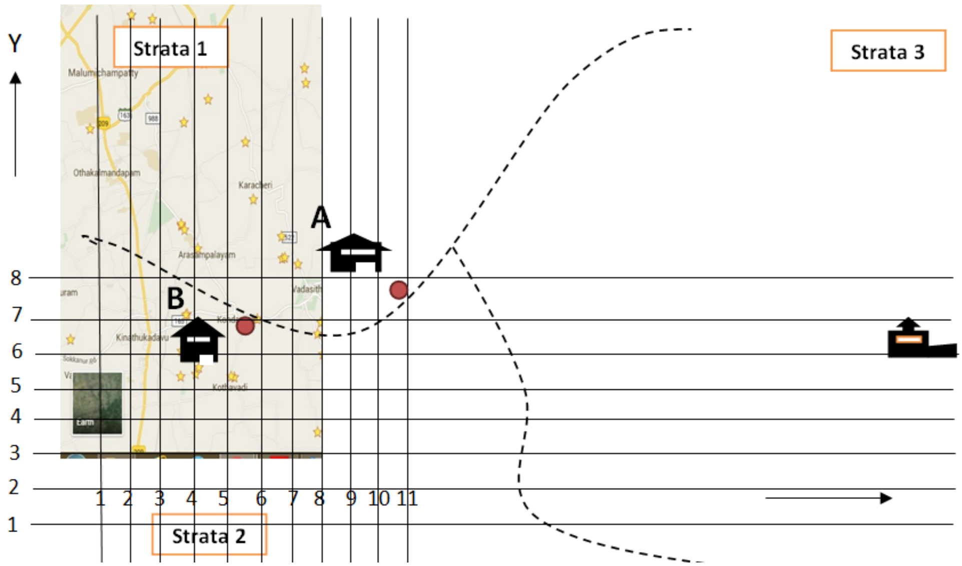
C55	11.2	18.81173	210.6913	3.8	18.81173	71.48456
C56	11.2	14.985	167.832	3.8	14.985	56.943
C57	10	12.47363	124.7363	3.5	12.47363	43.65769
C58	10.2	24.4644	249.5369	3	24.4644	73.3932
C59	11	24.91673	274.084	2.5	24.91673	62.29181
C60	10.4	13.88333	144.3866	0.6	13.88333	8.329995
C61	10	12.4875	124.875	1	12.4875	12.4875
C62	11.5	16.3947	188.5391	9.5	16.3947	155.7497
D7	10.6	27.4225	290.6785	13.5	27.4225	370.2038
D8	10.6	32.9559	349.3325	13	32.9559	428.4267
D9	11	19.11975	210.3173	9.1	19.11975	173.9897
D11	10.7	23.14905	247.6948	7.9	23.14905	182.8775
D12	11.9	18.15683	216.0663	6.1	18.15683	110.7567
D13	11.6	21.58395	250.3738	5	21.58395	107.9198
D14	11.2	18.17903	203.6051	5	18.17903	90.89513
D15	12.2	20.3796	248.6311	5	20.3796	101.898
D17	12.5	18.46763	230.8453	7.1	18.46763	131.1201
D22	9.6	17.4825	167.832	8.9	17.4825	155.5943
D23	9.6	16.33365	156.803	13.3	16.33365	217.2375
D24	4	16.3725	65.49	11	16.3725	180.0975
D25	4.6	25.31355	116.4423	12	25.31355	303.7626
D26	3.8	29.25683	111.1759	12.3	29.25683	359.8589
D27	8.9	24.5643	218.6223	1.1	24.5643	27.02073
D28	16.3	18.86723	307.5358	13.7	18.86723	258.481
SUM		915.7833	10015.06		915.7833	6853.344
			X			Y
	POINT		10.93606			7.483588

RESULT:
The location of two ware houses are at WAREHOUSE A (5.7, 7.1) and WAREHOUSE B (10.9, 7.4)

WAREHOUSE	Co-ordinate X	Co-ordinate Y
WAREHOUSE A	5.7	7.1
WAREHOUSE B	10.9	7.4

Locations of warehouses identified using grid on map:
Location of Warehouse A is at Arasampalayam.
Location of Warehouse B is at Panapatti.

Chart Showing Location of Warehouse A and Warehouse B



Q2. Warehouse location using Factor Rating Method
(Suitably convert the actual data into scores out of 100 and then analyse).

		Score			
Factor	**Weight**	**Arasampalayam**	**Panappati**	**Bhogampatti**	**Karacheri**
Site cost	0.3	80	70	70	75
Availability of skilled labour	0.1	80	85	60	70
Electricity	0.1	55	65	35	55
Quality of road infrastructure	0.25	75	70	65	65
Availability of mini trucks	0.25	10	12	10	8
Total Weight	1				

Weighted Score				
Factor	**Arasampalayam**	**Panappati**	**Bhogampatti**	**Karacheri**
Site cost	24	21	21	22.5
Availability of skilled labour	8	8.5	6	7
Electricity	5.5	6.5	3.5	5.5
Quality of road infrastructure	18.5	17.5	16.25	16.25
Availability of mini trucks	2.5	3	2.5	2
Total Score	**58.5**	**56.5**	**49.25**	**53.25**

Locations of warehouses identified using factors:
Location of Warehouse A is at Arasampalayam
Location of Warehouse B is at Panapatti

CONSORTIUM LOANS WILL IT WORK FOR INDIAN BANKS?

Dr. S. SANGEETHA

LEARNING OBJECTIVES:

- To enrich the students knowledge in the banking scenario.
- To make students understand the role of maintaining asset quality of banks.
- To understand the business scenarios reflecting/ affecting the banks' performance

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INTRODUCTION

The nerve centre for any economy is the banking system. The Indian banking system proved its strength during the global financial crisis and helped our economy to steer growth as well to sustain stability in a highly demanding and competitive global business environment. A strong banking sector is important for a flourishing economy and the best indicator for the health of the banking industry in a country is its level of Non-Performing Assets (NPAs). In recent years the NPAs seem to be corroding the wellness of the Indian banking industry as a whole. NPA reflects the performance of banks. The issue of mounting Non-Performing Assets is giving jitters to the banking sector particularly in countries like India. The gross NPA during March 2014 was 4.1% which has doubled over a period of time; it had been only to an extent of 2.4% during the year 2011.It is observed that the rise in NPA status had been due to skewed strategy adopted by the banks. The number of "wilful defaulters" is increasing day by day. This is the after effect of the banks provision of loans to big Corporates, neglecting SME's to a larger extent.

The Indian Banking industry seems to stimulate growth by adopting expansion strategy to rural parts of India. As a part of it, RBI provided licence to two financial institutions recently. Banking penetration in rural area is possible with IT support services. It had decided to invest Rs. 47000 crores in 2014. All these effort seem to be very promising. But the bitter side of this industry is that it suffers due to huge NPAs. Though the deterioration in NPAs occurred for both Public Sector Banks and Foreign Banks in recent times, still the proportion is not negligible. In March 2014, PSBs' gross NPA stood at 4.7 per cent and net NPA ratio at 2.7 per cent. Despite the economic downturn, Private sector banks' gross NPA ratio declined to 1.9 per cent in March 2014 from 2.5 per cent in March 2011. Their net NPA ratio has marginally increased to 0.7 per cent in March 2014 from 0.6 per cent in March 2011. Increase in NPA means lower the asset quality of Banks.

India though had a turbulent NPA picture with 12% as on March 2001, still finds itself in a comfortable position across countries. Stringent regulations and high economic growth soothed this position further during June 2008 as the NPA dipped to 2.4%. But the good sign of growth started to darken during the year 2008.The global financial crisis which paved way for dull trade added fuel to the NPA issues. Few sectors like power, road and airlines which had consumed huge loans are observed to experience low growth scenario. This led to poor quality of assets which further turned to be a nightmare for the Banks who offered loans to these sectors.

Moreover, above 40,000 cases worth of Rs. 1.73 lakh crore are to be recovered yet. As on March 2014, the GNPA in banking system hiked to 4.4 per cent from 3.8 per cent of the total assets in the previous fiscal. The Gross NPA of public sector banks which was Rs. 1.6 Lakh crore shot up by 39 per cent to Rs. 2.2 lakh crore by March 2014. However, in case of private sector banks, the gross NPAs which was around 20000 crore approximately hyped by 13.76 per cent to Rs.22, 740 crore approximately. During the year 2013-14, the public sector banks could recover only Rs. 33,485 crore approximately. The non-recovery of loans effects not only further availability of credit but also financial soundness of the banks. It affects the banks' Profitability, Asset (Credit) contraction, Liability Management, Capital Adequacy, Shareholders' confidence, Public confidence.

TURNING POINT

The banks in general are more comfortable in lending loans to high net worth customers and large corporates. This trend seems to be changing in recent times. The corporate loans accounts to 84% of total advances which includes Industry – manufacturing, services and retail. Though services sectors account to 21.2% not all services industries get benefited. Aviation industry, one among the popular service industry has 27% of stressed assets.

KFA is one of the major players in Indian Aviation industry. This concern had availed a consortium/syndicated loan from 17 banks. Recently, one of the lenders had announced KFA as "wilful defaulter". KFA had financial crunch from 2012 onwards. Banks were under stake and could not recover dues from KFA since then. This has led to large NPA accruals to the loan sponsors. Banks like SBI, IDBI and PNB have sponsored huge loans. They have planned to reimburse the amount by disposing the collateral security. This is a huge, tough and cumbersome process, which includes both time and cost. Similarly, the possibility of Spice Jet Aviation Company closing down is becoming stronger.

SCENARIO UPTO 2014

Major sectors contributing to large NPAs are given below. Though these sectors have only 30 per cent of the credit share the Gross non-performing assets in the system have grown to 4.1 per cent in FY* '14 from 3.4 per cent a year ago. The contribution of mandatory priority sector loans to the overall bad assets has come down during the last fiscal.

<table>
<tr><th>S.No</th><th>Sectors</th><td rowspan="7">6 sectors contributes 36% of overall 4.1% bad assets</td></tr>
<tr><td>1</td><td>Infrastructure</td></tr>
<tr><td>2</td><td>Metals</td></tr>
<tr><td>3</td><td>Textiles</td></tr>
<tr><td>4</td><td>Chemicals</td></tr>
<tr><td>5</td><td>Engineering</td></tr>
<tr><td>6</td><td>Mining</td></tr>
</table>

The state-run banks are the chief sources of stress. Banks contributed loans largely to the following six sectors viz, Infrastructure, Textiles, Metals and Metal Products, Engineering Industries and Mining & Quarrying and Chemical and Chemical related Products which contributed to 30% of gross NPA against total advances offered by them in total the last year. But this has increased by 6% during the current year. The gross non-performing assets ratio for the non-priority sector grew to 4 per cent as of March 2014 as against 3 per cent in the year ago period. As per RBI reports, the growth of priority sector stood stable at 4.4 per cent. The non-priority sector has contributed more in the deterioration of the loan asset quality of the banking sector in recent years, the contribution of PSL loans to the overall bad loans narrowed to 36 per cent as of FY'14 from 40 per cent in FY'13.The lurking threat is the high growth in restructured assets during the previous fiscal 2012-13.

Overall NPA status of Indian banks

Evolution of NPAs		
Year	Gross NPA (%)	Net NPA (%)
2006-07	2.5	1.0
2007-08	2.3	1.0
2008-09	2.3	1.1
2009-10	2.4	1.1
2010-11	2.4	1.0
2011-12	2.9	1.3
2012-13	3.4	1.7
2013-14	4.1	2.2

Source: RBI Reports

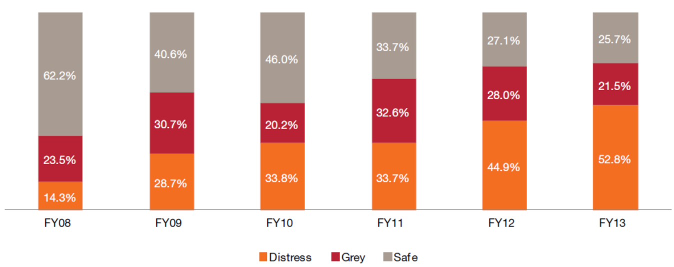
The Gross NPA ratio which had light variations in the early years experienced hiking trend during the years 2012-2014.

Banks with high NPA	
Banks	NPA (%)
United Bank of India	11
Indian Overseas Bank	7.19
PNB	6.45
IDBI	6.32
Central Bank of India	6.25
Other 12 banks	Ranging between 3 - 5%
Indian Bank	4.1
Syndicate Bank	3.94
Bank of India	3.93
Canara Bank	3.36
Vijaya Bank	3.08

Source: Business Line Nov 20, 2014

Management of asset quality has emerged as one of the major challenges facing banks today as it is the most important factor for the basic viability of the banking system. High level of NPAs not only affects core performance area of the banking system but also raises corporate governance issues. The trends in NPAs since 2007 are furnished below.

CORPORATE DEBT FAILING Z-SCORE LEVELS



Source: Jefferies –Performed on 414 companies out of the BSE 500 Index, making up almost 40% of the total banking system loans

The corporate solvency position seems to be annoying year on year. The distressed companies were only at 14.3% during FY 2008 which hiked to 52.8% during the year 2013 this would definitely affect the loan recovery process. The strong credit growth is synonymous with improvement in asset quality and at the same time the declining credit growth in the system is an indication for asset deterioration and likely to aid impaired assets further. Asset Quality concerns persist as the growth in NPAs accelerated and continued to outpace credit growth.

SECTOR WISE NPA COMPOSITION OVER GROSS LOANS

NPA at public sector banks have surged to 5.32% this year from 4.82 % on September 2013. NPA's at private sector banks have come down to 2.04% from 2.06% last September. It has been observed that public sector banks lagged private ones on asset quality and profitability parameters too.

SUMMARY OF GROSS AND NET NPAS PERCENTAGE IN PUBLIC AND PRIVATE SECTOR BANKS

	Public Sector Bank		**Private Sector Bank**	
Years	**Gross NPAs (%)**	**Net NPAs (%)**	**Gross NPAs (%)**	**Net NPAs (%)**
2001-02	11.09	5.82	9.64	5.73
2002-03	9.36	4.54	8.08	4.95
2003-04	7.80	3.00	5.85	2.80
2004-05	5.50	2.00	6.00	2.70
2005-06	3.60	1.30	4.40	1.70
2006-07	2.70	1.10	3.10	1.00
2007-08	2.20	1.00	2.30	0.70
2008-09	2.00	0.94	2.36	0.90
2009-10	2.20	1.09	2.32	0.82
2010-11	2.40	1.20	1.97	0.53
2011-12	3.30	1.70	1.80	0.60
2012-13	3.80	2.00	1.90	0.50
2013-14	4.70	2.70	1.90	0.70
2014-15	5.33	3.14	2.05	0.81

Source: Trends and progress of banking, RBI

It has been found that Gross NPAs percentage showing decreasing pattern till year 2006. It has more or less remained constant from year 2007 to 2012 in both Public as well as Private Banking Sector respectively, whereas the Net NPAs percentage in Public and Private Sector Banks show more or less decreasing pattern throughout a decade i.e. from 2001 to 2012. But after 2012 to 2014 both Gross and Net NPAs percentages are found to be increasing in both Public and Private sector banks.

Industry wise gross NPA		
Sectors	Sep 2013	Sep 2014
Coal	7.5	11
Food processing	6.7	7.6
Textiles	7.5	9.7

Chemical & chemical products	7.5	8.3
Cement &cement products	5	10.4
Iron & steel	6.9	6.9
Gems & jewellery	11.9	14.2
Construction	6.9	5.7
Infrastructure	1.9	2.4
Aviation	13.9	9

Source: The Hindu-Businessline dated November 20, 2014

The bad debts in seven key industries registered a surge during the same period. But IRON & STEEL, Construction and Aviation offered respite.NPA has risen due to the sluggish growth, slowdown in recovery in global economy and uncertainty in the global markets.

As per RBI's reports as on April 4, 2014, the credit growth of Scheduled Commercial Banks (SCB) on a year on year basis stood at 13.8% which was slightly lower than 13.9% witnessed in FY13. In a Sectoral perspective, Agriculture & Allied activities experienced a credit growth of 13.5% (FY13: 7.9%), Industries at 13.1% (FY13: 15.1%), Services at 16.1% (FY13: 12.6%) and Personal Loans at 15.5% (FY13: 14.7%).

Table shows the credit growth percentage for public sector banks and private banks for the years 2012-2014

Sector	**Y-o-Y growth (%) of Advances as on March ended**		
	2012	**2013**	**2014**
Overall- Industry	17.84	16.64	14.49
Public Sector Banks	17.25	16.32	14.09
Private Sector Banks	20.44	18.05	16.17

Source: RBI reports

An analysis on the Corporate Debt Restructuring (CDR) during the period March 2012 to March 2014 shows that the major sectors which had maximum cases of restructuring approval had been Iron & Steel, Infrastructure, Textiles and Power. The following figures show the amount approved under CDR for the top four industries during FY12 to FY14 and their percentage share in the total amount approved for CDR.

Restructuring is done to improve the health status of the banks. Of the cases referred to CDR, only 49% had been implemented successfully .Comparatively public sector banks are seriously affected as they own a large share in the pie; which will turn vigour when business scenario stays unfavourable.

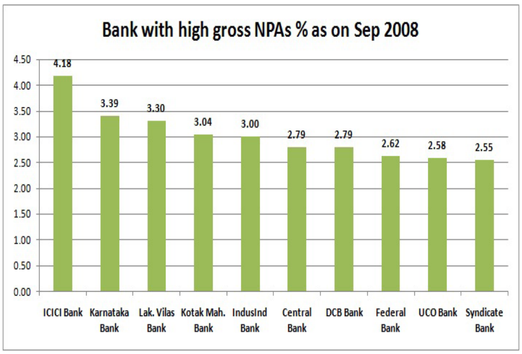
According to India ratings, the aggregate debt of top 500 corporate borrowers accounted the largest debt of 73% of the total bank lending to the manufacturing industries, services and export sectors. Around 82% of them have already been formally tagged as financially distressed asset. The de allocation of coal blocks created a setback to sectors like Metal, Power and Cement companies which questions the repayment capabilities of these sectors.

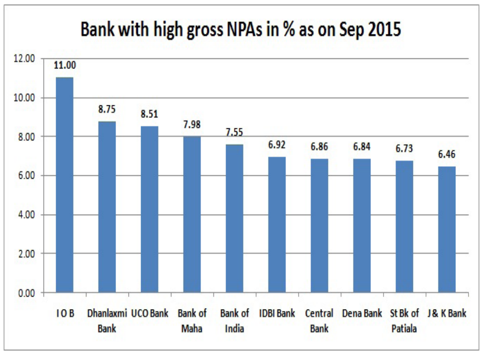
An analysis shows that the majority of stressed assets are in the infrastructure segment, including Power and Telecom, as well as Textile, Iron and Steel.

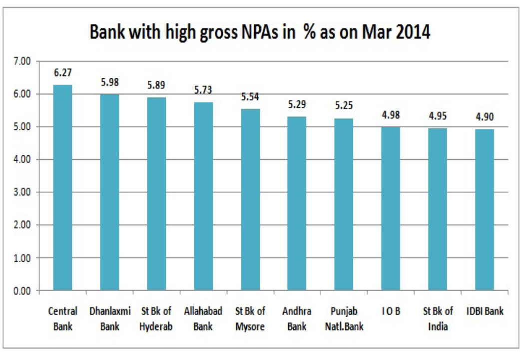
Sectors	2009	2013	Effect
Aviation	1%	27%	↑(more than 20 times)
Textiles	14%	23%	↑(one and a half times)
Power	4.5%	19.4%	↑(quadruple)
Infrastructure	4.7%	17.4%	↑(quadruple)
Telecom	1.8%	15.6%	↑(more than 14 times)
Iron & steel	8%	15%	↑(double)
Mining	4%	9%	↑(more than double)
Real estate	1%	2%	↑(double)

According to Fitch, Public sector banks account for 90% of the banking system's stressed assets while suffering from sharply declined earnings and weak capitalisation. In September 2014, PSBs continued to record high levels of stressed advances at 12.9% of their total advances while for private sector banks the stressed advances stood at 4.4%.

CURRENT SCENARIO:







Month & Year	Amt. (Rs. lakh crore)	Gross NPA of PSB in %	Recovered Amount (Amt Rs. Crores)
March 2014	2.16	4.72	33698
March 2015	2.67	5.43	41236

RISE & RISE OF STRESSED LOANS

The RBI's projections show the gross NPA of banking sector could go up to 8.5 % by March 2017

(in %)	Net NPA	Gross NPA	Stressed assets*
March 2013	-	3.4	9.2
September 2013	2.3	4.2	10.2
March 2014	2.2	4.1	10
September 2014	2.5	4.5	10.7
March 2015	2.5	4.6	11.1
September 2015	2.8	5.1	11.3
March 2016	4.6	7.6	11.5

The stress in the banking sector, which mirrors in the corporate sector, has to be dealt with in order to revive credit growth

— **RAGHURAM RAJAN,** RBI Governor

Source: The Hindu

According to RBI norms, a wilful defaulter is a person/company who deliberately doesn't honour debt commitments to lenders. Once branded a wilful defaulter, a person or entity cannot access institutional credit. Such a person cannot hold office of director. The borrower has the capacity to repay but doesn't, Diverts funds for other purposes, Siphons off funds, Disposes or removes assets furnished as security.

ACTIONS TAKEN

United Bank of India (UBI) has declared Vijay Mallya and three directors of Kingfisher Airlines (KFA) as wilful defaulters. The bank had an exposure between Rs.350 crore and Rs.400 crore to KFA, which was sponsored by UBI. Three major PSU banks SBI, PNB and IDBI may soon initiate the process to declare Kingfisher Airlines and others as wilful defaulters after the firm failed to service their debt.

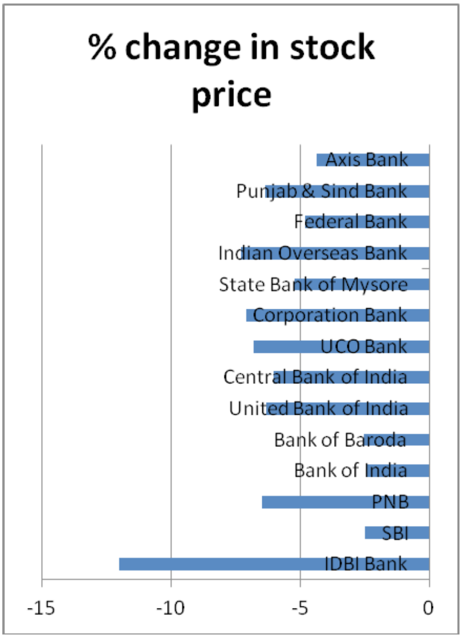
The consortium led by SBI has also initiated the process of recovery. Last February, the banks decided to sell a portion of the collateral with them, which encompasses shares of United Spirits Ltd, Mangalore Chemicals & Fertilizers Ltd, physical properties of the owner and the Kingfisher brand, which accounted to Rs. 4,000 crore.

THE IMPACT OF AVIATION INDUSTRY OVER THE NPAS WITH RESPECT TO KFA AND ITS IMPLICATIONS OF BANKS PERFORMANCE.

KFA owes over Rs 7,500 crore to a consortium on 17 banks led by State Bank of India and the bankers last year stated that they had lost confidence in the company being able to repay these loans. SBI, is the lead bank of a lender consortium to the crippled carrier.

Jammu & Kashmir Bank Ltd, Punjab & Sind Bank, Punjab National Bank, State Bank of Mysore, UCO Bank, and United Bank of India are seeking for possession and sale of properties.

The stock prices of Loan providers to Kingfisher Airlines in the past five sessions:



Source: Economic Times dated Aug 12, 2014

QUESTIONS FOR DISCUSSION

Dwell on the asset quality of Indian Banks.

Will Lending based on RAM (RETAIL, Agri and MSMEs) concept reduce the effect of NPA – Justify?

Explain the factors that affect the loan repayment by the core sectors?

Opine your views on lending to Corporate giants? Line up your views based on Aviation industry.

Highlight your comments on suggestions / corrective measures and strategies followed by RBI and the Indian Banks.

TEACHING NOTE

1. LEARNING OBJECTIVES

- To enrich the students knowledge in the banking scenario.
- To make students understand the role of maintaining asset quality of banks.
- To understand the business scenarios reflecting/ affecting the banks' performance

2. SUGGESTED TEACHING APPROACH / CONCEPT

- Case discussion for teaching
- Quality of bank assets
- Scenario analysis of banking sector
- Scenario analysis of aviation sector
- Reflect changing strategies of banking sector

3. BRIEF ANSWERS FOR THE QUESTIONS GIVEN.

- Dwell on the asset quality of Indian Banks.
- The NPA of Indian banks is very worrying. Public sector banks account for 90% of the banking system's stressed assets. Their earnings are eaten away by holding poor quality assets.

Will Lending based on RAM (Retail, Agri And Msmes) concept reduce the effect of NPA – Justify?
Huge possibility would exist, as these sectors generally make prompt payment in order to get next loans. The NPA proportion arising out of this segment is very meagre.

Explain the factors that affect the loan repayment by the core sectors?
The industry was majorly affected by the business trends, for eg: Steel industry hugely affected by the cheap imports from China, South Korea. Corrective Measures taken up the government can only revive the situation. As business gets affected, it handicaps the industry in making the delayed or non payment of loan dues. Similarly the others sector and their business trends to be looked after for discussion.

Opine your views on lending to Corporate giants? Line up your views based on Aviation industry.
The corporate giants have got huge loans, but could not repay them due to operational mismanagement.

Highlight your comments on suggestions / corrective measures and strategies followed by RBI and the Indian Banks.
The commercial banks are deeply affected by the NPA issues. It was identified that corporate loans had led to such problems. The commercial bank has released the wilful defaulter list. RBI insists on restructuring the loans. Asset recovery under the SARFAESI Act and bankruptcy code are other means through which banks can overcome these asset quality problems.

4. POTENTIAL AREA OF USE OF THE CASE (STRATEGY, MARKETING, OPERATION)

- Commercial banking
- Strategic management
- Macro Economics

5. KEY POINTS OF THE CASE STUDY

- Different types of Bank assets.
- Role of Banks in maintaining quality assets.
- Autonomy of RBI.
- Business trends – Aviation industry, Steel industry.
- Success and failure Strategies of banks.

FLY NOT KINGFISHER
A CASE ON INDIAN AVIATION INDUSTRY

Dr.S.SANGEETHA

LEARNING OBJECTIVES

- To learn how to perform environmental scanning
- To learn the competitor analysis using the Michael Porters Five Forces Model
- To understand why business fail

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INTRODUCTION

Launch of low cost carrier:

Flying in an airline was a dream to many as the cost of air travel was not an affordable thing. The industry could not make prospects happy as the cost involved could not be dropped so easily. Surprisingly, to fulfill the dreams and wishes of common man, during the year 2003, Captain G.R. Gopinath launched Air Deccan, a wholly owned subsidiary; which commenced its operations as low cost carrier. Simply- Fly was the Tagline which meant a lot to the low cost target segment. He started these operations between Bangalore and Hubli for the first time. Its operations and growth, invited many low cost carriers. During the year 2006, Deccan planned to offer 25% shares to public but found it difficult to manage the issue. For a span of 15 months (April 2005-June 2006), it reported a net loss of Rs.3.4 million but had a great comeback during the quarter October – December 2006 with Rs. 96 million profits.

Changing Scenarios:

The intense competition and slowdown in growth resulted in huge losses which was a common scenario experienced by the industry then. Captain Gopinath was compelled to go for consolidation. In 2007, Vijay Malaya, the much renowned business icon who runs UB groups merged with Air Deccan during the year 2007. During 2005, Kingfisher was the first Indian Carrier to invest $3 billion on purchase of aircrafts like Airbus A380 crafts , five A350-800s and five A330-200s . Kingfisher airlines were flying International air flights. Though the rule of 5/20 exists, Kingfisher took the chance of merging Air Deccan to make a domestic market entry. He offered Rs. 550 crores (Price per share – Rs. 155) for 26% shareholding in Deccan. Air Deccan became part of Kingfisher Airlines (KFA) and was named Kingfisher Red. The rebranding cost was about Rs. 150 million (includes, change of aircrafts, Change in uniform of staff etc). In domestic air travel market, it was market follower, as it was holding the second largest market share in that segment. The merger would help to save Rs. 300 crores and strengthen the fleet crew with additional 71 aircrafts.

Challenges for KFA:

But from 2005, its commencement year, Kingfisher has not reported profits. This bulged further on acquisition of Air Deccan. The accumulated losses which were about Rs. 8015.8 crores mounted to Rs. 16023.46 crores resulting in negative net worth.

Kingfisher borrowed loan for its working capital through a loan consortium from 17 lenders with SBI as the lead bank for the loan consolidation. But later Kingfisher turned out to be a willful defaulter owing to pay Rs. 9600 crores approximately. As a result of credit and cash problems mounting to $ 2 billion debt, KFA shut its operations in 2012. It left more than 1000 employees to lose jobs and with unpaid salary arrears of Rs.300 crores (Source: Economic times, March 10, 2016). During 2009, Kingfisher reported second quarter results, in which it declared a net loss of Rs.418.77 crores. It laid off many pilots due to huge losses, capacity reduction and high fuel surcharges. A debt recast package was approved by Kingfisher airline to offset the debt issues which accumulated to Rs. 6000 crores. The Auditor's report of the year 2010-11 highlighted that debt was more than 50% of the net worth. The debt was around Rs.6500 crore in November 2011. Mallya decided to close down the low cost carrier business.

Different parties were claiming the due payments from Kingfisher Airlines. Mumbai International Airport Pvt.Ltd claimed a payment of Rs.90 crore; Service tax Department claimed an amount of Rs.70 crores. Apart from this, the Service tax department froze 11 accounts. Adding fuel to it, failure to make payment of dues made the International Air Transport Association to instruct travel agents to stop booking Kingfisher airline's tickets. As a result, KFA restrained its international operations. During March 2012, with Rs.7000 crores, the airline scaled down the flight operations from 400 to 120. It suspended operations from Kolkata, Hyderabad, Patna, Lucknow, Thiruvananthapuram and Bhubaneshwar.

During August 2013, Auditor opposed KFA revival plans. KFA planned to sell off its stake to foreign investors. Surprisingly Mallya was ranked 84th in the Forbes India's Rich list, during 2014, KFA employees protested intensively to recover their unpaid salaries. KFA reported its third quarter with net loss of Rs.822.42 crores. On July 17, 2014, KFA was declared as Willful defaulter.

During the year 2016, Vijaya Mallya told that he is not liable to pay the dues to bank consortium as they breached the terms and conditions. He expressed that KFA suffered financial troubles due to the breach of terms and conditions and business scenario.

CONCLUSION

KFA missed an opportunity of tapping a huge growing untapped segment which constitutes 40 percent of mobile middle class segment. To overcome Indian aviation industry problems, collaboration of policy makers, efficient implementation of rational decisions become mandate of the hour.

QUESTIONS FOR DISCUSSION

1. Perform the current Environmental scanning for the Indian Aviation industry and execute a competitor analysis.
2. Do ETOP for Indian Aviation industry
3. What made KFA to fail?

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Teaching Note

1. Learning objectives:

- To learn how to perform environmental scanning
- To learn the competitor analysis using the Michael Porters Five Forces Model
- To understand why business fail

2. Suggested teaching approach / Concept:

- Case discussion based teaching
- Environmental Analysis
- Five Forces Model

3. Brief answers for the questions given.
Environmental scanning for the Aviation industry.

Infrastructure	Scenario	Future
Number of Airports – 464 Managed by AAI -125; (Domestic Airports – 66) Others -339	It is the ninth largest civil aviation market in the world.	To be the third by 2020 and the top most by 2030
	Growth rate had been 20-25 percent	Expected future investments - $6billion
	168.89 million Domestic traffic passengers	
	Domestic passenger traffic constitutes 75.53%	
	Travel & tourism $280.510 bn; Business and leisure boosters of growth.	

Competitors	Market share %	Passenger load traffic %
Spicejet	12.8	93.5
Go Air	8.3	88.6
Jet Lite	3	80.9
Air India	15.3	84.7
Jet Airways	16	82.6
Indigo	38.6	87.2

Competitor Analysis

<table>
<tr>
<td>Threats of New entrants
Regulations
Capital intensive
5/20
Fuel expensive roaring up
High Sales tax on Air turbine fuel (28-30%)</td>
<td rowspan="2">Threat of Rivalry
Intense competition prevails
All of them compete and target on tapping the middle income groups
The target groups are highly price conscious and not very brand loyal</td>
<td>Threats of substitutes
No big threat , as this enables quickest travel time</td>
</tr>
<tr>
<td>Bargaining power of Suppliers

High – few aircraft suppliers, dependency on them is more
Limited HR</td>
<td>Bargaining power of Buyers
Remains low as demand for low cost air travel is already high
Switching costs not a major factor as pricing remains in similar range</td>
</tr>
</table>

Environmental threats and opportunities of Indian Aviation industry:

Opportunities	Threats
Rising working group Likely rise in Airports Rise in Freight traffic Increase in investments $12.1 bn in Airport Growing private sector participation 17.62% growth in passenger traffic. More Metro to metro routes -30 (Chennai-Kolkata route growth rate -6%) More metro to non metro routes- 196	Policy – 5/20 Procedural bottlenecks Poor infrastructure Costly finance Lack of skilled resources Concentration of Air cargo in metro airport dampens the traffic

Yesteryears Reasons for failure of KFA	Today Scenario for Aviation Industry
Saving economy	Increase in disposable income
Meant for rich class. Classy example for customer targeting. Failed to classify the nature of customers between his liquor and aviation business.	Increased Propensity to travel for business, tourism and travel
Fuel cost comparatively very high. It stood at Rs. 2274 crores (April 2010-March 2011). It accounted to 28% of the total costs.	Open sky agreements by most countries enabling people to travel with reduced paper works
Launched premium business class airline	Cost has become much stable due to intense competition
Lack of understanding about the customer profile	Increased FDI; Government support policy in developing PPP
Did acquisition of Air Deccan and simultaneously got into low market segment. Lost Brand image of premium airline	Arrival of low cost carriers initiated by Air Deccan, continued by Spicejet, Indigo and Go Air
Failure to investment in planes. It cancelled the planes ordered earlier as well returned the aircrafts to the lessors which led to capacity contraction	

Failure in cash management from the year 2008 led to huge losses.	
As of March 2012, it had total debt of Rs.7057 crores and accumulated losses of Rs.6000 crores	
Increase in seat capacity could not be done as it has projected as premium brand	
Economic slowdown 2008	
Accumulated operational cost	
Taxes	

4. Potential area of use of the case (Strategy, Marketing, Operation)

- Marketing
- Strategic Management
- Business Environment

5. Key points of the case study

- Competitor analysis.
- Buyers & supplier bargaining power
- ETOP Analysis– Aviation industry past & future

SUNSHINE DISTRIBUTOR
EVALUATING CHANNEL PROFITABILITY

Prof. S. SWAMINATHAN

LEARNING OBJECTIVES:

- Understand real-time challenges in pushing Channel sales
- Analyze financial performance of the Channel
- Correlate Sales performance with financial data
- Create avenues to improve channel productivity

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Sunshine Distributor located in Dwaraka in Delhi is one of the largest distributors of Lighting LTD. Lighting Ltd holds more than 40% market share nationally and is a leading lamps and luminaries manufacturer. In Delhi, their market share is even higher at 46% than the national average and nearest competitor Roshini Ltd holds a market share of 23% followed by others. However Roshini is giving a tough fight in the market to gain market share and primarily aiming to grab the market share from Lighting Ltd. Also, both the companies along with other operators in the organized sector face a tough competition from small scale and unorganized sectors with their low priced product offerings. The price differential is sometimes as high as 40-50%.

Sunshine Distributor one among the six distributors in the city of Delhi and now covers the whole of south-west Delhi and distributes lamps to around 1800 retail outlets, both electrical and general stores. Though there are estimated 3000 retail outlets mapped in that area, Sunshine penetration is to the extent of around 70% only. The Area Sales Manager – Rohan Sahai is unhappy about Sunshine performance and has made it clear to the Sales Officer – Deepak Mallick that unless the retail coverage increases substantially to 95%, the Company will appoint another Distributor and hand over the balance estimated retail outlets to increase the market share and sales.

Sunshine owner Ramdev Gupta continues to argue that the company is not allowing enough profit margins on sales and most of his margin is eaten away by high distribution cost. He says "Unless the Company increases the distributor margin by at least 5% from the existing level and improves the distribution subsidy from the present level of 20% to 50% of distribution cost, it may not be possible to increase the sales".

Rohan is not convinced with Sunshine argument and ask the Sales Officer to discuss the matter with Sunshine with data, to prove that Sunshine earns enough margins on sales and should not only increase the retail coverage but also aim for higher sales growth by extending higher credit period to retailers as well as creating stock-sales pressure at their end.

Deepak has the following data:

Sales :

Sunshine gets invoice by the Company based on list price with applicable distributor discount on each product. Sunshine bills the products on list price and retailer sells on MRP. The difference between the list price and MRP is the retailer's margin. Sunshine also gets a turnover discount of 0.5% on monthly turnover through a credit note. Retailers are asked to return any defective or damaged lamps and take fresh replacement during sales visit by the salesman of the Sunshine. Sales officer inspects the defective lamps and gets it destroyed in his presence during his visit to the Sunshine and a credit note is issued. It takes about 30 days for the whole process of Defective lamp inspection credit note to get adjusted in the next invoice. Sunshine reports an average of 1% of turnover as defective and damaged lamps. Company's monthly turnover details for Sunshine are as follows:

Product	Price	Unit/ case	Case	Qty	Invoice	% Margin
Clear Lamp 25W-100W	10	100	500	50000	500000	15
Frosted	11	100	100	10000	110000	15
Special	15	100	200	20000	300000	20
Night	8	100	25	2500	20000	10
CFL	90	100	25	2500	225000	15
TL	40	25	500	12500	500000	15

In addition to the above, Company runs a special scheme for promoting Clear Lamps and Special Lamps through the year – One case free for every purchase of 100 cases. The Sunshine does not pass on this credit to the Retailers but sells them at List price and makes full profit at zero cost

TRADE POLICY OF THE SUNSHINE

Sunshine does not get any credit for supplies from the Company and pays by cheque on delivery. However, Sunshine extends credit based on business volume done with different categories of retailers. For this purpose, Sunshine has grouped the retailers and their credit period as follows:

Category	% of Turnover	Credit Period (days)
Small	40	0
Medium	30	7
Large	20	15
Mega	10	30
CFL	90	100
TL	40	25

On an average, 0.25% of turnover turns bad debts and is written off against profit.

Sunshine stocking policy is as follows:

Category	Product	Stock Period (days)
Fast Moving	Clear, Frosted, Special, TL	7
Slow Moving	Night and CFL	25

OPERATIONS:

Space: Sunshine operates out of their city office located in Dwaraka Sector 9 and a godown two kilometers away. Office space is about 1500 sq ft rented @ Rs 15 per sq ft and Godown space is about 7000 sq ft rented @ Rs. 3 per sq ft. Sunshine also incurs a maintenance charges of Rs. 2000 p.m. exclusively for maintaining the godown and Rs.1000 p.m for office maintenance. Godown is insured against fire, theft etc and Sunshine pays a premium of Rs.3000 half-yearly.

Staff: Following staffs are employed by Sunshine and their monthly salary are given below

Designation	Number	Salary – Rs/ P.M
Godown Security Persons	2	3000
Godown Supervisor	1	14000
Office Boy	1	2000
Office Manager	1	15000
Accountant	1	10000
Storekeeper	1	6000
Van Drivers	2	8000
Van Salesman	2	10000

In addition to the above, the Godown receives supplies from the company Delhi Warehouse and the supervisor continuously employs causal loaders everyday to take care of unloading operations at the Godown. These loaders are further used to load the van for distribution operations. Causal loaders are paid @ Rs. 5 per case of loading or unloading activity.

Van Operations: Sunshine distributes to retail outlets through their own vans. Salesmen visit the outlets for 25 days in a month and cover on an average 100km per day-per van. Fuel cost is Rs.50 per litre and uses 5 ltr per van per day. The depreciated values of both the vans are Rs. 300000 and an amount of Rs 60000 is charged as depreciation every year. Vehicle is financed by a bank loan and interest @ 12 p.a. is payable every year. The outstanding amount of the loan is Rs.3,00,000. In addition, the vans are insured and a premium of Rs 3000 per van is paid to National Insurance every year. General Maintenance and Repair charges of Rs.2000 for both vans are incurred by the distributor. The company has a scheme of providing subsidy to the distributors upto 20% of actual expenses incurred on all costs related to van operations including drivers salary. This credit note is issued at the end of the year.

Other Expenses: Sunshine incurs the following additional expenses

Office Electricity	-	Rs.2000 p.m
Godown Electricity	-	Rs.2000 p.m
Office Telephone	-	Rs.2000 p.m
Godown Telephone	-	Rs.1000 p.m
Off.Stationery	-	Rs.1000 p.m
Godown Stationery	-	Rs.1000 p.m

In addition to the above, Sunshine incurs customer entertainment expenses of Rs.5000 per month.

Operational Cash: At any point in time, an operational cash equivalent to 7 days of operational expenses is maintained by the Distributor.

Rohan Sahai, Area Sales Manager is totally convinced that Sunshine is not performing and loosing outlet sales which in turn affects the overall performance of Delhi State. There is already pressure from the Regional Manager to scout for another distributor to push sales from South West territory. Rohan calls Deepak and gives clear instructions " Give Sunshine a deadline and if we don't see increased sales beginning this month, we will limit his territory and hand it over to another distributor – Start looking for one"

Questions for discussion:

Are you convinced that the Regional Manager should look out for a new distributor?

If you are the Distributor, what will be your strategy?

TEACHING NOTE

1. LEARNING OBJECTIVES

- Understand real-time challenges in pushing Channel sales
- Analyze financial performance of the Channel
- Correlate Sales performance with financial data
- Create avenues to improve channel productivity

2. SUGGESTED TEACHING APPROACH / CONCEPT

- Concept : Margin and Return on Investment
- Group Discussion and Presentation
- Excel based working – Costing, Margin and Return
- Discuss various improvement options available

3. BRIEF ANSWERS FOR THE QUESTIONS GIVEN.

- From Company's perspective : Will go for dividing the territory and appointing a new distributor as company cannot lose sale of almost Rs.10000 per annum per outlet even after allowing a net margin of 6% on sales and return over 100% on capital invested.
- From Distributor's perspective: Need to look into capital invested and returns from the business. Retailer's penetration and a business oriented trade policy with liberal schemes benefits being passed to retailers are some of the strategies that should be looked into. Should not allow the company to appoint another distributor which will definitely affect his volume and absolute profit coming down.

4. POTENTIAL AREA OF USE OF THE CASE (STRATEGY, MARKETING, OPERATION).

- Caselet can be used extensively in Sales and Marketing Management Classes

5. KEY POINTS OF THE CASE STUDY

- General tendency of distributors putting pressure on Company to share more margins without looking into their investment and return.

- Management of market promotion schemes – benefit flowing to retailers and consumers
- Importance of market/retail penetration to command higher volume and profit
- Effective Territory Management
- Cost Control and margin improvement
- Designing a proper trade policy for improving sales
- Managing slow moving and non moving stocks
- Cash collection and Receivables management

AGGREGATE PLANNING FOR CEMENT MANUFACTURING COMPANY

Dr. V. KANNAN

LEARNING OBJECTIVES:

- To develop a demand estimate for a product
- To suggest suitable aggregate planning strategies to satisfy MPS

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THE CEMENT INDUSTRY

India is the second largest producer of cement in the world. No wonder, India's cement industry is a vital part of its economy, providing employment to more than a million people, directly or indirectly. Ever since it was deregulated in 1982, the Indian cement industry has attracted huge investments, both from Indian as well as foreign investors.

India has a lot of potential for development in the infrastructure and construction sector and the cement sector is expected to largely benefit from it. Some of the recent major government initiatives such as development of 98 smart cities are expected to provide a major boost to the sector.

Expecting such developments in the country and aided by suitable government foreign policies, several foreign players such as Lafarge-Holcim, Heidelberg Cement, and Vicat have invested in the country in the recent past. A significant factor which aids the growth of this sector is the ease of availability of raw materials for making cement, such as limestone and coal.

MARKET SIZE

Cement demand in India is expected to increase due to government's push for large infrastructure projects, leading to 45 million tonnes (MT) of cement requirement in the next three to four years.

India's cement demand is expected to reach 550-600 Million Tonnes Per Annum (MTPA) by 2025. The housing sector is the biggest demand driver of cement, accounting for about 67 per cent of the total consumption in India. The other major consumers of cement include infrastructure at 13 per cent, commercial construction at 11 per cent and industrial construction at 9 per cent.

To meet the rise in demand, cement companies are expected to add 56 MT capacities over the next three years. The cement capacity in India may register a growth of eight per cent by next year end to 395 MT from the current level of 366 MT. It may increase further to 421 MT by the end of 2017. The country's per capita consumption stands at around 190 kg.

The Indian cement industry is dominated by a few companies. The top 20 cement companies account for almost 70 per cent of the total cement production of the country. A total of 188 large cement plants together account for 97 per cent of the total installed capacity in the country, with 365 small plants accounting for the rest. Of these large cement plants, 77 are located in the states of Andhra Pradesh, Rajasthan and Tamil Nadu.

THE PROBLEM

The company often faces the problem of uncertainty in demand due to which inventory of finished goods and raw materials pile up resulting in a loss to the concern. So suitable aggregate planning strategies have to be developed to meet the master production schedule so that a trade off between response and efficiency in inventory level is achieved.

DATA AVAILABLE

PRODUCTION CAPACITY

Total production capacity of Cement during one hour = 75 Tonnes

– 3 shifts of 8 hours per day – 25 working days per month (45,000 tons per month).

Table 1: Sales of Cement

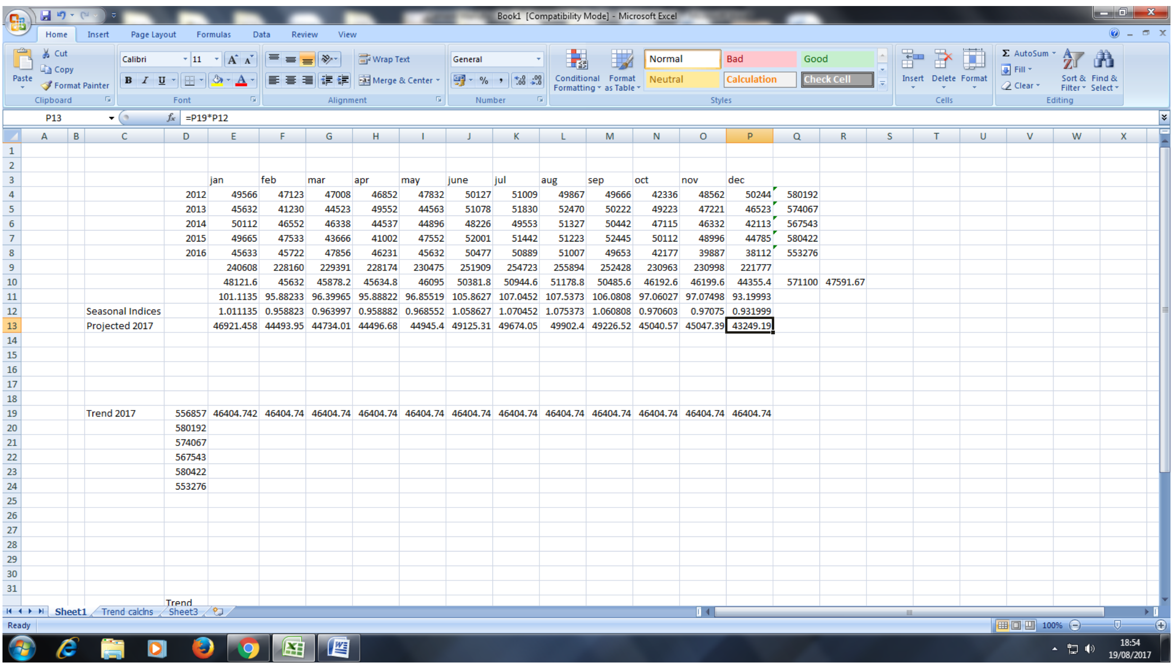
Year	January	February	March	April	May	June	July	August	September	October	November	December
In Tonnes												
2012	49566	47123	47008	46852	47832	50127	51009	49867	49666	42336	48562	50244
2013	45632	41230	44523	49552	44563	51078	51830	52470	50222	49223	47221	46523
2014	50112	46552	46338	44537	44896	48226	49553	51327	50442	47115	46332	42113
2015	49665	47533	43666	41002	47552	52001	51442	51223	52445	50112	48996	44785
2016	45633	45722	47856	46231	45632	50477	50889	51007	49653	42177	39887	38112

QUESTIONS FOR DISCUSSION

1. Develop a regression model and project the sales of cement till December 2017 taking into account seasonal variations.
2. Based on the above data, suggest suitable aggregate planning strategies required to satisfy master production schedule.

TEACHING NOTE

Demand is forecasted based on the least squares technique and the seasonal index method and suitable aggregate planning measures are suggested as follows:



		jan	feb	mar	apr	may	june	jul	aug	sep	oct	nov	dec		
	2012	49566	47123	47008	46852	47832	50127	51009	49867	49666	42336	48562	50244	580192	
	2013	45632	41230	44523	49552	44563	51078	51830	52470	50222	49223	47221	46523	574067	
	2014	50112	46552	46338	44537	44896	48226	49553	51327	50442	47115	46332	42113	567543	
	2015	49665	47533	43666	41002	47552	52001	51442	51223	52445	50112	48996	44785	580422	
	2016	45633	45722	47856	46231	45632	50477	50889	51007	49653	42177	39887	38112	553276	
		240608	228160	229391	228174	230475	251909	254723	255894	252428	230963	230998	221777		
		48121.6	45632	45878.2	45634.8	46095	50381.8	50944.6	51178.8	50485.6	46192.6	46199.6	44355.4	571100	47591.67
		101.1135	95.88233	96.39965	95.88822	96.85519	105.8627	107.0452	107.5373	106.0808	97.06027	97.07498	93.19993		
Seasonal Indices		1.011135	0.958823	0.963997	0.958882	0.968552	1.058627	1.070452	1.075373	1.060808	0.970603	0.97075	0.931999		
Projected 2017		46921.458	44493.95	44734.01	44496.68	44945.4	49125.31	49674.05	49902.4	49226.52	45040.57	45047.39	43249.19		
Trend 2017	556857	46404.742	46404.74	46404.74	46404.74	46404.74	46404.74	46404.74	46404.74	46404.74	46404.74	46404.74	46404.74		
	580192														
	574067														
	567543														
	580422														
	553276														

RESULT

Suitable Aggregate Planning Strategies are suggested for the company to match supply and demand and to reduce inventory levels. Few examples are given below:

1. January, 2017 – Overtime
2. February 2017 – Inventory
3. March, 2017 – Inventory
4. April, 2017 – Inventory
5. May, 2017 – Inventory
6. June, 2017 – Overtime / Subcontract

By using the above suggested aggregate planning strategies to meet the MPS, a trade off between response and efficiency in inventory level will be achieved. This would also reduce the inventory of finished goods to a great extent leading to a better profitability for the organisation.

AIRLINES YIELD MANAGEMENT

Dr.V.R.NEDUNCHEZHIAN
A.THIRUNAVUKKARASU

LEARNING OBJECTIVES

- **T**o understand the pricing system of airline industry
- To compare traditional system with modern method of pricing.

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Yield management is a variable pricing strategy, based on understanding, anticipating and influencing consumer behavior in order to maximize revenue or profits from a fixed, time-limited resource (such as airline seats or hotel room reservations or advertising inventory).

PROBLEMS IN YIELD MANAGEMENT:

- Pricing competition is intense and a change in price by any player affects the prices of all airlines.
- The airlines are finding ways to serve effectively in order to earn a competitive return but they have generally been unsuccessful.
- Further, many low cost carriers are constantly entering the industry and adopting innovative ways to reduce their basic ticket fare disconnected with baggage fee and seat preferences.

The surge in passenger growth would continue unabated in 2016-17, something which has been the most defining trend in the Indian aviation space in the last one and half years ever since the oil prices began to nosedive. In 2014, the price of Benchmark crude had fallen by over 45 percent and registered a further drop of around 35 percent in 2015. In concrete India specific terms, there has been a staggering reduction of 50 percent in ATF prices from August 2014 to now.

Why Airline Ticket price changes

- Date and time of travel
- One way or return
- Load Factor
- Choice of airport
- Season and peak period
- Competition on the route from other airlines.
- Tax and other government regulations

Traditional method of pricing

Initially, the tickets were bucketed into different attributes such as cancellation option, time and date option, and amenities like food and snacks

Bucketing system

Different functions and the past record of air traffic and passenger behavior, airlines develop a price movement plan across the timeline. These price movement plans are called buckets. The price of a ticket is based on probability data

Full service Carriers

Full service Carriers would usually have three classes of service—Economy, business and first class. The ticket price includes charges for baggage, meals, drinks etc, whether we avail them or not. This is not the case for a low cost carrier (LCC) or a budget carrier.

VISTARA, JET AIRWAYS, AIR INDIA

Low-cost carrier

A low-cost carrier or low-cost airline is an airline that generally has lower fares and fewer comforts. To make up for revenue lost in decreased ticket prices, the airline may charge for extras like food, priority boarding, seat allocating, and baggage etc. They instead give passengers the choice to avail these amenities on 'need to do so basis' against charges.

INDIGO, SPICEJET AND GOAIR

"We expect the total passenger volume to further grow in 20 percent plus trajectory in the next fiscal and could well reach to 100 million by 2016-17 end. In the international segment, we expect passenger growth to the tune of 10 percent. It could even go higher 12-14 percent, subject to clearance of new bilateral rights and abolition of 5/20 rules," said Kapil Kaul, Chief Executive (South Asia), CAPA. India's domestic carriers ferried 81.09 million passengers in calendar year 2015 – a growth of around 21 percent over the previous year number.

CAPA's latest report on the financial performance front indicates that the losses of the airlines in India in 2015-16 are going to be significantly lower than what was earlier anticipated. "We expect the losses of Indian carriers to come down to $250-300 million in 2015-16 as against $1.3 billion at the end of 2014-15. This marks a significant drop of 75 percent in the cumulative losses of the Indian carriers," Kapil Kaul underlined.

AIRLINES LOSSES IN THE YEAR 2014-15

Table 1 :

Airline Model	Revenue	Net Profit/Loss
LCCs	USD3.9 billion	USD41-67 million
FSCs	USD7.2 billion	(USD1.28-1.31 billion)
Total	USD11.1 billion	(USD1.21-1.27 billion)

Table 2 :

Airline	Net Profit/Loss
IndiGo	USD150-175 million
GoAir	USD14-15 million
SpiceJet	(USD107 million)
Jet Airways Group	(USD343 million)
Air India	(USD900-920 million)
New start-ups: AirAsia India, Air Costa & Vistara	(USD50-60 million)

REASONS FOR FAILURE IN BUCKETING SYSTEM:

- Fuel prices
- Failure to maintain pricing discipline
- The challenging cash position of several airlines is driving some of them to compromise on yields despite the improving demand-supply conditions in the market
- Product is perishable
- Supply capacity is limited
- Varying demand
- Market segmentation
- Advance sale of product
- Low marginal cost.
- As a result of the price war, Airlines offer discount to the fares to attract the potential customers, who have been regularly using train service for their long distant travel

The current consensus is that oil is not likely to cross above USD70/barrel but as history has shown changes in fuel prices can be unexpected, sudden and significant

However, Fuel prices remain a perennial risk. The current consensus is that oil is not likely to cross above USD70/barrel but as history has shown changes in fuel prices can be unexpected, sudden and significant. Further depreciation of the Rupee also remains a possibility, especially if the US Federal Reserve was to increase interest rates in the latter part of 2015.

The greatest risk to recovery and profitability in Airlines Industry – other than an increase in fuel prices – is a failure to maintain pricing discipline. The challenging cash position of several airlines is driving some of them to compromise on yields despite the improving demand-supply conditions in the market. During the peak first quarter of FY2016 carriers have been seen to pursue volume ahead of yields which is ultimately negative for the industry overall.

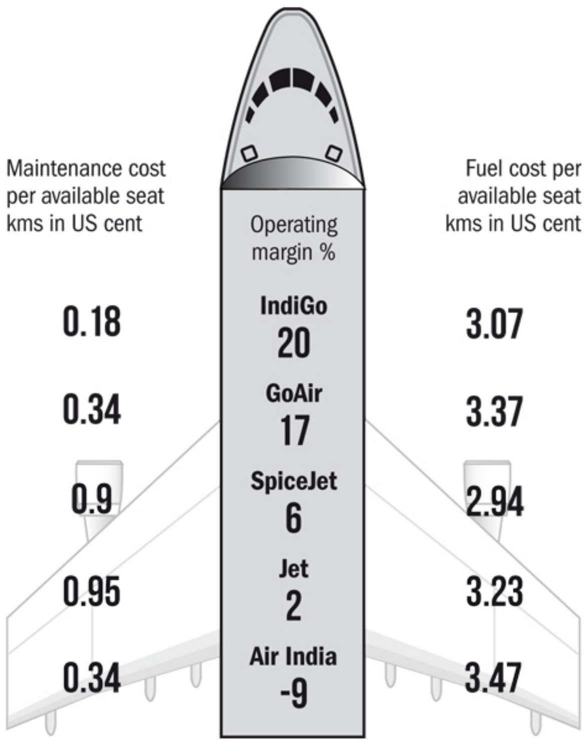
Indian Airline Industry is facing the turbulence as they are not able to recover the cost. Airlines have been using modern and complex tools to maximize the revenue per flight as the product is perishable, supply capacity is limited, varying demand, market segmentation, advance sale of product and low marginal cost. As a result of the price war, Airlines offer discount to the fares to attract potential customers, who have been regularly using train service for their long distant travel.

American Airlines is the first to implement, revenue management model as the competition from low fare and no frill Airlines forced them to adopt innovating price strategy. Business travelers value time and therefore their demands are more elastic. Leisure travelers, want a comfortable schedule in terms of departure time at the cost of lower than the average fare and wait for the promotional fare during the non-peak period. Therefore, Airlines follow the pricing plan by dividing the total seats into number of buckets. The first bucket of seats is assigned fare much lower than the average fare to attract the passengers, who are willing to fly only at the promotional fares and last bucket is priced significantly higher than the average price to attract the passengers, who cannot plan in advance and willing to pay for the travel at the short notice period.

Airlines are forced to price the product in a highly competitive market, where they are not able to even recover the directly operating cost and some times, total operation cost. The Airline industry faces the maximum challenge from the global environment, in which, price stability affects more and as well as the currency fluctuation. Aircraft turbine fuel, the basic fuel for the operation of Aircraft, is so volatile that Airlines Managers are worried to find an alternative for the high fluctuating cost.

Unlike its peers, IndiGo stuck to ordering a single type of aircraft. The mother of all low-cost carriers — Southwest Airlines of the US — pioneered this practice by buying only Boeing 737 in large numbers at a discount. IndiGo has followed the same strategy. It placed a 100-aircraft order, all of them Airbus 320. Consequently, it saves millions in maintenance costs, spare parts inventories and pilot, crew and mechanical training. This gives the airline the unique flexibility of being able to deploy its existing fleet of 96 aircraft throughout the route network, replace them in no time and deploy pilots and crew anywhere without costly disruptions and reconfigurations. But this practice is no secret — others could have emulated it, too. Airbus head Dwarkanath reasons that the "promoters of IndiGo started the airline with a vision, saying they are in it for the long haul".

COST STRUCTURE OF THE INDIAN AIRLINES INDUSTRY.



Note: Source: InterGlobe Aviation DRHP published in Business Outlook

The Airlines Managers are worried that there is no strategy working in the Airlines Industry in recovering the cost but at the same time forcing them to offer freebies and throw away price in filling the seats as Airlines closest substitute Indian Railways offers the long distant transportation for the passengers much cheaper than any mode of transportation. Therefore, the passengers switch to the alternate mode of travel, whenever an Airlines increase the price to offset the high input cost of the operations.

Indian banks, which have USD 6 - 6.6 billion in working capital debt with airlines are worried about their exposure to the sector and are reluctant to restructure loans (some of which have already been classified as non-performing assets) to carriers, including Air India. The deteriorating operating performance and the uncertain regulatory environment mean that there is limited interest from private equity funds. And placement of American and Global Depository Receipts is extremely challenging given the weakness in international capital markets. Most carriers have limited non-aircraft assets that can be monetized.

OPERATING REVENUE AND OPERATING EXPENSES PER REVENUE PASSENGER KILOMETRE PERFORMED OF ALL SCHEDULED AIRLINES FROM 2002-03 TO 2013-14.			
S.No.	**Year**	**Operating Revenue per Revenue Passenger Kilometer performed. (In Rs.)**	**Operating expenses per Revenue passenger Kilometer performed (In Rs.)**
1	2002-03	4.78	4.93
2	2003-04	3.95	3.84
3	2004-05	4.86	4.67
4	2005-06	4.95	5.06
5	2006-07	4.68	5.42
6	2007-08	4.43	5.23
7	2008-09	4.93	6.01
8	2009-10	4.24	4.66
9	2010-11	3.81	4.08
10	2011-12	3.91	4.56
11	2012-13	4.68	5.03
12	2013-14	5.35	5.99
13	2014-15	5.32	5.60
14	2015-16	5.50	5.75
15	2016-17	5.75	5.90

Source: DGCA

The table shows the fare charged on the competitive Delhi/Mumbai Sector, for the passengers, who books tickets 3 months in advance to spot booking for the Airline Service.

	Mean	Minimum	Maximum	Range	Mode	Std. deviation
Air						
3 months	3222	2800	4268	1468	3339	375
1 month	3486	2319	4444	2125	3447	346
1 week	4408	3099	7815	4716	4155	1147
3 days	4714	3080	8417	5337	4548	1323
24 hrs.	5806	3181	13617	10437	3973	2379
Rail						
IInd AC		2410	4135			
1st AC		2865	4790			

NEED FOR CHANGE IN BUCKETING SYSTEM – AIRLINE INDUSTRY

There is an urgent need to streamline the bucket system, and revisit wide price bands and variations, a practice unique to India. There may be a need to link minimum prices and variation with cost of capital, before topping with dynamic pricing. There is also a need to usher transparency in the pricing model

QUESTIONS FOR DISCUSSION

1. Highlight the importance of bucketing system in Airlines.
2. If you are the Manager of the Airline, which pricing strategy will be used to increase the revenue and make the Airline profitable?

TEACHING NOTE

Learning objectives

1. To understand the pricing system of Airline industry
2. To compare traditional system with modern method of pricing.

Suggested teaching approach / Concept

1. Bucketing system
2. Reasons for failure in bucketing system

Questions with analysis

1. Highlight the importance of bucketing system in Airlines.
2. If you are the Manager of the Airline, which pricing strategy will be used to increase the revenue and make the Airline profitable?

Potential area of use of the case (Strategy, Marketing, Operation)

1. Finance
2. Marketing

Key points of the case study

1. Why loss incurred in bucketing system?
2. Compared railway fare sometimes ticketing in air in cheaper. How to solve it?

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