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AeroCompressor Strategic Decisions

ELGi Business Acumen Assessment Case-1

AeroCompressor Inc. was a leading manufacturer of air compressors, offering a diverse range of products to meet industrial needs. Lately, the company faced challenges related to margin erosion and dealer expectations.

For the pharma sector in India, the company had a primary product line, Widget. Based on demand from its dealers, It was now considering whether to introduce a new product line, Gadget to the portfolio.

Category Widget

Widget was a niche item in high demand among top pharma companies. The market size was 45,000 units per annum and growing 15% p.a.. AeroCompressor had a unique value proposition that was highly customised and well-regarded in the market.

AeroCompressor's Widget was priced at ₹150,000 per unit (a 20% premium to market average), with variable costs of ₹65,000. AeroCompressor had a 30% market share, and targeted to increase it to 40%. Due to highly demanding clients and difficulty in forecasting demand, an inventory of three months sales was maintained to prevent stockouts. The product was sold by AeroCompressor directly to customers through a strategic account management team. The cost of selling was 10% of revenues; typical credit period was 60 days.

Category Gadget

The market for Gadgets was very large, with annual sales of 200,000 units. However, it was a highly competitive market as there were many Chinese and Indian vendors offering this product category. Most Indian sellers where white-labelling made in China products.

Gadget was priced at ₹40,000 per unit and sold through an established dealer network. Dealer commissions were 14% on sales, with a 30-days credit term. Landed cost of the units for Indian vendors was ₹20,000, and most of them maintained an inventory of 30 days to account for shipping lead times and demand cycle. The market leader in Gadget had a share of 9%.

AeroCompressor had negotiated a deal with a large Chinese manufacturer to procure Gadget units at ₹18,000. It also had the opportunity to set up its own manufacturing line for Gadget, with an incremental capital expenditure of ₹50 crores. However, it was estimated that COGS would be ₹25,000 per unit.

Dealers were willing to stock AeroCompressor products at standard market terms. The largest dealer had made an offer to reduce the commission to 10% if the company also sold XYZ through the dealership.

Srinivasa Addepalli of GlobalGyan Leadership Academy wrote this case solely to provide material for class discussion and the author does not intend to illustrate either effective or ineffective handling of a managerial situation.