GROWING OF THE BUSINESS TOO FAST RESULTING OVERTRADING:

HOW TO OVERCOME USING PARETO PRINCIPLE

Detailed Study and the evidence from one of the biggest manufacturing and trading companies in Sri Lanka named as Steel Feeds Private Limited.

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ABSTRACT

This project report investigates overtrading, which is the result of an expansion rate that is too high in relation to a particular business's structure. It often results in cash flow Problems. The phenomenon of overtrading is described considering the current situation of one of the biggest trading and manufacturing companies in Sri Lanka. In this study, I basically focused on the excessive investment on inventory and poor product management techniques due to non compliance with the 80-20 rule known as Pareto principle. As a result of this non compliance, it was identified that company faces severe cash flow problems especially in last three years.

The study reveals that the concerned company has overtraded and their rapid expansion was the main reason for this situation. Basically as a result of excessive investment of inventory, the entire operating cycle has been badly affected. The study was able to identify the reasons, repercussions and solutions for the overtrading situation of the company and necessary recommendations have been given to the Board of Management for proper implementation.

Chapter 1

Introduction

1.1 Background of the issue

In today's world, the business, social, economic and technological environment is really dynamic. It is always changing. Today, s very sophisticated technology will be outdated by tomorrow. All are focusing on growth and development and Business World will not consider whether they are heading to a sustainability development and growth. Basically all are focusing on the short term goals achievement. This will be the biggest challenge in the 21st century. There are so many inherent problems will be experienced as a result of these kinds of mind sets in the today's Business World. When the companies are always focusing on growth and expansion of their operations, they always try to find alternatives ways to achieve their objectives which are always beyond their controls and compliances. The principal objectives of any company specially, in emerging companies are high profitability and rapid growth. In addition to that, those companies are very much interested on innovations. These innovations can be technological innovations, a new way of producing, a new way of offering a service, a new way of marketing and distributing, or even the way which the organization is structured and managed.

The emerging companies also exhibit a large potential for growth and sets itself strategic objectives in terms of market targets, market developments and market share. They are always horizontal to be growth oriented. There are certain aspects that are important to owners of the emerging companies, one is the ability to create and grow a business and the second one is the taking risk in both financial and personal. Therefore owners work toward as much for their business as they can, especially during the business's start-up.

In close conjunction with this, growth is often identified as a measure of performance of the success of the business. Young and emerging businesses especially seek to obtain much growth as possible in order to ensure that the business does not fail. They will that Business failure is generally associated with low or no growth. The growth of a business makes it possible for the business to expand, obtain new premises, obtain greater profitability, employ more personnel and influence the labour market. In addition to that, it allows for the business to attract more highly skilled people and gain a general increase in resources.

However, this belief and rapidity toward fast growth, in conjunction with owners' resemblance for growth, can lead to the pitfall of overtrading or too rapid growth. Overtrading in a business, in turn has the potential of leading to failure.

Overtrading takes place when a company is trading at certain volumes without a proper base of assets to support these volumes. Consequently, the company attempts to stretch the business's working capital, labour capacity and human resources.

The problems of overtrading usually occur with young companies which have been experiencing fast growth in terms of sales during recent periods. Overtrading occurs because the companies which are in the initial stages of their operations have not built a solid reputation in the market yet. As a result they have to offer generous credit terms to their customers as promotional tools. However these credit terms can create imbalances between sales and production cycles by delaying cash generation. In the event that sales are growing faster than the rate at which accounts receivables are turned into cash, businesses will not have enough working capital for financing credit terms from suppliers. As a result, production activities will be delayed because of shortage of inventory. Therefore, when sales are growing faster than working capital, the situation is not sustainable since the company suffering from shortage of working capital and will be able to meet the demands of growing sales only up to a certain point. After that it will have to stop its operations because the cash flow will not be sufficient to finance the cost of production Companies always have to maintain good relations with suppliers and customers in order to have access to favourable credit terms. As a result, these companies risk possibilities of overtrading by offering long credit terms to customers and by imposing suppliers with short credit terms on themselves. The result of this arrangement is that companies have to make frequent payments to suppliers in order to maintain sufficient inventory for growing sales. However, since customers are taking longer to pay in cash, the company will not have the working capital with which to make those payments to suppliers. In this situation, the management of the company will have to apply to the banks in order to make up for the shortfall in working capital. However banks will also impose limits on the level of cash that will lend to client organizations. In other words, overdraft from banks will be limited to a certain level. After that level, any further requests for cash will be denied. As a result, the companies experiencing fast growth in sales will no longer be in a position to pay the bills. This is one of the primary reasons leading to problems of overtrading. The main reason for this kind of bad repercussion is the poor financial controls and lack of financial strategies which businesses run out of cash and impair their abilities to continue their operations. Therefore, occurrences of overtrading can be incurable in as much as they endanger the continuing operations of the company.

1.2 Identification of the Issue

One of the biggest problems that the concerned company has been facing for last 3 years is searching avenues for high speed growth in sales achievement. The company is practicing all the strategies for achieving this task. The company sales target for the year 2011/ 2012 was targeted as Rs.1billion sales per month, though the current average sales per month is Rs.400 million. Rs.1billion target is a massive target for the company. The management of the company is expecting 150% growth compared to previous year. Total sales volume for the year 2010/2011 was Rs. 3.7 billion and it is expected to increase Rs.12 billion in the year 2011/2012.

All the overheads and infrastructures have been already set for the target of Rs.12 billion which has to be achieved in year 2011/2012.

To achieve the above target, Company is being practicing following techniques which have been considered as the main indicators of overtrading.

01. Increasing credit sales volume from Rs.200mn per month to Rs.400mn and expecting to achieve Rs.600 million in the next quarter.

02. As a result of increasing the sales volume by giving additional credit limits to customers as well as for new customers registration, the normal 45 days credit period has been extended to 6o days and 90 days for some customers and customers also not paying even after 90 days as they are also having problems of settlements due to high volume of sales dumping by the company. The no. of days taken by customers is well above the industry average.

03. In comparison with year 2010/2011, the company was able to increase the monthly average sales from Rs.250miliion to Rs.350million. However, it is just an increasing sales without corresponding increase in profit.

04. Company is experiencing of increasing inventory days and excessive investment in inventory. The Inventory holding days of the company in year 2009/2010 was 139 days which had gone up to 147 days in year 2010/2011. Situation is very bad when compared with previous years.

05. Company has excessively reliance on trade payables as a source of funds. The total Letter of Credit Facility of the company in year 2009/2010 was Rs.

1000 million which can be used for 1.67 times with the proper settlements. However in 2010/2011, it was increased to Rs. 2000miliion.

06. Due to increase of Debtors Residency Period, company had to request extended trade payables periods from the suppliers which had been lead to more strict rules and regulations by the suppliers as well as delays in shipments causing damages to proper inflow of stocks. The Creditors Settlement Period has been increased from 179 day in 2009/2010 to 237 days in 2010/2011.

07. Due to all above reasons, there is a huge set back and short fall in the Company Cash flow. Company policy is to manage all the banks with zero overdraft interest and any bank should not be overdrawn. That is one of primary KPIs of Finance Department, so what they are doing is defaulting payments for suppliers. That is why creditors' settlement period has been gone up as explained above.

08. Sales have increased but there is no corresponding increase of long term sources of capital in the form of equity.

09. Company's liquidity ratios have decreased drastically compared to previous years. Current ratio has decreased from 1.4 to 0.96 times as well as Quick Ratio has decreased from 0.82 times to 0.60 times.

10. All the above mentioned 9 reasons have affected for increasing the working capital cycle.

1.3 Objective of the Project

The project objective is basically focusing on the critical evaluation of the major reasons for the overtrading situation of the company and how this situation should be overcome by using proper strategies without affecting to the owners vision of the company. Out of all the 10 reasons which have been affected to the overtrading situation mentioned in the “Identification of the issue” the excessive investment of inventory is the biggest contributor to the overtrading situation of the company. The main objectives of the report are covering the followings.

- To analyse what are the techniques used by the company and critically evaluate the viability of these techniques and how it becomes the main reason for overtrading.
- To implement Pareto’s Principle generally known as 80 20 rule as a phased approach for one of the Strategic Business Units (SBU) named as Dealer Network- Hardware SBU and the Product Management Department as a pilot project.
- To cover the advantages and disadvantages of the 80 20 rule and techniques for implementation and guiding for the product management staff of the selected divisions.
- To identify whether the results are feasible for implementing for other SBU’s and their Product Management Divisions for their product sourcing.

The results will be evaluated every month for the period of six months by the Group Financial Evaluations Compliance and Corporate Planning Division with the participation of the Head of Finance and the concerned Product Management Division for identifying successful implementation has been taken place.

1.4 Significance of the Project

At present, the company is more focusing on the expansion of its operations by way of increasing sales by using many techniques which are leading to overtrading. As explained above, these techniques will have a huge impact on increased working capital cycle than ever before.

Most of the companies are having very tide situations on their cash flows. They are always very concern with the working capital cycle as if any part of WCC is broken from the link the company has to face severe problems on their cash flows. Huge investment on excessive stocks is one of the reasons for overtrading in this company. So this issue is very significant compared to other reasons for overtrading of the company.

Therefore analysing and evaluating the situation is very much helpful to the company for coming out from overtrading which is, at present badly affected for company operations. The concept which have considered for avoiding this situation is introducing the 80 20 rule for product sourcing.

This project will help to Product Management Divisions to go into detail SKU levels and identify the top 20% of items that are giving an 80% contribution to the top line.

This project will be significant to change their ordering pattern and they should base on the 80 20 rule for their ordering.

Within one Product Class, there are significant numbers of items that are in stock that are slow or none moving. So this project will give a proper identification and guidance for overcoming the burden of these slow and non moving stocks.

This Project of introducing 80 20 rule and reducing the excessive investment will help to the company for avoiding overtrading situation under the condition that all the other overtrading criteria also will be eradicated by using this rule.

1.5 The Limitations of the study

There are some inherent limitations as well as practical limitations were identified when continue with the project.

It was observed that Board of Directors as well as top management was not aware whether the company is in overtrading situation or not and what are the reasons for overtrading. Therefore all the top people have always acted as per the instruction given by the BOD without proper study. Due to this mind set, I had to face some difficulties when carrying out the project.

Another significant limitation was identified when continue the project is non availability of historical data analysis about the overtrading situation as well as regarding the 80 20 rule. The previous practice was to order the goods as per the commitment given by the Sales SBUs which were not accurate.

When continue with the Project, time factor had become a serious limitation, as the project had to be carried out with the normal day to day works and so many meetings with the BOD as well as reviews with various SBU Heads. Therefore the project was limited to certain product portfolios as a pilot approach as explained above.

1.6 Organization and its context

Hardware and Building Material industry is well known as the Colombo Pettah related business for a long time. Because that was the main hub of distributing all the hardware items to the entire country. Colombo Bazaar is the common name for these operations. This was a monopoly operated by a small number of groups and it has been originated long ago by the pioneers in the industry seems to be unbreakable. The Tradesmann SL Private Limited has started its business in such an environment as a small steel basket manufacturer. The milestones achieved by the company will be explained in brief before going for a detailed analysis of the company and its context.

A small proprietorship business as "Hakeem sons" was founded in the year 1956 in Ratnapura by Mr.M.N.M. Niyas and main business was manufacturing and distributing Galvanized iron Utensils. When the company was started, had only one ford truck which is still available at the company premises and secured as the heritage of the company.

This is one of the core values of the company as its values the human capital as well as the substances which have given the contributions to achieve their milestones.

In 1968, the company had reached to closer location to Colombo for accessing the widespread market in the concerned industry. The owner has clearly understood the advantages of moving from Ratnapura to Colombo. With this location movement, company gradually has become one of the leading sheet metal working establishments in Sri Lanka.

In 1980, the company ventured in to Steel Roofing and Building materials which are complement to the established line of business. With this new line of business, company was able to increase its monthly Turnover from 20 million to 50million.

In 1984, to in line with the business norms and standards, company has changed its identity and registered as a private limited liability company under the name of Steel Feeds Trading Company which had helped to company to explore the more and more opportunities in the industry. More recognition, more customer awareness, more banking facilities and increased customer base were some of the biggest achievements after registering as a private limited liability company. The company has aggressively ventured in to the steel sheets and building materials and became the largest supplier of building materials and steel sheets in the country.

In 1989, the company starts its first huge manufacturing plant at Negombo with the objective giving pure metal products to Sri Lankan customers. The name of the manufacturing plant is 'PUREMETALS" with the workforce of 100 employees. Within two years time, the factory has been recognized as the largest Steel Builders Hardware Factory in Sri Lanka. At present work force are more than 300 employees with all the traditional machines which have been using since 1989 as well as with addition of new semi automated machines. Current production capacity is 1milion pieces and producing 700,000 pieces per month.

In the year 1995, company has diversified its product portfolio and accessed to the Electrical equipments and vehicle tires business. The new two business lines have immensely contributed to the growth of the company. In year 2000 the growth rate of the company was more than 100% compared to the year 1995. Main reason was this huge growth was exploring the huge opportunities and fulfilling the niche market which comprised with the low and middle level incomers for offering huge electrical product folios for very reasonable prices compared to the competitors.

In year 2004, company name was again changed as The Tradesman SL Private limited to keep the name in line with the business norms and standards as well as for appearing as a diversified business.

In year 2005, company has diversified further its business line to corporate clients and established another business line as Institution Sales Division.

In year 2006, company has introduced Strategic Business Unit concept for all the sales divisions and created 6 SBUs with adequate independence to perform as independent companies under the supervision of the Holding Company. It was really successful and all SBUs have their own strategies to achieve their goals and objectives.

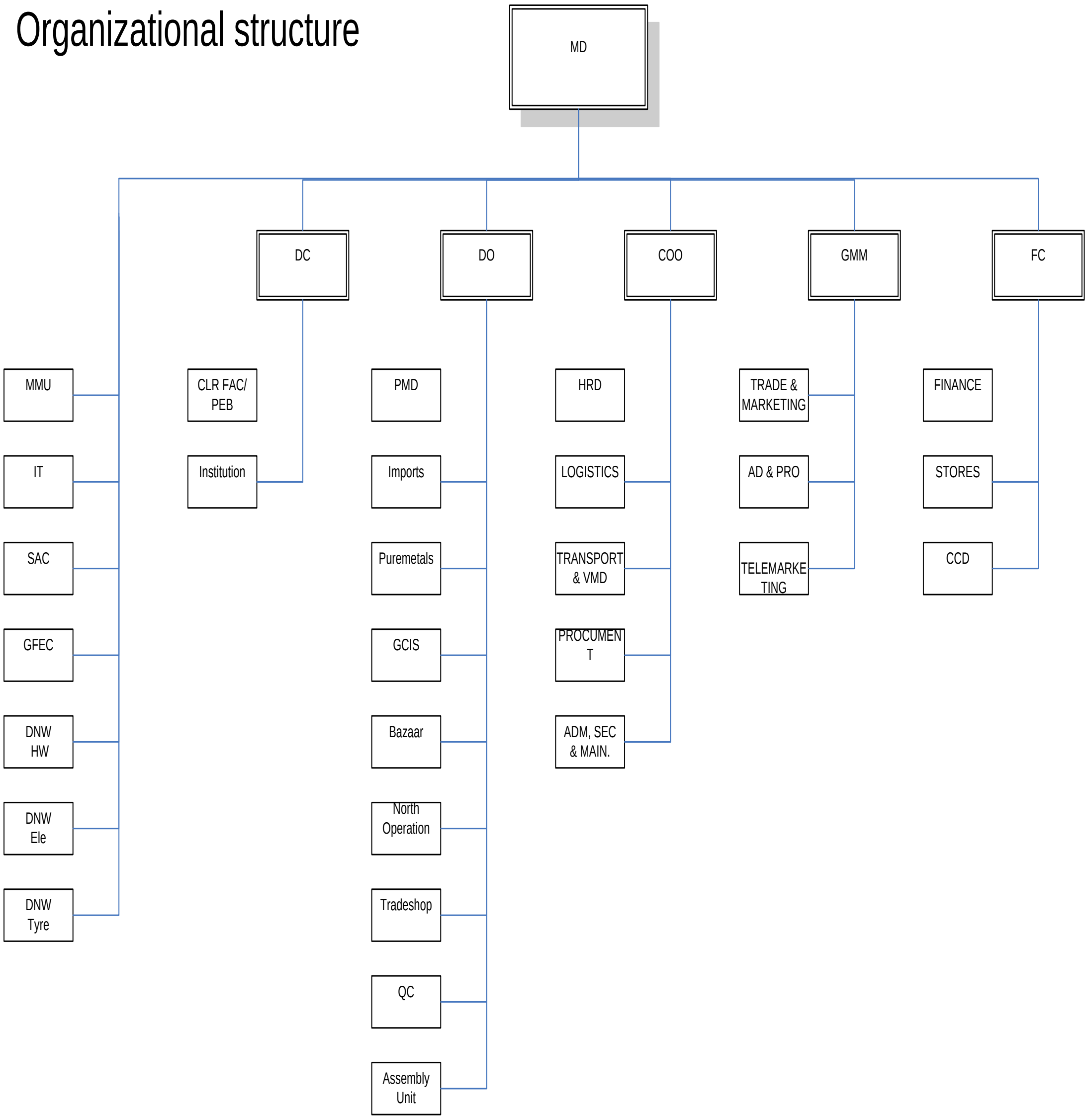
In 2007, company has started another remarkable product line called Pre-Engineered building construction with the objective of catering to the middle level business owners for offering low cost structures.

In 2011 company has expanded its business hugely with the cost of 200 million investing on increasing the vehicle fleets by 75 large trucks. The objective of this expansion is increasing sales to 600 million in next six months and achieves the Rs.1 billion sales per month in year 2012.

The company is operating for 55 traditionally trusted years and now it is a well matured diversified and disciplined business model that has grown in a volatile economy in manufacturing, trading and distributing. The business theme as named as the “Dorin Dorata” with the meaning of catering to customers to their door step with the company’s own distribution network.

For its immense contribution for over 55 years, company has achieved some of the best ISO Standards such as ISO 9001-2000, ISO 14001, OHSAS-18001 and UKAS Quality Management Award.

Organizational structure



Company is having six SBUs at present for catering to different market segments which have been designed in such a way that covering entire country. These SBUs activities and performances have been explained briefly as follows.

1.6.2 Dealer Network Hardware SBU

This is the biggest division of the company and achieving monthly sales of 150miliion. The division has its own sales team comprising with one general manager and three sales mangers with 20 Area Sales Executives and 125 sales reps. The division's collections and administration is handled by an Accountant who is having overall knowledge of Finance and operations. The divisions owns 75 full body trucks for smooth functioning of the operations and distributing all most all the Hardware products to all island. Current customer base of the SBU is 8000 Customers Island wide.

1.6.3 Dealer Network Electrical SBU

This SBU comprises with two senior sales managers and 75 sales reps with 12 Area Sales Executives. Division is under the purview of a partly qualified accountant with a good industrial experience in the Electrical industry. Monthly Sales turnover is around 100mn and there is a rapid expansion plan of increasing the sales from Rs.100mn to Rs.200mn within next six months from October 2011. Division comprises with 50 trucks which have been distributing all kinds of electrical items from shop to shop island wide.

1.6.4 Dealer Network Tire SBU

The division is dealing with middle range tires which are affordable to middle class customers having many ranges and many varieties from bicycle tires to truck tires. The SBU currently occupying two senior sales managers with two Area sales managers and they are covering entire Sri Lanka. Company has been facing a huge competition from the major suppliers of tires such as Arpico, AMW and other small timers who are bringing small shipments and distributing to the market. Monthly average turnover approximately is Rs.40million and which will be planned to increase to Rs.60million with the new expansion plan.

1.6.5 Institution Sales SBU

This SBU is specially catering to corporate customers such as banks, government institutions and NGOs and INGOs. Monthly average sales are around Rs.40million and have an expansion plan of Rs.75 million within next 6 months. SBU is having one sales manager and 12 marketing executives with one Sales Administration Accountant and his staff. This is one of the fastest growing SBUs of the company as there are good customer base especially after the 30 years war came to an end and there are many orders coming from north and east for rehabilitation process.

1.6.7 Bazaar Sales SBU

Company's foundation has been build from this SBU. This SBU is exclusively catering to Colombo Bazaar and monthly average sales around Rs.90 million only from this SBU. Different pricing strategies have been applied for competing with other big competitors and the SBU product prices have been considering the bench mark price for all the competitors. Division is handled by a senior manager who is having vast experience in the field. As per the expansion plan, division's monthly sales target for next six months is around Rs.150miliion.

1.6.8 Color Roofing Sales and Project Sales SBU

This SBU has been established for construction of Pre- Engineered building. There are many competitors in the concerned industry and the price is very sensitive and everything will depend on the price quoted. This division was handled by a well experienced qualified engineer with vast knowledge about the industry. Division has been converted to a fully owned subsidiary of the parent company in the year 2009 and now it is operating independently under the supervision of the holding company.

Chapter 2.

Literature Review

2.1 Introduction

It is very much important that to analyze the theoretical background of the issue by using the previous studies done on overtrading and successful implementation of the 80 20 rule in order to identify and analyze the problems facing by the company in a really competitive environment. Overtrading has become an invisible devil especially in emerging and growing companies. The most significant issue is that, those companies do not know whether they overtraded. As per the previous studies on the subject, there are many highlighting points which have assisted me to carry out the project. Even though there are very few literatures are available on the subject of overtrading and how this can be overcome using 80-20 rule, the available literature resources gave me an immense support to carry out the project. The latter part of this chapter is used to discuss the papers written on this subject

2.2 Theoretical analysis of the issue

It is very much important that to analyse the theoretical background of the issue by using the previous studies done on overtrading and successful implementation of the 80 20 rule. In order to identify and analyse the problems facing by the company in a real competitive environment, following two theories have been critically evaluated by looking at the company's current structure in the competitive and highly volatile market conditions. These two theories are able to provide the better picture about the company's position in the concerned industry.

01. SWOT Analysis

02. Porter's Five Forces Analysis

2.2.1 SWOT Analysis

SWOT Analysis will show the current position of the company in the competitive market which it exist. Strength, weaknesses, opportunities and threats have been critically analysed for identifying the company standing in the highly volatile market.

2.2.1.1 Strengths

- Company procures material and goods directly from overseas factories which helps to get maximum price benefits compared to other companies who are engaging in the same industry.
- Company serves directly to more than 12,000 customers base with their own distribution network and this huge base helps to not to depend on small customer base with big sales.

- Wide range of products and ability to respond to the market quickly, ability to cater for small size of orders as well as bulk orders as volume sales.

- Very Strong relationship with foreign Suppliers as well as local suppliers of Raw Materials, finished products as well as consumables which helps to minimizing sales losses due to non supplies on time.

- Owned distribution network having 150 trucks and 350 sales task force which will cater to each and every small shops by going to their door steps.
- Very dedicated top management team which is really assisting to Board of Directors for their decision making with each one having specific tasks as follows.

Table 1

<table>
<tr><th colspan="4">My Commitment Towards achieving corporate goals and objectives</th></tr>
<tr><td rowspan="13">Finance</td><td rowspan="6">CFO</td><td>1</td><td>I will Ensure 100% collection each month as per commitment</td></tr>
<tr><td>2</td><td>I will Ensure stocks are sold within the committed period</td></tr>
<tr><td>3</td><td>I will Ensure all LCs are managed efficiently so that there is no misuse</td></tr>
<tr><td>4</td><td>I will ensure to keep finding avenues to add facilities to the existing.</td></tr>
<tr><td>5</td><td>I will ensure Overheads are managed strictly as per the budget without deviation as per the system and control</td></tr>
<tr><td>6</td><td>I will Ensure cash flow shows a surplus each month by controlling above 1- 5 strictly and the minimum break even sales is maintained each month</td></tr>
<tr><td colspan="3"></td></tr>
<tr><td rowspan="3">Finance Manager</td><td>7</td><td>I will manage CUS 200M facility without obstacle settling the bills on time</td></tr>
<tr><td>8</td><td>I will obtain new WC facility to meet our requirement</td></tr>
<tr><td>9</td><td>I will restructure the treasury division to cater more service to SBUs</td></tr>
<tr><td colspan="3"></td></tr>
<tr><td rowspan="2">Senior Accountant</td><td>10</td><td>I will arrange LCs without delay</td></tr>
<tr><td>11</td><td>I will arrange import duties on time without demurrage</td></tr>
</table>

		12	I will allocate sufficient funds for sales requirements
	Senior Manager-Credit Control	13	I will ensure 100% collection target as per commitment achieved
		12	I will ensure 75% Topay cheques are collected within 21 days and 100% within 60 days
		15	I will ensure Bad debts are within 0.065%
GFEC	Senior Manager – Corporate Planning	16	I will manage overheads within 50M for 350 to 400M sales, 500M with 10% addition to OH
		17	I will manage the GFEC team to review Range Selling to reach 500M
		18	I will critically evaluate all the new projects to achieving results within the set time frame
PMD	DGM-Product Management & Imports	19	I will ensure 100% committed supplies on time and minimize overdue stocks.
		20	I will ensure new products introduction and ensure 30% GP enhancements, minimum overall average GP over 25%
		21	I will motivate the PMD team for more DA facilities
SALES & ADMIN	DGM-Sales Admin	22	I will ensure 100% range selling & coverage
		23	I will ensure New Projects take off on time
		24	I will ensure 100% 'SEVILI' cash sales collection on time
IT	Senior Manager-IT	25	Continuous system improvements introduce new technology when required which are practical
		26	Frequent check on all system controls
		27	Follow up meetings according to time table
HRD and Operations	COO	28	Quality man power on time and I will not allow any vacuum to happen for sales reps and direct sales support from the standards at any given

Operations			time
		29	I will not allow a single person to remain as a passenger
		30	I will have the control over manpower budget
		31	I will ensure 100% truck requirements are met without delays
		32	I will ensure that operational requirements are fulfilled in a timely and efficient manner

This paper is the mother document of all the Executive Management Committee members of the company.

- Maintaining strong and unbreakable relationships with all the top banks in Sri Lanka is one of the biggest strengths of the company.

- Managing Bad and doubtful debts very effectively and it is always below 0.125% from yearly sales which is one of the major strengths that competitors do not have.

- The growth rate of the business compared to previous year is always above 60% per annum.

- The company is a unique business model and example to any other company in the same industry. One of the benchmark companies for the competitors.

2.2.1.2 Weaknesses

- Huge overheads compared to other companies in the same industry, because company is doing a very sensitive and volatile business in a structured way.

- Production capacity of the in house factories is not using fully resulting low productivity.
- Weak capital structure as more reliance on the debt capital than the equity capital resulting huge servicing cost.
- No proper brand awareness, even though company is in the business for more than 50 years very less awareness among the general public.
- Building of infrastructure by anticipating huge sales targets costing huge burdens to the cash flow management.
- Even though, Executive Management Committee is not in agreement on some new projects, those are superseded by the Board of Directors resulting mismatch between both parties.
- Instead of customer oriented, company is more of a product oriented resulting overdue stocks piling up due to customer expectations are not met.
- Company is experiencing of Increasing inventory days and excessive investment in inventory.
- Company is excessively reliance on trade payables as a source of funds.
- Huge expansion resulting overtrading situation.

2.2.1.3 Opportunities

- Now company is engaging with 12000 customer base, however as per the recent market study done by the company, there are another untouched market base of 5000 customers has already found for activation.

- Company has a great opportunity to access export market by using their unique products called “KALAHARI and IRONORI” which are currently producing at Negombo factory.
- Company has a great opportunity to increase their product portfolio by accessing to the PVC industry as well as steel iron industry. Preliminary study has already been carried out for identifying the feasibility.
- At present company have 5 factories in various locations in India which are separately run under the name of Century wells India Private Limited. There are huge opportunities to expand the operations in China, Singapore and South Africa.
- Company has a great opportunity to manufacture tyres by themselves in addition to the importation. Feasibility study has already been done for establishing Tire manufacturing plant in Sri Lanka.

2.2.1.4 Threats

- Huge threats from competitors especially from Singer, Hayles and Orange Electricals for Electrical product line as the company becomes the big threat to all these large scale businesses.
- Continuous increase of the prices of imported goods which are adversely affecting to the company sales. Especially in steel prices in the foreign market.

- Many government rules and regulations imposed on imported goods for securing the local manufacturers have been becoming a significant threat on the company.
- Even though company has expanded their product line hugely, the current market is showing a downward trend which is really badly affecting as the investment on expansions is huge.
- New entrants to the market by local suppliers are another threat to the company. Some of the company senior level employees also have resigned from the company and establishing same product line which results turning some good customers to them as they have the good relationship with these people.
- Some environmental related issues also have identified in the factories which can also become threat to the business operations.
- Threats of overtrading.

2.2.2 Porter's five forces analysis

The company has been facing severe competition as per the analysis carried out by using Michel Porter's five forces analysis. Company is carrying out their businesses in a really volatile business environment all and the five forces actively performing around the company.

2.2.2.1 Bargaining power of buyers

There is a significant bargaining power of buyers as the products are very generic and there is no sufficient brand awareness and buyers are basically going through the cost conscious concept.

- Hardware, Electrical and Tire market is very competitive and buyers have significant bargaining power as there are many suppliers for same products.
- Even though company is having 15000 customer base, currently catering only to 7500 customer base.
- Market is very price conscious and customers can reject sales orders at any circumstances as per their wish by expressing variance reasons.
- Economic down turn will really affecting to all buyers and their purchasing power has been reduced drastically.

2.2.2.2 Bargaining power of suppliers

Suppliers also having significant bargaining power on their shipments as the company are some instances not significant to their customer profitability analysis.

- Steel and electronic Market is dominated by few large suppliers in India and china, so the suppliers of the company have significant bargaining power over the company.
- There are enough substitutes for the particular products

- Company is not very significant to the suppliers, because as per the customers profitability analysis, of the concerned suppliers, it is not covered even 1% out of their total customer base.

The supplier base are gradually increased by the company and negotiating with suppliers for having at least 5 suppliers for each and every product which are currently sourcing by the company, so with that strategy company might be able to reduce the bargaining power of suppliers.

2.2.2.3 Threat of new entrants

Two companies recently established with some of our product portfolios by the company's Ex- Sales personal as,

01. MYDIA

02. Thaprobane Marketing.

2.2.2.4 Threats of Substitutes

There are some product ranges which gives similar performances for low cost than the company's prices will have significant impact of the sales of the company and this is considered as the threats of substitutes.

2.2.2.5 Threat of existing rivalry

In addition to that, there are many competitors which are having similar product portfolios that results high competitive pressure results in pressure on prices, margins, and hence, on profitability in the company.

- Many competitors in the industry of about the same size; there is no dominant firm
- There is a very little differentiation between competitors' products and services.
- A Hardware, Electrical and Tire are a matured industry with very little growth and companies can only grow by stealing customers away from competitors

2.3 Emerging 80 20 rule on Inventory Management and managing product portfolios

It was in 1897 that an Italian named Vilfredo Pareto began studying patterns of wealth and income in 19th century in England. Pareto attempted to mathematically define the distribution of wealth. Of course, he found it was unequal, and that a minority had the huge wealth.

With this study he identified the first 80/20 rule. 20% of the population in England owned 80% of the wealth.

From this first study, he began an analysis of other regions and countries, and found the same ratio appropriate. A brilliant economist, Pareto saw a predictable mathematical relationship in the patterns of wealth and populations; he called this the "Law of the Vital Few." This valuable theory became known later as the ancestor to the 80/20 Rule.

Pareto took the laws of mathematics to a simple first step. By 1949, George Zipf, A Harvard Linguist, found the same principle at works with words. Most words are seldom used, while a few words are used often. Following Pareto's wealth curve, he defined that the frequency with which a word was used was proportional to 1 divided by the word's frequency rank amongst all words. This means that the second item occurs half as often as the first and the third item as often as the first, and so on. This became known as *Zipf's Law*. Zipf took it much further. For example, in a 21-block area of Philadelphia, the marriage licenses issued showed that 70% of the marriages were between people who lived not more than 30% of that distance apart.

This type of study became the steps to power law distribution, the 1/x shape that Pareto first saw in his wealth curves. 'Power laws' are familiar bell curves that occur where things are different, some are better than others, and effects such as reputation can work to promote to the good, or suppress the bad. Pareto called this the "*predictable imbalance of markets, cultures, and society*."

To a marketing manager, Pareto means "80% of our sales are made to our top 20% of customers" (Buchanan 2002); (Sanders 1987). In reality, the proportion of sales to the top 20% of customers often seems closer to 60% and varies considerably, based on the time period of observation (Schmittlein, Cooper and Morrison 1993) and the market share of the brand (Rungie, Laurent and Habel 2002).

This percentage of sales to the top 20% of customers, or "Pareto Share" as they have defined it, appears to be a valuable tool to address the nature of product categories. It allows us to understand to what degree the heavy users of that category account for its turnover.

"Pareto Share" may offer insight to brand managers as to whether to pursue increases in Penetration of their brand as per (Ehrenberg and Goodhardt 1990), increases in loyalty (Zeithaml, Rust and Lemon 2001) or purchase frequency (Peppers, Rogers and et al. 1999)

Most importantly, looking at Pareto Shares gives us the opportunity to compare categories. Whilst there are a number of measures of behavioral loyalty, Pareto Share is one which is closely correlated to the shape parameter (the K parameter) of the distribution. Categories with similar Pareto Shares are dealing with customer bases that are very similar in their behavioral loyalty to the category. While penetration indicates the proportion of shoppers who have purchased the category one or more times, Pareto Share can add depth to an analysis by giving an indication of the concentration of these customers. Categories that may appear on the surface to be entirely dissimilar may have their customer bases behaving in the same sort of manner. Some early findings (Allsopp, 2002) show that - for example – "purchase of desserts" and "trips to the supermarket" are identical in how much volume is accounted for by the top 20% of their customers. This non-intuitive finding demonstrates the benefit of stepping back from the complexities and nuances of “what you see on the shelf” and using the tool of Pareto Share to clinically assess what your customer base is doing.

In 1937, Dr. Juran conceptualized the **Pareto principle**, which millions of managers rely on to help separate the "vital few" from the "useful many" in their activities. This is commonly referred to as the **20-80 principle**. In 2003, the American Society for Quality is proposing renaming the Pareto Principle the "Juran Principle." Its universal application makes it one of the most useful concepts and tools of modern-day management.

The 80-20 Principle can be used by every intelligent person in their daily life. It can multiply the profitability of corporations and the effectiveness of any organization or individual.

The value of the Pareto Principle for a manager is that it reminds to focus on the 20 percent that matters. As per the previous studies carried out on the subject, it has been highlighted that of the things somebody does during the day, only 20 percent really matter. Those 20 percent produce 80 percent of the results.

The application of this law has now progressed to the point where a ratio of approximately 20% to 80% can be found as an effective measure for most things in life. Whether revenues generated per customer or value for hours worked, it usually can be found that 80% of all of our results in business and in life come from only 20% of our efforts.

As importantly, the 80-20 ratio seems to hold true for many input/outputs, causes/consequences, or efforts/results. It also holds true across the spectrum of relationships, business, finances, and time whatever the case may be.

Discarding low value activities in all areas of the business, work and personal life, the true essence of the Pareto Principle, will create the time and freedom for to enjoy a more richly endowed lifestyle.

When this concept is put to business owners, they hesitate at the concept and say ... "I can't afford to discard 80% of my products or customers!" And also they did not believe that this kind of impact on their performances on 80% of non essential products and they did not know they have such a problem.

When the Pareto Principle is used to describe the firm-size distributions, we find that while there are only a few very large firms, numerous small firms exist (80% of business assets are in the top 20% of firms). Common sense tells us that when customers prefer a firm’s products, this firm is more likely to grow, thus it implies that the firm size is determined by the way customers allocate their resources among products, which in turn translates to business assets. Therefore, the customers’ product usage pattern determines the concentration of assets among firms, and consequently the firm-size distribution and the market structure.

2.3.1 Empirical Studies results of overcoming overtrading by using 80 20 rule of implementation

As per the research done by Cullen Habel and Cam Rungie under the topic of 'The Pareto Effect (80:20 rule) in Consumption of Beer, Wine and Spirits, they have considered two performance issues for several types of alcohol – category penetration and consumer concentration. Consumer concentration is addressed using the performance measure of "Pareto Share", which is defined as the percentage of category sales to the top 20% of its consumers. The beverage categories of beer, wine and spirits are first compared for their observed 1-week time period. The categories are then modeled, using the Negative Binomial Distribution in order to extrapolate market behavior to longer time periods of observation – in this case a month and a year. Findings of this study are that the Pareto effect varies considerably across alcohol types and that the apparent Pareto effect increases as the sample time increases. The implications for managers are discussed and areas of further research highlighted.

For their study, they have collected survey data of approximately 4800 respondents for analysis. This was based on a quota sampling of the Australian population for the Australian Bureau of Statistics Population Monitor in 1995. Face to face interviews were taken in the house of the respondent. Whilst descriptive statistics for respondents were collected. Respondents were asked to recall their consumption of alcohol products on a daily basis for the week prior to the interview.

As per the study, it seems that the "Pareto Effect" is not a clear 80:20 relationship but that it varies among categories. Whilst it is not safe to make any general rule, the Pareto Share is more likely to be around 55% to 65% and most importantly. This variation in Pareto Effect can be described using a simple example. Consider a woman aged 23, her mother and her grandmother. The 23 year old woman consumes wine about twice a week as part of her busy social life, the mother maybe once a month at family get – together, and the grandmother maybe once a year at special occasions. For a sampling time of a week, the 23-year-old gets into the sample but neither of the lighter users does. The sample is then full of consumers with a purchase frequency similar to hers. When they observed for a month, the mother is captured in the sample. By that time the daughter has consumed 8 times compared to the mother's one. Pareto Share of the one month sample is greater than the one week. Once the sampling period is extended to a year, the Daughter, Mother and Grandmother are all in the sample, with volumes of 104, 12 and 1 respectively. By including more light users the heavier users become a smaller percentage of the customer base and the Pareto share increases.

As per their conclusion they have demonstrated how customer concentration varies between three categories of alcoholic beverage and how that concentration varies with the time horizon. As such this paper constitutes a replication of Scmittlein Cooper and Morrison's 1993 work in a different context. The result of different Pareto Shares across beer, wine and spirits demonstrates that Pareto Share can vary from category to category. We have introduced the terminology of "Pareto Share" and defined it as the percentage of sales made to the top 20% of customers, and demonstrated how it may serve as a guide to a category (or brand's) health. A deeper understanding of Pareto is likely to give the industry insight as to how to grow the category, and maybe give brand managers less cause to panic when they look at their panel data.

2.3.2 Practical application of 80 20 rules and feedback

As mentioned before, poor financial controls contribute to the problems of overtrading. As a result, if businesses impose tight budgetary controls, then the probabilities of overtrading are reduced. In this respect, forecasting of cash flows can be an effective tool in assessing the level of cash that will be available to the company in future periods. There are some ratios, such as the current ratio and the quick ratio, which enable companies to make an assessment of the level of cash that is available to finance the current liabilities (cited in Shapiro, 2007). These ratios will indicate the point at which the cash level is so low that the company is no longer in a position to pay off its current liabilities. Then the company is suffering from overtrading. Therefore, monitoring these ratios is one of the means of avoiding overtrading.

Monitoring ratios can alert the management of the company when it is vulnerable to overtrading. However, such monitoring is not a preventative measure because once the cash level has fallen below the acceptable limit; the company will no longer be in a position to change policies quickly enough to retrieve the situation. Therefore, the management of the company must formulate policies and put those into action in advance in order to avoid overtrading. In this respect the two most important stakeholders groups that the management has to address in its policies consist of debtors and creditors (cited in Siciliano, 2007). In the event that the company has been operating in the market for some time and has built up a reputation, the management will be in a position to negotiate payments terms with buyers for shorter cash conversion cycles. Otherwise the company can offer discounts to customers who pay in cash or who purchase in shorter credit terms (cited in Ross, 2006). Managing creditors is also an important issue in the form managing longer credit terms with suppliers. In other words, one of the most important strategies when it comes to avoiding overtrading is to minimize the debtor day's ratio and to maximize the creditor day's ratio (cited in Evans, 2004). As a result, the company will receive cash sooner and pay out later. Another strategy for reducing this risk is to forecast sales more accurately in order to manage stock more efficiently so that cash is not tied up in inventory. Budgetary controls in capital expenditures are also critical. In this respect, the company can go for leasing rather than buying the plant and equipment in order to minimize cash outflow. These are some of the ways in which growing businesses can reduce risk of overtrading.

Even though Pareto's Law or the 80/20 principle known by many people**,** a few people really understand how it can be used. Or at least, they only understand 80% of it, 20% of the time. The concept is a century old phenomena which can be used for improving the company performances and it is a real solution for overtrading.

In this part, analysis has been performed to identify how the 80/20 principle can be used to streamline the company operations for reducing costs, and increase profits by maintaining proper product management for avoiding overtrading.

Pareto's discoveries, presently usually referred to at the Pareto Principle**,** Pareto's Law or the 80/20 principle**,** have been used in areas that Pareto could never have imagined. Many people are surprised at how often Pareto's Law appears, and how easy it is to use the 80/20 principle to analyze the business operations.

Pareto's Law is old news to a lot of industrial engineers and people in the quality profession dealing with process improvement, but it can be used to analyze a variety of other things in a business. If the concerned company is a manufacturing company, Pareto's Law can be used to evaluate whether to add to or eliminate part of product line, or evaluate customers. If the company is a trading business, Pareto rule can be used to analyze the stocking inventory and to determine how many of those SKUs those manufacturers will use for obtaining more sales. Jobbers and retail businesses can use it as a tool to allocate floor and shelf space.

The point of all this by using 80 20 rule is to focus that efforts on the few products or customers that bring in most of the revenue*.* If the 20 percent of the company's total stock takes up 80 percent from the warehouse space and that 80 percent of stock comes from 20 percent of suppliers. Also 80 percent of sales will come from 20 percent of sales staff. 20 percent of staff will cause 80 percent of problems, but another 20 percent of staff will provide 80 percent of production. It works both ways

Pareto Analysis is a statistical technique in decision making that is used for the selection of a limited number of tasks that produce significant overall effect. It uses the Pareto Principle, the idea that by doing 20% of the work you can generate 80% of the benefit of doing the whole job. Or in terms of quality improvement, a large majority of problems (80%) are produced by a few key causes (20%). This is also known as the vital few and the trivial many.

The 80/20 rule can be applied to almost anything:

- 80% of customer complaints arise from 20% of products or services.
- 80% of delays in schedule arise from 20% of the possible causes of the delays.
- 20% of products or services account for 80% of profit.
- 20% of sales-force produces 80% of company revenues.
- 20% of a systems defects cause 80% of its problems.

The Pareto Principle has many applications in quality control and product management. It is the basis for the Pareto diagram, one of the key tools used in total quality control and Six Sigma.

The Pareto Principle has used for avoiding the overtrading situation of the company, considering that lacking of proper product management is the main reason for overtrading of the company. As a result of lacking of systemized product management, there were no essential items which are being requesting by the SBU, but products which have not been requested by the SBU have been provided excessively. Due to this practice, huge sales loss occurred in last three years of the company. This impact has been having a cyclical repercussions which will be explained in the ‘Analysis’ chapter.

The Literature Review has based on the overtrading and using 80-20 rule for avoiding overtrading. Some literatures did not directly involve to the project, but those have given a clear pathway to analyze the situation in a formal and systematic way.

2.4 Summary

The Pareto Principle has many applications in quality control and product management. It is the basis for the Pareto diagram, one of the key tools used in total quality control and Six Sigma.

The Pareto Principle has used for avoiding the overtrading situation of the company, considering that lacking of proper product management is the main reason for overtrading of the company. As a result of lacking of systemized product management, there were no essential items which are being requesting by the SBU, but products which have not been requested by the SBU have been provided excessively. Due to this practice, huge sales loss occurred in last three years of the company. This impact has been having a cyclical repercussions which will be explained in the ‘Analysis’ chapter.

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those have given a clear pathway to analyze the situation in a formal and systematic way.

Chapter 3

Methodology

3.1 Introduction

This chapter focuses on the methodology that has been followed when carrying out the project. In this chapter, the method of study, examination of current practice on product management, determining the appropriate system for product management and the data collection methodology will be considered and critically evaluated.

3.2 Method of Study

In carrying out the study, following methods have been followed. To evaluate and analyze current overtrading situation of the company, it is very much important to identify what are the main reasons. There should be a proper methodology of analyzing the situation.

- The present system of product management and inventory management has to be carefully studied as the first step.
- Determination of the appropriate system for product management is the second step. This step will identify various methods of inventory management techniques.
- After identifying the appropriate method, relevant data and information has to be gathered.
- Analysis of all the gathered information is also another vital part of the process.
- Data has to be arranged as per proper order for facilitating the evaluation and analysis.

3.2.1 Examination of the present system of the product management

As per the present structure, there are 9 product managers are engaging in product development, sourcing and management. Assistants are also been educated to carry out the product development. As per Key performance indicators given to those managers, they are well aware with the company's expansion vision and always ordering and sourcing goods for satisfying the Board of Directors. However following techniques are not been followed, even though, they are most vital phenomena when sourcing and introducing new products to the market.

- No proper market study being carried out before introducing a new product to the market.
- Lack of market intelligence and always depend on the reactive strategies rather than proactive.
- Lack of experience of the product development managers causing huge damages and become victims of some foreign suppliers especially from country like, Indonesia and China.
- Their ordering and sourcing are hugely depend on the commitment given by the field sales staff who do not know about the market trend and giving commitments as they want.
- Management has given big targets for junior product management executives such as 'introducing 10 products per month within three months period'. As a result of these big targets, they are going behind the

field sales staff and sourcing for many unnecessary products which lead to overdue stocks.

3.2.2 Determination of appropriate system for product management and sourcing.

It is well understood that present system is not appropriate and causing many setbacks and leading for overtrading situation for the company operations. Before determining the appropriate system, it is better to highlight how this inappropriate system has directed to overtrading.

- Excessive investment on unnecessary items as per the pressure given by the top management on product managers heads.
- Leading to many stocks being on overdue status. Currently out of 1.2 billion stocks, 700 million has been considered as overdue. Overdue means stocks which are lying in the stores more than 90 days without moving.
- Resulting increasing inventory holding days which leads to huge holding cost as well as other relevant costs.
- When the stocks are not moving, working capital cycle is not working resulting sales and collection failures. When the fast moving goods are not available, sales will not happen.
- Customers will not pay as they know company does not have sufficient fast moving stocks for reselling as they are depend on the company's goods.

- Debtors' residency period has increased significantly and it is not under the control of Credit control divisions. So field sales staff will be grounded as well as customers will be blacklisted due to defaulting of payments.
- Suppliers' bills cannot be settled due to poor cash flow situation and many borrowings are the results.
- Suppliers are not in a position to ship the next order as their bills are not settled and they will introduce more and more conditions.

So, this is the true situation of the company which are currently experiencing. Therefore it is very much important to introduce an appropriate system for overcoming this situation. This all happen due to improper ordering and sourcing pattern.

As per 80 20 rule known as Pareto Principle, Eighty percent of the output comes from twenty percent of the input. That is basically a summary of the Pareto Principle, or as it is more commonly known, the 80/20 Rule. The rule comes from Vilfredo Pareto, an Italian economist who noticed that 80% of Italy's wealth was in the hands of 20% of the population.

The 80/20 Rule points out the imbalance of effects. Just as one person might have several times the wealth as another, one hour spent on a critical project might be worth one billion rupees while another might only be worth 1 million. The goal when using the 80/20 Rule is to maximize the small and powerful twenty percent and reduce the wasteful eighty percent.

Therefore it is decided to use 80 20 rule as the appropriate technique for product management division of the company. Based on this, data has been collected from various sources for carrying out the study.

3.2.3 Data collection

Various methods have been used in data collection. Some of the main methods have been summarized as follows.

- Last three years company's imports statistics which shows total goods have been received by the company in various categories.
- Last three years stock records and material management reports.
- Last three years sales vs. collections analysis
- Last three years debtors outstanding reports and creditors details
- Detailed analysis of selected SBU and its all relevant details
- Many discussions with Product development mangers as well as divisional heads who are directly involving with the sourcing
- Last three years stock movement records and overdue stock status

In addition to the above, last three years financial statements have been critically evaluated to identify whether the company is overtraded or not and to identify reasons if any.

3.2.4 Data arrangement, analysis and presentation

All collected data and information has been arranged in a proper organized way to facilitate to carry out analysis and presentation.

3.2.4.1 Master Summary

This includes summary of all detailed data and information which covers all schedules and sub schedules which have to be used for analysis. All the collected data under the each heading has been summarized and included in the master summary.

3.2.4.2 Imports statistics

These details have been organized each product wise and yearly and month wise for identifying the relevant details as and when required. These details are very confidential and have to keep in very securely manner and it should not be allowed to go the hand of any third party. Therefore all these details have been kept in the safe.

3.2.4.3 Stock records and material management reports

These details also have been organized in a very methodical way by using numbering system for all the reports month wise, year wise as well as product wise and product department wise.

3.2.4.4 Sales and Collection statistics

These details have been recorded each month wise sales vs. collection in the concerned SBU division. Necessary hard copies have been taken from the system. SBU total sales for last three years have been categorized each product category wise, currently, there are 87 product groups available in the concerned SBU.

Chapter 4

Analysis

4.1 Introduction

This chapter basically focuses on the last three years financial and product related data as well as the import related data of the company. In this chapter, we have analyzed the product supplies against sales commitment given by the selected SBU of the company for the year 2009, 2010 and 2011.In those three years each month wise supplies against sales commitment has been critically evaluated. In addition to that, the total product categories of the Hardware SBU have been divided in to two as essential items and non essential items. There are about 25 essential items which are giving 80% contribution to the sales as well as 67 non essential items which are giving 20% contribution to the sales. And also, in this analysis, we have identified the product management division of the company had supplied lesser quantity from essential items and excess quantity from non essential items. In the analysis, it has been clearly defined that due to poor product management, the selected SBU had lost 201 million worth of sales in 2009, 219 million in the year 2010 and Rs.349 million in year 2011. So, it has been identified in the analysis part, this poor product management had lead to the current overtrading situation of the company

4.2 Managing the inventory and optimum stock levels

Managing inventory is a juggling act. Excessive stocks can place a heavy burden on the cash resources of a business. Insufficient stocks can result in lost sales, delays for customers etc.

The key is to know how quickly the company overall stock is moving or, put another way, how long each item of stock sit on shelves before being sold. Obviously, average stock-holding periods will be influenced by the nature of the business. For example, a fresh vegetable shop might turn over its entire stock every few days while a motor factor would be much slower as it may carry a wide range of rarely-used spare parts in case somebody needs them.

Nowadays, many large manufacturers operate on a Just-In-Time (JIT) basis whereby all the components to be assembled on a particular today, arrive at the factory early that morning, no earlier - no later. This helps to minimize manufacturing costs as JIT stocks take up little space, minimize stock holding and virtually eliminate the risks of obsolete or damaged stock. Because JIT manufacturers hold stock for a very short time, they are able to conserve substantial cash. JIT is a good model to strive for as it embraces all the principles of prudent stock management.

The key issue for a business is to identify the fast and slow stock movers with the objectives of establishing optimum stock levels for each category and, thereby, minimize the cash tied up in stocks.

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4.3 SBU committed sales vs. Supply situation by the Product Management Division

In the concerned Dealer Network Hardware SBU, there are 87 product groups are available as follows.

Following are the products which have been categorized as Essential & non essential items in the hardware SBU of the company.

Even though company's Hardware Division's sales commitment was Rs. 94 Million, Product Management Division was unable to supply sales commitment made by the SBU. They had supplied only 87 million in the month of January 2009. The company has been experiencing overtrading situation from year 2009 and based that year and year 2010 and year 2011 for the analysis. In year 2009, Total commitment of the Hardware SBU was Rs.1081million, however Product Management Division was able to supply only 957million and as a result of this, total sales loss was Rs. 124 million averaging to Rs. 10 million per month.

In 2010, the situation was more critical and total sales loss for the year was Rs.210 million and almost doubled compared to year 2009. Overall Sales commitment of year 2010 was Rs.1440million, however Product sourcing was able to supply only Rs. 1230 million of goods and gross sales loss for the year was Rs. 210 million.

In 2011, sales loss was more significant than year 2009 and 2010 and continuously increasing and it had become a huge burden to the company as this could not have been recovered and the gap has already being filled by the competitors. In 2011, total sales commitment of the SBU was Rs.1608 million and unfortunately, the Product Management Division had supplied only Rs. 1328 million which was resulted a sales loss of Rs. 280 million for the year.

When critically evaluating the commitment vs. supplies in these three years, we have noticed that there was a serious product management and sourcing issues of the company and this has happened due to unprofessional management of inventory strategy.

Table 2 - 2009 DNW

Month	Sales Commitment	PMD Supply	Sales Loss
April	94	87	7
May	87	79	8
June	96	85	11
July	76	66	10
August	93	80	13
September	89	80	9
October	78	67	11

November	87	75	12
December	91	83	8
January	90	81	9
February	97	85	12
March	103	89	14
Total	1081	957	124
Average per month	90	80	10

Table 3 - 2010 DNW

Month	Sales Commitment	PMD Supply	Sales Loss
April	107	94	13
May	102	87	15
June	116	99	17
July	111	90	21
August	123	110	13
September	109	91	18
October	124	104	20
November	132	115	17
December	127	112	15
January	133	112	21
February	130	112	18
March	126	104	22
Total	1440	1230	210
Average per month	120	102	18

Table 4 - 2011 DNW

Month	Sales Commitment	PMD Supply	Sales Loss
April	130	106	24
May	136	115	21
June	127	107	20
July	118	101	17
August	140	117	23
September	133	108	25
October	138	117	21
November	141	122	19
December	129	102	27
January	135	111	24
February	147	116	31
March	134	106	28
Total	1608	1328	280
	134	111	23

In above three tables, I was able to explain the overall situation of the company in terms of sales loss. However when further analyzing the situation, we have identified there was a serious issue in the Product Management Division. This is very complex analysis as the problem is very significant and nobody had identified the actual course for overtrading till the report highlights this issue.

As per the above analysis, someone will think, Product Management Division has not supplied required commitment by the SBU. However that conclusion was wrong as following information will show the true situation.

Hardware trade is a very generic industry and there is no any barrier to enter the market by anybody as well as there is a huge competition among many hardware items importers and local manufacturers. Therefore the division requires some items essentially to achieve their target. Some items are not essential by nature and those are considered as additional qualifications for selling the essential items. However impact of those items was very minimal to achieve the sales commitment.

Therefore it is very much important to identify what are the essential items which give more contribution to sales target and what are the non essential items which give lesser contribution to sales commitment.

4.4 Analysis of essential items against non essential items

As per Table 5, there are 87 product categories of the SBU and only 25 items have been considered as essential items which give more contribution to sales. And also out of 87 products 62 products have been considered as non essential items which give lesser contribution.

Table 5. Total number of products and Essential items vs. non essential items

NO	PRODUCTS	ESSENTIAL ITEMS	NON ESSENTIAL ITEMS
1	GCIS -THINNER --CORRUGATIONS	√	
2	GI & GL THICKER MATERIALS	√	
3	ALUMINIUM COIL	√	
4	PAD LOCK	√	
5	WELDING RODS		√
6	G.I. PIPES		√
7	CK TAPS	√	
8	PVC TAPS	√	
9	BLIND REVETS		√
10	BALL & FOOT VALVE	√	
11	CALCIUM CARBIDE		√
12	CONGRETE NAILS		√
13	DOOR LOCK	√	
14	DRAWER LOCK		√
15	WIRE MESH	√	
16	KITCHEN SINK	√	
17	LUXMI -MORTICE LOCK		√
18	NIGHT LATCH		√
19	SHOVEL	√	
20	WHEEL BARROW	√	
21	WHITE SAND PAPER -NEW GLOBUS		√
22	RED SAND PAPER		√
23	PE -TARPAULIN	√	
24	PVC COATED CHAIN LINK	√	
25	GARDEN HOSE -DERRIC	√	

26	GARDEN RAKE -FROG BRAND		√
27	HOT DIPPED GALVANIZED BARBED WIRE		√
28	WIRE NAIL	√	
29	FLEXIBLE HOSE -DERRIC		√
30	FLASHING TAPES -HERCULES		√
31	RED SAND PAPER -ROLL		√
32	DOOR LOCK -7534 -MORTICE -RODMURPHY		√
33	SLOTTED ANGLES		√
34	PVC BUCKET		√
35	STEEL M/ TAPE		√
36	COMBINATION PLIERS		√
37	SLEDGE HAMMER		√
38	CALW HAMMER		√
39	AXE HEAD		√
40	PICK AXE		√
41	L.P.G REGULATOR -WINGAS		√
42	DOWN PIPE CHAIN		√
43	CONCR.PAN & ROOFING WASHER		√
44	COLD CHISEL		√
45	HAND REVETER		√
46	HACK SAW BLADE		√
47	SHELF BRACKET		√
48	PAINT ROLLERS -RAINBOW		√
49	ADJUSTABLE WRENCH		√
50	PRE PAINTED PRIME SHEETS	√	
51	DELLER PRODUCTS		√
52	IRONORI	√	
53	KALAHARI	√	
54	WATER PUMPS -MAHARAJ	√	
55	MS HEXAGONAL BOLTS & NUTS	√	
56	METRIC BOLTS & NUTS	√	
57	BRASS WOOD WCREWS	√	
58	IRON WOOD SCREWS		√
59	THREAD BAR -BSW		√
60	GALVANIZED ROOFING BOLTS & NUTS		√
61	FLAT WASHERS		√

62	TOWER BOLTS -STANLEY		√
63	PE -ROPES -HERCULES	√	
64	CROW BAR		√
65	HOE -LAKGOYAM		√
66	SQUATTING PAN		√
67	WEGDES		√
68	TOOL BOX		√
69	DRAWER SLIEDS		√
70	SELF TAPPING SCREWS PH		√
71	SELF TAPPING SCREWS CSK	√	
72	SELF DRILLING SCREWS		√
73	DOG LEAD		√
74	HEXAGONAL NUTS		√
75	"L" & "J" HOOKS		√
76	ANIMAL CHAIN		√
77	MS CARRIAGE BOLTS & NUTS		√
78	UMBRELLA NAILS		√
79	GALVANIZED ROOFING NAIL -JACK		√
80	ORISSA PAN		√
81	METRIC HEXAGONAL NUTS		√
82	ROOFING SCREWS		√
83	SHOE TACK NAIL		√
84	IRON PANEL PINS		√
85	NARROW BUTT HINGES		√
86	SICKLES		√
87	SELF TAPPING SCREWS BLACK		√
		25	62

In year 2009, Hardware Division’s sales commitment on essential Items was 864 Million and Product Marketing Division was able to supply only 661 Million. Therefore sales loss was 203 during the year 2009. Sales Commitment on Non essential Items was 217 Million and Product Management Division had supplied 296 million. They were unable to supply committed quantity on essential items and supplied more on non essential items. As per the analysis of 80 20 rule, it is very much clear that essential items are giving 80% contribution to the total sales while non essential items give only 20% contribution to sales. As a result of this, stocks were piling up on non essential items. In year 2009, there was 79 million worth of stocks were available without selling. This was a real burden to the company and this had become one of the main issues of cash flow problems of the company. In addition to that, due to non supply of essential items, our customers were being serviced by competitors and company had loosen the customers and their payment were defaulted as they have no faith that new stocks will come to fulfil their stock requirement as they are also the money rollers when they are doing the business.

Table 6. Comparison of essential items and non essential items 2009

	Essential Items			Non Essential Items			Total		
	Sales Commit	Supply	Sales Loss	Sales Commit.	Supply	Sales Loss	Sales Commit	Supply	Sales Loss
April	76	50	26	18	37	-19	94	87	7
May	72	59	13	15	20	-5	87	79	8
June	73	64	9	23	21	2	96	85	11
July	61	45	16	15	21	-6	76	66	10
August	70	54	16	23	26	-3	93	80	13
September	75	56	19	14	24	-10	89	80	9
October	64	53	11	14	14	0	78	67	11
November	73	55	18	14	20	-6	87	75	12
December	70	56	14	21	27	-6	91	83	8

January	73	53	20	17	28	-11	90	81	9
February	77	59	18	20	26	-6	97	85	12
March	80	57	23	23	32	-9	103	89	14
Total	864	661	201	217	296	-79	1081	957	124

In year 2010, as per Table 3, the situation is more critical and out of total sales commitment, Rs. 1019 million are essential items while Product Management Division had supplied only Rs.760 million which resulted of Rs. 259 million sales losses. However, Product Management Division has supplied more on non essential items which did not have more demand by the SBU. Sales commitment of non essential items was Rs. 421 million, but supplied 470 million which was above the requirement of the SBU. As a result of this, improper product management, in year 2010 itself company has lost 203 million pure sales which has already been catered by competitors. In addition to that 49 million worth of stocks have been kept in the stores without selling.

Table 7. Comparison of essential items and non essential items 2010

	Essential Items			Non Essential Items			Total		
	Sales Commit	Supply	Sales Loss	Sales Commit.	Supply	Sales Loss	Sales Commit.	Supply	Sales Loss
April	86	65	21	21	29	-8	107	94	13
May	81	57	24	21	30	-9	102	87	15
June	79	59	20	37	40	-3	116	99	17
July	69	50	19	42	40	2	111	90	21
August	84	66	18	39	44	-5	123	110	13
September	80	57	23	29	34	-5	109	91	18

October	87	63	24	37	41	-4	124	104	20
November	91	67	24	41	48	-7	132	115	17
December	97	77	20	30	35	-5	127	112	15
January	84	61	23	49	51	-2	133	112	21
February	88	63	25	42	49	-7	130	112	18
March	93	75	18	33	29	4	126	104	22
Total	1019	760	259	421	470	-49	1440	1230	210

In year 2011, total sales loss was Rs. 349 million due to non supplies of essential items. Table 4, shows the comprehensive picture on the concerned issue. Sales commitment for essential items was Rs.1228 million while Product Management Division had supplied only Rs.879 million. As well as even though the commitment was Rs. 380 million on non essential products, Product Management Division had supplied Rs. 449 million worth of goods which was resulted Rs. 69 million excess supply.

Table 8. Comparison of essential items and non essential items 2011

	Essential Items			Non Essential Items			Total		
	Sales Commit	Supply	Sales Loss	Sales Commit	Supply	Sales Loss	Sales Commit	Suppl y	Sales Loss
April	96	69	27	34	37	-3	130	106	24
May	101	71	30	35	44	-9	136	115	21
June	89	65	24	38	42	-4	127	107	20
July	77	48	29	41	53	-12	118	101	17

August	94	74	20	46	43	3	140	117	23
September	107	84	23	26	24	2	133	108	25
October	119	97	22	19	20	-1	138	117	21
November	102	73	29	39	49	-10	141	122	19
December	120	91	29	9	11	-2	129	102	27
January	99	67	32	36	44	-8	135	111	24
February	109	64	45	38	52	-14	147	116	31
March	115	76	39	19	30	-11	134	106	28
Total	1228	879	349	380	449	-69	1608	1328	280

In current year up to now(April – August), total sales loss was Rs. 203 million due to non supplies of essential items. Table 5, shows the comprehensive picture on the concerned issue. Sales commitment for essential items was Rs.778 million while Product Management Division had supplied only Rs.507 million. As well as even though the commitment was Rs. 211 million on non essential products, Product Management Division had supplied Rs. 279 million worth of goods which was resulted Rs. 68 million excess supply.

Table 9. Comparison of essential items and non essential items 2012 (April – August)

	Essential Items			Non Essential Items			Total		
	Sales Commit	Supply	Sales Loss	Sales Commit	Supply	Sales Loss	Sales Commit	Supply	Sales Loss
April	137	95	42	30	39	-9	167	134	33

May	147	98	49	42	49	-7	189	147	42
June	173	117	56	38	54	-16	211	171	40
July	151	92	59	45	66	-21	196	158	38
August	170	105	65	56	71	-15	226	176	50
Total	778	507	271	211	279	-68	989	786	203

By analyzing these three years & Current Year, it is very much clear that company has carried out a wrong practice of their product management. Out of total 87 items as per Table 1, 25 items have acquired almost 80% of total sales in all the three years period. Out of 87 items, 62 items have acquired only less than 20% of total sales. However, high excess stocks were available from the items which give 20% contributions while stock out situation in items which give 80% contribution to sales.

Table 10: Total products, commitments, Essential items, stock out and the percentage.

NO	PRODUCTS	TOTAL COMMITMENT	%	ESSENTIAL ITEMS	STOCK OUT ESSENTIAL ITEMS	AS A % ESSENTIAL ITEMS
1	GCIS -THINNER --CORRUGATIONS	36,160,000.00	16.02	36,160,000.00	16,150,000	
2	GI & GL THICKER MATERIALS	10,964,924.33	4.86	10,964,924.33	10,964,924.33	6.05%
3	ALUMINIUM COIL	3,179,378.77	1.41	3,179,378.77	3,179,378.77	1.75%
4	PAD LOCK	7,731,627.13	3.42	7,731,627.13	7,731,627.13	4.27%
5	WELDING RODS	0.00	0.00		0.00	0.00%
6	G.I. PIPES	0.00	0.00		0.00	0.00%
7	CK TAPS	2,319,254.25	1.03	2,319,254.25		
8	PVC TAPS	3,919,133.52	1.74	3,919,133.52	3,919,133.52	2.16%
9	BLIND REVETS	1,007,954.00	0.45		0.00	0.00%

10	BALL & FOOT VALVE	3,044,731.25	1.35	3,044,731.25	3,044,731.25	1.68%
11	CALCIUM CARBIDE	0.00	0.00			
12	CONGRETE NAILS	1,984,698.56	0.88			
13	DOOR LOCK	2,379,895.13	1.05	2,379,895.13		
14	DRAWER LOCK	0.00	0.00			
15	WIRE MESH	2,849,845.52	1.26	2,849,845.52		
16	KITCHEN SINK	2,282,238.76	1.01	2,282,238.76		
17	LUXMI -MORTICE LOCK	1,800,728.29	0.80			
18	NIGHT LATCH	1,480,652.73	0.66		0.00	0.00%
19	SHOVEL	3,273,454.48	1.45	3,273,454.48	3,273,454.48	1.81%
20	WHEEL BARROW	4,502,523.79	1.99	4,502,523.79		
21	WHITE SAND PAPER -NEW GLOBUS	0.00	0.00			
22	RED SAND PAPER	1,088,156.11	0.48		0.00	0.00%
23	PE -TARPAULIN	4,654,885.00	2.06	4,654,885.00	4,654,885.00	2.57%
24	PVC COATED CHAIN LINK	3,591,600.00	1.59	3,591,600.00		
25	GARDEN HOSE - DERRIC	3,182,283.83	1.41	3,182,283.83	3,182,283.83	1.76%
26	GARDEN RAKE - FROG BRAND	0.00	0.00			
27	HOT DIPPED GALVANIZED BARBED WIRE	0.00	0.00			
28	WIRE NAIL	2,993,302.69	1.33	2,993,302.69		
29	FLEXIBLE HOSE - DERRIC	1,085,984.01	0.48			
30	FLASHING TAPES - HERCULES	0.00	0.00			
31	RED SAND PAPER - ROLL	1,622,677.60	0.72			
32	DOOR LOCK -7534 - MORTICE - RODMURPHY	0.00	0.00			
33	SLOTTED ANGLES	1,780,000.00	0.79			
34	PVC BUCKET	1,440,000.00	0.64			
35	STEEL M/ TAPE	0.00	0.00			
36	COMBINATION PLIERS	0.00	0.00			
	GROUP 1	0.00	0.00			
37	SLEDGE HAMMER	969,036.95	0.43			
38	CALW HAMMER	135,777.60	0.06			
	GROUP 2		0.00			

39	AXE HEAD	239,638.35	0.11			
40	PICK AXE	649,115.15	0.29			
41	L.P.G REGULATOR - WINGAS	300,935.27	0.13			
	GROUP 3		0.00			
42	DOWN PIPE CHAIN	354,758.51	0.16			
43	CONCR.PAN & ROOFING WASHER	561,541.57	0.25			
44	COLD CHISEL	391,385.17	0.17			
	GROUP 4		0.00			
45	HAND REVETER	167,569.86	0.07			
46	HACK SAW BLADE	861,926.40	0.38			
47	SHELF BRACKET	135,889.92	0.06			
	GROUP 5		0.00			
48	PAINT ROLLERS - RAINBOW	659,138.62	0.29			
49	ADJUSTABLE WRENCH	667,008.00	0.30			
			0.00			
50	PRE PAINTED PRIME SHEETS	29,550,000.00	13.09	29,550,000.00	29,550,000.00	16.31%
51	DELLER PRODUCTS	0.00	0.00			
52	IRONORI	17,200,000.00	7.62	17,200,000.00		
53	KALAHARI	14,065,884.56	6.23	14,065,884.56		
54	WATER PUMPS - MAHARAJ	7,549,890.60	3.34	7,549,890.60	7,549,890.60	4.17%
55	MS HEXAGONAL BOLTS & NUTS	4,432,295.89	1.96	4,432,295.89		
56	METRIC BOLTS & NUTS	4,040,118.31	1.79	4,040,118.31		
57	BRASS WOOD WCREWS	2,512,545.79	1.11	2,512,545.79		
58	IRON WOOD SCREWS	1,311,615.42	0.58			
59	THREAD BAR -BSW	2,207,132.21	0.98			
60	GALVANIZED ROOFING BOLTS & NUTS	1,957,619.49	0.87			
61	FLAT WASHERS	1,815,782.85	0.80			
62	TOWER BOLTS - STANLEY	0.00	0.00			
63	PE -ROPES - HERCULES	2,328,145.59	1.03	2,328,145.59	2,328,145.59	1.28%

64	CROW BAR	1,614,730.47	0.72			
65	HOE -LAKGOYAM	1,620,178.46	0.72			
66	SQUATTING PAN	0.00	0.00			
67	WEGDES	1,152,000.00	0.51			
68	TOOL BOX	1,440,000.00	0.64			
69	DRAWER SLIEDS	1,152,000.00	0.51			
70	SELF TAPPING SCREWS PH	1,811,673.75	0.80			
71	SELF TAPPING SCREWS CSK	2,523,005.94	1.12	2,523,005.94		
72	SELF DRILLING SCREWS	1,415,979.75	0.63			
73	DOG LEAD	1,366,812.50	0.61			
	GROUP 1	0.00	0.00			
74	HEXAGONAL NUTS	865,531.02	0.38			
75	"L" & "J" HOOKS	95,098.26	0.04			
76	ANIMAL CHAIN	824,586.16	0.37			
	GROUP 2	0.00	0.00			
77	MS CARRIAGE BOLTS & NUTS	276,063.76	0.12			
78	UMBRELLA NAILS	750,485.14	0.33			
79	GALVANIZED ROOFING NAIL -JACK	159,039.30	0.07			
80	ORISSA PAN	95,785.02	0.04			
	GROUP 3	0.00	0.00			
81	METRIC HEXAGONAL NUTS	269,347.02	0.12			
82	ROOFING SCREWS	645,928.07	0.29			
83	SHOE TACK NAIL	740,213.43	0.33			
	GROUP 4	0.00	0.00			
84	IRON PANEL PINS	271,215.00	0.12			
85	NARROW BUTT HINGES	285,982.62	0.13			
86	SICKLES	385,089.60	0.17			
87	SELF TAPPING SCREWS BLACK	609,779.52	0.27			
	TOTAL	**225,755,206.61**		181,230,965.11	79,378,454.49	43.80%

As per the table 10, there are 87 product groups are available in the concerned SBU. Commitment represents the addition of the individual commitment given by the field sales staff as per their territorial capability and the customer base. So their total commitment is 225 million for a month. In the percentage column shows individual product group sales commitment from the total commitment. The producing called as GCIS thinner is having the 16.2% from the total commitment which is unfortunately 16.5million in the stock out situation and these 16.5 million sales losses for the concerned month. Out of 226 commitments, 181million is considered as the essential items which represents from 25 items.

The Company's Hardware Division is expecting 181Mn on essential items out of total sales expectation of Rs 226 Million. It's 79.4 %.181 Million sales generated from 25 products out of total products range of 87, it's 28.7%.

Figure 1

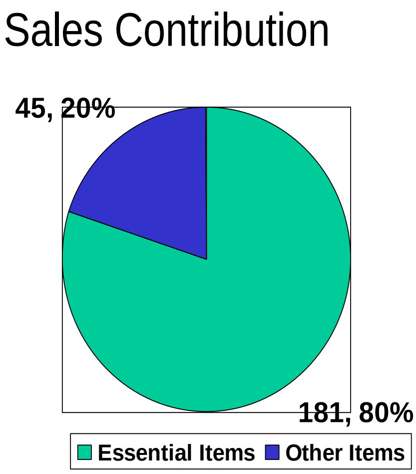
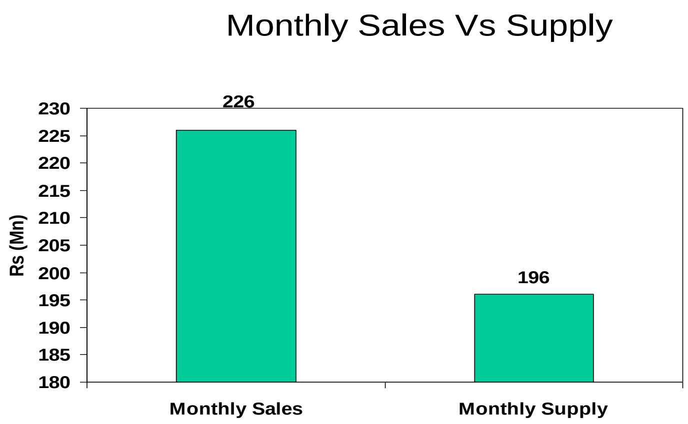


Figure 2



Even though company's Hardware Division sales commitment is 226 Million Product & Marketing Division is unable to supply sales commitment. They are in a position to supply only 196 Million. This is mainly happening due to non compliance with well known Pareto's Law or the 80/20 principle.

4.5 Impacts on cash flow due to non compliance to 80-20 rule

As per our analysis due to non compliance of 80/20 rule in the inventory management and product management, company has to face many other problems too.

- Debtors' management – Due to non availability of essential goods and overdue of non moving & slow moving items company debtors situation has become worsen as customers are well aware that company does not have sufficient stocks for replenishment. So they are delaying the payments and this can be clearly shown from the following graph and table.

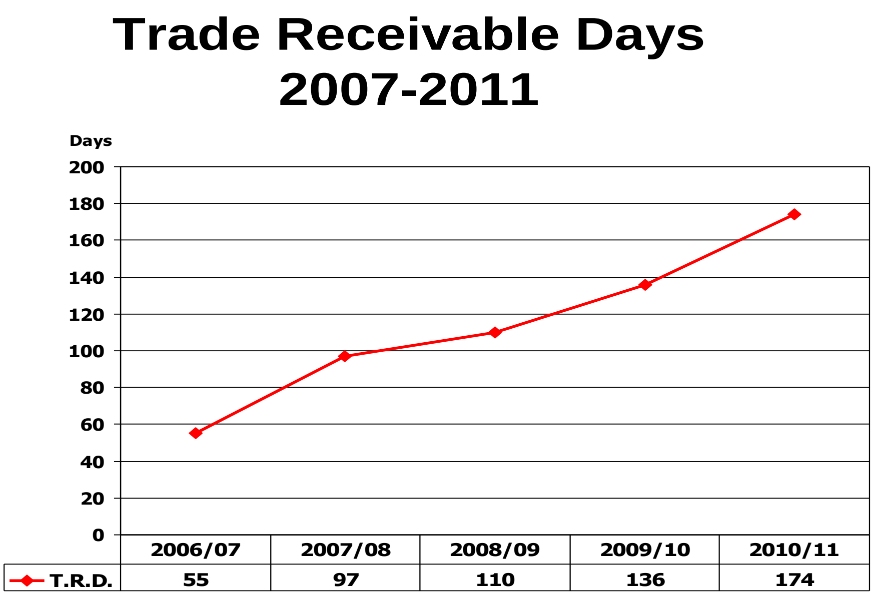
Table 11

Trade Receivable Days

$$\text{Trade Receivable Days} = \frac{\text{Trade Receivables}}{\text{Revenue}} \times 365$$

Figures Rs. (Mn)	2006/07	2007/08	2008/09	2009/10	2010/11
Trade Receivables	448	652	633	820	1,148
Revenue	2,981	2,444	2,108	2,198	2,402
T.R.D.	55	97	110	136	174

Figure 3



Increasing credit sales volume – As well as debtors, Due to non availability of essential goods and overdue of non moving & slow moving items, concerned SBU creditors payable period has gone up. Because due stocks are not moving cash has been hold in the stocks as well as debtors residency period also has gone up. Due these reasons suppliers have not been settled.

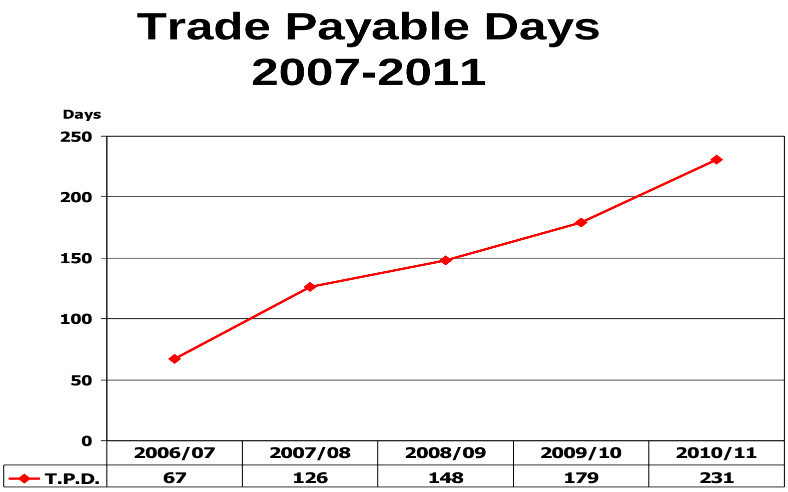
Table 12

Trade Payable Days

$$\text{Trade Payable Days} = \frac{\text{Trade Payables}}{\text{Cost of Sales}} \times 365$$

Figures Rs. (Mn)	2006/07	2007/08	2008/09	2009/10	2010/11
Trade Payables	396	523	619	797	1,130
Cost of Sales	2,157	1,515	1,531	1,629	1,788
T.P.D.	67	126	148	179	231

Figure - 4



These figures are showing unhealthy situation of the company working capital management. As a result of creditors defaulting, company might not be able to process the next shipment and more strict credit terms have been used by the suppliers. Because as per our weaknesses, their cash flows are also affected.

Figure 5

Monthly Commitment V Monthly Sales Loss

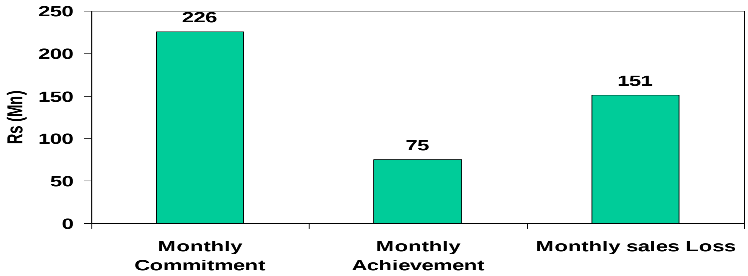
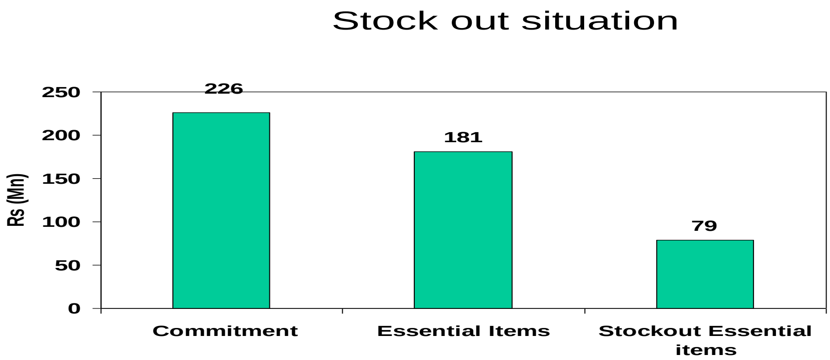


Figure 6



Above graph shows the stock out situation of the Hardware Division. According to graph division has expecting 181Mn sales on essential items.

But out of 181 million of sales, 79 million of items identified as stock out items.

The 80/20 rule shows up in some amazing places. So company has to focus on what it could do to increase sales from those best customers.

As a result of these stocks out situation, company profitability also badly affected. Following graphs shows the repercussions.

Table 13

Gross Profit Ratio

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Revenue}} \times 100$$

Figures Rs. (Mn)	2006/07	2007/08	2008/09	2009/10	2010/11
Gross Profit	824	929	577	569	614
Revenue	2,981	2,444	2,108	2,198	2,402
G.P.R.	27.65 %	38.01 %	27.38 %	25.90 %	25.55 %

Figure 7

Gross Profit Ratio
2007-2011

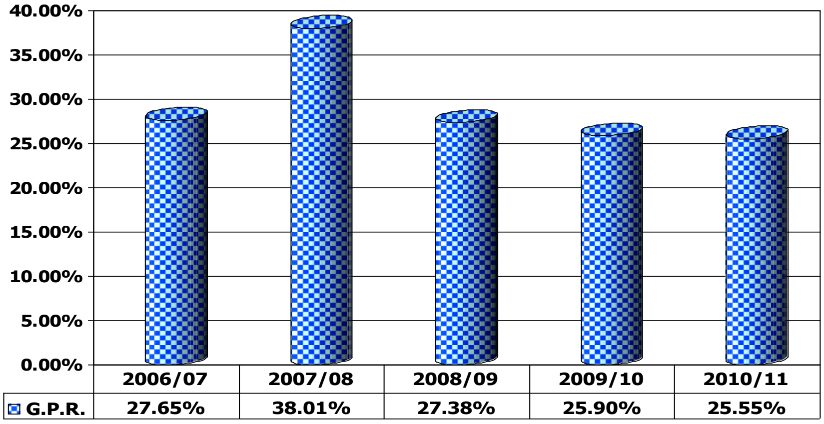


Table 14

Net Profit Ratio

Net Profit Ratio = $\frac{\textbf{Net Profit}}{\textbf{Revenue}}$ **X 100**

Figures Rs. (Mn)	2006/07	2007/08	2008/09	2009/10	2010/11
Net Profit	315	54	26	13	(72)
Revenue	2,981	2,444	2,108	2,198	2,402
N.P.R.	10.58 %	2.19 %	1.24 %	0.60 %	(2.99 %)

Figure -8

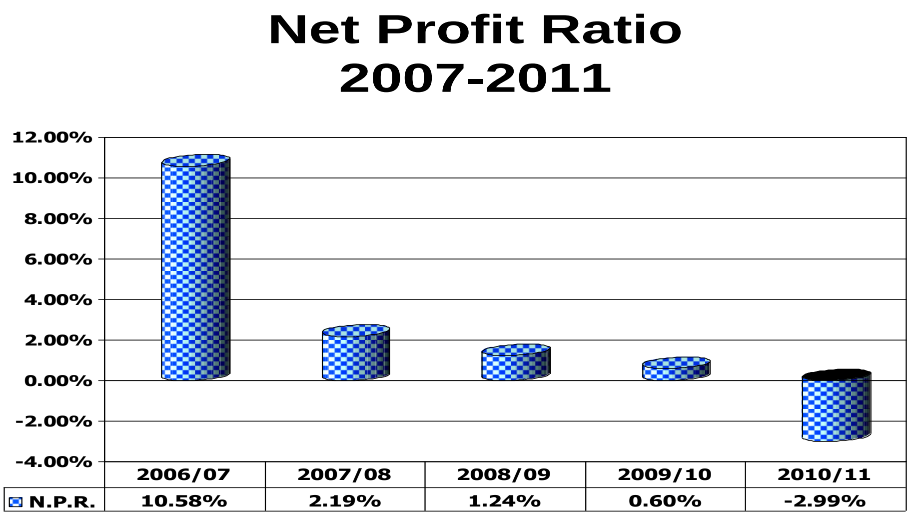


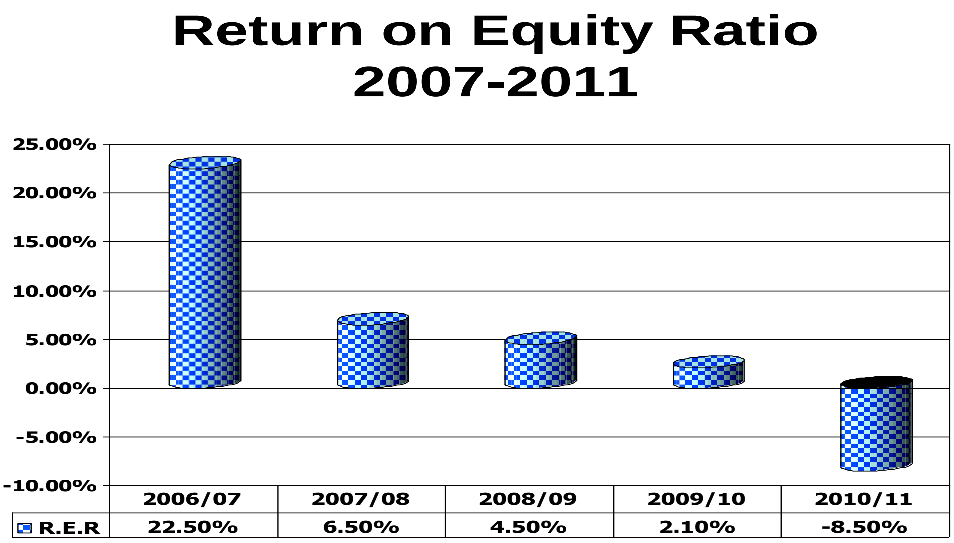
Table 15

Return on Equity Ratio

$$\text{Return on Equity Ratio} = \frac{\text{Net Profit (BPT)}}{\text{Revenue}} \times 100$$

Figures Rs. (Mn)	2006/07	2007/08	2008/09	2009/10	2010/11
Net Profit	315	54	26	13	(72)
Revenue	2,981	2,444	2,108	2,198	2,402
R.E.R.	22.5 %	6.5 %	4.5 %	2.1 %	(8.5 %)

Figure - 9



4.6 Summary

As per our analysis, due to non compliance of 80/20 rule in the product management, company is directing to an overtrading situation. This has been affected to the cash flow cycle severely. Problems in Debtor's management due to non availability of essential goods as customers are well aware that company does not have sufficient stocks for replenishment and defaulting of the payments. As a result of this Debtors residency period has gone up from 55 days in 2005/2006 to 174 days in 2010/2011. As a result of this, creditors' residency period has gone up from 67 days from 231 days in the concerned periods. Due to the defaulting of suppliers' payments, they are not shipping the next shipment and as a result of this, SBU does not have sufficient stocks to sell. Therefore due to poor product management on non application of 80-20 rule, there are very clear indications the company is overtraded.

Chapter 5

Discussion

5.1 Introduction

This chapter will discuss the findings with available literature, both globally and locally and discuss possible managerial implications and solutions that are relevant and related to the issue and the context. In addition to that, this chapter will focus the application of 80-20 rule for avoiding overtrading situation and various ways of overcoming the situation will be addressed. In addition to that, in this chapter, I have focused and discussed the required support from back office function of the company. And also all the Necessary recommendations have been discussed and evaluated the practicability of those recommendations for overcoming the overtrading.

5.2 Important factors to be considered before the implementation

Following important factors and criteria should be considered before the application of 80-20 rule.

- Offer a variety.

  As a retailed company, so many varieties of different kind of products are so important. Shoppers typically like to browse through a large collection before making their purchasing decisions. This, however, does not mean that to stock up large volumes of every product. For most businesses, 80 percent of the volume sold comes from 20 percent of the products. So the company need to have large amount of inventory only for that top-selling 20 percent. For the remaining 80 percent, carry very small quantities of inventory.

- Analyze competitors.

  Competitors analysis is very much important for deciding how can the company will implement 80 20 rule by considering competitors activities. Company will be able to do formal competitor analysis for identifying which products and what strategy used by the competitors for their product management. At present company is in a very week situation on market intelligence.

- Listen to customers.

  Company should always has to listen to their customers requirement and, production oriented concept should be changed to customer oriented. The traditional approach of selling should be eradicated.

- Experiment with new products.

  Always be experimenting with new products. In order to successfully do this, company need to regularly monitor competitors, keep a close eye on sales, and always be up to date on the current trends. In other words, company must be totally immersed in the business ecosystem. When the new products come to the market, if the market is accepted the product, company gross profit will always increase, as current product portfolio has already touching the maturity and the declining stage of the product life cycle and price will always fluctuate as per the market demand.

80/20 Principle is inherently optimistic because it reveals a state of affairs that is seriously below what it should be and shows the direction towards a better state. To achieve progress and multiply output, company must give power to the

20% of resources that really matter in terms of achievement, and get the remaining 80% up to a reasonable level. "Progress takes the company to a new and much higher level. But, even at this level, there will still typically be an 80/20 distribution of outputs/inputs. So the company can progress again to a much higher level."

5.3 Major roles to be played by the back office function of the company

For achieving above explained target, back office side of the company has a major role to play.

- Branding and Market Penetration

    1. Company should procure quality and technically accepted material from dependable sources (sole agents and produces) in establishing brand image in markets.
    2. Company should have very clearly identified profitable segments in the industry and there should be well designed plans to serve in the retail markets and only establish domination there and the product range to be identified by using 80 20 rule for offer to those segments.
    3. Company should not try to slave in for short term gains but should focus on the big picture instead.

4. Company should survey markets for the number of hardware (builders) outlets in the country and should target to serve 70% - 80% in coming three years period. Similarly, should penetrate the electrical and tyre retail outlet sectors.
5. Company should lead the market in a number of brands they plan to back themselves (minimum 20 years)
6. Company should ensure its retail shelf turn around cycle is at a minimum of 6 to 8 per year.
7. Company should have zero market returns at any given time and should have concrete policy pertaining to returns and data discussed at meetings.
8. Company should maintain a concrete set of brand loyal customer base for products, brands and mostly the "Tradesman" name.
9. Company should classify and grade retail outlets into a minimum of at least 5 to 6 categories.
10. Company should adopt a strategy to compute ratios for Rep; turnover and Rep; outlet scenario and should have a firm audit net across the board.

- <u>Strengthen Stock Control and material management is much important for managing the 80 20 rule properly</u>

1. Company importation cycle of goods should be at a minimum of at least 3 times a year on every single range of imported brands and should maintain an average of 4 time turnover ratio of total average annual importation (L/C) facility.
2. Company cost of stock holding should not exceed 0.05% per year.
3. Company should ensure a minimum of 0.05% port demurrage charge.
4. Company should ensure not to exceed the value of 0.05% on all damage, pilferage and theft cargo.
5. Company stock turn around cycle should be a maximum of 4 months period.
6. Company should maintain strict policy on maximum, minimum and average stock levels.
7. Company should not have a single day market starvation possibility on any range or individual products.
8. Company should have concrete policy on overdue stock control and disposable of the same.

- Strengthen Financial Management

1. Company should generate a reasonable GP (15% - 25%) depending on movement of goods and market behaviour conditions.
2. Company should understand its working capital potential and estimate possible growth rate per annum as excessive growth targets only make avenues for cash flow deficits whereby it only increase bank charges in terms of interest payments and bad image.
3. Company should ensure its financial chargers do not exceed 0.05% maximum per annum and have concrete financial policy to control bleeding.
4. Company should understand its working capital strength in estimating viable credit policy and have strict control on credit periods and limits.
5. Company should understand its profitability levels in estimating and managing expenditure levels and ensure cost controls without disturbing basic operations while ensuring worker moral levels.
6. Company should have strict control on its borrowing. Also should have a very close tab on gearing rations viable for businesses.
7. Company should maintain its acid ration as per the industry average.

8. Company should plan its cash flows for longer periods (6 months) and should plan with banks on possible defaults much a head of time so that there will be no surprises and embarrassments to both TT and Banks.
9. Company should ensure employee remunerations and related statutory payments are effected with in target dates and should have zero default ratios.
10. Company should ensure to have close tab on financial productivity. The financial productivity levels should not drop below 85% to 90% at any given time.

Chapter ***6***

Conclusion

Overtrading has become a very big problem to the company. Where the company has increasing credit sales, growing business, but due to lack of funds, lack of assets to use as security for future loans, they find themselves being faced with such difficult situation. However, there are so many reasons for overtrading, but as per the project, we have identified the excessive investment on stocks due to non conformity with the proper product management technique such as Pareto rule which is generally known as 80 20 rule.

To protect against such occurrence, company need to be aware of overtrading, its indicators and then put in place adequate measures to avoid it occurring or reduce the probability of it occurring. Business expansion is very much needed for a company which is searching more avenues for income generation, but the expansion should be well planned. The expansion or a growth should never shake the foundation of the company.

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