



Chennai Business School  
Learning for the real world

## COPY SHOP IN PARTS?

Rashmi was feeling terrible! Why did the Board presentation have to be scheduled tomorrow? She must have asked this question more than 100 times in the past three hours!

Rashmi was a big fan of Aamir Khan and today was last day that ‘Talaash’ would be screened in Chennai. She had tickets for the 10:00 pm show and the way things were progressing, she definitely would not be able to complete the presentation for the Board meeting! What should she do?

Rashmi was the Senior Marketing Manager of Copy Shop, a company that sold photocopying machines and printers. A couple of months ago, she had approached a large multinational company that employed more than 1,500 persons. They had recently occupied 8 floors of a building complex and were interested in sourcing copiers from her company.

The company was looking at an order of 10 machines, each of a value of 5.0 Lakhs. Half a crore would be a very big order for Rashmi and she wanted to ensure that she did not lose out on the opportunity – at any cost!

After several meetings and follow-ups with Sumitha, the Manager concerned in the multinational, Rashmi understood that cost would be a major influence for Sumitha. Rashmi was very worried that her major competitor would offer copiers at a very high discount – something that had been done in the past too. In order to overcome this problem, Rashmi wanted to come with a proposal that would ensure that on the one hand, her Management would be comfortable and, on the other hand, she would not lose the order.

Rashmi decided to go over the facts of the case.

1. Number of machines ordered: 10
2. Price of each machine: INR 500,000
3. Cost of each machine: INR 400,000
4. Life of machine: 4 years or 600,000 copies
5. Salvage value after 4 years or 600,000 copies: INR 75,000
6. Lead time for procurement of copier for Rashmi: 1 month
7. Payment terms on procurement for Rashmi: 100% on placing order
8. Time to install copiers: 1 month



9. Payment terms negotiated with Sumitha: 1 month credit from date of installation
10. Cost of drum to Rashmi: INR 150,000
11. Price of drum charged to client: INR 187,500
12. Drum to be replaced after: 200,000 copies or prints
13. Cost of copying paper: INR 750 per ream of 1,000
14. Annual maintenance cost charged to client: 5% of machine cost
15. Cost of AMC to Rashmi: 2% of machine cost
16. Depreciation rate used by Rashmi's company: 30% WDV
17. Tax rate: 30%
18. Cost of capital of Rashmi's company: 18%
19. Sumitha's estimate of copies per machine: 150,000 per year

Having understood her competitor well by now, Rashmi had considered the following pricing strategies to ensure she procures the order:

- A discount of 18% on the selling price
- 50% down payment and the balance in equal installments of 62,500 over 4 years
- 12% discount Plus Free AMC for the entire duration of 4 years After careful analysis she had decided to go for the first option.

### **What are your views on her decision?**

Rashmi would have actually not missed her hero if this was the only problem. Even though she was virtually supplying at cost, she had a faint suspicion that her competitor could still try something drastic! That was when the thought of offering the machines on a rental basis came to her mind. The theme of the new thought was as follows:

- Do not charge any payment for the machines
- Do not charge for the maintenance
- Replace the drum free of cost
- Supply the paper free of cost
- Charge the client for every copy or print taken subject to a minimum number of copies a year
- This charge could be contracted to increase by 10% every year.

Her gut feel informed her that she could not charge more than INR 2.25 per copy or print. She also knew that she could negotiate a good rate with the paper supplier and procure copying paper at INR 650 per 1000 sheets. She would also agree to increase this cost by 6% to 8% every year to get the supplier to agree with the rate. She wondered what the minimum number of copies should be to make this proposal viable. *Could you help her out?*