IOSR Journal of Business and Management (IOSR-JBM)
e-ISSN: 2278-487X, p-ISSN: 2319-7668
PP 38-41
www.iosrjournals.org

F.M.B- A classical case study

Jay Bhatt,
Asst. Professor, V.I.T. MMS, Mumbai

Case: B came back to his office one afternoon and shut himself up in his cabin. His assistant knocked the door to inform him about some routine messages from clients for service maintenance of their equipments. He replied "get it done, Reema". He did not consider reema to be his subordinate but more of a colleague and a friend. He had encouraged her to complete her graduation when she had given up after her first attempt (TN HR). He had just returned from the field. It had been along hard day; he had three client meetings since morning. The first two were follow ups on the proposals submitted earlier (what are follow ups); the third was a new client meet. All the three visits on a hot may day had met with very limited success. The first one seemed likely to be lost to a competitor, the second one had postponed the buying decision in definitely due to internal reasons with promises of " If we buy, we buy from you only " and the third meeting turned out to be what is termed as " Chor bazaar" type.; meaning all competitors in shapes and sizes! What could be more depressing!

It was not that there was anything wrong in his style of marketing nor did his firm have a poor reputation (T.N. Brand image). What exactly went wrong then? To understand and analyze this we need to delve into the back ground of the electro medical industry. The medical electronics industry in India has its origin in the recent past; sometime in late 60's and the early 70's. That was the time when imports were strictly regulated and hence as a substitute the SME's started prospering. In the initial years businesses rocked as the demand exceeded the supply. But the SME's chose to continue to remain SME's, they grew but only financially fat. In the initial years the profits were superficially enormous (T.N. PLC). As a result the SME owners amassed good fortunes which were invested in developing personal properties. Also the medical equipments that were manufactured were in the growth stage of the PLC and that being one more reason for the superficial growth. The growth in the biomedical industry and outflow of the capital from the SME's resulted in negligible amount of investment in R & D and a lack of competition called for a minimum amount of marketing expenses. (T.N business strategy)

The honey moon however lasted two decades and then started the metamorphosis. The companies chose to remain small and could not make the most of the good time. Minimum efforts towards expansion and trade secrets became open secrets. The attempts to maintain trade secrets remained minimal and as result the technicians in the lower rung quickly grasped the trade secrets.(T.N business Strategy)

Patency in India was not much known about and whatever known deterred the first generation entrepreneurs from filing for the same as they failed to see the long term benefits in the face of the current expenses (T.N Strategy). Accompanied with lack of patents was the need to take the industry to the next level; quality control. There was also a need for clear cut guidelines on quality control; the end users were ultimately doctors and paramedics.

This would have also encouraged competition from within the organized sector thereby attracting qualified talent towards itself. The sad state even today is that Bio-medical engineers qualify but keeping in mind the current scenario drift towards I.T. The attraction of the qualified talent would have in turn led to the betterment of the bio medical industry but the scenario was reversed. (T.N basic Economics). The non qualified technical class quickly learnt the tricks of the trade and was able to start out on its own. The positive outcome of the same however was that the quality of life of a large number of workers in the industry improved as against the situation in the textile industry (T.N The workers became poorer O.D T.N). The lack of strict enforcement of quality control and the advent of the competition from the unorganized sector led to the inevitable; a price war. The SME's and the unorganized competitors approached the same clients; the hospitals, nursing homes. In the absence of quality certifications and checks; the unorganized sector could easily offer the equipments at a price that was 30% lower and the SME's would have no answer, no justification. Secondly there was one more challenge. The equipments sold were directly used to treatment, meaning directly billable to the patients. Thus they were capital equipments sold at the price of consumer electronics.

B's problem was such; he was the second generation entrepreneur whose firm was started by his predecessor. He was keen to take it forward inspite of the intense competition and ready to fight the egoistic ways of his predecessors. He was keen on implementing a quality management system, a good HR policy and a sound marketing system wherein the marketing would be professional and systematic as against the current system of working purely on personal contacts (T.N). There was also a lot of bribing as there were many government hospitals which released PO's only against bribes.

Marketing strategy:

The target segment was the paramedics, orthopedic surgeons, hospitals , nursing homes and private Physical therapy clinics. The strategy to work in the private sector was purely on personal contact; Vendors would keep in regular contact with the end users right from when they were students and keep taking the relationship forward. Another important marketing strategy was medical conferences wherein various companies would rent spaces in the exhibition to promote their equipments and develop contacts. The strategy to develop personal contacts was by continual visits to the respective clinicians. Intense pressurization by various vendors gave the impression to the clinician that the vendor was in a tearing hurry to sell his equipments. Also continuous influencing by various vendors exposed the clinician/ customers to the chinks in the amour; the price margin and the desperation to sell the equipments. The clients lost no opportunity to capitalize on it and the competition became absolutely cut throat. Although a CEO of an SME company, B was essentially the salesman, sales manager, operations manager trade secret guarder in all running a one man show! His marketing strategy was a mix and match of the 4p's and the BCG matrix. He remained in contact with clinicians, medical equipment dealers as that enabled him to reach outstation markets and government officials through bribes. None of these remained out of reach of the competitors. It was not humanly possible for him to cover such a huge ground and to hire sales executives for the job was akin to developing one more satellite i.e one more competitor!

The ground covering thus remained limited, the same ground being covered by some other competitor. There was no such thing as a USP; but quality of the equipment was always sought after and another area with scope for improvement was after sales service. All equipments required continual servicing and that was something hardly any company focused upon. More or less the modus operandi was always focused on short term goals like selling(T.N).

B realized the long term benefits of TQM and investing in improving the after sales service. But his proposals were turned down keeping in mind the immediate costs involved. He had also drawn up a comprehensive marketing plan with a long term ideation which was scoffed at. The conversation was as follows. Predecessor" You need to develop contacts with upcoming people like going for parties and picnics with them, That will help you to develop contacts and have fun. B " It is a professional relationship that I am looking to inculcate in the long run. These are short term relationships which may not culminate into a long term one." Predecessor" What do you mean? That things have not functioned so far? What do you think". B sighed" Its not about not working so far, the business scenario has changed and the earlier model will not work. We need to develop a long term strategy with a proper planning. We will also need more finances for the same if we need to expand the existing business. The margins are going lower and the turnover needs to be increased in order to keep the fires burning" Predecessor" In the earlier days we used to have surplus capital and now you talk of expanding and that should earn us more money but instead we have to invest more money. On the contrary, I feel we should withdraw more and more otherwise whatever comes in just gets used up in the routine business". B sighed thinking to himself" If you would have invested earlier we probably would not have seen such a situation". The withdrawal by the partners had actually left the company bereft of any capital and was completely surviving on the bank loans. Capital for the day to day running of the business was a challenge in spite of regular orders. Due to intense competition the payment cycles were always affected as the goods almost always has to be sold on credit (T.N. strategy). In the face of all this he had increased the turnover of the organization by thrice as much as that of his predecessor. The increasing flak of the same from his predecessor was always high" why don't we see more money then" (See. Finance section)

Operations:

The day to day operations of the organization were slightly different from the typically only marketing organizations and or the only production organization. It was a mix and match of both. Certain equipments were assembled in house while a majority of them were outsourced or simply traded. More often than not it was found that the equipments assembled in-house broke down more often than the equipments which were outsourced. B had tried to install a high quality consciousness amongst his people but the success was limited. He had also metamorphosed the packaging style and finishing of the equipments which was highly appreciated by the clients. The SCM system was more or less against orders and minimal quantity in stock.

Since the payment cycle was long it was financially taxing to stock too many components or finished goods. Another reason for maintain minimal stock was B being the sales man was on the field most of the time and pilferage had to be minimized.

The biggest operational challenge was managing the after sales services. The equipments being used in hospitals were always undergoing wear and tear and the maintenance was a challenge. There were about five technicians who doubled up as production engineers and service personel. The after sales service was always required on top priority as patients could be lost. But it was impossible to predict the breakdown and as one client had remarked”

The rest of the world wants service tomorrow but your clients want service yesterday!” Such was the need. Strong attempts were made by B to convince clients to take up AMC’s but they were merely scoffed at” Why should we pay when there is no repair work, we will pay up as and when there is work”. No matter how hard B tried, at the end of the day someone or the other remained unsatisfied. But managing the operations still remained the key to successful marketing. B realized this and was keen to focus on quality and service as a USP but that would yet again require vital investments and a waiting period and that got turned down. Predecessor” we didn’t need it during our time now where is the need, You should focus on good showman ship like Raj Kapoor”.

The supply chain was as follows: For the in-house manufacturing, all the components were bought from various vendors. Transformers, valves, electronic timers, etc nothing could be bought from one vendor. There were different vendors. The readymade equipments came in easily but in house manufacturing improved the margin considerably as the equipments when sold through dealers took away a lot of margin in dealer discounts. There stood the dilemma; if all equipments were to be assembled in-house and sold through dealers, the profit per margin decreased considerably but turnover increased and the marketing expenses were also minimized. But if direct marketing was done, the margins were higher but the focus on in-house productions was limited and quality suffered.

H.R policy:

There were less than 15 employees since it was an SME. The payscales were limited but the payout was always on time. Most of the employees were always in need of extra money which was always forwarded as an advance and repaid back from the employee’s salary at no additional cost. Moreover the extra time work was always paid diligently. But as stated earlier the trade secrets were challenging to guard as the organization had no control over the employees when they went into the field for repair work. The client could easily get it done from the technician “ In Private” and the technician had only to claim to B that the equipment only had a “loose contact” meaning the client could not be billed. The technician could easily convince the client that he could finish the work at half of what the company charges. Business lost. The same client would be tempted to get it done again “In private”.

It was not that B did not want to pay them; it was just that they were paid as per the returns. Loyalty was a challenge throughout. It wasn’t that it did not happen in MNC’s like L&T and GE but they were mega giants who could afford to lose out on service revenue but that was not for B…. no way. Another way out of it was to outsource the entire production and servicing but that would lead to reduction of the margin and complete dependency on (T.N Strategy) others for even the basic work.

Finance:

The finance situation was slightly more complicated. As stated earlier, in the earlier days it was a case of low turnover and a superficially high profit margin. In the product maturity stage, the market size increased and so did the turnover. The increasing market size also led to a connecting increase in the competition. As discussed earlier this led to a price war which in turn led to a diminishing profit margin. A diminishing profit margin led to decrease in quality and service. Selling remained the mantra of the day. All thoughts were on selling today and not worry about what might happen tomorrow. B had continual running expenses since it was an SME, he could not be left out of the competition, and he had to resort to the same strategy. The financial equation worked like this:

O.D facility (bank loan)+ creditors= Debtors+ stock in hand (on approval basis)

Profit???, cash in Hand??.

The O.D was against the gala/ or the work place. The legal entity of the firm was a partnership concern. In the business expansion process B recollected a discussion with the bank manager when he was negotiating for an

increase in bank loan. B" I don't see any problems becoz I am asking for an increase in bank loan by about Rs. 5,00,000/- and the premise hypothecated is valued Rs.25,00,000/-. Manager" There is a problem, you are using the funds for personal use more than business expansion. You cannot be buying luxury cars on O.D facility. We lend you money for business expansion not for personal luxuries". B recollected the transaction when he was over drawn in the bank by about Rs.3,00,000/- A payment of Rs. 5,00,000/- had just come in and the same was used up by his predecessor for buying a luxury vehicle! B couldn't complain becoz he was using it as well!
Some of the Figures are as follows:
Debtors: 8,50,000/-
O.D : 9,50,000/- (facility 10,00000/-)
Stock: 3,50,000/- (on consignment basis)
Creditors: 2,50,000/-
Sales: 75,00,000/-
The profit margin is approximately 15% and the payment timing is approximately three/four months.

Questions:

[1]. What is your suggestion for improvement of the marketing services? Is "showmanship" the only marketing solution or do you have further suggestions? Keep in mind the financial statement.

[2]. Should TQM be implemented in the operations or should the current policy of "selling be continued? Do you think the company can use J.I.T?

[3]. What should be the H.R strategy/ policy? What is your suggestion to stop the dishonesty of the employees? Should the firm completely outsource?

[4]. Can you help to financially reengineer the structure?