Cases

Case-1

Good Foods, Inc.*

Introduction of electrical appliances

Good Foods, Inc., Primarily a food manufacturer, was considering a long-range plan to undertake the manufacture and marketing of small electrical appliances.

PRODUCT LINES

Good Foods marketed a wide range of food products. Among the best known were the Ann Anderson line of cake, frosting, and brownie mixes. Good Foods also marketed a number of cereals, flour products, and frozen and refrigerated foods. Recent acquisitions had diversified the company into the fast-food business, toys and women's fashion clothing.

Good Foods also manufactured and distributed underwater mechanical devices plus baking ovens and mixers used by food manufacturers and institutional kitchens. These two product lines represented 2 percent of Good Food's revenue and 0.1 percent of its before-tax profits. Good Foods had been in this business since World War II and now considered both product lines to be a poor return on investment.

BRANDING POLICIES

The name Ann Anderson was one of Good Foods' prime assets. It had been carefully cultivated, with over $10 million having been spent to put the name across to the public. So successful had this campaign been that a company survey revealed that 89 percent of the housewives in the United States recognized the name Ann Anderson and 4 percent correctly identified it with Good Foods' Inc.

ADVERTISING MIX

The total Good Foods advertising expenditures for 1969 were estimated to be about $50 million. Almost half of the money was for television ($25 million), with newspapers ($10 million) and magazines ($ million) accounting for the bulk of the remainder.

SMALL APPLIANCE PROJECT

In 1965 a special project was started in which a group of engineers were asked to develop prototypes of various electrical appliances. Four products - a toaster, an electric frying pan, an iron and a coffee maker- were developed.

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* The case was prepared by James R. Taylor, Sebastian S. Kresge, Professor of Marketing, Graduate School of Business Administration, The University of Michigan, Ann Arbor.

Several consumer tests of these four appliances had been conducted throughout the product-development process. All four appliances compared favorably with those of competitors during home-use tests. These tests were conducted with appliance owners throughout the United States.

While the new appliances were not major breakthroughs in design, they did incorporate the most up-to-date features that characterized competitive appliances. All of Good Foods' home-use tests were conducted blind, in the sense that appliance owner was not told who manufactured the new appliances.

The competition in the appliance business was characterized as intense, with many firms sharing the market. Several large manufactures, such as General Electric, Sunbeam, and Toast Master, were well established in the traditional appliances distribution channels (appliance outlets, discount houses, hardware outlets, etc.). Several manufacturers followed the policy of franchising the retail-outlets for their entire line of appliances. Other manufacturers followed an intensive distribution policy allowing their products to be sold in an array of retail outlets, including discount houses.

The small appliance business was one that showed rapid expansion after World War II. During the early part of the 1960s, the rate of growth slowed to an expansion rate of 5 percent a year.

Exhibit 1 indicates the pattern of sales for the last few years by product type. Good Foods' executives considered a 10 percent penetration of this market potential a real possibility. This estimate was based in part on their unique distribution strategy for new appliance line.

Exhibit 1

Kitchen Electric's Sales patterns (units)

Product Type	*1968*	*1969*	*1970 (est)*
1. Irons	9,915,000	9,475,000	9,600,000
2. Coffee makers	8,200,000	8,500,000	8,800,000
3. Toasters	5,800,000	6,200,000	6,600,000
4. Blenders	4,900,000	6,100,000	5,900,000
5. Can openers	5,100,000	5,500,000	5,800,000
6. Mixers	4,560,000	4,900,000	5,100,000
7. Frying pans	2,975,000	3,300,000	3,500,000
8. Broilers	2,770,000	2,640,000	2,500,000
9. Corn poppers	1,850,000	2,200,000	2,600,000
10. Slicing knives	2,500,000	2,100,000	2,000,000

Source : Merchandising Week, April 27, 1970.

The marketing department had debated the question of appropriate channels of distribution for their appliance line. Since Good Foods was well established in the food distribution channel, it was argued that this channel offered the best opportunity for the new line. As far as the marketing executives knew, supermarkets were not carrying appliances and this offered an excellent opportunity to open a new channel of distribution for the sale of appliances. In recent years, supermarkets had expanded into new areas, including kitchenware items. Homemakers appeared to be willing to buy items like cake pans and regular pots and pans in supermarkets. An additional factor was that the appliance line could carry the Ann Anderson brand, which was well established in the minds of the average supermarket shopper. All in all, the marketing executives were convinced that the regular grocery channel of distribution was the logical place to distribute the new appliance line.

The new line was to be priced competitively with the leading sellers in the field. The average unit selling price at retail was $16, and the unit costs were approximately the same for all four products. This pricing policy allowed approximately a 50 percent margin for the supermarkets.

This markup represented s substantially higher margin that supermarkets received on items such as cereals and canned goods. Management expected this margin to be a major incentive for the supermarkets to handle the appliance line.

Exhibit 2

Cost Data

	*Cost per Case **	*Total*
Variable costs :		
Transportation	$ 3.60	
Broken goods	0.30	
Warehousing	1.00	
Parts and materials	28,00	
Packaging	3.10	
Labor and overhead	6.00	
Fixed costs :		
Buildings machinery and equipment **.....		$4,850,000
Start-up costs ***.....		650,000

Maintenance		100.000
.....		
Other	expenses	50.000
.....		

* Six items were included in a case. For example, six coffee makers were to be shipped in one case.

** To be depreciated over ten years.

*** To be amortized over ten years.

Since Ann Anderson was such a well-established brand name, only moderate advertising was planned for the new line. It was argued that homemakers visit supermarkets at least once a week and that they naturally notice the appliance display. An advertising budget of $2 million a year was proposed for the first few years of new-product introduction.

Good Foods' executives were excited about the new appliance line and were anticipating long-term success in the appliance business. A product manager from the cereal division was chosen to handle the marketing of the new line. (Cost data for the project are given in Exhibit 2.)

Questions

1. Evaluate the decision of Good Foods' management to enter the appliance business. What factors weigh in favor of the decision and what factors weigh against the decision?
2. Has an adequate market/financial analysis been presented? Support your position.

Case-2

Newman Computer Exchange *

Decision to offer a new product

Newman Computer Exchange (NCE) of Ann Arbor, Michigan, was founded in 1970 by Al Newman. Most of its business involved the sale and leasing of used minicomputers and word processing equipment (WPE). Initially, all of these sales were generated directly through the mail by means of quarterly catalog and periodic fliers.

NCE'S original target was predominantly the national educational market. The direct-mail approach to selling allowed NCE to then move quickly into other markets. Over the next seven years, NCE's mailing list grew to more than 70,000 industrial, governmental and hobby market customers located all over the United States. NCE also expanded its product line, adding the new smaller microcomputers and computer literature and games.

By 1977, NCE boasted greater sales of used minis and word processing equipment than any other company in the world. While these sales remained the dominant part of its business, NCE also became one of the nation's largest sellers of new microcomputers. In fact, NCE now devoted one half of its catalog space to promoting the micro systems it carried. Al's brother Chuck, who had joined the firm in 1973, took over management of this fast-growing division of the firm in late 1977.

MARKETING STRATEGY, 1970-1977

NCE followed the same basic marketing strategy throughout these first seven years. Big descounts, a large selection, fast delivery, and a 90-day warranty on all products attracted a somewhat valueconscious, technically capable customer to NCE. By using a warehouse showroom instead of a fancy retail store to display its products, by cutting out many of the services provided by computer stores catering to less technically capable customers and by minimizing advertising and distribution costs through the use of the catalog ($600,000 annual expense), NCE could continually undercut its competition on price and still make a profit.

Although NCE sold both its used merchandise and its new micros through the catalog, the markets and competition for each of these lines were somewhat different. NCE sold its used minis and word processing equipment mostly to small and medium-sized businesses and to the educational and governmental markets. Although other mail-order firms in various parts of the country sought these customers, NCE's main

* This case was written by Eric Blanchard, Research Assistant, under the supervision of Martin R. Warshaw, Professor of Marketing, Graduate School of Business Administration. The University of Michean, Ann Arbor.

competition came from the original equipment manufacturers. Many of these OEMs bought back, refurbished and resold used minis and word processing equipment in addition to offering new equipment.

NCE marketed its micro line primarily to the business and hobby markets. Its market position here was not nearly as strong as in the used mini and word processing equipment market. Computer stores specializing in microcomputer systems and providing better local service than NCE were popping up all over the nation, including two in Ann Arbor. NCE found this competition particularly stiff in the business market, where many customers demanded training, custom programming and full field service not offered by NCE. Consequently NCE generally attracted educational institutions and self-sufficient commercial users.

The key to NCE's success over the years was thus its ability to provide value at the lowest possible price. Low overhead, smart buying practices and a good repair-staff allowed NCE to consistently do this profitably with its used minis and word processing equipment. This task was more difficult for the microcomputer line. Chuck Newman was constantly looking for new products in the micro market that might bring better value to his customers and greater profits to the company.

NEW HOME COMPUTER

Early in 1977, Chuck got wind of a new and exciting development in microcomputers, the home or personal computer. Chuck was particularly interested in a model being developed in California by Commodore Business Machines. Commodore was a vertically integrated consumer electronics firm that was known primarily for its calculators. It was one of the few small firms remaining after the shakeout of the 1960s that left Texas Instruments and Hewleat-Packard with most of the market.

Commodore's home computer, called the PET (short for Personal Electronics Transactor), was unique in its simplicity, in its low price, and in the fact that it could be mass-produced cheaply and easily. The PET included a video display screen, an alphanumeric and graphic keyboard, and a cassette tape unit for program and data storage. All of these components were integrated into a single desk-top unit, list priced at $595 for the 4,000 byte memory and $795 for the 8,000 byte memory. With BASIC as its resident language, the PET had thousands of applications, ranging from inventory control to the storing of meal recipes.

Chuck went out to California in April 1977 to take a closer look at the product and the company. At this time, Commodore did not have a manufacturing facility for mass production of the PET. In fact, it had only just completed making the first few prototypes. Chuck was quickly convinced, however, of the power and simplicity of the unit.

Commodore told Chuck that it planned to sell the PET directly through its regional sales offices, with the first PETs coming off the line some time early in the fall. Commodore did not intend to give out any formal

distributorships right away. Chuck felt, however, that if NCE could put down a large deposit, Commodore would grant NCE at least a priority position on delivery, if not an exclusive distributorship.

Once Commodore agreed to this arrangement, NCE could launch an advertising campaign, involving fliers and including the PET in its catalog. Chuck also thought it would be wise to send one of NCE's servicemen to work at Commodore for several weeks in order to learn more about the PET. Commodore would, of course, have its own service centers across the country, but NCE would have to be prepared to do some repair work. Chuck estimated that all of these initial costs added up to about $10,000 - $15,000 in addition to an initial deposit of $30,000.

NCE would also have to provide its own warranty on the PET. At this point, the reliability of the PET was still an area of some concern to Chuck. If the first PETs turned out to have bugs in them, this could be damaging to customer relations and expensive. Estimates indicated that at least 2 percent of sales would have to be budgeted for warranty expense.

Chuck was also worried about the software and peripheral options that his customers might want. Commodore could not promise to have these on the market until quite some time after the PET was introduced. Of course, sophisticated users who understood machine language could program the computer themselves and add their own options. Most of the market, however, would probably want to buy the software and peripherals right along with the unit.

The life cycle of the PET was another big question mark. Radio Shack and Sears were working on their own similar, though less sophisticated, personal computer models. Their well-known names, numerous retail outlets, and heavy promotional expenditures could enable them to capture a large portion of the hobby and commercial marekts. It the PET turned out to be a success in spite of this competition, an even greater threat would come from the large integrated producers. A firm like Texas Instruments, with its vast market power, could design a comparable model, undercut the PET on price, and force Commodore out of the market within a year.

Finally, Chuck was concerned with how well the PET would fit in with the rest of the product line at NCE. He expected that high sales of the PET would cannibalize to some extent the sales of the other micros that NCE carried. This would not be particularly damaging in itself. The danger lay in not getting sufficient delivery of the PET to complete the sales. Back orders due to production problems, product defects, or Commodore's own siphoning off of volume for its direct sales could mean a net loss of micro sales for NCE.

Chuck also predicted that the PET would bring much more traffic into the showroom. He had already made plans to remodel along the lines of the typical storefront look in order to improve sales of NCE's ancillary

products, such as games and literature. The introduction of the PET might make this move necessary much sooner.

As Chuck flew back to Ann Arbor, he thought about all the problems and opportunities that the PET presented to NCE. He could see the industry moving in the direction of the PET, and he wanted to be there first to offer it to his customers. It was not unreasonable to expect 100- 150 orders per month, with NCE taking a 25 percent margin on sales. On the other hand, a fairly large investment would be required for an essentially unproven product. Chuck knew that he must move quickly if he wanted to take full advantage of this opportunity.

Question

1. Should Newman Computer Exchange add the PET to its line of products? If so, what marketing strategy should be used to introduce the PET to NCE's customers?

Case-3

Johnson and Davis (A)*

Decision to make or buy a product

Johnson and Davis (J&D) was founded in the early 1900s as a manufacture of printed forms for both government agencies and private businesses. It set up a plant in a small town in the Midwest and sold its forms directly to customers in the area. In the years that followed, J&D added three more retail outlets which sold the printed forms (still manufactured at the home plant) as well as furniture, office and school supplies, and file and record systems supplied by various other manufactures.

By the early 1970s, J&D's retail sales had become the dominant factor in its total operations. A large part of J&D's growth in the retail market was attributable to its sales of file and record systems. As a "systems dealer," J&D used a new and creative selling technique in which its salesmen worked with each customer individually to design a record system that would best satisfy the customer's needs. J&D then ordered the necessary components of the system from its suppliers and received a retail markup for its services. Because J&D's sales representatives helped in the actual designing of the file system, the customer usually came back to J&D for future expansion and replacement needs.

One of the primary features of all the file and record systems offered by J&D was the use of color coding. By 1974, color-coded file systems had gained widespread popularity at banks, hospitals, public record offices, and other organizations with large filing needs. The principal advantages of a color-coded file system over a non-color coded one are : (1) search and file time can be reduced up to 40 percent; (2) misfiling is minimized, and misplaced files are spotted more quickly; and (3) color coding can be used to file by year, department or function, using alphabetical, numerical, or terminal digit formats. The only disadvantage of color coding is the higher cost involved, especially in making the transition from an existing, regular file system to a new color-coded one. This disadvantage, however, can often be more than offset by the long-run savings in filing time.

Until 1973, J&D had bought its color-coding supplies from Record Systems Inc. These supplies included plain manila folders, manila folders with color-code labels already glued on, and self-adhesive labels for customers who wished to attach the labels to their own folders. RSI was the first manufacturer to offer color-code labels, in 1927, and it was still the industry leader in 1973. J&D had always been given exclusive distribution of RS line of color-code labels in the state in which all of J&D's outlets were located .

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Then, late in 1973, J&D got word that RSI was in the process of closing out its traditional distribution channel through retail outlets such as J&D and of setting up its own branch sales offices. In other words, RSI's own salesmen would sell its entire product line directly to the customer. For J&D, this meant that it would no longer be able to rely upon RSI to supply it with labels and folders, since J&D would soon be one of RSI's competitors.

A few months earlier, Tom Peterson, a former sales executive at RSI, had been hired by J&D to manage its File and Record Systems Division. It was Tom's responsibility to find an alternative source of supply for color-code labels. He did not feel that this would be a difficult task, since 12 other manufacturers in the industry were offering similar label designs at comparable prices. The only problem was that all of these 12 manufacturers were already distributing their labels through other retail outlets in the area. Thus, the exclusive distribution that J&D had always enjoyed while selling the RSI label would be lost.

For this reason, Tom began to look at a second alternative, that of making rather than buying color-code labels. Although J&D was not in a particularly good financial position to take on a new investment, especially for a product that accounted for less than 1 percent of its total sales, Tom felt that the potential for even larger future sales of color-code labels might justify the risk. Since patents had never been obtainable on any particular color-code label design, one possibility would be to manufacture labels identical to those produced by RSI. In this way, J&D could continue to satisfy the replacement and expansion needs of its past customers. Tom dismissed this idea, however, since he believed that there was more to be gained in the long run by avoiding direct competition with a systems firm as well known as RSI.

Instead, J&D might manufacture a new label that Tom had designed, which resembled RSI's label in all respects except the width of the color bands. The RSI label had been able to accommodate six $1^1/_2$ inch color bands; each band containing a designated digit, 0-9. Tom's label had $1^1/_4$ inch color bands and thus could accommodate seven bands or digits. Of greater importance, this difference would make concurrent use of J&D's label and RSI's (or any other manufacturer's) label virtually impossible. Although J&D would thus forfeit expansion and replacement sales to its old customers, it would avoid losing exclusive distribution of a color-code label.

But before presenting his superiors with this alternative and the alternative of buying from another supplier, Tom knew that he would need to find out the expenses and the profit potential associated with each alternative. First of all, J&D had already invested in some letter presses and other photographic machinery for its printing operations. In fact, Tom knew that there was an idle letterpress in the plant that could produce, at a cost of $54 an hour, all of the color-code labels demanded by J&D's customers. Its printing staff would then have to make image plates for the

labels, and Tom estimated that this would cost $7,500. The plates were estimated to have a depreciable life of 15 years.

The major fixed cost of the project would be the production of a base stock inventory of color-code labels, each label containing just two color bands. This base stock would then be drawn from and more color bands added to the labels, as specified by customer orders. Inventorying a base stock was a common, cost-efficient practice of all manufacturers in the industry. Tom estimated that the base stock inventory would amount to a $25,000 fixed investment for J&D.

Tom arrived at this figure by taking the total manufacturing cost per label - $25 per 1,000 glue-on manila tags and $50 per 1,000 self-adhesive adapter tags - and multiplying this cost by the size of the base stock needed. Using past sales as an indicator, 75 percent of which had been for the manila tags and 25 percent for the self-adhesive tags, Tom concluded that a base stock inventory of 600,000 manila tags and 200,000 self-adhesive tags would be sufficient. One other fixed cost that would be incurred in manufacturing the new label, as opposed to buying another supplier's label, was a $6,000 promotional appropriation to print and mail out introductory brochures.

Turning his attention to the profit potential involved, tom realized that his options were severely limited by competitive pressures. Due to the nature of the product, both dealer net prices and suggested retail prices were determined by the industry, with dealer net set at approximately 50 percent of suggested retail. Industry prices varied directly with the number of bands on the label and quantity discounts were given for larger order sizes. Tom had manufacturing cost estimates only for the four-band labels ($40 per 1,000 manila tags and $70 per 1,000 self-adhesive labels), but he felt that he could compare these costs to the corresponding dealer net prices and come up with a general estimate of the manufacturer's margin involved in the sale of all the types of labels. (see Exhibit.2)

Exibit- 1

Price List for Four-Band Labels (1974)

		1M	3M	5M	10M	20M	50M
Manila tag							
Dealer	net	$120	$110	$100	$90	$85	$80
Suggested	retail	240	220	200	180	170	160
Self-adhesive							
Dealer	net	155	130	11	105	100	95
Suggested	retail	310	260	23	210	200	190
Percent of total	sales	10%	15%	30%	20%	15%	10%

Total sales in 1973 were $50,000 at dealer net. Of these sales 75 percent were Manila tag, 25 percent for self-adhesive.

Tom now needed to make only a few more calculations before making a recommendation to management.

Questions

1. What alternatives is Tom considering? What are the advantages and the disadvantages of each alternative? Can you think of any alternatives that Tom might have missed?
2. Why do you think color-code label prices are determined by the industry? How does this fact affect J&D's decision to manufacture the labels? How does it affect J&D's overall marketing strategy for the product?
3. What advantages would accrue to J&D if they made their own labels?

Case -4

Bangladesh Handicrafts Marketing Corporation Ltd.

Bangladesh Handloom Goods Export Corporation was established in 1967 under the Ministry of Commerce to improve the quality of handloom products with a view to competing in world as well as local markets. This body failed to improve the quality of handloom products and as a result the organization was changed in 1976 to Bangladesh Handicrafts Marketing Corporation Ltd. (BHMC) with resposibility for exporting nontraditional items of handicrafts. The aims were to earn foreign exchange and give employment to rural people. BHMC began its attempts to gain markets abroad by sending samples to the different importing countries through the Export Promotion Bureau. Orders were received from the following countries: USA, Italy, France, Germany and Saudi Arabia.

BHMC is now trying to gain markets in Australia and Japan. A good number of trade enquiries have also been received from the Netherlands and Canada. A major concern of the corporation has been the improvement of quality in the handicraft products. It has taken part in various trade fairs abroad through the Export Promotion Bureau, showing a wide range of samples of handicraft products. Up to now, it has confined its activities to cane products. The corporation has considered opening sales and display centers in countries such as the US, UK, Belgium, Italy and West Germany. It is prevented from doing so by a shortage of funds.

BHMC markets all types of cane handicrafts, such as bowls, umbrella stands, cylinder, plates, moras (small stools), mirror frames, partitions, baskets and cane furniture. From the start, the Corporation tested reactions to new product ideas by supplying samples to Bangladesh missions abroad. The World Bank has aided one scheme - development of cane furniture.

Management

The Chief Executive of BHMC is responsible for the overall marketing programme and for making contact with importers. From time to time, he has to explain the actual marketing and financial position to the Board of Directors.

The Deputy Chief (Marketing) - (see exhibit 1), is responsible for the execution of the marketing programme. He is in frequent contact with procurement and distribution department. He also heads a committee which decides export prices.

The marketing officer is responsible for shipment of goods and for submission of documentation to the bank in connection with export bills and for the preparation of the new contracts with importers.

The stores officer is responsible for procurement and distribution of goods, packing and transportation. He is also responsible for sending new samples to the importers.

The Accounts officer is responsible for the maintenance of accounts and submission of the final accounts. He also submits periodic statements on the Worlds Bank Projects.

The Administrative officer is responsible for proper maintenance of office discipline and security measures as well as preparation of documents for board meetings.

The Fields officer is responsible for the operation of new contracts and dealing with queries from importers. He also works closely with the Deputy Chief (Marketing) and others in reviewing progress of orders and sample preparation.

Markets

The corporation has set a target of Tk. 40 lacks for the export of handicraft products in 1979-80. Recently, the Chief Executive visited the New York fair which had been organised by the Interational Marketing Group of the U.S. in conjunction with the Export Promotion Bureau from Bangladesh. The enquiries received during the fair indicated a very good demand for the various types of cane products. It is accepted that a good number of orders will be secured from the U.S. market.

The Chief Executive has also completed a market study tour of Saudi Arabia. A good number of importers showed keen interest in importing handicrafts from Bangladesh. One importer made a contract with BHMC to import cane chairs, tables and moras. Other importers expressed much interest in importing cane partitions and baskets. These importers were concerned most of all with prices, shipment procedures and mode of packing. They appeared to envisage the products being used in hotels, offices or in guest-houses. The light weight of the furniture items were thought to open up possibilities for the apartment or household markets as well.

In discussing these opportunities for cane products, some major problems were foreseen which are as follows :

- High freight charges
- Product range being very limited
- Shortage of suitable cane raw material
- Packing and transport arrangements
- High manufacturing costs.

The packing, transport and freight cost problems were made more difficult because of the high volume to value ratio of the products, their fragility and the amount of waste space due to their shapes.

The Problems of Raw Materials

Three types of cane are available in Bangladesh :

Type	Length	Diameter
Thick cane	22-50 ft.	6-8 "
Thin cane	15-20 ft.	3-6 "
Jally cane	10-15 ft.	1/8 - 3"

The thick cane is mostly used in cane furniture. It is in very short supply in the country, but it could be imported from India. Thin cane is usually used in products like umbrella stands, trays, mirror frames. The Jally cane is used in bowls and small products.

The main growing area of cane is the hilly part of Sylhet district. This is a relatively small area. Sloping land is required for cane growing as rain water should not remain on the growing area. Cane requires at least three to four years to mature. The farmers cut it and clean it and the superior rods are then selected and dried. Middlemen buy the canes from the farmers and stockholders (Nahhaan) buy it from the middlemen and hold the rods in go-downs until prices rise. Artisans who work with cane purchase from the stockholders. As a result, the supply of raw materials is often a problem for the artisan. Production of cane is very limited in Bangladesh due to the above factors and there is thus a problem in meeting export market requirements. BHMC is trying to eliminate the stockholder system and to help the artisans by supplying them with the raw materials in addition to new product designs. Help is also given in quality control.

Product Development Centre

The Project Manager is responsible for the product development center of the Corporation. This is located in the Sylhet district. He is also responsible for submission of project proposals to agencies such as the World Bank and for the implementation of any projects approved. New designs required by importers are supplied to the Product Manager for development. Samples are later supplied to the importer for acceptance. Product design ideas are also received from a design center which is being set up in the same building as BHMC in Dhaka.

The Extension Officer runs the product development centre under the direct control of the Product Manager. He is also responsible for developing new products from designs supplied.

The Crafts Supervisors (2) are responsible for giving advice to the artisans, developing new techniques and advising on the use of tools and basic work methods. Fifty artisans are attached to the Centre and are responsible for producting quality products in both sample and order lots.

Pricing

Pricing is seen by BHMC as the main competitive factor in developing its export trade. Prices are quoted on the basic of C & F, F.O.B., or C.I.F. as required by the importers. Quantity discounts, early payment discount and agency commission are allowed. The Prices Fixation Committee is headed by the Deputy Chief (Marketing) and includes the Product Manager, Administrative Officer, Marketing Officer and Stores Officer. The committee sits to consider any trade enquiry on price. It fixes the price list for a particular period into the future.

Exibit- 1 :

ORGANISATION CHART (BHMC)

BOARD OF DIRECTORS

↓

CHIEF EXECUTIVE - 1

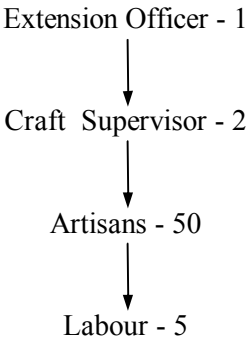
Dy. Chief (Marketing) 1 — Project Manager 1

Marketing Officer-1	Administrative Officer-1	Accounts Officer-1	Store Officer-1
↓	↓	↓	↓
Field Officer-1	Jr. Officer-1	Jr. Officer-1	Jr. Officer-1
↓	↓	↓	↓
Sr. Assistant-2	Caretaker-2	Cashier-1	Quality Control Inspector - 5
	↓	↓	↓
	Guard- 2	Sr. Assistant-2	Sr. Packer-2
			↓
			Asstt. Packer-2
			↓
			Labour-2

Total Employees : 30

Exibit - 2:

Product Development Centre



Total Production Employees : 58

Bangladesh Handicraets Markeing Corporation Ltd.

Teacher's Note :

Synopsis

This case describes the operation of parastatal organization responsible for the export of non-traditional items of handicrafts.

The central issue is the complex interrelated problem involved in the design and development of new products for export including raw material supply, processing and quality control.

Teaching Objectives

The main objective is to make trainees aware of the factors which have to be considered in developing new products to earn foreign exchange within the resources of the country and to give economic help to the rural people.

Teaching Strategy

The following items should be discussed and solutions suggested by the class :

- Shortage of financial resources
- Difficulties in meeting delivery dates
- Shortage of adequate shipping facilities, particularly to the Middle East.

- Short supply of raw materials - i.e., cane.
- Difficulties in attaining high quality standards
- Inadequate "godown" facilities.

Questions

1. How should the BHMC enter into the world markets for the export of handicrafts?
2. What is the actual role of BHMC for the rural people? How should the BHMC develop products for the export markets?
3. How should the BHMC develop products for the expost markets?

[Source : Moslemuddin Ahmed, Stores Officer, Bangladesh Handicrafts Marketing Corporation Ltd. Dhaka, Bangladesh, 1980. Prepared under the BMET project of the UGC, Financed by the World Bank.]

Case -5 :

Sparkling Spoons Limited

It was a hot sultry evening towards the end of April 1979. Mr. Karim had just returned home from a meeting with his boss, Mr. Jalal - the owner of Sparkling Spoons Ltd. He was visibly perturbed.

Many things were on Karim's mind since his return from Australia on the 28th March. He has gone there to explore the market for Sparkling Spoon's product range which includes spoons, forks and knives. On his return, he was very satisfied and bubbling with enthusiasm. However, within the span of a few weeks, the enthusiasm was beginning to wane. There were many problems to overcome before he could earn profits from exports and it has been his dream to become an internationally reputed businessman - the man who produced the best brand of spoons and forks.

As he sat and dragged on his Benson & Hedges, his mind went back to the early days. As a lecturer in economics in Dhaka University, he became increasingly frustrated with audacious students and above all a meager salary. He had then decided that he did not want to teach anymore. Because of his family background, sound education and a host of friends and contacts, it was not long before he finally said good-bye to teaching.

Karin joined Bangle Trading House (BTH), a trading concern, in 1974. BTH also had significant investments in several manufacturing operations, including light engineering, textiles, publishing and agricultural processing. A policy of diversification was part of the underlying business philosophy of BTH (see Exhibit A). Karim was initially assigned to the head office as a senior executive in charge of administration. Within a short time, his talents and contribution were obvious to all. Towards the end of 1975, he was called in to see the chief executive - Mr. Jalal, - a man of considerable influence in the business community. By the end of the meeting, Mr. Karim had been given charge of the manufacturing concern, Sparkling Spoons Ltd. This company had only recently been set up and had not yet gone into production. He was further informed that the outgoing executive in charge of this new venture was involved in some misappropriations and this led to his departure from BTH.

In his new position as managing director, Karim began to take stock. The factory of Sparkling Spoons Ltd., was located on the outskirts of Dhaka, the capital of Bangladesh. It occupied only 15% of the total area which was purchased in the name of Sparkling Spoons. Clearly, the total area, which was over four acres, was purchased as an investment in view of the ever-escalating price of industrial land in the Dhaka region.

The machinery for the manufacture of spoons, forks and knives included several different types, many of which still remain unused. These are listed in Table-1 below.

Table - 1 : Manufacturing Units

Machine	Units	Usage
Stamping Press (.5)	1	Vary rarely used.
Stamping Machines 100 tons	3	Only one in constant use; the other two are not used.
Ball Press (manually operated)	1	Sometimes used, for cutting
Hammers	1	Not used.
Trimming Lathe	2	Frequent usage to trim edges; only one is used.
Lathe Machine	1	For all purpose use; usage rate about 60%.
Drilling Machine	1	Other use; not in direct production.
Shaper	1	Multipurpose, but infrequent use.
Polishing Units	4	Constant usage. Fully utilisad.

The manufacturing units were first imported in 1964 by a Government body assisting industrial growth in the period prior to the War of Liberation (1971). The items were stored in a go-down, never being put into use. By the middle of 1975, the machines were still lying in the go-down and producing nothing. The government corporation neither used these matchines not seemed interested in disposing of them. Towards the end of 1975, Mr. Jalal acquired the machines through his personal influence. It was very difficult to set up the machines initially. Because of their origin and the number of years they were kept in the go-down and as most of the literature was lost, nobody was familiar with the operating conditions and methods.

When Mr. Karim came in, he started looking for all relevant manuals and other literature and with the help of a very experienced foreman/mechanic, he was finally able to start up production.

During the initial production runs, much of the goods were damaged as the operation conditions had to be established through trial and error. Finally, after several months he was able to service the domestic market.

The products were made of stainless steel which had to be imported. Because of the intricate designs and durable quality, they quickly became attractive to middlemen and final consumers. The price range was also very attractive compared to imported products and sold at less than 35% of the price of foreign goods at retail outlets.

However, the market for stainless steel products was still too limited. Only the middle income group served as customers, since the upper income group preferred foreign brands for status and snob appeal and the lower income group could not afford to purchase the products. Mr. Karim also has to face some competition from four other manufacturers of stainless

steel products, of these, two are larger than Sparkling Spoons Ltd., and both produce a more varied product range, such as dishes, plates and salt and pepper shakers. One of these companies is also involved in the export of goods.

When Sparkling Spoons Ltd., had a licence to import raw materials worth Tk. 4,500,000.00, their annual imports remained around Tk. 1,200,000.00 and this was adequate to serve the needs of the local market. However, customs documents for 1978-79 reveal that the total value of imported stainless steel was Tk. 19,500,000.00.

At a time like this, when sales were sluggish, Mr. Karim launched upon the idea of exporting. He was becoming concerned at the total sales revenue which was not enough to cover direct costs and a very large overhead (administrative costs and a huge depreciation account because of unused machinery.)

When he first approached Mr. Jalal with his ideas about exporting, the initial reaction was mild. Mr. Jalal was making enough profits from the trading interests and from one of his manufacturing units and was not too interested in diverting funds into expanding Mr. Karim's proposed operations. However, at Mr. Karim's insistance, he finally agreed to an initial survey of prospective markets.

On his return from Australia, Mr. Karim presented the Australian market profille as he saw it. Importers in Australia were purchasing around US. $ 110,000,000.00 worth of stainless steel products from Korea and Taiwan. However, these suppliers could not always fulfill the demand due to problems of shipping space availability and sudden surges in demand. As a result, the Australian importers found themselves short of required supplies. They wanted further supply sources which could fill the deficit which ranged between $2,000,000.00 - $5,000,000,00. For Mr. Karim, this was more than a dream He could offer his range at prices which could compete with the products from Korea and Taiwan and as a result make consideable improvements on his profit margins. He also recalled that the Australians had shown a keen interest in his samples and had given strong indication of the likelihood of guaranteed orders on a continuing basis. However, he could not but reflect on some of the Australian market characteristics. It was the importers in that market who had shown such enthusiasm for the products of Sparkling Spoons Ltd. They, however, insisted that none of the products should be brand marked. Mr. Karim was also aware, after analysing the relevant export documentation that Australia exported large quantities of cutlery to Japan, the U.S. and a few European countries. He suspected that if he sold in to Australia his products would be branded there and then re-exported. Clearly, the Australian agents were hoping to profit from the low manufacturing costs in Bangladesh. The total value of imports of cutleries into Australia between 1976 and 1979 were :

1976	U.S. $130,000,000
1977	U.S. $125,000,000
1978	U.S. $140,000,000
1979	U.S. $147,000,000

Australian exports of cutleries during this period have remained at approximately 30% of the import value. Although there were no tariff barriers at the time of Mr. Karim's visit, recent rumours suggest the likelihood of a tariff imposition.

Mr. Karim now had to came to terms with several issues. The availability of funds for expansion was a major concern and there were other difficulties. Mr. Jalal was still preoccupied with trading. His other objection was about filling Australian import deficits. What if there were no deficits in a particular year? On the production side, there were other problems. Not all the machines were being used. Further, where the only stamping machine could produce 3-5 items per minute, it took a day (2 shifts) to polish and finish approximately 150 items on the four polishing units.Setting the dice took 3-4 hours normally. Sometimes production had to be stopped for several days before the polishing department could catch up. Clearly an automatic polishing unit was needed. However, its capacity needed to be determined. The higher capacity units were very costly and in the event of low demand they would remain idle. The lower capacity units could generate about 40 items per hour. Mr. Karim had wanted to go to the commercial banks several times. However, Mr. Jalal had insisted on running the unit on equity funds through or internal transfers if necessary. Mr. Karim reflected on this inefficiency in the general financing affairs of the company.

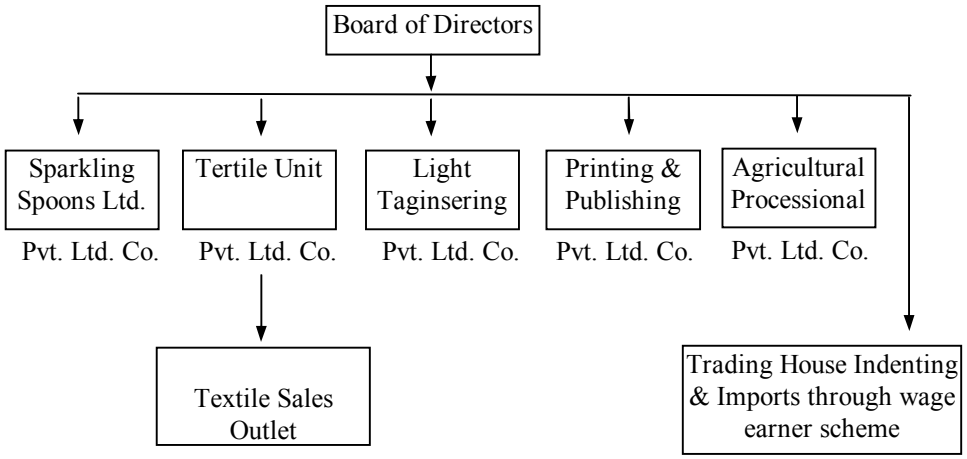
On the issue of exports, Mr. Karim had enquired about the problems and incentives. He was able to learn that a competing firm which had tried to export earlier could realise the amount due in terms of duty drawback after two years of pursuing the relevant authority. He also determined that no interest was paid on the duty drawback sum which was usually received after two years. This bothered him very much, particularly as he believed that he could generate additional funds through import tax savings.

In regard to incentives, Mr. Karim became acquainted with the XPL notion and the detail concerning rebates of customs duties paid (see Exhibit 4). He was also concerned about another significant factor. If deliveries were to be expedited on time, shipping space would need to be reserved some 4 months in advance, this would be necessary as Bangladesh port facilities were generally regarded as inadequates. Furthermore, Bangladesh is not a convenient location in the context of established international trading routes.

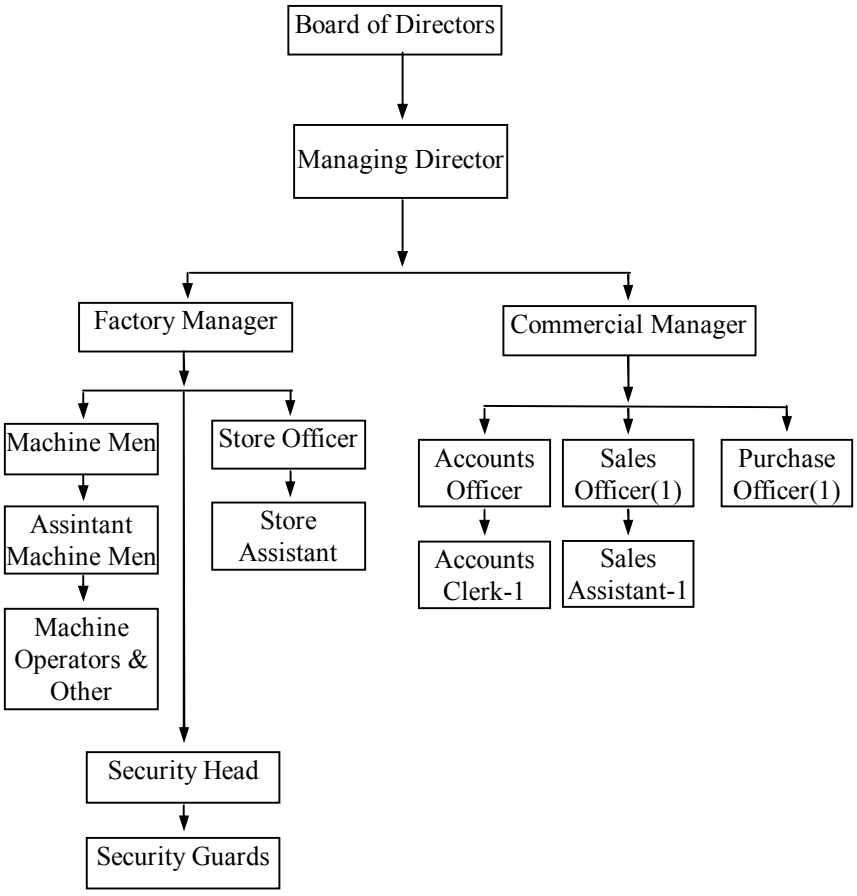
During the last few months local sales showed some improvement. But they were not enough to satisfy him. The Benson & Hedges glowed steadily in the darkness which had enveloped the verandah where Mr. Karim was sitting. The stillness around him made him even more thoughtful.

Exibit : 1

Bangladesh Trading House Enterprises



Exibit : 2 Sparkling Spoons Ltd.



Exibit- 3 : Income & Expenditure Statement

	1976	1977	1978	1979
Sales	800,000	1,200,000	2,000,000	2,200,000
Cost of Sales :	405,000	600,000	1,300,000	1,500,000
Gross Margin :	395,000	600 ,000	700,000	700,000
Administrative Costs :	254,000	260,000	275,000	280,000
Depreciation :	250,000	250,000	250,000	250,000
Other Expenses :	100,000	170,000	200,000	220,000
	595,000	80,000	725,000	750,000
Net Margin :	(200,000)	(80,000)	(25,000)	(50,000)

Exibit- 4 : Government Incentives

XPL is an incentive for registered export industries and commercial exporters. It enables exporters import specified items. Under this scheme, exporters are issued export realization certificates in proportion to their export earnings from non-traditional products. Thus, additional import licenses are issued for imports and these are in the amounts of a percentage of the F.O.B. values of their exports. The imports permissible under XPL include raw materials and packing materials, spare parts., balancing, modernization and replacement machinery for the production of the goods concerned.

In 1977-78, the scope of XPL was expanded to allow exporters to use their XPL, in advance for the purpose of obtaining import licenses, provided bank guarantee for double the value of the advance licenses is submitted. There are four seales for the 74 exportable items enjoying the XPL entitlement. Of these, the percentage entitlement for cutlery is 20%.

Rebate on Customs Duty and Refund of Sales Tax and Excise Duty :

This incentive, which enables the refund of import duties paid in raw materials and packing materials used for export production and of sales tax and excise duties paid on finished goods, has long been criticized by exporters for several reasons :

1. The difficulty in furnishing detailed information required in the refund claim forms;
2. The time taken to process the claims and verify the information provided;
3. The long delay to the eventual refund of the duties.

Sparkling Spoons Ltd.

Teacher's Note

Synopsis

The case is an illustration of an inherent bias against manufacturing industry as a contributor to profits in a mainly trading group of companies. The chief executive of Sparkling Spoons Ltd. is convinced that he can establish a successful export business, but for various reasons he is unable to pursue legitimate business objectives.

The case contains material which will allow the student to focus in on critical decisions in relation to the setting up of a manufacturing unit in the private sector.

Teaching Objectives

The case may be used to examine :

a) The adequacy of infrastructural support from government institutions for the promotion of exports

b) The adequacy of incentives in the exporting field

c) How the marketing concept might be applied

d) The different motives of the management of the company; Mr. Karim is export oriented and therefore concerned with achieving economies in production, while Mr. Jalal appears to regard the investment in the machinery as one which will result in an appreciation of the capital itself (underlining the scarcity value of such equipment in Bangladesh).

Teaching Strategy

The teacher is advised to lead the students through the case assembling the various information. Students may also be asked to assume the roles of the principal characters, Karim and Jalal. The emphasis should be on analysing the data from the production and marketing standpoints. Stress should also be placed on the importance of manufacturing units in Bangladesh, for both home and export markets.

Questions

1. How can capacity be better utilised?
2. Should unused machinery be disposed of?
3. As spoons and forks are used by a small segment of the population, should the company be servicing the local market? What other stainless steel products might be developed and added to the line?
4. Should Mr. Karim resign from Sparkling Spoons Ltd.?

5. What prospects are there in the Australian market, in view of the technological advances in most countries in the Far East?
6. How can the company achieve greater efficiency in regard to the reimbursement of import taxes?

Use of the Case

The case is most suitable for potential and current entrepreneurs who are interested in exporting manufactured products. It may also be used with officials from the Ministry of Commerce in the task of acquainting them with the needs and problems of exporters.

[Source :Syed Saad Andaleeb, Assistant Professor, Institute of Business Administration, Dhaka University, Dhaka, Bangladesh, 1980. Prepared under the BMET project of the UGC, Financed by the World Bank]

Case -6 :

Lucky Sports Ltd.

When the Board of Directors of Lucky Sports Ltd. met on the 17th March 1980, the main item of the agenda was a letter from the Export Promotion Bureau (EPB) suggesting that the company should enter the export market. The EPB was established in October 1977 as the official body mandated to formulate and implement an export growth strategy for Bangladesh. Early in 1980, the Bureau received enquiries for leather footballs from Nigaria and also from the Middle East. Mr. Azharul Islam, Marketing Director of Lucky Sports Ltd., asked the Board for more time to consider the request in the light of the company's recent labour and quality problems.

Import Substitution

Mr. Zahir Khan, Chairman and owner of the Khan group of companies was a successful Bengali entrepreneur with wide ranging building construction and trading interests. Early in 1976, a high official of the Ministry of Industry approached him to set up a manufacturing enterprise for sports goods. This was in line with government policy to encourage local entrepreneurs to develop industries which would replace imported goods. The government gave high priority to industries which used local raw materials. A ten-year tax holiday and enhanced incentives including a bonus for exports were introduced.

Lucky sports

"What do you think about setting up sports industry in Bangladesh?" asked Zahir Khan of his Marketing Director, Azharul Islam. Mr. Islam replied that the estimated demand for footballs and volleyballs was 267,000 and 54,000 respectively[1] . To meet this huge demand, the domestic supply of balls was very limited : one factory, a non-mechanised unit, manufactured annually some 3,000 footballs. According to the Bangladesh Sports Federation, annual imports of footballs into Bangladesh were around 20,000.

Zahir Khan accepted the view of his Marketing Director and in October 1977, Lucky Sports Ltd., commenced operations at Mukda Para-twenty miles north of Dhaka. The estimated capacity of the plant, on two shift operation 300 days a year, was 240,000 football covers and 60,000 Volleyball covers.

Exhibit -1 shows the position of Lucky Sports Ltd. within the Zahir Khan Group. It also illustrates the organization of the sports goods manufacturing company. ***Exhibit- 2*** gives output and sales projections, prepared by the Marketing Director in December 1977, which represent the expectations for the company during its first three years of operation.

[1] . Source : Bangladesh Shilpa Rin Sangstha, August 1976.

Production Process

The basic raw materials required for the footballs, tanned leather and lining leather, were both obtained locally. Other raw materials such as laces, emery cloth, polishing and dyeing compositions, good quality cotton and linen yarn were imported. The procurement of these imported materials was not a problem.

The manufacturing process for leather covers consisted of five basic operations. First, leather purchased in the local market was dyed and oiled. It was then spliced to required thickness. The leather was next cut to patterns and punched. The sewing operation was done manually. Finally, the leather covers were packed for distribution.

Technology

Karim Ahmed, a thirty-five year old mechanical engineer was recruited as Production Manager in January 1977. He spent six months with the West German manufacturer of the process equipment which Lucky Sports Ltd., had purchased for the new venture. Karim was familiar the process equipment but had no direct experience of operating the production process. The company hired two experts from Pakistan to assist on the process and to ensure good quality footballs. Local operators were also hired with a view to acquiring technical know-how from these Pakistani experts. Karim appointed a Production Superintendent who worked very closely with the Pakistani exerts and got familiar with the process.

It was intended to recruit skilled workers from existing tanneries in Bangladesh, but only 13 were eventually recruited. Three of the more senior of these were appointed as supervisors. The factory also recruited 12 semi-skilled and 15 unskilled workers. "This plant has very modern machinery with which it is possible to make good quality footballs and volleyballs, provided we can obtain a uniform quality of processed leather", stated one of the experts.

The contract with the Pakistani experts terminated in August 1979 and they both returned home.

Market Demand

Football was the most popular game throughout Bangladesh. Volleyball, though somewhat less common was also popular. These games are conducive to health, inexpensive to play and are an excellent medium of diversion. On the basis of data taken from Bangladesh Sports Federation, Bangladesh Planning Commission and Bangladesh Population Census, it was estimated that about 48% of the demand for footballs and volleyballs originated in the education sector, about 7% in the defense services and about 45% in other sectors. About 82% of demand was for footballs and 18% for volleyballs.

Sales Distribution and Promotion

Lucky Sports Ltd. distributed its goods directly to institutional buyers. It also had two wholesalers- one in Chittagong and one in Chaokbazar, Dhaka, Retailers throughout Bangladesh got balls only from these wholesalers.

In 1977, when the company was initially set up, the sales executive travelled to Chittagong, Khulna and Rajshahi to make contact and to introduce the products to the local retailers. The company delivered its goods in its own transport, except to the two wholesalers in Dhaka and Chittagong. Lucky did no television advertising, because it was considered to be too expensive; but they did provide some free footballs for Dhaka Football League competitions. On national occasions they advertised in the two daily newspapers.

Pricing Policy

Lucky Sports Ltd., operated on a mark-up ranging from 20% to 30% depending on the product (see Exhibit 3). This mark-up was the contribution to general overheads and profits. Organizations who purchased more than 150 footballs received a 5% commission on list price. The company was exempt from government sales taxes, which amounted to Tk. 20 each on imported footballs. Imports sold locally at retail prices about 30% higher than Lucky prices.

Competition

Luck faced competition in the retail market mainly from China, India and Pakistan. Table-1 shows football imports from these sources in 1978 and 1979.

Table 1 :

Country	**1978**	**1979**	**1980**
Pakistan	8,000	12,000	
India	4,000	6,000	
China	8,000	15,000	
	20,000	33,000	45,000

It was estimated from current trends that total imports would exceed 45,000 footballs in 1980.

Performance

Sales showed a continuous upward trend during the initial year of operation. This performance was maintained during 1979 when revenues doubled, to reach Taka 22,00,000 (22 lacs).

Table- 2 :

Lucky Sports Ltd. Production & Sales 1978 and 1979

1978			1979		
Production	**No. Sold**	**Total Value (Tk.)**	**Production**	**No. Sold**	**Total Value (Tk.)**
Volleyballs 4,000	2,860	3,00,300	6,000	6,190	6,49,950
Footballs :					
(a) Lion Brand					
(i) Super 1,500	1,000	1,00,000	2,200	1,975	3,16,000
(ii) Normal 5,500	3,000	3,60,000	7,500	7,452	8,94,240
(b) Tiger Brand 6,000	3,400	2,65,000	5,000	4,750	3,56,250
Total : 17,000	10,260	10,75,300	21,700	20,367	22,16,440

Sales experienced a serious down-turn however from November 1979. In the four months to March 1980, it was estimated that revenues were 30% below those for the corresponding period a year previously. The sales executive believed that this might be a seasonal variation, but the marketing director commented :

> *"There were several reasons for this downturn. We used to sell to the National Sports Control Board, who have stopped buying from us. The District Sports Councils are now purchasing their requirements independently on the free market. Our quality has deteriorated too. Sales promotion activities were not up to the mark."*

In 1979, 70% of the company's sales were in footballs, 30% in volleyballs. The bulk of profits, however, came from footballs.

Market Strategy

The two major problems facing Lucky, as described by Zahir Khan were short-run survival and long-run success.

One of the biggest problems was keeping Lucky's products in the retail shops throughout Bangladesh. A Lucky executive explained that they usually sold footballs and volleyballs to organizations, which meant that they could not build up a brand image. In the meantime, the retail market was being captured by imported sports goods.

"Lucky's short-run strategy must be to get into retail outlets to market our products with a brand name", stated the Production Manager, "Lucky must give the retailers something special which they can Sell", said Zahir Khan.

The Executive Director had made several efforts to reduce costs. Lucky was also in the process of reducing the number of models and of standardizing the football into two categories : Lion Brand for man and Tiger Brand for children. There were two types of Lion Brand, one of superior and the other of normal quality. With regard to the company's long-run strategy, Zahir Khan commented :

"If the short-run survival strategy is to be based on improving Lucky's Operations and profitability in local markets, the long-run strategy must be based on new approaches to the sports industry and new products - i.e., adding one items to the production line and selling sports goods in a 'package' - this will help Lucky to give more incentives to the retailers."

Threats to Future Success

Zahir Khan commented on possible threats to the company's future, "We have the machines and the raw materials, but we lack the people with advanced technical know-how who really know the processing of tanned leather. The Chinese are a big threat. How long will the government protect us?"

"Labour troubles could be a problem", the Executive Director said. "Our plant is situated too far from the management in Dhaka. The production superintendent at the plant cannot control the labour force. There were several strikes during the last three years which stopped production".

Exibit - 2

Lucky Sports Ltd.

Planned Production for Lucky Sports

(In '000's)

Football Production (estimated)	1978	1979	1980
Capacity Utillsation	50%	55%	60%
Production	120	132	144
Add : Opening inventory	—	12	13.2
Quantily available for sale	120	144	157.2
Less : Closing inventory	12	13.2	14.4
Planned Sales	108	130.8	142.8
Volleyball Production (estimated)			
Production	30	33	36
Add: Opening inventory	—	3	3.3
Quantity available for sale	30	36	39.3
Less : Closing inventory	3	3.3	3.6

Planned Sales	27	32.7	35.7

Exibit - 3

Lucky Sports Ltd.
Cost Sheet

	Tk.	Tk.	Tk.
Footballs :			
(a) Lion Brand			
(i) Normal Quality (Cost for Unit)			
Material Consumed :	50.00		
Labour	15.00		
Other Direct Material	15.00		
Prime Cost		80.00	
Factory Overhead		10.00	
Total Cost of Sales			90.00
Contribution to Overhead & Profits			30.00
Selling Price			120.00
(ii) Superior Quality (Cost for Unit)			
Material Consumed :	75.00		
Lalour	20.00		
Other Direct Material	15.00		
Prime Cost		110.00	
Factory Overhead		10.00	
Total Cost of Sales			120.00
Contribution to Overhead & Profits			40.00
Selling Price			160.00
(b) Tiger Brand (Children)			
Material Consumed :	35.00		
Labour	10.00		
Other Direct Material	10.00		
Prime Cost		55.00	
Factory Overhead		8.00	
Total Cost of Sales			63.00
Contribution to Overhead & Profits			12.00
Selling Price			75.00
Volleyballs :			
Material Consumed :	60.00		
Labour	8.00		
Other Direct Material	9.00		
Prime Cost		77.00	
Factory Overhead		8.00	
Total Cost of Sales			85.00
Contribution to Overhead & Profits			20.00
Selling Price			105.00

Lucky Sports Ltd.

Author's Note :

Synopsis

This case describes a firm which was set up to manufacture football covers in Bangladesh behind tariff barriers. The intention was to replace the imports of these goods from India and Pakistan. Raw material in the form of tanned leather was available locally and the potential domestic market was very large. Export possibilities also existed, but the company appeared unable to capitalise on its opportunities.

Teaching Objectives

This case is intended to illustrate that generous government support and ready supply of local raw materials do not in themselves guarantee success in launching a new product. Technical know-how and adequate administrative and marketing structures are also vital.

Questions

1. Does Lucky Sports Ltd. have a clear business strategy?
2. What are the requirements for success in this industry?
3. Can the company improve its distribution arrangements?
4. What kind of organization would you recommend for Lucky Sports Ltd.?

[Source :Iqbal Ahmed, Assistant Professor, Institute of Business Administration, Dhaka University, Dhaka, Bangladesh, 1980. Prepared under the BMET project of the UGC, Financed by the World Bank]