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LAKSHMI PROJECTS: SALES STRUCTURE DILEMMA

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It was a bright and balmy morning in July 2014 when Naresh Nangia, the managing director of Lakshmi Projects in Delhi, India, found himself struggling with the marketing and sales strategy for the year ahead after analyzing the sales data for the first six months of the year 2014. Lakshmi Projects had achieved 90 per cent of its sales targets for January to June 2014, with an annual growth rate of 11 per cent, 9 per cent short of the target growth. In 2013, the company had achieved 94 per cent of its targets with an annual growth rate of 22 per cent. Nangia was anxious to find the right structure for the sales, after-sales and quality teams in his organization. He realized that his company's sales model had become more complex and less efficient, which had put considerable pressure on the profit margins.

He had an additional worry — the company's new product was set for an October 2014 launch. Nangia, however, was as yet undecided on the sales strategy for the product. Given the company's limited sales and financial resources, the future growth of the company rested on his judgment. Fluctuating industry dynamics, financial strains and field sales and service requirements meant that this was a complex decision that held larger consequences for the company's sales and marketing strategy and implementation.

LAKSHMI PROJECTS: LIFTING GROWTH

After completing his engineering degree, Nanjia had taken a job in Advanced Dynamics, which dealt with the fabrication processes of different mechanical systems. During his stint there, he learned the intricacies of designing bulk material handling systems (BMHS) and soon became an expert. By 1996, the Indian economy began witnessing the after-effects of globalization as several foreign companies set up their production bases in the country. People began fearing that this foreign influx would escalate competition in the Indian market, but Nangia's entrepreneurial instinct saw an opportunity. He quit his job to set up Lakshmi Projects in 1997 with an initial investment of INR2 million[1] and five employees. He capitalized on his core strength — his expertise in designing BMHS — and made that the crux of Lakshmi Projects. The company achieved sales of INR363 million in 2013 and was ranked among the top 25 fastest growing

[1] *US$1 = INR6, http://finance.yahoo.com/, accessed July 7, 2014.*

material-handling equipment (MHE) companies in India with an employee base of approximately 100 (see Exhibit 1).

Since inception, the company had spread across various industries, including food processing, automotive and fast-moving consumer durables. Its turnkey solutions, including conveyors, elevators, vibrating screens and such, helped its clients to achieve an efficient production facility.

For 2014, Lakshmi Projects set an ambitious sales target of INR450 million with an assertive growth rate of 20 per cent and even bought a production facility in Faridabad, India. By this time, it also was operating in 16 Indian states (see Exhibit 2). The company followed strict international standards when fabricating, designing and assembling products, which ensured a loyal customer base and sustained growth even when the Indian economy was facing a downslide. Despite the entry of many players into this industry over time and the resulting competition, the top management of Lakshmi Projects remained undeterred. It believed that it had carved a niche for itself in the Indian market and was bound to grow with the rising infrastructural needs of the Indian population.

THE "HANDYMAN" INDUSTRY

The MHE industry may appear nondescript, but this was an industry with a hand in almost every industrial sector, and it played a vital role in infrastructural development. Be it automobiles, ports, railways, warehousing, engineering, power, shipping or just about any industry or sector that required handling of any sort, the "handyman" industry always lent a hand!

The MHE industry was divided into four categories — storage and handling equipment, engineered systems, industrial trucks and bulk material handling. Sectors such as power, mining and manufacturing were its market drivers. Globally, the MHE industry was estimated to grow at 6.5 per cent in 2014, and the industry size was pegged at US$113 billion.[2] The growth stage spread to increase the range of equipment as well capacities. India, by virtue of being a developing nation, held tremendous potential for the MHE industry because of its high economic growth rates and rapid industrialization. TechNavios Analyst suggested that the Indian MHE industry had outpaced the world market and was expected to grow at a compound annual growth rate (CAGR) of 15.62 per cent over the period 2011 to 2015 (see Exhibit 3).[3]

A fast-growing economy such as India's needed to rely heavily on this highly sophisticated industry to catch up with other economies such as China and Europe. India lagged behind these economies because of the small number of large MHE companies and a large unorganized MHE manufacturing segment. The technology barrier had played a major role in restricting the number of companies in the segment. Small-scale industries were limited to manufacturing small components and small sub-assemblies.

Some of the companies with a major share in the Indian MHE industry were Godrej & Boyce Manufacturing Co. Ltd., McNally Bharat Energy Company and Escorts Limited. In 2012, the industry was dominated by pick-and-carry cranes, which had a share of around 27 per cent by revenue. This demand was seen at around 30 per cent from government-owned companies and the rest from private

[2] *"Rising Demand Gives MHE Sector Added Buoyancy," www.ipfonline.com/IPFCONTENT/articles/technical-articles/rising-demand-gives-mhe-sector-added-buoyancy.php, accessed May 29, 2014.*
[3] *Material Handling Industry on a Continuous Growth at Varying Pace," www.oemupdate.com/Article.php?ItemId=1943, accessed May 29, 2014.*

ventures.[4] The MHE industry was delicensed and foreign direct investment (FDI) of up to 100 per cent was allowed freely under the automatic route as well as through technological collaboration.[5] Because of this provision, the Indian MHE industry started witnessing tie-ups with global players. Big players such as Godrej, Voltas and ElectroMech partnered with Komatsu, ABUS Kransysteme and SYM China, respectively, to design innovative products to meet customer demand for MHE.

The construction industry was a key demand driver responsible for the growth of the MHE industry. In 2012, the Indian government announced an investment of US$1 trillion on infrastructure, which gave the MHE industry the much-required fillip to forge ahead. Also, the government encouraged private firms to invest in the infrastructure.[6] The MHE industry also offered continued support to the automobile, shipping and power industries and dockyards, which were witnessing good growth (see Exhibit 4).

PUSH AND PULL: LAKSHMI PROJECTS' PRODUCT CATEGORIES

Lakshmi Projects' wide array of products could be broadly divided into two categories — the conveyor and elevator systems.

Conveyor systems

Conveyor systems were used for the horizontal transfer of material from one location to another. They allowed quick, easy and efficient transfer of materials, and production facilities used them extensively to automate systems and reduce labour dependency. A simple conveyor system was an arrangement of a rubber belt on rollers. The movement of the material on the belt could be controlled manually or with motors at one or both ends. These systems were also used in assembly lines. The length, design and assembly of these systems were complex. Over the years, Lakshmi Projects gained expertise in designing modular conveyor systems and customization. Trough belt conveyors, screw conveyors, bed conveyors, roller conveyors, etc., were some of the company's conveyor systems offerings.

Elevator systems

Elevator systems were used for the vertical transfer of material from one location to another. Several industries used these systems to carry bulk material over a certain height. A typical elevator consisted of a series of buckets mounted on a chain or belt operating over a sprocket or pulley. Material was fed into an inlet hopper, buckets or cups dug into the material and hauled it up to and over the sprocket/pulley and then threw the material out of the discharge throat. The emptied buckets continued back down to the boot to continue the cycle. Lakshmi Projects offered a wide variety of elevators, such as bucket, inclined and pneumatic elevators.

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[4] *"Material Handling Equipment Industry in India," Report by Indo-Italian Chamber of Commerce and Industry, June 2010, www.legemcity.com/pdf/8.pdf, accessed May 29, 2014.*

[5] *"Heavy Industry," http://indiainbusiness.nic.in/newdesign/index.php?param=industryservices_landing/341/1, accessed May 5, 2014.*

[6] *"MHE Industry: Future Growth and Current Challenges," www.oemupdate.com/Article.php?ItemId=1764, accessed May 1, 2014.*

TOP BAND: SALES MANAGEMENT AT LAKSHMI PROJECT

Nangia believed that the two key components for consistent sales growth and customer loyalty (that is, success) were a strong sales process and exemplary customer relationship management. He was aware that the sales force was a costly resource and that building or restructuring it involved considerable time and expense. He also understood that quality and quantity needed to be backed by the effective use of sales resources. Nangia was convinced that salespersons needed to be very highly skilled now more than ever if their clients were to view them as value-adding representatives. He was of the opinion that Lakshmi Projects should focus on skill development as well as organizational processes and systems that supported successful sales performances. He emphasized the need to design a sales and sales management process that was compatible with the company policy and its diverse product line.

Piece by Piece: Sales Organization

The sales force had always been Lakshmi Projects' biggest promotional investment. It had evolved over time and adopted innovative models tailored to its dynamic needs — from the product specialist structure to the geography structure to the combination structure. The key aim for all models remained the same — to provide better customer focus and targeting, enhance call efficiencies, develop newer business areas and increase the accountability of resources.

Lakshmi Projects' sales team had 40 sales representatives, seven after-sales representatives and four quality representatives in 2013 (see Exhibit 5). All representatives were beneficiaries of extensive sales and product training; each new representative underwent a 15-day training course at the company headquarters. Moreover, regional managers worked with each sales representative for three days each month to impart on-the-job field training and present performance reviews. Sales representatives reported to the regional sales managers, after-sales representatives reported to the regional after-sales managers and quality representatives reported to the regional quality managers. These regional managers reported to their respective heads.

Work in Progress: Sales Process

Lakshmi Projects had grown greatly since its inception in 1997 to 2014. During this time, several new positions were introduced in the company; even the roles and responsibilities of different positions had evolved. Yet, its underlying process of providing solutions to customers remained unchanged. The company placed its faith in the judgment of its sales representatives. It was left to their discretion to approach potential customers and understand their requirements. If the sales representative considered a project feasible, he or she set up a meeting between the design team and the potential customer to inspect its work site and discuss a tentative project plan. The design team then estimated the complete cost of the project and submitted a report to the sales team.

On the basis of the design team's cost estimate, the sales team submitted a quote to the potential customer with all the technical and commercial details. If happy with the quote, the potential customer called the company representatives for negotiations. The design and sales representatives were often privy to the negotiation meetings. Post negotiations, if a customer liked the quote, the deal was sealed after an agreement between both parties on a final price. The customer then issued a purchase order (PO) in the name of Lakshmi Projects, which the accounts team processed. The design, procurement and fabrication of parts were carried out only after the processing of the PO. Once fabrication was complete, the parts were transported to the work site, where the structure was assembled and commissioned by contract

workers. In the initial two to three months after project commissioning, Lakshmi Projects' sales representatives visited the site to check if the system was working fine. This post-sales concern ensured a good connect between Lakshmi Projects and its customers.

LAKSHMI PROJECTS' SALES EVOLUTION

1997 to 2002

When Lakshmi Projects started out, it operated from the factory itself. Nangia hired two employees to manage design and sales work, respectively. Both had industry experience and believed in his vision for the company. Right from the start, Lakshmi Projects' focus was providing turnkey industrial solutions rather than selling individual products. During these initial five years, the company had some customers in nearby locations. By 2000, it had around 30 employees (including the sales team of six), and Nangia could manage them efficiently. There were no strict defined roles and responsibilities, and the company had a horizontal organizational structure. Meeting customers' requirements in a timely manner was the company's main motto.

2003 to 2008

The booming Indian economy and the information technology (IT) revolution became the catalysts for the growth of Lakshmi Projects. During this period, the company raced ahead and spread to different states and catered to various industries in different sectors. Its innovative designs, customized solutions and international quality standards set it apart from its competitors. With rising customer orders, the company decided to recruit more sales representatives and align its sales force with different product categories, which meant that each product category had a separate sales team. By 2008, Lakshmi Projects had 28 sales representatives. The company's management believed that a focused sales force not only enhanced the customer's satisfaction levels but also provided better customer insights, insights that helped the company improve its designs and innovate better in alignment with its customers' requirements.

The average age of Lakshmi Projects' employees during this period of its growth was 25 to 26 years, and this infused youth and vigour into the company and fueled its growth. Most employees had only just graduated from college and had minimal liabilities. The company ensured that its sales representatives met its customers once a month even if they were in different states. This increased the company's loyal customer base exponentially and also enhanced their satisfaction levels. But this customer-centric focus also meant that the sales representatives felt neglected; extensive travel, sometimes even for weeks at a stretch, left them overburdened and fatigued. As a result, many sales representatives quit — an eventuality the company had neither foreseen nor prepared for. Because of Lakshmi Projects' single-minded obsession with enhancing customer satisfaction levels, it failed to take care of its employee satisfaction levels. High attrition rates forced management to realize that a change in company strategy was necessary to strike the right balance between customer and employee satisfaction levels.

2009 to 2013

By the end of 2008, Lakshmi Projects had operations in eight states. The company had created a distinct image in the industry, but it was also smarting from the pain of innumerable sales representatives' step-downs. It became difficult for the company to maintain competitive prices because the sales force

accounted for 11 per cent of total costs. Paying the salaries and travel allowances of the sales representatives were a major part of expenses.

With more expansion plans projected, the sales head decided to reorganize the sales force according to geography. The move was aimed at reducing each sales representative's travel burden. In each geographical region, the company tried to maintain parity between the number of sales representatives and the number of customers. For this, they even hired eight more sales representatives in 2009. Each had to cater to customers of all product categories, which meant that they had to undergo specialized training to enhance their sales skills for the entire product range, which of course made it difficult for them to remember the complete technical details of all the products. Nangia could clearly see the negative impact of this new sales force over a period of time. Product sales in most locations were greatly affected. In Haryana, which had the most clients, sales declined despite the most experienced sales representatives being allocated to this region. Nangia also realized that the sales representatives lacked product detailing skills and failed to provide satisfactory solutions to clients' queries on different products. One of the clients complained, "The sales representative was well-versed with technical specifications and applications of conveyor systems, but when I queried him on the elevator systems, he was terrible." This left some loyal customers dissatisfied and distrustful of Lakshmi Projects, and they switched to other companies. This became an expensive risk, as it not only dearly cost the company, it also dented its customer-centric image.

During 2009 to 2011, the industry witnessed a growth of more than 15 per cent for three consecutive years (see Exhibit 3). It had grown at a rate of 26 per cent in 2009 to 2010, which attracted many competitors to the market.[7] The requirement for conveyor belts and elevators was at its peak in India, but Lakshmi Projects missed the wave because it was engaged in finding the right sales force. The company's growth was below the industry average, and this pressurized the sales head to change strategy. To improve the company's image and increase the number of orders, the management decided to use a geographic and product-specific combination sales team. Post implementation, this strategy required sales representatives in their respective geographies to sell only products specific to their category.

CUSTOMER SATISFACTION

"Grow with the Customer" was Lakshmi Projects' motto from the onset. Nangia ensured that his company delivered more than it had promised its customers. Its innovative designs, impeccable service and timely delivery helped it forge long-lasting relationships with them. By the late 2000s, when the industry witnessed rapid growth, the company found it extremely challenging to maintain the same service across all regions. It realized that customer satisfaction levels had dipped compared to its benchmark. The Lakshmi Projects management proactively addressed the problem by forming different departments to cater to sales, quality and after-sales.

Sales Department

Initially, the company had only the sales, design and production departments, all working in tandem. The sales department had the front-end role of procuring orders for the company. It was also responsible for maintaining relationships with existing customers, taking feedback at regular intervals and guaranteeing before-time delivery. The design and production departments had the back-end roles of ensuring that the

[7] *Euromonitor International, "Market Size of Elevators, Escalators and Conveyors in India," 2013, Euromonitor Passport GMID database, accessed July 12, 2014.*

various parts and components were ready as per customers' requirements and schedules. This model worked well for the company for as long as it had operations in one or two states. By the late 2000s, when the company expanded, the sales department began struggling to strike a balance between extensive travel to search for potential leads and maintaining relationships with customers. This led to the company's customer satisfaction levels dipping to an all-time low, which forced the management to split the sales department into quality and after-sales service.

Quality Department

Before this department was formed, it was the sales team's responsibility to ascertain if the equipment corresponded to customer specifications. This was tedious and time-consuming because the various assembled parts had to be matched against standardized check sheets, and in the eventuality of any discrepancy, the parts were returned to the design team. Once a quality team was put in place, the static testing of the equipment was completed before the dispatch of products to the customer. The quality team consisted of one regional manager and four representatives (see Exhibit 5). Their role was to make sure that every part dispatched exactly matched its respective production drawing. The role of the quality department became crucial in the entire value chain because missing even one defective component resulted in the assembly failure of the components at the customer site.

After-Sales Team (AST)

Once the equipment was transported to the customers' site, the AST conducted the dynamic testing of the assembly to confirm that it functioned properly. Often, AST representatives stayed at the customer location for days to provide technical assistance to ensure smooth working of the solution. The AST team consisted of two regional managers and seven representatives (see Exhibit 5). Apart from testing, AST also maintained deadlines on the installation and commissioning of assembly, a value-addition that not only satisfy the customer but also increased the probability of repeat orders. The AST team's role and responsibilities, therefore, had a direct impact on the sales of Lakshmi Projects. This department also took feedback from the company's existing customers. The management felt that this focused approach would enhance the customers' satisfaction levels and came up with annual maintenance contracts (AMCs) to cash in on this strategy.

CHALLENGES AT LAKSHMI PROJECTS

Recruitment and Selection

At the beginning, Nangia found it easy to recruit sales representatives. He needed young, energetic, ambitious and multifaceted persons. Over time, as many competitors in the industry began to increase and customers became more demanding, the role of a sales representative also evolved. The company had to ensure that its sales representatives were much more specialized and had thorough knowledge of various product category solutions. That apart, it also needed to focus on the after-sales and quality departments and recruit the right people for these departments. With time, given the dynamic roles of these departments, finding the right mix of sales, quality and after-sales personnel became Nangia's biggest challenge.

Interdepartmental Friction

The sales team had been the driving force behind the success of Lakshmi Projects during its initial phase. In the late 2000s, after the formation of the new quality and after-sales departments, there were many instances when the heads of these three departments refused to arrive at a consensus on certain issues, and the matter had to be escalated to the top management. One such incident had the sales team promise a one-year free AMC to a customer without discussing it with the AST. The AST could not sustain the free AMC for the customer because of a shortage of employees. Such in-house miscommunication and lack of cohesion left the customers suffering; they felt cheated and dissatisfied.

New Product Development

Renewed focus, however, brought the company back on the growth track. Even though the bulk material industry had slowed, Lakshmi Projects was still able to get orders from its customers. To fuel its growth, the company decided to widen its product portfolio. In April 2014, Nangia and his designers created a new product — the dumb waiter. It was designed to cost less than the competitor's product in the market. It could carry a load of 40 kilograms (kg) with a safety load of 10 kg. It was intended to cater to the real estate industry and fulfill the rising infrastructural needs of the country. Nangia was thinking of launching this product in October 2014. He also had the option of getting it patented and selling it to third parties.

THE DILEMMA

The flow of orders notwithstanding, Nangia was at a crossroads about the future course of action. What would be the right mix of sales representatives, after-sales representatives and quality teams to meet the company's ambitious growth plans? Would Lakshmi Projects be able to sustain the geography-cum-product-specific strategy, which was bound to lead to very high overhead costs over a period of time? How could Lakshmi Projects continue to grow with its customers and reduce interdepartmental friction to retain customers? Most important, how could Lakshmi Projects pitch this new product?

Nangia intended to sell the new product to builders. He realized that it required a different kind of expertise and sales orientation and that the sales personnel required additional technical and sales training. Should Lakshmi Projects hire a new sales force for this product, or could it make do with its current sales team? Nangia had a lot to consider.

EXHIBIT 1: SELECTED FINANCIALS FOR LAKSHMI PROJECTS, 2009 TO 2013 (IN MILLION INR)

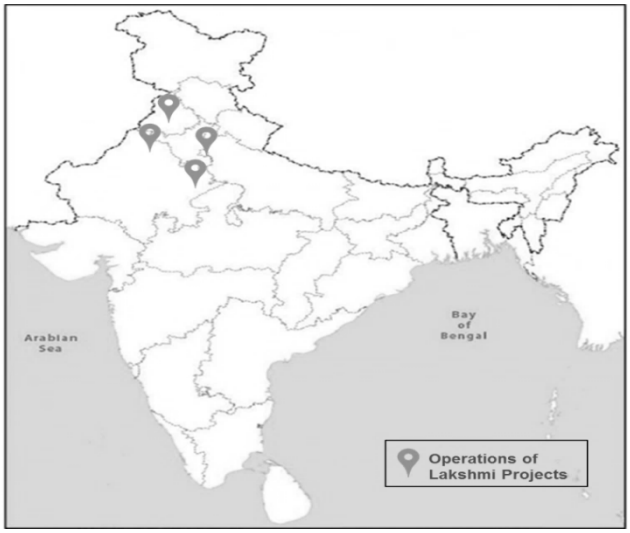
	2009	2010	2011	2012	2013
Net Revenue	170	212	268	327	363
Cost of Sales	75	83	111	129	142
Operating Expenses	17	21	29	37	49
Other Income (Loss)*	4	3	9	5	12
Net Income	82	111	137	166	184

*Note:*Includes gain (loss) on equity investments, settlement income, benefit (provision) for income taxes, cumulative effect of changes in accounting principles and other income. Figures have been changed to maintain confidentiality.*

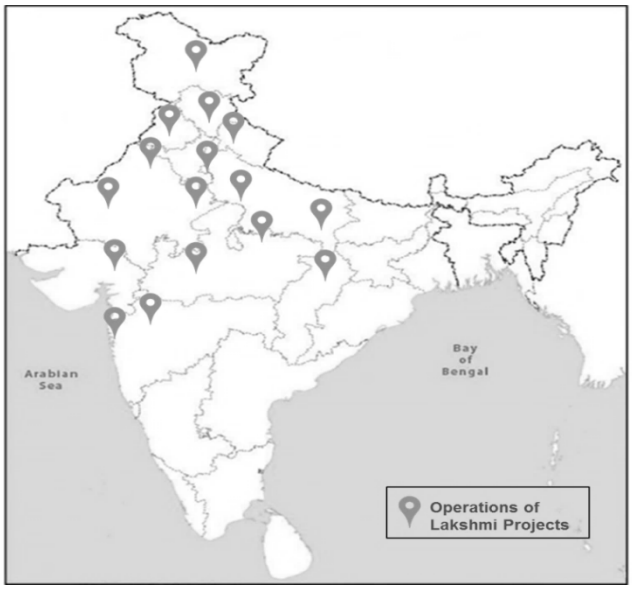
Source: Company files.

EXHIBIT 2: REGIONAL OPERATIONS OF LAKSHMI PROJECTS

2000



2014



Source: Company files.

EXHIBIT 3: SIZE AND GROWTH OF INDIAN MHE INDUSTRY 2008 TO 2012 (IN US$ MILLION)

	2008	2009	2010	2011	2012
Total Market Size	1,854.7	2,187.6	2,760.8	3,337.6	3,166.8
Growth (%)	4.2	17.9	26.2	20.9	-5.1

Source: Euromonitor International, "Market Size of Elevators, Escalators and Conveyors in India," 2013, Euromonitor Passport GMID database, accessed July 12, 2014.

EXIHIBIT 4: REVENUE GROWTH OF INDUSTRIES SUPPORTING MHE INDUSTRY (IN US$ BILLION)

	2007	2008	2009	2010	2011	2012
Construction and Real Estate	227.54	254.95	276.39	304.76	357.54	381.87
Transport Equipment	41.92	47.70	60.89	73.06	82.31	88.04
Mining of Coal and Lignite	8.60	8.54	9.50	10.83	11.50	11.92
Mining of Energy Materials	18.27	19.06	21.82	23.01	25.00	26.72

Source: Euromonitor International, "Market Size of Elevators, Escalators and Conveyors in India," 2013, Euromonitor Passport GMID database, accessed July 12, 2014.

EXHIBIT 5: SIZE OF LAKSHMI PROJECTS' FIELD FORCE (1997 TO 2013)

	1997	2002	2008	2013
Sales Representatives	2	8	28	40
Regional Sales Managers	0	1	3	4
After-Sales Representatives	0	0	0	7
Regional After-Sales Managers	0	0	0	2
Quality Representatives	0	0	0	4
Regional Quality Managers	0	0	0	1
Total	2	9	31	58

Source: Company files.