

Case Study on Industry market and Management Risk

Background

Dry Supply is a wholesaler of dry cleaning equipment, cleaning supplies, and laundry soap. The company, which is located in New Baneshwor, has been in business over 10 years. Ramchandra is a business banker and in conjunction with his manager has determined that this business is consistent with the industries targeted by his bank, as well as being within the bank's designated market area.

He has made a couple of introductory calls and knows that Dry Supply was founded in 2007 by the father, Jugal Kishor (50%). He is the CEO of the company. Two sons (25% each) also are employed by the company and one looks after purchase and other looks after sales. In short, this is a family-run business and likely to remain so in the foreseeable future.

Dry Supply began as a wholesaler of powdered laundry products. Five years later, the operation changed its focus to dry cleaning supplies, such as liquid cleaners, plastic bags and metal hangers. The company continues in that capacity today. Historically, the company has had a very good operating and credit record, and a review of its dealings with suppliers and customers reveals no notable problems.

Ramchandra has gathered following additional information during his credit investigation.

- ☐ Demand for dry cleaning services should be modest to average. However, clothing that is dry-cleaned tends to be job-related.
- ☐ This industry has a high degree of asset concentration in accounts receivable and inventory, so needs for fixed assets appear to be modest.
- ☐ This industry does not appear to be heavily regulated, although certain chemicals that are used can be very harmful to the environment.
- ☐ There is no dominant brand name in the industry.
- ☐ Dry Supply is a local player and other three similar wholesalers also supply to the total 100 dry cleaners.
- ☐ There are significant no. of clients who have been buying from Dry Supply for long
- ☐ Demand appears to be stable, with low expectations for growth.
- ☐ With two sons of the founder now active in the business, it appears that Dry Supply intends to remain family-owned. However, we do not have any information about a formal succession plan
- ☐ Reporting capabilities—So far, Ramchandra has been receiving financial information as requested.
- ☐ Apart from the family 3 more employees work in the company in accounts, delivery and collection.

Write down few risk conclusions on each of the following.

- Industry risk?
- Market risk?
- Management risk?

Please grade each risk as minimal, modest, average and acceptable.