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RISK MANAGEMENT

IN-HOUSE

CASE STUDY SERIES

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Case Study 23 Questions

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Case Study

The tension was palpable. Moving towards the check-in counter at Delhi airport to take the flight to Mumbai, Vinay Bhandari, Chairman, Bhandari Textiles Ltd, could sense the mood in the departure lounge. The safety perception of air travel had changed over the last few weeks. But as he went through the security formalities, the veteran traveler found that the basic processes had remained by and large unchanged. "The more things change, the more they remain the same," he quipped mentally.

Funnily enough, it also typified the state of his own business. So much had changed in the external environment. The world trade in textiles was getting deregulated. Quotas were being progressively relaxed. And entry barriers were being removed. Of course, Bhandari and his team had foreseen the winds of change and taken several measures to strengthen the operations of Bhandari Textiles. And yet, there was no dent on the fundamental mindset of his senior executives. One example: their continuing focus on the premium end of the market.

Bhandari had barely settled into his J-class seat when a voice from across the aisle said "hello". It was Rajesh Sarkar, a well-known industry consultant. Sarkar had in fact undertaken several assignments for Bhandari Textiles on improving process efficiencies in the past. "How are you?" asked Sarkar. "Fine as ever," said Bhandari. "And how is business?" asked Sarkar. "Could be better," replied Bhandari, "as always."

"I heard that Milano Garments of Italy has been talking to you. Are you tying up?" asked Sarkar, as the aircraft tipped its nose down after the take-off. "Milano is talking only to us," said Bhandari, laughing. "I am not surprised. Both are big names in their respective home turfs," said Sarkar. "The idea is to market the super- premium Milano shirts, priced at Rs 1,200-plus, in Indian metros through our outlets," said Bhandari. "But I am wary. Where is the market for premium shirts even in the Rs 650-800 range? Very few, including us, have been able to get the numbers in this segment. But my managers are keen. They say that we may not have done as well as budgeted in readymades, but the tie-up with Milano will enhance the brand equity we have built up in the premium end of home textiles segment comprising bed, bath

and kitchen linen. They think it will help us recover lost ground in shirts and enable us to do much better overall in the medium- and long-term."

"They could be right," said Sarkar. "But what you should be looking for is not just a marketing alliance serving the domestic consumers but a jv that manufactures high-value shirts for the European market."

"That is what I am keen on, but Milano wants to use the marketing alliance as an entry strategy. I know it won't work, but my managers are keen on going ahead. They are enamoured of the premium end of the market. They see glamour in niche segments. They also see higher margins there. I think this obsession with a small, but no doubt profitable, part of the market undermines the basic viability of the business in the long run. There is money on the long haul only in volumes. Value-added niche marketing can only be a tactical approach. It is not a sustainable business proposition."

"The marketing tie-up with Milano helps if your objective is to nurture the Bhandari brand and reinforce its image as a provider of premium value," remarked Sarkar.

"That is just why I am wary," said Bhandari. "Building brand equity is only a means. Not the end."

"Going upscale into the super-premium category of shirts would mean that you need to invest in exclusive showrooms at premium locations in major metros. Is that what you are concerned about? After all, the returns may not be immediate," asked Sarkar.

"That is not the issue," said Bhandari. "We can cut capital costs by opting for the franchise route. And margins will come in because every unit we sell at the premium end is meant to generate profits. But the numbers, as I said, are not easy to come by. You get the numbers only in mass marketing. Volumes will automatically cut costs and ensure profits. That is what gives depth to a company and makes it strong from within. It also generates an enduring commitment on the part of the dealers, distributors and, of course, consumers. And that can ultimately act as an effective entry barrier to competitors. That is why I feel that we should start targeting the popular end of the shirts market."

"But that would be risky," cautioned Sarkar. "It will dilute the equity Bhandari Textiles had built up long before you got into shirts. Remember, you have been traditionally known in the market as a maker of high-quality, premium category of

home textile products like towels, bedspreads, and furnishings. It is a segment in which you now reign supreme. In fact, the reason why you have been consistently figuring in the annual survey of Top Ten Brands is because of the popularity of your home textile products. Why should you surrender that advantage?"

"On the contrary, it is now time to build on that advantage," said Bhandari. "We will continue our existing product range-both in home textiles and shirts. But we will expand our market at the lower end in both categories by encashing the brand equity. Instead of moving into the super-premium shirts, we will make shirts for the low- priced, popular range. And instead of confining ourselves to premium home textiles, we will take the popular route. The only formidable competition we will face there is from the unorganised sector. That is where our brand equity for quality and reliability comes into play."

Multiple Choice Questions

(2 × 5 = 10 Marks)

1. Where employees put forward their ideas or sensation of risk
 - A. Analysis of processes
 - B. Brain storming
 - C. What if techniques
 - D. Scenario analysis

2. Nature of impact such as loss of confidence, public exposures, litigation, etc. impact which of the following areas
 - A. Customer
 - B. Compliance
 - C. Brand
 - D. Strategy

3. The effective management and control of the knowledge resources excludes
 - A. Production of knowledge
 - B. Protection of knowledge
 - C. Communication of knowledge
 - D. Analysis of knowledge

4. A deterministic model will always produce the same output from a given starting condition or initial state. The exact opposite of this model is the:
 - A. Probabilistic model
 - B. Predictive model
 - C. Strategic model
 - D. None of the above

5. While discharging the roles and responsibilities associated with the risk function, the.....and.....should refer to the principles recommended by OECD.
- A. Board, risk committee
 - B. Risk managers, risk committee
 - C. Board, those charged with governance
 - D. TCWG, risk team

Descriptive Questions

6. What are the rewards and risks of forward integration strategy for Bhandari Textiles?

(6 Marks)

7. Do you support the decision of the company to get into the popular end of the market? Justify your answer.

(9 Marks)