

# Washing Machine firm – Interview Transcript

Your client is a washing machine manufacturer who is facing a decline in profits. He wants you to figure out the reason for the same

Profits is a function of revenue and cost. I would like to understand which part of the function is causing a problem.

We have seen decline in revenues whereas costs is not a problem

Before proceeding further, it would be good to know about the Company, its position in the market, product mix and the customer segment it targets. Do we have data on this?

Yes. Company is a market leader in the washing machine segment. It targets middle class

consumer and does not manufacture high end products

Great. I would like to understand the trend for revenues and profits of the Company for the past 2 years

Revenue and profits have seen an overall decline of 10%

I would like to break the revenue into volume and price to understand the decline in revenues

That seems fair. The decline in revenues is due to fall in volumes. What will you do next?

Having known this, I would like to know the geographical segments, the company is operating in.

Also, is the issue of decline in volumes company specific or industry wide

The company operates primarily in Western India. The issue is specific only to the company

Okay. Is our product differentiable from the products offered by the competitors in terms of features and price?

The company's product is superior in terms of quality as compared to competitors, but the price is almost comparable to them.

If the product is superior in terms of quality and yet comparable in price and when there is no industry wide issue, the product should be in demand amongst the consumers. Can I therefore assume that product is not available in sufficient quantity when demanded by customers?

Yes. That's correct.

In that case, company's distribution channel needs to be analysed. Do we have data on the distribution channel of the company?

Company sells its products through distributors, who then sell them to retailers and is thereby made available to consumers.

I would like to assume that company is facing some problems with its distributors. Is my assumption correct?

Correct. Distributors feel that the margins offered by the Company is less as compared to competitors. Hence, they distributors have gradually reduced the stock offered to retailers. What would you do next?

Do we have details on the margins offered by us and by the competitors?

Yes. We offer 4% margin whereas competitors offer 7% margins. How will you solve this problem

Can we consider increasing the margin for distributors and absorbing the increased expense in our income statement?

Consider the following data and then decide:

Particulars	FY2017	FY2019
Units Sold	100,000	90,000
Price to dealer	18,000	18,000
Expense per unit	14,000	14,000

Assume that the number of units sold will be back to original levels if margin is made comparable to competitors

Based on the numbers, Company made a profit of INR 40 Crs in FY 2017 and INR 36 Crs in FY 2019. In case, the price is reduced by offering margin of 7%, the revised price shall be approximately INR 17,400. The resultant profit shall be INR 34 Crs. That would mean we would be worse-off than current situation if margins are increased.

Yes

Do we have data on the number of distributors and their geographical spread along with the approximate number of retailers and their geographical spread?

Currently, Company has 5 distributors. 2 distributors handle Gujarat region while remaining 3 handle Maharashtra region. There are 200 retailers in the Western region, with 50 in Gujarat and 150 in Maharashtra. All the retailers are widely spread across the two states

Also, is the Company exploring any other distribution channels such as e-commerce?

Company itself has minimal presence on e-commerce portals. The products are often sold by distributors on such portals

In this case, I would like to give two recommendations.

One, Company can start transacting with retailers directly. In this situation, company can decide to hire a factoring agent who can take up the task of collections from retailers and invoicing them regularly. Company would also have to re-look at its distribution channel and look at the most optimized logistics strategy.

Secondly, company start selling its products directly on e-commerce portals and thereby move lost sales from distributors on such portals.

Good job!