MARKETING MANAGEMENT

Brand: Mehta Solutions
Product Code: case1587
Weight: 0.00kg

Price: Rs500

Short Description

MARKETING MANAGEMENT case study

Description

Case 4: Oceanic Needs to Cut Distribution Costs

Oceanic Home Appliances Ltd. is a Rs. 125 crore manufacturer of refrigerators and air conditioners. The company has been in the market for the last 11 years and at present, commands a market share of 28 per cent for refrigerators and 21 per cent for air conditioners.

The national distribution manager for this company, Rajeev Sehgal is a worried man today as he looks through the various cost analysis sheets sent to him by the strategic planning head, Sanjeev Chopra. The papers contain information on the inventory, the costs related to transportation from warehouse to depots and analysis of distribution costs of Oceanic vs Competitors. The data was collected from various sales depots spread across the country; the internal reports from the finance division and the invoices and delivery records. The details of the competitors' distribution strategies and costs were also being presented, though in brief. The cost comparisons were made in a way so that even a layman can understand.

After carefully studying all the breakdowns and details, Rajeev started making his own notes for an urgent review meeting called by the Managing Director, Uday Singh, next day at 10 am. All the national and regional heads for distribution, finance, and business development were to attend the meeting.

The meeting was called to review the existing distribution strategy; its consequences, and decide the future course of action.

When Sehgal had joined the company, it had a distribution strategy of supply based on demand from dealers. The distribution was a centralised process under the direct control of the national distribution head. The company had six regional offices across the country and each had three sales depots under it. The simple strategy put in practice was like this: based on demand estimates by the regional offices, goods were dispatched to these 18 sales depots. These goods were stocked, until the dealers demanded supply, having confirmed orders from the customers. A typical regional office serviced about 35 – 40 dealers and the total dealers under Oceanic in the country numbered 230. The system worked under tremendous pressure as last minute demands from dealers, unexpected increase or decrease in sales, political and economic fluctuations and competition often disturbed this not-soappropriate strategy. Within six months of joining Oceanic, Sehgal was on a major revamping exercise for the entire distribution and inventory management system. He was quick to spot the negative fallout effects of this existing system: First, the dealers were not receiving stocks in time and the dealers, eager to do business, began to prefer and push brands of competitors. Second, the company offered a 20-day credit for its air conditioners while the arch rival company offered a 40-day credit. This was incentive enough for dealers to prefer competing brand to that of Oceanic. The impact of these factors was visible as sales volume gradually dropped to 13 per cent in that year.

Sehgal resolved the issues one by one. First, he increased the dealer margin by one per cent. Second, he started the practice of diverting stocks from one sales depot to another, which faced shortage in supply. Sehgal also increased the stock holding of all sales depots by 5 per cent. In six months time these changes began showing results. In the next one-and- a-half years the company’s share for refrigerators rose to 20 per cent and 12 per cent for air conditioners from previous year’s 14 and 8 per cent respectively. This strategy worked well for Oceanic for the next 3 years without any major problems. Of course, occasionally there was last minute rescheduling and redirecting of stocks or transfer of stocks was delayed for some problems like

transporters' strikes etc. Overall, Sehgal excised complete control over quantity and stock movement. The market share for both the products showed a healthy

growth and sales volumes were good enough to pose profits year after year. The dealers were happy with increased margin and the waiting period for the product was six days compared to an industry average of 10 days, and goods were available at sales depots all the time.

The strategy, however, drew a different set of problems. The recent cost review meeting revealed that transportation costs of the company had increased to 9 per cent over the normal 4 per cent of the total sales volume in the last three years. Also, the sales and distribution costs of Oceanic were 7.5 per cent of sales as compared to industry average of 6.5 per cent. The strategy of supplying products at market and dealers' demand had made them very happy but this had strained the stock movement. As this strategy involved transportation of goods from plant to depots as well as from one depot to another, it increased the transportation and insurance costs.

In the meeting, managing director Uday Singh started off by saying, "the profits have been good in the last few years, however we have to rely on short-term loans to fund our working capital. The high distribution costs have upset the higher sales and to revamp our working capital management, we must look at these costs carefully. The three major issues raised by our auditors are:

1. **1. The time between the date of sending the product to depot and date of invoicing from dealers is high. On an average it is 20 day**
2. **2. The stock movement is higher and the costs for transportation are 9 per cent as against industry average of 5 per cent.**
3. **3. The sales and distribution costs are 7.5 per cent of sales as compared to industry average of 6.5 per cent.**

We need to look for an alternative to our existing strategy as we can't afford more costs. Sehgal presented his strategy, "Today, the consumers can get a product within 6 days time as against 10-day waiting period of other companies. The dealers prefer our brands and it must be seen as a great achievement. Today, we are at number three position in the market because of easy access of our products." Finally, the distribution head south and east region started to speak. "I suggest creation of

regional warehouses to meet the demand. The depots should narrow down its other work activities and concentrate on paper work only. The warehouse will move goods directly to dealers against confirmed orders. This should reduce inventory and transportation costs to a large extent." Sehgal argued the advisability of this alternative, "Our ultimate aim should be to develop market responsive systems, which will eventually meet the demand of consumers in the next few years. A system like this would reduce costs but increase the waiting period at end-user and dealer level. Speed of delivery is critical in a competitive market."

Questions:

1. **Analyse the major issues in the case. Is Sehgal right in stressing customer responsive systems at the risk of higher costs and inventory problems?**

2. **Prepare a suitable distribution strategy for Oceanic that will both retain efficiency and reduce cost**

Details
1. Case study solved answers

2. pdf/word

3. Fully Solved with answers