

## Profit May Be the Queen of Business, but Cash is King.

In the last couple of decades, the glamour of being an entrepreneur has become sharpened in public eye. This entrepreneurial urge is legitimate because today the economy has a huge appetite for new services, technology etc. Many get into business to earn sufficient enough money so that they and their family can lead a comfortable life style. Does money matter in business? Yes, it does. Entrepreneur takes up business not only to make life comfortable but also to build value. In the past decades every year a few thousands of new business came into existence. Many an entrepreneur came with considerable corporate achievements behind them but still they failed. One of the prime causes noticed in case of the failed business was that entrepreneur made incredible assumptions about income and outgo which they got it all wrong. Small business owners failed to realize one vital financial principle that: Cash flow and profitability are two totally separate things, failing to appreciate the difference is a sure way to financial debacle.

Irrespective of the present position of your small business stands today, it is critical that one need to understand the difference between profit and cash flow. This awareness could determine whether the business outlast, much less flourish in today's testing economic situation.

If sales were made "cash on the table" and on the principle "only cash today, credit tomorrow" then cash flow wouldn't be much of an issue. Sell your product, collect payment at the time of sale and deposit your cash in the bank. No issues. But majority of small businesses operate on what's recognized as a cash flow cycle, which is the time period between when cash is paid out for raw materials, wages etc and when accounts receivable are collected from distributors / customers.

For a new enterprise typically the product manufacturing cycle works like this:

- Raw material is bought by paying Cash and raw materials are processed into finished goods.
- Goods are put on the market for selling and accounts receivable are initiated.
- Receivable are realized and converted back to cash again in bank to meet the payment obligations.

## Look At the Market Rather Than the Market Research

One question frequently asked is why some established department store chain still thrives, while others decline. The answer could be the failing ones might have looked into market research than at the market. The decline is not as is widely believed due to crushing debt burden due to financial miscalculation. Rather if only these stores had same market share as they had say a decade ago they could have managed with the debt. What brought their decline was the most customary of marketing sins; ignoring the people who should be customers but aren't.

In the present day no one has better customer data than big departmental stores and lots of money and time is invested upon to study the data more assiduously. But one significant fact about this data is that it is about people who already shop at the store. Usually the once established stores with more than a couple of years of existence hold on their old customers. But what will be noticeable is that their share of new customers will be shrinking steadily, especially their share of the most notable group consisting of educated and affluent DINK families who invariably shop together and invariably in the evenings and are more value conscious than the traditional department store customer. So if share of new customer declines then the business is in for serious trouble.

Today in times of recession there is an unmistakable rise of value oriented consumer is there to see. This consumer also happens to be one thanks to digital technology who relays on social media to get his purchase choices updated through digital technology. Any business that ignores the reach of social media is bound to miss this value oriented consumer who will be looking into every way to save money including trading down to cheap brands. Since even long established leading companies know that to maintain market share the first and foremost requirement is to retain the existing customer, the company will try every trick in book including tricks like reduce the pack size to maintain the pack price so that the existing customers should not look at the competitor.

Today when the centre of gravity of consumer market is shifted to emerging markets like China and India which has potential for over a billion new consumers, the players like Wrigley, Nestle are always coming out with new tricks to squeeze out the first mover advantage. Wrigley chewing gum today has more than 40% market share in China valued over \$2 billion. To have this solid business, Wrigley introduced herbal essence flavour in chewing gum and spent money on education to emphasize the chewing gums health benefit to the Chinese. Similarly Nestle went on a price chopping route to introduce Coffee to Chinese and this they managed by sourcing raw material locally.

In the past 18 months, the Chinese e-commerce giant Alibaba has rummaged its targets by picking up stakes in mobile, e-commerce and logistics focused companies which coalesce online and offline operations. These moves are in agreement with Alibaba's vision to be the world's largest e-tailer, as it handles more online transactions than Amazon and eBay combined. For instance, in agreement with Alibaba's vision of shifting to a seamless global model where consumers can buy from retailers anywhere, in October 2013 Alibaba made a \$206 million investment for a 39 percent stake in 2-day shipping service ShopRunner.

Alibaba's objective was to gain knowledge about U.S. online shopping, the distribution delivery infrastructure, build up relationships with retailers without revealing itself overtly.

Alibaba went for this option to see if a technology or trend that takes off in the U.S., can be replicated back home in China. Alibaba investments in fast growing start-ups may also help in its inevitable landing on U.S. soil, whenever that may be and could provide strategic advantages for when, the company takes on eBay or Amazon.com on their lair. "Alibaba want these investments to cushion the landing pit."

So in all the above instances we see that everything like market, technology, distribution channel and values in and around the company change. Any initiative in Marketing should focus on with all customers in the market rather than with our customers. Even a leader in any business line will rarely have a market share much larger than 33 percent, this imply that 67 percent of the customers buy from someone else. Yet most business fails to pay attention this significant 67 percent. There is no new market inside the company.

Market Research can be conducted only on what is already in the market; Customers define the market; those who should be the customers but aren't, constitute a critical group that needs to be watched; the external perspective might prod company to look those who are not their customers and have to be ensnared; change has to be exploited as opportunity and demographic change in emerging markets offers the greatest but least risky opportunity.

Nimble one will swallow the slow. Look for ideas whose value to the market can be expressed in simple terms. Market should be ready for the idea. Put together a team with complimentary ideas.

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February 2015 / Vol 12



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# HR NEWS Letter

## The Solitude of Planning and the Dependence in Execution

In a board room with a gang of think tanks and a pile of statistical files a lot of policies and road maps are chalked. The plan so drawn is then pushed down to the reality and then begins the real tug-o-war. We can refer the map but when we walk on the real road there is lot more than the calculated factors. Planning involves solitude. Planning is generally based on what has happened as by no means can we ascertain as to what would happen. But the implementation the "DO" part of it is carried in dependence. It depends on a lot of things.

The point that I am about to make is that a real implementer doesn't succumb to these road blocks. Rather, in real time situation he looks forward for a solution. The positive part is that we can actually perform far better than the planned performance if we are dynamic enough to understand that every situation is curable. As a marketer I find a lot of latent potential and a plethora of untapped tanks. The only need is to be a consistently positive thinker.

I remember an incident when one of my team members was constantly blaming the unavailability of a certain article for his under-performance over that last few weeks. I understood that he is being a prey of "No Plan-B" disease. I didn't guide him in solitude rather I accompanied him in the field. I spent two full

working days with him and suggested the buyers with a similar substitute of that non available article. In most of the cases I failed to convert it into sales. But in few cases I made it. The best part was that the sales target was met (though he just closely touched it). The even more delightful part was that the substitute we sold them made its own space in the market and helped us to beat our targets in due course.

I was not sure of results; I was going almost against the plans. But I had the objective in my mind and it was my perseverance that helped me to propel further.

Do not lose your patience and do not worry when you deviate. Just move ahead with a positive inner-self. The dependence in

execution is the beauty of execution. We see dependence as an obstacle but being positive, his obstacle is a reminder and a break where we can put across our thoughts and look forward for an innovative and more rewarding way of performing.

Planning is important as it guides us as to where to go and how to go. But we must live with "where" and move along.

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## Star of the MONTH



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