How Safe is Safe Water???

“A business man should always focus upon on new opportunities and find out the ways to develop new businesses.”

Mr. Harsh, Owner - Safe Water

It was a first day of year 2015, Harsh was busy with his daily routine early morning schedule of supervision work of water filling plant to make sure that water filled water coolers should be delivered on time as usual. He was satisfied by the progress of his new business in initial three year, started in 2012, he was able to manage the routine expenses and minor investment during these years. With increasing competition and falling profit margins now Harsh is posed with a few question that how long and how well this business will be? Whether BEP is reached and when this business will become self-sustainable?

NECCESITY FOR SEARCHING NEW AVENUE

After 30 successful years of sesame seeds and oil trade, Harsh was left with only option to hunt for new opportunities and choosing a right one to start with. Increase in raw material prices (sesame seeds) because of exports, change in customers’ taste and preferences towards refined oil and the larger slice of market being grasped by organized sector were the key factors that has led to this circumstance.

He tried every possibility for restoration of his existing oil seeds business and finally decided to move in some other business. The search operation began in the midway of 2011 to find the substitute to replace its existing oil business whose survival was questionable.

His field work started to scout the type of business he can settle into. In order to get more ideas he spoke to many of his friends, took advices from people he met through personal contacts or through references. For making investment in new business, he has learnt few lessons from his previous term. First Harsh will get into the business in which the government interference is minimal, i.e. license requirement, inspections and taxes etc. Second, the size of operations, funds and land requirement etc. should be in line with earlier one. Three, it should be of same sector i.e. food or related business.

DISCOVERY OF PRODUCT

After doing a thorough market study, he identified the product – supply of purified drinking water. At that point of time in city of Bali, this segment was dominated by four players catering to specific set of customers.

IDENTIFYING THE GAP

During his market survey, Harsh found that present purified water suppliers were serving to Textile Mills, Banks, Industrial area and other big giants in the various field within the city of Bali. The oligopolistic watersuppliers were minting money by charging Rs.40 per water jug.

Harsh noticed that because of its high price, the product was not able to make its presence felt in the majority of people. He was in the opinion that if it could be sold at a lesser/affordable price this
would help him to reach the masses. His source of inspiration for such thought process was one of the mobile service providers whose tariff charges were low as compare to other and had bought revolution in the telecom sector. He decided to sell the water jug at the price of Rs. 20 in order to capture the larger market with the added features in his product - chilled and purified.

While examining the market, he came to know that retail market was totally untapped and has huge potential. The area was having more than 250 shops operational and the shopkeepers were accustomed to the old method – hiring/asking water fillers for fetching and storage of drinking water. They were charging as low as Rs. 400-500 per month to fill the earthen pot (matka)\(^1\).

Changing the mindsets and making aware to the prospective customers about significance of safe water drinking was the difficult job that Harsh came across to. He visited in person to the individual shopkeepers and discussed the importance of pure water with them. He also educated the people that by paying a little extra money they will be able to get purified and chilled water at their doorsteps. Having plant in the center of market area was advantageous to Harsh in order to refill in lesser duration and within no time.

**BLESSING IN DISGUISE**

With rise in frequency of water born diseases, government also campaigned for safe water and doctors were also advising the residents to drink pure water. This proved to be a blessing in disguise to the Harsh.

**PLANT SET-UP**

For setting up plant, Harsh searched for the vendors of machine (including filter and chilling unit) for buying tanks to store water, water coolers jars and water coolers for delivering it to the final customer i.e. the retailers.

He met many manufacturers in and around Bali and at last finalized the deal with one of the manufacturers of machine in Jodhpur, another city in Rajasthan. He also bought tankers, water coolers and jars from one of the supplier in the same city. With an investment of Rs. 5.1 lakhs he was all set to start his new stint. He also made arrangement with the water tankers supplier for supplying raw water daily.

**THE CREW**

Harsh along with his younger brother Shyam teamed up for looking after the business. Harsh took the charge of production – procurement of water, filtration and chilling of water and filling and cleaning of water coolers and jars and Shyam was allocated the work of marketing and supplies to the customers and collection of payment.

After completing sixty days in the new field, Manish was appointed as a driver cum cleaner in the month of March. He was assigned the job of supplying freshly filled water coolers and bringing back the empty one. Also the duty of cleaning the water coolers as per schedule was too allocated him.

\(^1\) Matka is a hindi word used for earthen pot.

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THE NEW DAY

On the 1st January, 2012, the first batch of purified water were rolled out from the plant and 30 water coolers were loaded in the auto rickshaw to be delivered to the customers in the market area.

FIRST YEAR OPERATION

Shopkeepers were amazed seeing the novel method of supplying drinking water. They asked about the charges, quality of water and services offered from the existing clients of Harsh. Within few days, more customers were added. In a month’s duration, the customer base reached to 50 from 30. In three months, this number turned into three digits and Harsh was offering his services to 100 odd customers. To meet up the multiplying demand and to fasten the delivery he purchased a second hand loading rickshaw in the month of March 2012.

With the summers reaching on its peak, he was also receiving order from water huts (Pyau). Demand from regular customers was also soaring due to heat in summers. Moreover new customers were joining each day. In the Rajasthan state “JalSeva” (free water service) was a very common feature and Harish was getting orders from shop owners, individuals and temples. The reason behind such service was religious belief of people of Bali – “If you provide water to thirsty it will add to Karma”. His market grew manifold and he started getting orders from other parts of the town as well. With this addition there was upswing in his sales for the next three months. Till June 2012, the startup seemed to be quite successful but the episodes in the month of July seemed to bring in some twist. Due to rainy season the requirement of drinking water has gone down, as a result there was a dip in the sales.

Crossing the mid-way the month of August and September, brought some confidence in the sales because of marriage season. In such occasion he not only catered to the drinking requirements to different functions but also supplied water to the caterers for using it in preparation of food. Reaching to the end of year due to winter season sales drooped again. But it also resulted in cost savings as Harsh had to only filter and not chill the water.

SECOND YEAR LEARNINGS

The dawn of 2013 came with good omen for the Harsh. The first two months January and February sales escalated due to the marriages and new customers were put in. Even for small social functions people were placing order for the water coolers. This continued in the month of March, April, May and June as well. The sales propel because of summer and also religious and cultural fairs that organized during this tenure in the city of Bali. This adjoined one more sect in the customer set of Harsh. With this sales expansion, another member was added to the team. Raman was hired as a helper on a wage of Rs. 200 daily to assist the filling and cleaning work. With the arrival of rain sales tumbled down again in July.

However the month of August in real sense brought in good celebrations for Harsh. During this month, People go for “PadYatra” (walking bare feet) from Sirhi, a place near Bali to Ramdevra – place where god Ramdev Peer Temple is situated. People organize stalls to offer food, water and rest to the devotees passing by on this route as it is considered as a “punya” (auspicious) work. People placed orders with Harsh for supplying water to such camps.

Pyau is a hindi term used for free water drinking facilities offered by different associations or trusts in summers at the corner of roads to the people crossing by.

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Approaching towards the completion of 2013, climatic as well as seasonal change impacted the business too. Sales plunged in the month of September, October, November and December due to winters and fewer marriages. An investment of Rs. 1 lakh was made to buy new water coolers in the year.

COMPLETING THIRD YEAR

In the third year of functioning, the last year trend continued in the first quarter of the calendar year. In April he participated in a tender for supplying the water to the various booths for the officials during assembly election 2014. He won the bid and supplied water there too. However for the rest of duration sales was back on the track of growth.

During the year he incurred an amount of Rs. 65 thousand towards procurement of water coolers and jars. An underground tank at the cost of Rs. 1 lakh was constructed during the month of November to store the raw water.

WAY AHEAD

Although the market for purified water has expanded during the three years in the city of Bali but at the same time many players has joined the force to grab the lucrative opportunity. Having a single plant in the heart of city has been beneficial to Harsh as other units are at faraway places. The price war has started among the players due to competition. Harsh also had not been untouched from this combat. Even if in off season he slashes the price, it would be difficult to increase a single rupee during the peak time. The current price prevailing in the market is ranging from 16-18 per water cooler. Harsh is thinking upon to pave the way to move forward to increase the customer base and dealing with price issue.

Questions for discussions:-
1. Whether BEP is reached?
2. How low can he mark his selling price?
3. List out the ways that can help Harsh to overcome the problem he is facing.
4. Comment upon the cost structure and profitability status of his new business.

EXHIBIT – I COST STRUCTURE

For First Year

Out of entire investment of Rs. 5.1 lakhs, machine (includes filter and chilling plant) along with fitting and other charges cost was Rs. 2.5 lakh. The left over money were used to purchase water coolers and jars and tanks. 400 water coolers and 200 water jars were bought at the price of Rs. 500 and Rs. 150 each respectively. Six tanks with a capacity of 1000 litre each were purchased at a rate of Rs 3.5 per litre. Out of which four were used to keep the raw water and rest two were used for storing the purified and chilled water.

Initially fortnight passenger rickshaw was used for delivering water coolers. In a single shift 25 jugs can be delivered at the cost Rs. 50. The rickshaw was doing two shifts. In March’2012, Rs. 50,000 was spent for acquiring second hand loading rickshaw.

The cost of a water tank is Rs. 300 and it carries 4000 litres of water. Only 60% of water was utilized. Details about water tanks consumption and different types of costs for first year on monthly basis are as follows:-

Being provided as Preparatory Material for the Delegates of ICSC 2015. Not for using in a Classroom. Do Not Copy, Circulate or Post.
<table>
<thead>
<tr>
<th>Month</th>
<th>Tankers used</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan’12</td>
<td>10</td>
</tr>
<tr>
<td>Feb’12</td>
<td>15</td>
</tr>
<tr>
<td>Mar’12</td>
<td>30</td>
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<tr>
<td>Apr’12</td>
<td>50</td>
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<tr>
<td>May’12</td>
<td>50</td>
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<tr>
<td>Jun’12</td>
<td>50</td>
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<td>Jul’12</td>
<td>40</td>
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<td>Aug’12</td>
<td>60</td>
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<td>Sep’12</td>
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<td>Oct’12</td>
<td>30</td>
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<tr>
<td>Nov’12</td>
<td>30</td>
</tr>
<tr>
<td>Dec’12</td>
<td>30</td>
</tr>
</tbody>
</table>
The machine has two filters. These are required to be changed after the interval of two months. Each filter costs Rs. 400.

<table>
<thead>
<tr>
<th>Month Costs Details</th>
<th>Jan-12</th>
<th>Feb-12</th>
<th>Mar-12</th>
<th>Apr-12</th>
<th>May-12</th>
<th>Jun-12</th>
<th>Jul-12</th>
<th>Aug-12</th>
<th>Sep-12</th>
<th>Oct-12</th>
<th>Nov-12</th>
<th>Dec-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tanker Costs</td>
<td>3000</td>
<td>4500</td>
<td>9000</td>
<td>15000</td>
<td>15000</td>
<td>10500</td>
<td>18000</td>
<td>18000</td>
<td>9000</td>
<td>9000</td>
<td>9000</td>
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<tr>
<td>Electricity expenses</td>
<td>6000</td>
<td>9000</td>
<td>9000</td>
<td>12000</td>
<td>12000</td>
<td>9000</td>
<td>12000</td>
<td>12000</td>
<td>8000</td>
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<td>9000</td>
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<tr>
<td>Depreciation</td>
<td>5725</td>
<td>5725</td>
<td>6725</td>
<td>6725</td>
<td>6725</td>
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<td>6725</td>
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<tr>
<td>Transportation cost</td>
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<td>3000</td>
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<tr>
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<td>-</td>
<td>-</td>
<td>1500</td>
<td>1500</td>
<td>1500</td>
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<td>1500</td>
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<tr>
<td>Loading Rickshaw/Maintenance Expenses</td>
<td>-</td>
<td>-</td>
<td>1500</td>
<td>1500</td>
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<td>1500</td>
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<tr>
<td>Driver Salary</td>
<td>-</td>
<td>-</td>
<td>6000</td>
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<td>6000</td>
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<td>6000</td>
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<td>6000</td>
<td>6000</td>
<td>6000</td>
</tr>
<tr>
<td>Filter Costs*</td>
<td>-</td>
<td>800</td>
<td>-</td>
<td>800</td>
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<td>800</td>
<td>-</td>
<td>800</td>
<td>-</td>
<td>800</td>
<td>-</td>
<td>800</td>
</tr>
<tr>
<td>Total Costs</td>
<td>17725</td>
<td>23025</td>
<td>33725</td>
<td>43525</td>
<td>42725</td>
<td>43525</td>
<td>36725</td>
<td>46525</td>
<td>45725</td>
<td>33525</td>
<td>32725</td>
<td>34525</td>
</tr>
</tbody>
</table>
In Second Year

Rs. 1 lakh were spent to buy new water coolers to replace the damaged one. Also an additional expense of Rs.5000 was added for cleaning of filter and chilling plant. This service is to be done after every six months. The water tanks usage and cost details for the second year are as under:-

<table>
<thead>
<tr>
<th>Month</th>
<th>Tankers used</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan'13</td>
<td>15</td>
</tr>
<tr>
<td>Feb'13</td>
<td>20</td>
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<tr>
<td>Mar'13</td>
<td>35</td>
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<tr>
<td>Apr'13</td>
<td>60</td>
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<tr>
<td>May'13</td>
<td>60</td>
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<tr>
<td>Jun'13</td>
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<td>Jul'13</td>
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<td>Aug'13</td>
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<td>Sep'13</td>
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<td>Oct'13</td>
<td>30</td>
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<tr>
<td>Nov'13</td>
<td>35</td>
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<tr>
<td>Dec'13</td>
<td>35</td>
</tr>
<tr>
<td>---------------------</td>
<td>--------</td>
</tr>
<tr>
<td>Tanker Costs</td>
<td>4500</td>
</tr>
<tr>
<td>Electricity expenses</td>
<td>6000</td>
</tr>
<tr>
<td>Depreciation</td>
<td>7017</td>
</tr>
<tr>
<td>Additional Staff (Rs. 200 daily)</td>
<td>-</td>
</tr>
<tr>
<td>Petrol Expenses</td>
<td>2500</td>
</tr>
<tr>
<td>Driver Salary</td>
<td>6500</td>
</tr>
<tr>
<td>Cleaning of Filter and Chilling Plant</td>
<td>-</td>
</tr>
<tr>
<td>Filter Costs*</td>
<td>-</td>
</tr>
<tr>
<td>Total Costs</td>
<td>28517</td>
</tr>
</tbody>
</table>
During Third Year

In the month of November underground water was constructed to store raw water and the total cost was Rs. 80,000 and Rs. 20,000 were spent towards electric fittings. Four old plastic water tanks were sold at Rs. 12000. Rs. 65000 were incurred for buying water jugs and jars at the cost of 500 and 150 each. The water tanks utility and the cost details for the third year are as follows:

<table>
<thead>
<tr>
<th>Month</th>
<th>Tankers used</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan'14</td>
<td>15</td>
</tr>
<tr>
<td>Feb'14</td>
<td>20</td>
</tr>
<tr>
<td>Mar'14</td>
<td>35</td>
</tr>
<tr>
<td>Apr'14</td>
<td>75</td>
</tr>
<tr>
<td>May'14</td>
<td>65</td>
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<td>Jun'14</td>
<td>65</td>
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<tr>
<td>Jul'14</td>
<td>55</td>
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<td>Aug'14</td>
<td>65</td>
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<td>60</td>
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<td>Oct'14</td>
<td>40</td>
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<td>Nov'14</td>
<td>40</td>
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<tr>
<td>Dec'14</td>
<td>40</td>
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<tr>
<td>Month</td>
<td>Costs Details</td>
</tr>
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<td>--------</td>
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</tr>
<tr>
<td></td>
<td>Tanker Costs</td>
</tr>
<tr>
<td></td>
<td>Electricity expenses</td>
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<tr>
<td></td>
<td>Depreciation on P&amp;M</td>
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<tr>
<td></td>
<td>Additional Staff (Rs. 200 daily)</td>
</tr>
<tr>
<td></td>
<td>Petrol Expenses</td>
</tr>
<tr>
<td></td>
<td>Loading Rickshaw Maintenance Expenses</td>
</tr>
<tr>
<td></td>
<td>Driver Salary</td>
</tr>
<tr>
<td></td>
<td>Cleaning of Filter and Chilling Plant</td>
</tr>
<tr>
<td></td>
<td>Filter Costs*</td>
</tr>
<tr>
<td></td>
<td>Total Costs</td>
</tr>
</tbody>
</table>
EXHIBIT – II SALES DATA

The selling price of water cooler and jar is Rs. 20. The water cooler has a capacity of 18 litre and jar is 20 litre. From calculation perspective, the calendar of the said year should be followed for considering days in a month. Sales on daily basis, to different set of customers during a month for all three years are as follows:

YEAR - I

<table>
<thead>
<tr>
<th>Month</th>
<th>Customer Base</th>
<th>Daily Requirement</th>
<th>Total requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan'2012</td>
<td>Shops</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>1</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>2</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td><strong>Total per day sales in a month</strong></td>
<td></td>
<td></td>
<td><strong>50</strong></td>
</tr>
<tr>
<td></td>
<td>Feb'2012</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>1</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>2</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td><strong>Additional 30 customers</strong></td>
<td></td>
<td></td>
<td>30</td>
</tr>
<tr>
<td><strong>Total per day sales in a month</strong></td>
<td></td>
<td></td>
<td><strong>80</strong></td>
</tr>
<tr>
<td></td>
<td>March'2012</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>1</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>2</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td><strong>Additional 30 customers (O)</strong></td>
<td></td>
<td></td>
<td>30</td>
</tr>
<tr>
<td><strong>Additional 30 customers (N)</strong></td>
<td></td>
<td></td>
<td>30</td>
</tr>
<tr>
<td><strong>Total per day sales in a month</strong></td>
<td></td>
<td></td>
<td><strong>110</strong></td>
</tr>
<tr>
<td></td>
<td>April'2012</td>
<td></td>
<td></td>
</tr>
<tr>
<td>100</td>
<td>1</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>2</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td><strong>Water huts</strong></td>
<td></td>
<td></td>
<td><strong>80</strong></td>
</tr>
<tr>
<td><strong>Total per day sales in a month</strong></td>
<td></td>
<td></td>
<td><strong>200</strong></td>
</tr>
<tr>
<td></td>
<td>May '2012</td>
<td></td>
<td></td>
</tr>
<tr>
<td>100</td>
<td>1</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>2</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td><strong>Water huts</strong></td>
<td></td>
<td></td>
<td><strong>80</strong></td>
</tr>
<tr>
<td><strong>Total per day sales in a month</strong></td>
<td></td>
<td></td>
<td><strong>200</strong></td>
</tr>
<tr>
<td>Month</td>
<td>1st July Sales</td>
<td>2nd July Sales</td>
<td>Total per Day Sales in a Month</td>
</tr>
<tr>
<td>------------</td>
<td>----------------</td>
<td>----------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>June '2012</td>
<td>100</td>
<td>10</td>
<td>120</td>
</tr>
<tr>
<td></td>
<td>10</td>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>Water huts</td>
<td></td>
<td>80</td>
</tr>
<tr>
<td></td>
<td><strong>Total per day sales in a month</strong></td>
<td></td>
<td><strong>200</strong></td>
</tr>
<tr>
<td>July '2012</td>
<td>100</td>
<td>10</td>
<td>120</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td>August '2012</td>
<td>100</td>
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<td>120</td>
</tr>
<tr>
<td></td>
<td>1</td>
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<td>20</td>
</tr>
<tr>
<td></td>
<td>Increased Sales due to Marriage Season</td>
<td></td>
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</tr>
<tr>
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<td><strong>Total per day sales in a month</strong></td>
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### YEAR - II

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Increased Sales due to Marriage Season

Increased Sales due to Marriage Season and Additional Customers (for 20 days)

Increased Sales due to Marriage Season and Additional Customers (for 15 days)

Increased Sales due to Marriage Season, Cultural Fairs and Additional Customers

Water huts

Increased Sales due to Marriage Season, Cultural Fairs and Additional Customers

Increased Sales due to Marriage Season

Total per day sales in a month

Customer Base
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<tr>
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<tr>
<td></td>
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<th>Month</th>
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<tr>
<td>Month</td>
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<tr>
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<td>----------</td>
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<td>Sales increase due to supply to booths for the election officials</td>
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<tr>
<td></td>
<td>30</td>
<td>Alternate day</td>
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</tr>
<tr>
<td>Increased Sales due to Marriage Season</td>
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</table>

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EXHIBIT – III ABOUT BALI – THE CITY

- Bali is a small city as well as district in a Rajasthan covering 6 talukas. The population of city and district is around 1.25 and 5 lac.
- The shop on rental basis is easily available in the market area of city for Rs. 3000-4000 depending upon the location. With an initial capital outlay of Rs. 3-4 lacs a small venture can be set up. However buying a shop on own will costs around 30-40 lacs.
- The city is mainly consists of 10% of high, 60% of middle and 30% lower class locality. The population includes 50% of service class and 50% of business class people. Out of 50% of business community only 10% is in big business which includes printing and dying mills. The city is primarily known for its textile units.

References:

This case was written by Prof. Vinod M Lakhwani of IBS Ahmedabad and Dr. Swati Tiwari of Scope Institute of Business Management Bhopal. It was compiled from primary sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.