



"When One Business Crumbled, How He Built Up Another: A Case Study"

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Abstract

Entering into the new field of business is not an easy go. One has to do market research, to identify the gap, to identify the product/service to be offered, and to target the right customer segment. After doing the required research, the next step is to make decisions on plant location, layout and then set up. Assessment of funds required for capital as well as revenue expenditure, procurement of machinery and other materials also take substantial amount of efforts. Searching for vendors and finalizing the right one are few other issues.

After having worked successfully for more than 30 years in Bali in the field of sesame seeds and oil business Harsh was standing on a crossroad in 2011. Rising prices of sesame oil resulted in shift in customers' taste and preferences towards refined oil. Moreover entry of big players at a large scale of operations and rise in price of raw material (sesame seeds) made survival tough. He had a number of options, one to continue with existing business at different scale of operations. Two, enter another business? Three, what business, Four, which place?

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The case talks about Harsh's journey to new business, his choice and then the result.

Keywords: Break Even, Profitability, Business Costs, Product identification

The company's name and the names of the characters portrayed in the case have been suitably disguised to ensure anonymity of the parties involved and confidentiality of information discussed in this case. This case was prepared by Vinod M Lakhwani, Faculty Member, IBS Business School, Ahmedabad and Research Scholar at AISECT University, Bhopal and Dr. Swati Tiwari, Professor & HOD, Department of Management, SCOPE College of Engineering, Bhopal, affiliated to Barkatullah University, Bhopal and is intended to be used for class discussion rather than to illustrate either effective or ineffective handling of the situation.

The Case

“A business man should always focus upon on new opportunities and find out the ways to develop new businesses.”

Mr. Harsh, Owner - Safe Water

After having worked successfully for more than 30 years in Bali in the field of sesame seeds and oil business Harsh was standing on a crossroad in 2011. Rising prices of sesame oil resulted in shift in customers' taste and preferences towards refined oil. Moreover entry of big players at a large scale of operations and rise in price of raw material (sesame seeds) made survival tough. He had a number of options, one to continue with existing business at different scale of operations. Two, enter another business? Three, what business Four, which place?

Harsh had left no stone unturned in exploring the means and ways for revival of his existing Oil Seed business but due to heavy investment requirement in expansion of business he finally decided to change the field of game. After completing 50 years of his life Harsh started a new venture in 2012 in a new field and started another inning of his life with the same energy and enthusiasm as he did at the age of 19. He played his first inning successfully as a helping hand to his father; then took over as a full-fledged

caretaker of Oil Seed business. He proved himself time and again during these 50 years and sailed through as a winner in each test.

The Need

The move started in the mid of 2011, to scout new opportunities and to substitute its existing oil business for which survival was becoming difficult. He was into Til/Sesame oil extraction business which was now becoming very expensive as well as extinct, as people stopped using Til/Sesame oil in daily diet.

He started field work to explore what type of business he can fit in, talked with a lot of friends, took suggestion from people known to him and also met the people through references. From his previous stint's learning, he was able to streamline his intentions and set the periphery of his new business. Harsh was very clear that he will invest only in a business which has minimal government intervention, i.e. license requirement, Inspections and taxes etc. Harsh wanted to limit his new business as well to same level of operation, i.e. funds and land requirement etc. The new business should be of same genre i.e. food or related business.

Product Identification

After doing lot of market survey, he found his way into the Safe Water business. It was time when in city of Bali, only four players were there in this segment and was serving selected set of customers. There were a lot of untapped opportunities in this segment which Harsh could see.

Discovering the Gap

While studying the market, he observed that current purified water suppliers were catering to Banks, textile mills, Industrial area and other big giants in the various sectors within the city of Bali. The so formed cartel of water suppliers was charging Rs. 40 per water jug and was making huge profits.

Harsh realized that due to high price, the product was not reaching the masses. He thought if he could sell it at cheaper rate he would be able to penetrate the market deeper. He was inspired with the idea of one of the mobile service providers which was charging low

tariffs and had brought revolution in the telecom sector. He followed suit and decided to sell a water jug at rock bottom price of Rs. 25.

During his research, he found that there was huge potential in the retail market as that region was untapped. There were more than 250 shops operating in the area and the shopkeepers were following the traditional method for fetching and storage of drinking water. The water fillers used to fill the earthen pot (*matka*)‡ at the rate as low as Rs. 400-500 per month.

Harsh had a tough task of changing the mindsets and educating the prospective customers about importance of safe drinking water. For this, he personally visited the individual shopkeepers and counselled them about the importance of pure water. He also highlighted that by paying a little extra money they will be able to get purified and chilled water at their doorsteps. He planned to explore another untapped area, i.e. households, individuals and families, for providing water campers.

Blessings in Disguise

Increasing incidences of water borne diseases came as a blessing in disguise for Harsh, as now campaign for safe water was a government agenda also. The doctors were also advising the residents to drink pure water.

The Set-Up

Now the task for Harsh was to find out the vendors of machine that includes filter and chilling unit, to buy tanks for storing water, water coolers and jars and campers for delivering it to the end customer i.e. the retailers.

He visited many manufacturers in and around Bali and finally he ended up with one of the manufacturers of machine in Jogpur, another city in Rajasthan. He also bought tankers, water coolers and jars from one of the supplier in the same city. With an investment of 5 lakhs he was ready to take off with his new inning.

‡ Matka is a hindi word used for earthen pot.

He also made arrangement with the supplier of water to deliver the tankers on daily basis.

The Team

Harsh and his younger brother Shyam looked after the business together. Harsh was taking care of production – procurement of water, filtration and chilling of water and filling and cleaning of water coolers and jars and Shyam was handling the marketing and supplies to the customers and collection of payment.

In the month of March, Manish was hired as a driver cum cleaner. His main role was to supply freshly filled campers and bring back the empty ones. He was also assigned the duty of cleaning the water coolers as scheduled.

D- Day

It was 1st January, 2012, when the first batch of purified water were rolled out from the plant and 30 water campers were loaded in the auto rickshaw to be delivered to the customers in the market area.

A See Saw Starts

Looking at the new way of supplying drinking water, the shopkeepers in the area inquired from the existing clients of Harsh about the charges and quality of water and services offered by him. Within few days, the customer base was increased. In a month's time, from 30 the customer base reached to 50. In span of three months, this number turned into three digits and it was 100 odd customers to whom Harsh was catering. To match the multiplying demand and to speed up the delivery he purchased a second hand loading rickshaw in the month of March 2012.

With the summers getting hotter, he was also getting order from water huts (*Pyau*)§. Demand of regular customers was also increasing in the summer months and new customers were added each day. In the state of Rajasthan “*Jal Sewa*” (free water service) was a very common feature and Harsh was getting orders from

§ *Pyau* is a Hindi term used for free water drinking facilities offered by different associations or trusts in summers at the corner of roads to the people crossing by.

shop owners, from individuals, from temples. His market expanded and he received orders from other parts of the town. The reason behind such free water service as a service was a religious belief of people of Bali - "Offering water to thirsty will add to Karma". This helped him to boost the sales for the next three months. Till June 2012, the startup seemed to be quite successful. But the events in the month of July seemed to bring in some traction. This was the time for rain and people required less water for drinking. There was a dip in the sales because of seasonal effect.

During the months of August and September, the sales was showing promise due to an increased number of marriages during these months - For such events he not only catered to the drinking requirements but also supplied water for preparation of food by the caterers. However during the last months of 2012, when winter set in, sales plunged again. But it also saved costs since Harsh had to only filter and not chill the water.

By the end of the year, Harsh got rich experience of another business and added another feather in the cap with the sales grown manifolds serving more than 100 customers. He identified the right product, targeted right segment and reaped the fruits.

Questions:

1. Has Harsh reached break even?
2. Can there be another alternative businesses Harsh could have opted?
3. Is Harsh's venture profitable?

Exhibit I

Cost Composition

Total Investments was Rs. 5 lakh. Out of which machinery cost was Rs. 2.5 lakh which includes filter and chilling plant, Rs. 4000 was spent of fitting and repairing and the rest was used to buy water coolers and jars and tanks. 400 water coolers were bought at the price of Rs. 500 per jugs, 200 water jars were bought at the price of Rs. 25 per jar. Six tanks each having capacity of 1000 litre was purchased at a rate of Rs 3.5 per litre. Four were used to keep the

raw water and two were used to store the purified and chilled water.

In the first two months passenger rickshaw was used for delivering water coolers. In each shift 25 jugs can be delivered and each shift costs Rs. 50. Total two shifts were done by the rickshaw. In March'2012 second hand loading rickshaw was bought for Rs. 50,000.

A water tank costs Rs. 300 and carries 4000 litres of water. Out of which only 50% was utilized. The usage of water tanks and the information about various costs for each month is given below:-

Month	Tankers used
Jan'12	10
Feb'12	15
Mar'12	30
Apr'12	50
May'12	50
Jun'12	50
Jul'12	60
Aug'12	60
Sep'12	60
Oct'12	30
Nov'12	30
Dec'12	30

Month Costs Details	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12
	Tanker Costs	3000	4500	9000	15000	15000	15000	18000	18000	18000	9000	9000
Electricity expenses	6000	9000	9000	12000	12000	12000	9000	12000	12000	8000	8000	9000
Depreciation on P&M	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000

Month Costs Details	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12
Transportation cost	3000	3000	-	-	-	-	-	-	-	-	-	-
Petrol Expenses	-	-	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500
Maintenance Expenses	-	-	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500
Driver Salary	-	-	6000	6000	6000	6000	6000	6000	6000	6000	6000	6000
Depreciation on Loading rickshaw	-	-	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
Filter Costs*	-	800	-	800	-	800	-	800	-	800	-	800
Total Costs	17,000	22,300	33,000	42,800	42,000	42,800	42,000	45,800	45,000	30,800	30,000	30,800

Exhibit II

Sales Figures

The selling price for both, camper as well as of jar is Rs. 20. The capacity of a camper is 18 litre and of jar is 20 litre. For calculation purpose the days in a month should be taken as per the calendar of the said year. The daily sales to different set of customers in a month are given below in the table:-

Customer Base			
Month	Shops	Daily Requirement	Total Requirement
Jan'2012	30	1	30
	10	2	20
	Total per day sales in a month		50
Feb'2012	30	1	30
	10	2	20
	<i>Additional 30 customers</i>		20
	Total per day sales in a month		70
March'2012	30	1	30
	10	2	20
	<i>Additional 30 customers (O)</i>		30
	<i>Additional 30 customers (N)</i>		30
	Total per day sales in a month		110
April'2012	100	1	100
	10	2	20
	<i>Water huts</i>		80
	Total per day sales in a month		200
May '2012	100	1	100
	10	2	20
	<i>Water huts</i>		80
	Total per day sales in a month		200
June '2012	100	1	100
	10	2	20
	<i>Water huts</i>		80
	Total per day sales in a month		200
July '2012	100	1	100
	10	2	20
	Total per day sales in a month		120
August '2012	100	1	100
	10	2	20
	<i>Increased Sales due to Marriage Season</i>		100
	Total per day sales in a month		220
September '2012	100	1	100
	10	2	20
	<i>Increased Sales due to Marriage Season</i>		100
	Total per day sales in a month		220
October '2012			
	50	1	50
	30	Alternate day	30
	<i>Increased Sales due to Marriage Season</i>		65
	Total per day sales in a month		145

Customer Base			
Month	Shops	Daily Requirement	Total Requirement
November '2012	50	1	50
	30	Alternate day	30
	<i>Increased Sales due to Marriage Season</i>		67
	Total per day sales in a month		147
December '2012	50	1	50
	30	Alternate day	30
	<i>Increased Sales due to Marriage Season</i>		33
	Total per day sales in a month		113

*There are two filters in the machine that are required to be changed after every two months. The cost price per filter is Rs. 400.

Exhibit III About Bali - The City

- Bali is a small city and a district in Rajasthan and covers 6 talukas. The total population of district and city is around 3.5 and 1 lakh.
- The shop on rental basis is easily available in the market area of city for Rs. 3000-4000 depending upon the location. With an initial capital outlay of rs. 3-4 lakhs a small venture can be set up. However buying a shop on own will costs around 30-40 lakhs.
- The city mainly consists of 10% of high, 60% of middle and 30% lower class locality. The population includes 50% of service class and 50% of business class people. Out of 50% of business community only 10% is in big business which includes printing and dyeing mills. The city is primarily known for its textile units.

Exhibit IV

Various Opportunities Explored by Harsh

- To start a *cleaning plant of wheat and other food grains and pulses*, for which machine cost was Rs. 10 lakh, construction cost was around 10 lakh and for it, land was required which was available in Industrial area and it was costing 30-40 lakh.
- Another option was to start a *readymade garment shop for kids*, for which investment was around 8.48 lakh, 5 lakh was for furniture and 3 lakh for stock, shop on rental basis would cost around Rs. 48,000 for a year. If shop is bought on own it would cost around 40 lakh. But not related with his area of expertise.
- Third one is purified water business. Total capital outlay would be around 5 lakh, machinery would cost 2.5 lakhs, other equipment i.e. tanks for storing water, water coolers and jars and other fittings and repairs. For distribution he would hire a passenger rickshaw which costs Rs. 50 per shift.

Teaching Notes

Pedagogical objectives

The case has been developed with an objective of to make students familiar about the types of costs related to a business and also to assess the breakeven point, margin of safety and profitability. This case is multi-dimensional which highlights many areas which are interrelated.

The initial part of case clearly focuses upon the market survey and other related aspects that are to be studied before starting a business.

In second part, searching of vendors for purchasing different machineries and other tools has been explained. Also detailing about the final takeoff of business and addition of new customers with a span of one year has been done. Different costs associated with the running of business and daily sales requirement for each month in depth has also been furnished.

Students can do break even analysis, calculate the profitability with the help of data given in the case.

After going through the case student will understand the concepts of:-Identification of product and discovering the gap

- Types of costs associated with a business
- Cost Volume Profit Analysis - Contribution, Break Even, Margin of Safety, Shut Down Point
- Ratio Analysis -Profitability, Operating

Teaching Approach and Strategy

- The case is suitable for undergraduate and postgraduate management students and can be used in subject of Cost and Management Accounting and Financial Management.
- Case can be given in advance to the students and can be discussed on the scheduled class.
- Apart from calculations, students should be asked to do the analysis about the business identified, started and its future prospects.
- This case can also be used in the subject of Project Management - from conceptualization to implementation and arrangement of funds and procurement of machinery and other required equipment.
- The case is suitable for written assignment.