

Case Study: From Reducing Margins to Steady Profits

Written by Faiz Askari, Editor, Small Enterprise India.com
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A garment manufacturing by the name of SSI operating from Kolkata, West Bengal, met with common problems among SMEs. Though his top-line was growing steadily, his bottom line was increasing at a reducing rate, i.e for an almost INR 10 cr. turnover business, his net profit was only INR 10 lacs, i.e 1%. This was an alarming situation and something had to be done to quickly improve his margins.

“We along with the management of the client decided that we would undertake a Lean Manufacturing Exercise to improve his plants productivity- thereby directly impacting profitability,” stated Abhik Ghosh, CEO & Co-founder of AG KnowledgeTech.

The Solution Offered

A team of consultants from AG KnowledgeTech, started by observing the entire production process of SSI. This included a comprehensive screening from purchase order receipt to dispatch and collections. Mr Ghosh further added, “We did a Value-Stream Mapping exercise and noticed that the maximum time lag was for the PEM (Printing, Embroidery and Merchandising) and the Cash Flow Management.”

The PEM process was time consuming and the personnel involved were not highly skilled to monitor and track progress and meet timelines. The consulting firm led by Mr Ghosh, did a Cost-Benefit analysis and recommended to the management to sub-contract this work to smaller vendors around the clients facility. This would reduce his fixed costs of labour as well as increase accountability of the vendors. Mr Ghosh stated, “We developed a vendor management plan to empanel 5 vendors and give them job-work on a prorata basis based on a point system which factored in elements such as quality of previous order, time taken for previous order, payment terms etc. Thus we helped him reduce his headcount for the PEM process to only 1 person- whose responsibility was for Vendor Management.”

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Moreover, SSI's cash flow management was also poor as though his primary principles (Pantaloons, Sahara group) had a 45 day credit period for their orders, the client was making all his purchases on invoice dates, and hence was not making the most of his cash flow management. "On this front, our consultants advised him for a bill discounting exercise whereby he received 85% of his invoice value on Day 1, which helped him make all his purchases and vendor payments. This drastically improved his cash flows. We also developed a Financial Order tracking template which helped the management identify the Net Present Value of each order they executed at every stage of the process," commented Mr Ghosh.

The Results

After all the recommendations were implemented, It was analysed that SSI was registering steady progress for 4 months, and when the provisional quarter Balance Sheet and P&L statement were prepared, there was a 6% improvement in the company's profitability and 10% improvement in it's capacity.

On this entire experience, the owner of SSI commented on this, by saying, "Understanding the operational and financial implications of my production processes has helped me in having an over view of the entire business. This understanding has made my team more accountable, and has improved our profitability – which was the ultimate goal. While running a business one usually doesn't get time to fine tune his operations, and thus I have gained a lot from the management consulting exercise."

AG KnowledgeTech is a Management Consulting firm focussed on the SME sector in India and overseas. Mr Ghosh concluded, "SSI's success story is a clear example of what entrepreneurs can really do by seeking external expertise for their business. We at AG KnowledgeTech understand the criticality of business processes in not only running the business successfully but also bringing more inclusive growth for the respective business."

What ever could be the business challenge, an entrepreneur must have to look beyond the existing and monotonous ways to solve that business challenge. SSI have done it well by consulting the situation with an expert consulting firm.