

Business Data Management

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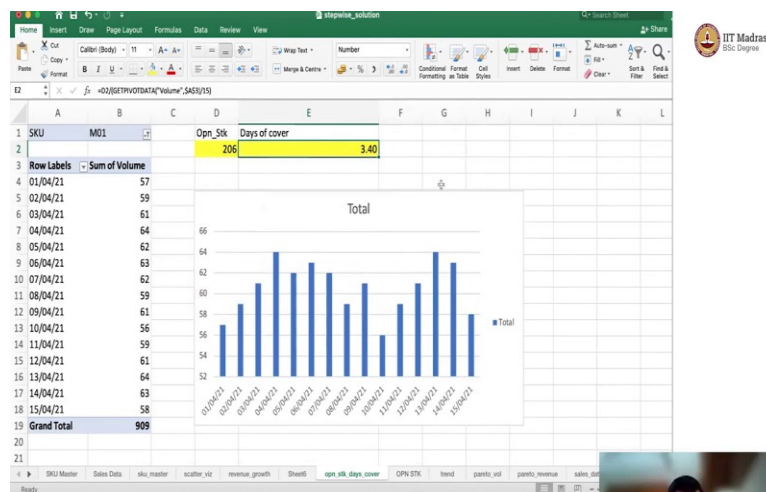
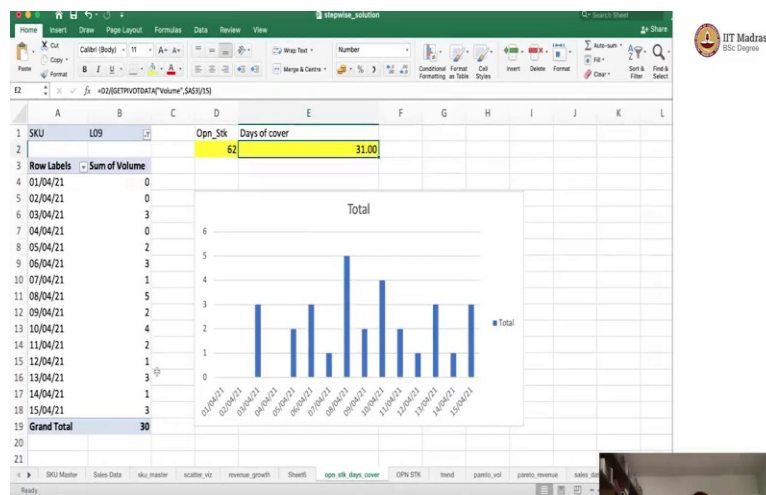
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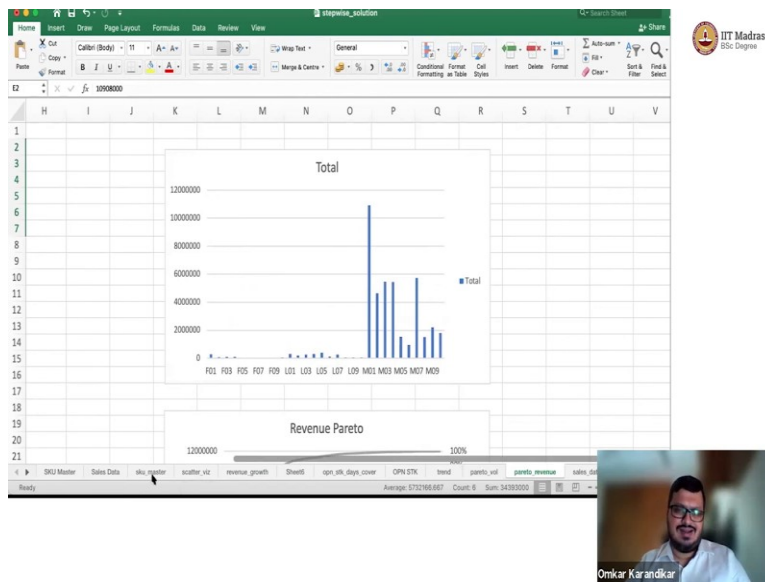
Days of sales of inventory presentation

Prof. Omkar Vinayak Karandikar: So, we said we want to look at DOH. So, let us see if we have something around that.

Prof. Milind Gandhe: So, we did do a little bit of work Omkar. I just wanted to show it to you.

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Prof. Milind Gandhe: So, here is what we did, for each SKU we looked at the sum of the volume over 15 days. We looked at the opening stock for that SKU. And then we divide across all the three places, across Hyderabad, Chennai and Cochin. And then we essentially looked at the opening stock divided by average daily sales.

Prof. Omkar Vinayak Karandikar: Right. So, you are saying 30 units were sold across all FCs for (not audible) so average is 15 by 15, so 2 units per day and hence is 31 days. Can we look at this SKU called M01, that is a problem SKU. Remember, Mr. Shah had asked that question also around that.

Prof. Milind Gandhe: Right.

Prof. Omkar Vinayak Karandikar: I think we are running out of stock. Start also we had a supply problem should be around 2 to 3 days, I guess. 3.4 days is what we started with (not audible) of this model. It is a very tight.

Prof. G. Venkatesh: Very tight, three days.

Prof. Omkar Vinayak Karandikar: 3 days, 3.4 days. That is what I expected. So, selling in a descent way 45, 50 units per day.

Prof. Milind Gandhe: Correct.

Prof. Omkar Vinayak Karandikar: But we do not have, so I think we will have to do something about that. We will have to figure out.

Prof. Milind Gandhe: So, what you typically do in a situation like this, Omkar, would you order a lot of, a large quantity of this particular SKU?

Prof. Omkar Vinayak Karandikar: It depends on what is the reason of short supply. For this particular SKU I know this is a real you product. And I know, I mean, we are in touch with these guys in terms of pushing for this SKU. The chip goes into this phone, this is a mobile phone, the chip which goes into the phone is severely in short supply. I circulate very well in India. I think this is, if you confirm, this will be the top selling model from your data also.

Prof. Milind Gandhe: Actually, let us go and look at that, those revenue, no, no, the current one, in that we should see. Yes, you can see that.

Prof. Omkar Vinayak Karandikar: By far this is the best-selling, this best-selling SKU and the chips are not available because of the recent COVID issues. We are very suffering because of that. So, if that happens then I will try to push instead of M01 something else which is similar to that maybe from...

Prof. Milind Gandhe: I see.

Prof. Omkar Vinayak Karandikar: But this is not the case. This is a special condition. The chip supplies and all, we are talking about are the special conditions because of COVID. But if it is not the case then normally, we monitor this DOH every day. And as soon as it goes below 7 days, we do trigger an emergency purchase order. So, we follow up with them and get the supplies so that there is not stock out as such.

Prof. Milind Gandhe: I see.

Prof. G. Venkatesh: So, the seven days is your cut off, trigger.

Prof. Omkar Vinayak Karandikar: So, normally we order every seven days. So, that is the there. I need to cover myself at least for the next week. That is the bare minimum I look at. So, 3.4 days is the aberration definition, yes. We understand that. But we are working with the brand to set this disruption, I mean, overcome this disruption, let us see how best we can deliver out of that.

Prof. Milind Gandhe: The other question I have had Omkar if you just go back to L09 which was there when I started showing you this, now, there you seem to have 31 days sales in inventory. So, that means you probably got too much in warehouse.

Prof. Omkar Vinayak Karandikar: No, honestly, no, because again the inventory days of cover that we plan for depends on the BU or depends on the brand. So, this is lifestyle. If you look at lifestyle, you need an opening stock also. Though that number looks like 31, we just have 62 units of this item. The whole idea in lifestyle is people do not want to buy a same set of clothing again and again, especially true for outerwear that we call.

Outwear is your shirts and trousers, because people would not like to bump into each other wearing same cloth unless it is a unique one, especially true for women category. It is absolutely disaster if I have 2 units sold in same region in women's category. So, do not like that. So, I buy lesser quantity. However, there is no guarantee that something will sell or something will not sell.

So, if you look at a sale pattern also, not all days I am selling L09. And I know this L09 is SKU which is actually part of innerwear portfolio. So, this SKU will be still sold at least in let us say 20 percent, 30 percent, 40 percent of cases in terms of days over a longer period of time. But there are SKUs which are actually part of the core fashion portfolio, which will be sold let us say once in 30 days, once in 40 days also. For that the days of cover could be as high as 80 days, 180 days.

Prof. G. Venkatesh: So, there are so many factors.

Prof. Omkar Vinayak Karandikar: Yes, other factor which actually.

Prof. G. Venkatesh: BU specific factors.

Prof. Omkar Vinayak Karandikar: BU specific. For lifestyle, typically if you go to western countries there are 4 seasons in which the cloths are designed that is spring, summer, autumn and winter for different clothing seasons and then there are fashion shows and all that stuff which happens around that. In India, we clubbed these 4 seasons into 2, spring-summer and autumn-winter like that. So, typically a new SKU which comes on for spring-summer is supposed to be good till autumn-winter comes, which happens 6 months.

So, I am buying SKUs not for one month, but actually I am buying for six months. So, my inventory cover can go as high as 6 months also in lifestyle I am fine with that, perfectly fine with that, especially when there is a season change. When winter offsets, I will have to buy

winter cloths. I sell it for 3 months, 4 months. After that I will not be able to sell them. But what will happen to the winter wear I am carrying. I will have to stock it in inventory for the next winter. So, lifestyle will be a special case where the days of cover can be higher, but that is still part of business.

Prof. Milind Gandhe: So, when do you buy things Omkar. You pay the supplier immediately, is it?

Prof. Omkar Vinayak Karandikar: No, we do not. Especially lifestyle is a special terminology which we call sale or return, SOR. So, lot of times we buy. Around 50 percent plus of our business will be on SOR basis. Get the material in our FCs, in our warehouses. We offer it to customers. If it is sold in that season, we pay the suppliers only for the items which are sold. If we do not sell it after 6 months, we return it to the suppliers.

They will replace it with the new season FCs, the new season selection that they have. It is not like they will give us, our money will be with them, but they will replace 100 shirts of spring-summer with 100 shirts of autumn-winter which we return. This becomes a lesser working capital-intensive problem to have more DOH in lifestyle and hence we are fine with that.

Prof. Milind Gandhe: I see. So, and this is at least second time you are mentioning the term working capital, what is working capital.

Prof. Omkar Vinayak Karandikar: So, working capital is the money that we invest for getting something. So, let us say, I want to buy something, let us say, I want to buy a mobile of 50,000 rupees, I will have to give 50,000 rupees to supplier to get that mobile in my FC. I have to bring an apparel let us say worth 1,000 rupees, I do not pay anything to the supplier. I paid to that supplier only when I am able to sell that apparel out. So, I am not going to invest money. What I am investing in that item is my physical space in FC which is a limited price and my real estate on my app or on my website, where I am promoting.

So, that is the investment I am making from my side. But I am not investing money out of that. Now, just to stay on this topic there will be interesting topic to know about which is called negative working capital. There will be companies which actually work on negative working capital. The best example was being shown as a case study was Maruti Suzuki working on EV development capital. So, idea is they will sell car to customer, get all the money in advance

within 15 days. Within 15 days they will create the car that he wanted to buy. And pay their suppliers after days on credit.

So, actually they are working on a money which they have collected from the market that is working capital, but it is a topic for another discussion.

Prof. G. Venkatesh: Negative working capital, all right. Basically, working with an advance. You take an advance from the customer.

Prof. Omkar Vinayak Karandikar: That is right. Off the record, e-commerce works on negative working capital.

Prof. G. Venkatesh: Thus, because, we pay, actually, we pay you and after time you deliver to us.

Prof. Omkar Vinayak Karandikar: Yeah.

Prof. G. Venkatesh: All right, very interesting. So many concepts to learn.