Vardhman Beverages Case

Sugasini was travelling back to her room in Nalbari, after a hectic day of work. This is the first job in her career and within days she was sent alone to the client's office, Vardhman Beverages (VB). She spent the first few days in understanding the requirements of the client and she is required to submit her initial assessment in 48 hours. Sugasini had recently completed her MBA form a premier B-School and Operations Strategy has always been her favorite. Even though the project was exactly what she wanted, she found it very hard to assess the issues plaguing VB let alone recommend innovative solutions.

Vardhman Beverages is a leading manufacturer and supplier of premixes (3 in 1) to the Beverage industry. The facilities are based outside Nalbari, North-East India. The factory has the production capacity of over 800MT per year. The company has the vast knowledge of manufacturing instant premixes for more than a decade now. After Mr. Vipal joined his father's business, he pursued the idea of installing beverages vending machines which would help expand their core business. However they faced intense competition from established players like Nestle and Lipton among others. Given that VB is new into the vending machine business, they bought customized vending machines from outsourcing partners and used a distributor network to reach the outlets. After multiple trials from different vendors all over India, they finalized Malhotra Enterprises, Delhi as the vendor who would regularly supply them.

It had been less than 18 months since they entered the business and VB managed to allot 13 distributors in the 7 north eastern states and the major distributors were present in Guwahati, Nalbari, Tezpur, Jorhat, Imphal, Dimapur, Siliguri and Shillong. Even though VB had grown to good numbers, they are not without its challenges. VB had three major models for installing the vending machine.

1. **Minimum Refill model (Model A) -** The outlets that places the minimum refill order of 25kg each month is categorized in this model and they were not charged anything towards the vending machine. The refills were the only source of revenue and VB provided free repair and maintenance without charging AMC.
2. **Monthly rental model (Model B) -** The outlets that places lesser than 25kg each month is categorized in this model and VB charged a monthly rental charge towards the vending machine.
3. **Payment or EMI model (Model C) -** There was some outlets that bought the vending machines instead of paying the rent either in full or as EMIs.

No AMC Charges were levied on any of the above models.

The systems and process in place were getting streamlined and in an attempt to analyze further Mr. Vipal looked into the revenue and expenditure figures and was shocked to see that repair and maintenance was significantly high. After consulting with a friend, he decided to approach a consulting firm that sent Sugasini to take up the issue. There were three important areas where VB required solutions and insights and they were:

1. Analyze the financials and propose changes in the operations that would help in bringing down the costs with a special focus on repair and maintenance cost.
2. Further provide insights into the present business models that were followed and suggest appropriate changes or new models in line with the operational strategy
3. VB faced issues in their Distribution network and they had higher ambitions to expand to rest of India. Provide strategies to encounter the issues and design an efficient distribution network for expansion.

Financial Details

VB had been following traditional practices and there was very limited information available on their financials. The total revenue is the sum of revenue from the vending machines and the revenue from the sale of premixes. The total revenue from July 2017 to June 2018 was about INR 4 crore. The vending machine revenue split among the three models for the vendor machines were 50% of Model A, 20% of Model B and 30% of Model C. Some of the consolidated financial details are available in **Exhibit 1**. The major cost drivers identified were

a. Cost of vending machines procured
b. Installation costs that includes
    a. Transportation and stay charges of the engineers,
c. repair & maintenance cost that includes
    a. Spare part cost
d. Administration, Sales Team and Engineers Salary

Vending Machine: The cost of vending machine is INR 10,500 and VB had a markup of roughly 30% for the distributors. The price of the vending machine for the end customer regardless of direct purchase from VB or through the distributors remained the same at 17,500 INR.

Premixes: VB ensured the availability of premixes through the direct channel and distribution channel. The margins were also similar to the case of vending machines.

Given that Model A was the popular model, VB calculated that the break even sales for Model A (on 25Kg premix sales per month) was about 5-6 months. The rent charged for Model B by VB was in the range of INR 750-1000 per month. As mentioned above, VB did not charge any AMC and they observed that 30% of vending machine revenues were being spent on repair and maintenance cost for the last quarter and the trend revealed that the repair and maintenance cost as a percent of vending machine revenue was on the rise.

Malhotra Enterprises provides warranty against the vending machines for only 12 months and any issues after the warranty period were to be handled by VB. There were three critical parts that were frequently changed during the repair and maintenance. They were Motherboard, SMPS and Heater and after series of negotiations the vendor had agreed to increase the warranty period of these three parts from 12 months to 15 months. VB usually held each of the critical spare in their inventory for about 5% of the total vending machines that are functional in the market due to high lead times.

VB had only one main warehouse for the vendor machines in Nalbari and the rent was INR 50,000. The sales, general administration costs and engineers compensation per year amounted for roughly 10% of the total revenue. The another issue was the geographical disadvantage of North East due to which the transportation cost ranged from INR 500-1000 per machine depending on the location. For instance, Imphal and Jorhat were on the higher side while Guwahati was the lower side.

Trends of Installation

The last year trend reveals that VB had installed 25-30 vending machines on an average during the season and about 12-15 machines on an average during the off seasons. However there have been an increase in the sales trend over the year. (NOTE: The sales figures given above are monthly and the off season Is typically from June to September, Summer in North east)

Challenges faced by VB

1. VB had been thinking of introducing AMC for a long time and by February 2018, they introduced the AMC charge of INR 500 per month for Model A & Model C and INR 300 for Model B. But this announcement heavily impacted their sales numbers and eventually VB got rid of levying AMC charges.
2. VB had also exhausted its negotiation powers with the vendors by increasing the warranty of the three critical spares from 12 months to 15 months.
3. VB was also gearing up for expansion into some of the other states like West Bengal and Bihar by the start of September 2018 but was worried about their costs shooting up.
4. The Distributors usually covered outlets in the range of 50-100kms from their location and the old distributors were not bringing new businesses. This was due to the limited presence and the intense competition from other players. Mr. Vipal believed the distribution network is not efficient enough to ensure greater reach and most of the distributors were small scale entrepreneurs. He had been exploring the various options that are available to ensure the reach of their products. Given that the vending machines are to be introduced in West Bengal and Bihar in less than two months ago, he sought the help of Sugasini in the appointment for new distributors for these states.

Note:

- All amounts given in the case are in INR.

- If some information is required apart from what is mentioned in the case, make suitable assumptions and clearly state them.

Objective:

Put yourselves in the shoes of Sugasini and help her come with the initial assessment and recommendations for the three areas mentioned above.

EXHIBIT 1 **(The values in INR Lacs)**

HEADS	Jan	Feb	Mar	Apr	May	Jun
General Administration costs (includes sales and salary)	2.40	2.30	2.52	2.60	3.52	2.40
Repair/Maintenance	0.40	0.42	0.45	0.50	0.55	0.45
Miscellaneous Expense (includes transportation, brokerage, spare parts etc.)	5.90	4.94	5.01	4.49	4.84	4.65
Total Indirect Expense	**8.70**	**7.65**	**7.98**	**7.59**	**8.91**	**7.50**
Total Gross Sales (Vending + Premix)	30.00	25.50	28.00	26.00	32.00	24.00
Gross Sales (Vending)	1.80	1.45	1.65	1.70	1.92	1.52
Total Gross Profit (Premix + Vending)	11.70	9.69	10.50	9.80	12.75	9.30
Net Profit (Premix + Vending)	3.00	2.04	2.52	2.21	3.84	1.80