Feather Mattress Enterprise

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It was a hot sultry summer afternoon of July 2014 in Bhubaneswar, in Orissa. Mr. Navin Jain, the Managing Director of Feather Mattress Co., a `50 Crore turnover partnership, sat in his office and looked at the proposal drafted by his right hand man and minority partner Mr. Rakesh Agarwal. The proposal was for purchase and implementation of an off-the-shelf ERP system, along with the necessary hardware. This system would connect the 18 retail outlets which they currently owned and operated.

Rakesh had put together an action plan for the evaluation, selection and the smooth transitioning from the current legacy systems at the retail outlets to a more forward-looking enterprise management system. Navin acknowledged the fact that the business had grown very rapidly, and so had the risk of crumbling down either due to its own weight due to increasing scale of operations and the resultant increasing complexity.

Although not a great admirer of technology himself, Navin wanted that the best system be implemented, to coordinate the orders being placed and sales being made at the 18 outlets spread all across eastern India, mostly in Tier-II and Tier-III towns. However he also knew intuitively that one small wrong move would lead to a lock-in of resources and impose a significant cost to the organization. The proposed solution centering on ERP system was an

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expensive affair. Did the organization need it or it was an expensive luxury was an issue that needed resolution. He needed more time to think over the proposal.

The Home Furnishing Industry

The home furnishing industry had taken off explosively only in about 2006, when the rising incomes of the middle class created a huge demand for the best comfort that money could buy. Along with a spurt in the sales of personal bath necessities, even the bedding and drapery sections of major retailers like HomeShop & Shopper's Stop were seen to be crowded.

The bedding sections comprised of products like bed sheets, bed covers, quilts, blankets, pillows, cushions and most importantly mattresses. Although the others were being sold since a long time, the new era in the industry brought about a revolution in the production & marketing of mattresses. From a plain vanilla cotton wool mattress, made by the local mattress-tailors, customers in India were graduating to healthier & more diverse options; indulging in *coir*, *rubberized coir*, *recron*, spring, latex, rockwool, latex foam, flexible polyurethane foam and water mattresses. There was a huge potential in the home furnishing market.

The manufacturers of mattresses ranged from established brands like Godrej Interio, Comfort Foam Products, Centuary Fibre Plates Private Limited etc., to specialized players like ATICO Medical Pvt. Ltd., Bharat Medical Systems, Hicks Thermometers India Limited etc., catering to specialized needs of medical care along with large number of small players operating as small manufacturing units. In fact certain cities like Panipat had emerged as clusters where large number of small players operated, with many engaged in exports to

China as well. The industry is built on a differentiated product offering, with proprietary technology being used by some of these manufacturers. Well established in the metros and the Tier-I cities, the manufacturers were rearing to move into the untapped smaller cities and towns, banking on the franchise route to be the first mover.

The manufacturers also operated in the traditional retail format, and to ensure maximum market penetration, a system of distributors were added which served as an intermediary between the company and the retailer. Still, the modern retail-outlet could provide premium services like customizations and faster deliveries of products. The flow of products in the normal course can be represented in the below diagram, with the flow of orders being in the opposite direction:
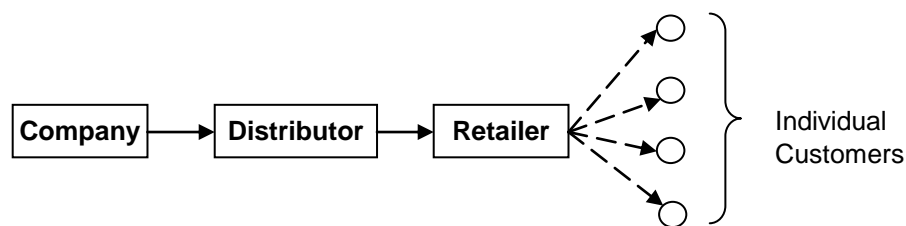

FIGURE 1: SUPLPY CHAIN

The retail side of the industry was characterized by a number of players, ranging from single shop individual-owned retailers to large retailers which owned multiple retail stores in different parts of the country, to large multi-product outlets which tried to offer a one-stop solution for customers. The biggest draw being provided by these players was an integrated outlet for all their home furnishings, providing a wide range of choices across all product categories and the ability of the trained staff to provide insights to the customers. Customization was another draw, with the competition in the industry pushing the major

players to provide for customized mattresses, curtains, wall papers etc. in terms of sizes and fittings.

Feather Mattress Enterprise

Feather Mattress Co. was started in 2007 by two friends, with a start-up capital of `40 Lac. It is a trading company built on the concept of modern retail, being a franchise owned franchise operated (FOFO) exclusive brand outlet for a major manufacturer in the Indian furnishing industry. The retail aspect of the industry works on the concept of providing stock to the franchise against a security deposit kept with the manufacturing company. This concept of goods against a security deposit is different from the buy & sells agreements used in other industries. Sales proceeds are directly collected by the manufacturing company on a daily basis, using the services of cash pickup facilities, at every outlet. A large line of credit thus ensures more stock, both in quantity and product variety. Customers tend to perceive such outlets more positively and tended to patronize those stores with larger variety of stocks, thus typically leading to faster turnover of stock and increased profits for the retailer.

Feather Mattress provided an extensive variety of products with their primary focus being on mattresses. Margins on the mattresses ranged from 20-30%, while the products like bed-sheets, pillow covers, towels had margins in the range of 3-5%. However these products were important as they attracted the customers to the outlets. Although a ready-to-deliver stock of standardized mattresses were always available, the sales staff was asked to gently "push" customers towards a customized product to build on the USP of the product. The

customization offered higher margins, but required monitoring of the orders so that the orders were delivered to the customer in time. All customized orders were analyzed, and some were done at the retail store itself, like fitting a mattress to non-regular sized beds, adding additional layers of latex foam or rubber foam etc., some of the orders had to be passed on to the manufacturer. All customized orders were against a non-refundable deposit by the customer. For all orders for goods-in-stock, the orders were dispatched directly from the retail outlets to the customer's address. For the customized orders, Feather Mattress tried to aim for a lead-time of less than 72 hours.

As the outlets became successful, Navin started bidding for orders for guest houses, hotels, hospitals, clinics etc. A larger demand in an untapped market and a good response from the individual customers led him to becoming one of the "preferred retailers" for the manufacturer. This ensured that Navin was receiving top priority in order fulfillments and now he could directly contact the manufacturer, bypassing the distributor. For Feather Mattress, the operating supply chain is depicted below (see figure 2), which is different from the traditional supply chain (as indicated in figure 1).
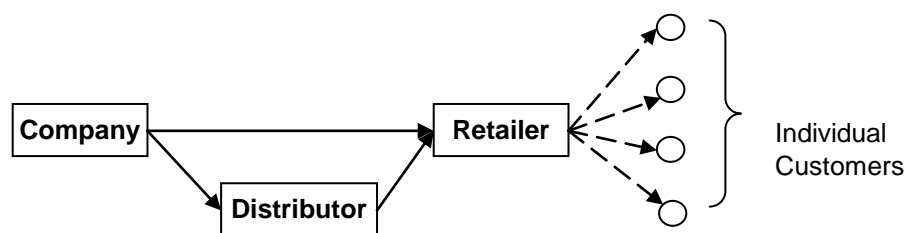

FIGURE 2: SUPPLY CHAIN - MODIFIED

A booming response in the eastern Indian cities saw Navin drafting plans for opening more outlets within the vicinity in collaboration with his partner and support from the

manufacturer in terms of an increased line of credit. The faster turnover in stocks and the institutional orders from establishments raised his goodwill and also his profits. In June 2009, Navin opened another outlet on the same lines about 80 kms from the original one, in a sister town. Receiving even better response from this market, Navin raised some debt against his properties and embarked on an expansion spree. This enabled Feather Mattress to play on economies of scale to increase market penetration as well as share in the market.

TABLE 1: GROWTH OF FEATHER MATTRESS CO.

Year	2007	2008	2009	2010	2011	2012	2015 (Forecasted)
Number of Outlets	1	1	3	6	12	18	30
Revenues (` Crore)	2	6	10	18	36	53	80

Although the expansion was seen by some as over-ambitious, Navin was able to hire and train effective and highly trustable outlet managers to run the show at each of his outlet. Coupled with the customer orientation training provided by the manufacturers to its FOFO employees, the managers were the best in class at customer facing roles of the said kind.

The new network of retail outlets was able to create massive synergies for Feather Mattress, with products capable of being sourced from across the sastern India, multiple distributors as well as the manufacturer. With a customer-centric vision, Navin said, "No

customer should head home empty handed." And true to his words, he empowered his outlet managers to seek products from outlets in the vicinity, if needed to fulfill customer orders. At this stage of integration, the order fulfillment cycle could be summarized as follows:
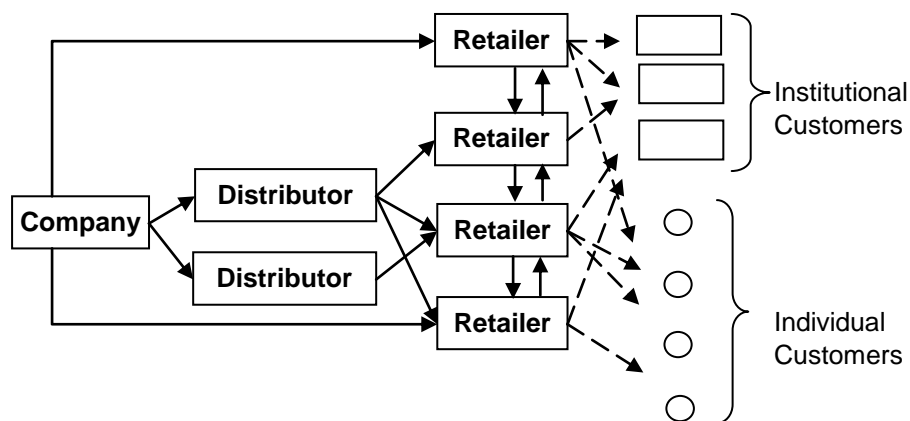

FIGURE 3: CURRENT SUPPLY CHAIN (AS EVOLVED)

Information Exchange System

With the increasing size of the business, it was troublesome to keep track of orders and sales. Especially because neither Navin nor Rakesh had any formal management education, they had evolved their accounting systems based on the limited experience of a small business. Still, they endeavored to put in a formal system to track sales and purchases. The solution for the problem came in the form of Tally accounting software, easy to operate and supportive of government mandated reporting formats. Moreover, stock-ins were documented every end of day and sales receipts were cut to reflect the sales being made. Inventory audits were conducted every quarter to cross-check the physical inventory against the accounting system inventory.

The current system though sound and safe, involved, as perceived by Mr. Rakesh, a lot of data-entry and jugglery, and the store managers had to be trained in using the Tally system to be able to use it flawlessly. Moreover, since the software was located at each outlet locally, no real integration of systems could be achieved and what remained were independent silos. Feather Mattress Co. was looking for a way to track orders and sales. In this scenario, the outlet managers started communicating with the various distributors and the company category department via calls and short message service (SMSs) while placing orders. They even received orders and delivery addresses from regular customers via text. This cut through all the time required in generating multiple invoices.

The advantages were manifold. Apart from being a cheap form of communication (India being the cheapest telecom market), SMS based orders provided an evidence for safe-keeping in the event of a dispute later. This could also be used to send credit instructions, and provided a safe method to communicate between various managers without the use of email technology. Mobile phones were portable and information from the manufacturer's end could be provided to bulk customers at a moment's notice. Hence, the SMS method became the standard communication procedure for the organization, though the accounting system remained as Tally.

During a surprise store visit to their Guwahati retail outlet, Navin had found the manager using a data-enabled messaging application on his smart-phone, for placing orders and communicating with his regular customers. Additionally, he would even send out "fan blasts" to inform customers about discounts & offers at his outlet. Although the application required a data connection and a smart phone to operate, Navin had pointedly observed

that most of his managers were highly trendy and some of them even had phone models better than him.

Daily Reporting System

Even as orders and sales were being tracked through SMS services, Rakesh propounded a new daily reporting system for the outlet managers. After closing the billing system at the end of the day, the manager was supposed to generate a Daily Sales Report, which consisted of a plethora of data, including detailed breakup of bill-wise sale, time-wise breakups and even aggregate data. It was to be communicated to Navin himself; in turn Navin would send out a consolidated sales figure for the day to the manufacturer as per the terms of the franchise contract.

The sale figure would allow Navin to plan his inventory levels and order more stock against his credit limits with the company. It would also be essential to distribute stock amongst the outlets generating the most revenues. Blocked stock at any particular outlet could be moved to another location or returned to the company, only if data was available for the same.

With autonomy built into the system, Navin decided to go ahead with a plan to reward initiative taken by managers and their teams at the outlet. Checks and balances were put in place to remove loopholes from the system and a comprehensive reward system of variable commission was implemented above the normal salary. This was built on the simple proponents of increasing up-sell and cross-sell in his outlets, as an effective measure of the

selling capabilities of the team. The broad outline of the incentive system is given in tables 2 and 3. By providing an additional incentive for the sales team at each outlet to order basket (different or similar number of items as indicated in table 3), the partners hoped to make the sales team more customer oriented.

TABLE 2: COMMISSION FOR SALES TEAM AT OUTLET

Average Bill Value	Commission Payable as Percentage of Daily Revenue
Greater than INR 10,000	2%
INR 8,000 – 10,000	1%
INR 5,000 – 8,000	0.5%
Lesser than 5,000	0.2%

TABLE 3: COMMISSION LINKED TO TOTAL ORDER

Average Basket Size	Commission Payable as Percentage of Daily Revenue
Greater than 10	0.2%
8 – 10	0.1%
5 – 8	0.05%
Lesser than 5	0.02%

The Challenges

The SMS based system seemed to be doing well till Feather Mattress Co. had <10 outlets, but then, problems seemed to be creeping into the information exchange. The elementary problem was the non-delivery of the SMS itself, due to network connection problems. Moreover, the increased risk of the mobile phone being compromised was evident, due to the ease of sending a text message from any feature phone. Also, a long record couldn't be kept because of the limited memory storage in such phones.

In the recent past, Navin had tried to search for vendors willing to provide him with an integrated IT solution for all his business needs, including a comprehensive billing, stock keeping and information management system. A pilot was also tested, a couple of years ago, but was found too complex to operate at such a level. Managers, also, were not ready to give up their tried and tested methods of placing orders using their mobile phones. Some of the managers would still rely on their mobile phones to transact business and punch in their orders and cut bills at the end of the day, effectively defeating the system.

Moreover, with the steady increase in the number of stores, it was becoming essential for Navin to have stricter control of his limited credit. After having mortgaged both their houses to pump-in liquidity into the business, Navin and Rakesh did not have any more avenues for generating the much needed cash, without relinquishing control of their small business empire. In the past few weeks, he had received repeated requests from the manufacturing concern to increase the security deposit as the manufacturer were unable to provide him with material, even after stretching 15% above the line of credit. Given the high sales generated by Feather Mattress, it was in the manufacturer's interest to push more stocks. However, due to company policy they could do so. Navin had thus asked his managers to

report on the daily stock received, as well the cash-situation as well, so that he would have an accurate picture of the working capital situation. This data was collated by a combination of SMS, phone-calls by store managers, or by asking the store managers to send emails.

The Proposal

Rakesh's proposal was to buy an off-the-shelf integrative ERP system and implement it across all the 18 retail outlets and the office where Navin and Rakesh kept a tab on the business. This would be able to provide a dashboard for the duo to run shop, by providing direct access to the sales records and orders being placed at various locations in real time. This application would be integrated with the current accounting system and the store managers could be briefed about it during the implementation phase itself. The end-to-end exercise of evaluating, selecting, implementing & training would cost something in the bracket of ` 20-25 lac, with maintenance and servicing cost of about ` 5 lac annually. Once approved, the system would require about 3 months in becoming fully functional.

As Navin sifted through the list of vendors prepared by Rakesh after an initial short-listing, the issue that he faced was on which parameters would he be judging the new ERP tools? Should he agree to the whole plan in the first place or not constantly nagged him, worried as he was as regarding his need to have sufficient capital to fund the expansion of the store network to different markets. With the industry on the growth path, Navin was sure of opening a multitude of stores in the next few years, even expand beyond Eastern India; and an information exchange system was the key to developing a proper reporting structure.

Yes, the competing uses of his capital worried him. He could use the ` 20-25 lac for increasing the security deposit for expanding the products on display, or for obtaining space on long term lease for his outlets. Even purchasing retail space was a good investment; if the mattress business did not do well, he could shift to other products. Even if he sold the property later, he could make a profit as the prices of real-estate were always going up in India.

If he decided to go ahead, he had other questions. Had his business and managers matured enough to support the new system? Would the vendor be able to ensure a smooth transition from their legacy SMS system into the latest in the technological field?

TABLE 4: DIFFERENT KINDS OF PRODUCTS TYPICALLY ON DISPLAY ALONG WITH PRICES

Standard Sizes	Spine Friend	Classic Plus	Classic	New Super Deluxe	Super Deluxe	Kavita	Kurlo Bond	Aaramesh	Sugam		Anmol	Firmwich	Compact	Sona
Inches	5"	6"	5"	4"	4"	4"	4"	4"	4"	3"	4"	4"	2"	3"
72x24	-	-	-	-	5682	4713	-	-	-	-	3035	-	-	-
72x30	16256		9976	8228	6910	5738	5438	4789	3745	3098	3678	3331	2140	-
72x35/36	19348	19498	11463	9624	7896	6573	6374	5567	4302	3536	4189	3996	2505	-
72x42	-	-	13066	11246	9081	7576	-	6351	4930	4036	4964	-	-	-
72x48	25537	26441	14708	12562	10186	8500	8498	7127	5557	4544	5613	5330	-	-
72x60	31730	32501	19792	16065	13629	11435	10653	9113	7207	5881	7757	6662	-	-
72x66	34903	35961	21251	17516	14844	12413	-	-	-	-	-	-	-	-
72x72	37922	39002	22828	19277	15713	13193	12735	10702	8503	6929	9141	7993	-	-
75x30	-	-	10320	8514	7158	5925	5638	5013	3860	3185	3820	3469	2232	-
75x35/36	20136	20391	11862	9955	8176	6807	6637	5780	4471	3668	4492	4164	2596	-
75x42	-	-	13573	11564	9399	7833	-	6587	5120	4191	5162	-	-	-
74x48	26578	28756	15248	13031	10566	8794	8730	7398	5771	4716	5834	5552	-	-
75x60	33025	33859	20438	16599	14081	11791	11067	9449	7480	6103	8047	6939	-	-
75x66	36333	36756	21930	18023	15245	12790	-	-	-	-	-	-	-	-
75x72	39469	39674	23602	19265	16240	13617	13201	11081	8825	7192	9487	8327	-	-
78x30	-	-	10678	8816	7407	6126	5851	5169	3980	3273	3968	3608	-	-
78x35/36	20911	22118	12292	10284	8482	7027	6893	5990	4636	3803	4666	4330	-	3113
78x42	-	-	14041	12076	9769	8108	-	6830	5309	4344	5358	-	-	-
78x48	27616	31726	15798	13790	10933	9100	9049	7670	5988	4899	6054	5774	-	-
78x60	34314	36363	21089	17187	14511	12143	11471	9797	7759	6322	8345	7215	-	4909
78x66	37744	38913	22666	18659	15744	13214	-	-	-	-	-	-	-	-
78x72	41011	41148	24365	19954	16779	14056	13669	11515	9149	7450	9830	8660	-	5508
80x60	35177	-	21624	17627	14884	12452	-	-	-	-	8536	-	-	-
80x66	38702	-	-	18950	16164	13484	-	-	-	-	-	-	-	-
80x72	42042	-	24998	20466	17216	14425	-	-	-	-	10062	-	-	-
84x60	36899	39157	21977	18506	15628	13075	-	-	-	-	8930	-	-	-
84x66	40588			20172	16982	14174	-	-	-	-	-	-	-	-
84x72	44110	43290	25903	21491	18074	15135	-	-	-	-	10527	-	-	-