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Impact of Financial and Operational Management Practices on Business Performance: A Comparative Study of Pharmaceutical Distribution and Modular Furniture Businesses

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Basis of study: On-the-Job Training (OJT) as Financial Analyst Intern, ZDN Consultancy Pvt. Ltd. (two months). Client organisations are anonymised and identified only by sector.

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Abstract

This paper examines how financial and operational management practices relate to business performance in two contrasting small and medium-sized enterprises in India: a distributor of over-the-counter (OTC) and Ayurvedic products, and a modular furniture and interior solutions business. The study uses a descriptive, analytical and exploratory comparative case-study design based on internal client data analysed during a two-month Financial Analyst internship at a management consultancy. Profitability, margin structure, receivable ageing and customer concentration were assessed through ratio, trend, ageing and ABC analysis. In the distributor, sales rose 3.40% between FY25 and FY26 while purchases rose 5.26%, so gross profit fell 16.12% and net profit fell 31.91%; gross margin declined from 8.70% to 7.06%. Gross-margin compression accounts for about 92.5% of the fall in net profit, whereas operating expenses stayed near 3.9% of sales. Receivables of ₹1.34 crore were 78% under 30 days, with 8.02% older than 60 days, and 9% of customers generated 63% of sales. The furniture business reported a 30% gross margin and an 11% net margin on ₹6 crore of final sales, with operating expenses at 19% of sales. The comparison suggests that control priorities differ by operating model: purchase-cost and working-capital control in distribution, and project cost and overhead control in project-based manufacturing. Because the evidence comes from two cases and client-reported figures, the findings are indicative rather than generalisable, and no causal inference is claimed.

Keywords: working capital management; gross margin; receivables ageing; ABC analysis; SME finance; pharmaceutical distribution; modular furniture

1. Introduction

Revenue growth is often treated as evidence of business health, yet profit and liquidity depend on how costs, inventory, receivables and operating processes are managed alongside sales. This is especially so in small and medium-sized enterprises (SMEs), where finance and operations are managed by a small team and formal performance reporting is limited. Financial management practices such as margin monitoring, working capital control and cost structuring, and operational practices such as procurement, inventory control and project execution, therefore jointly shape business performance.

This paper studies that relationship through two contrasting businesses encountered during a two-month Financial Analyst internship at a business consultancy. The first is a distributor of OTC and Ayurvedic products, a business driven by inventory, supplier cost and customer credit. The second is a modular furniture and interior solutions business with a showroom and a captive manufacturing unit, a project-oriented business driven by materials, production and installation. The two cases make it possible to ask whether the same financial indicators carry the same managerial meaning under different operating models.



2. Background and Rationale of the Study

Three considerations motivate the study.

1. **Growth is not profit.** The distributor's FY26 accounts show sales growth alongside a sharp fall in profit, a pattern that headline revenue figures conceal.
2. **Operating models differ.** Distribution concentrates risk in stock, expiry, supplier price and collections; project businesses concentrate it in material cost, overheads, execution delays and customer payments. A single analytical template therefore risks misdirecting management attention.
3. **Practitioner evidence is scarce.** Published working capital and performance studies mostly use large samples of listed firms. Firm-level internal data from SMEs, analysed in a consulting setting, is seldom available for academic use.

The paper contributes a structured, anonymised comparison built on actual client figures, and it keeps three kinds of statement apart throughout: **observations** (figures reported by the clients or computed directly from them), **interpretations** (the analyst's reading of those figures) and **recommendations** (proposed actions, not tested outcomes).

Monetary values are in Indian rupees (₹); one lakh is 100,000 and one crore is 10 million. FY25 and FY26 are the client's financial years, as labelled in the source data. Sections 3 to 8 set out the literature, gap, problem, objectives, propositions and method; Sections 9 to 11 present the analysis and comparison; Sections 12 to 17 give findings, discussion, implications, recommendations, limitations and conclusion; Section 18 lists the references.

3. Review of Literature

3.1 Working capital management and profitability

The cash conversion cycle (CCC), which combines inventory days, receivable days and payable days, was proposed as a liquidity measure by Richards and Laughlin (1980). Jose et al. (1996) linked shorter cycles to higher corporate returns. Deloof (2003), studying 1,009 large Belgian firms over 1992–1996, found that shorter receivable and inventory days were associated with higher profitability, while longer payable days were associated with lower profitability, which he explained as less profitable firms paying suppliers more slowly. For SMEs, García-Teruel and Martínez-Solano (2007) analysed 8,872 Spanish SMEs for 1996–2002 and reported that reducing inventories and the days accounts receivable are outstanding creates value, and that a shorter CCC improves profitability. Indian evidence from Sharma and Kumar (2011) also reports a relationship between working capital management and profitability, with inventory days and payable days negatively related to profitability.

The relationship is not uniformly linear. Aktas et al. (2015) found that US firms move towards an optimal level of working capital, and that departures in either direction can depress performance. Kieschnick et al. (2013) concluded that, for the average firm, an extra dollar invested in net operating working capital is worth less to shareholders than an extra dollar of cash, and that customer credit weighs more heavily on shareholder wealth than inventory. Together these studies imply that working capital must be judged against a business-specific norm rather than a universal target.

3.2 Inventory management and financial performance

Inventory is both an operating buffer and a capital commitment. Koumanakos (2008) found that, among Greek manufacturing firms, higher inventory levels were associated with lower returns. Eroglu and Hofer (2011) showed that the link between inventory leanness and performance is non-linear and differs across firms, so leaner stock is not always better. Gaur et al. (2005) reported that retailers with higher gross margins tend to have lower inventory turnover, which cautions against reading turnover and margin in isolation. Capkun et al. (2009) examined how total inventory and its components relate to financial performance in manufacturing firms, a design relevant to the raw-material, work-in-process and finished-goods flow of a furniture manufacturer. For distributors of expiry-dated goods, the literature on inventory leanness has an additional implication: stock that ages without selling carries a loss risk beyond financing cost.

3.3 Receivables, payables and trade credit

Trade credit is simultaneously a financing source and a commercial instrument (Petersen & Rajan, 1997). For the seller it ties up funds and creates collection risk; for the buyer it substitutes for bank credit. Deloof (2003) and Kieschnick et al. (2013) both indicate that the cost of extending credit to customers is material. Receivable ageing, which groups



balances by time outstanding, is a standard control technique described in financial management texts (Brigham & Ehrhardt, 2017; Pandey, 2015).

3.4 Financial performance measurement and cost structure

Margin analysis relates revenue to direct cost, operating expense and net profit, and break-even analysis relates fixed cost to contribution margin (Garrison et al., 2018). Kaplan and Norton (1992) argued that financial measures alone give an incomplete picture and should be linked to operational measures, an argument that underlies this paper's joint treatment of finance and operations. Customer-base concentration also affects performance: Patatoukas (2012) reported that higher concentration among a supplier's customers was associated with higher accounting returns and lower operating expense per sales dollar, alongside investor underreaction. ABC classification, a Pareto-based method of ranking items by their contribution, has been extended to multiple criteria by Flores and Whybark (1986).

3.5 Operational efficiency, ERP and MIS

Hendricks and Singhal (2005) found that supply chain glitches are associated with significantly poorer operating performance, which supports treating procurement and execution failures as financial events. Studies of enterprise resource planning (ERP) adoption (Hitt et al., 2002; Hunton et al., 2003; Nicolaou, 2004) examine whether integrated systems change financial and process performance; their evidence suggests that gains depend on implementation and use, and should not be assumed from adoption alone.

3.6 Financial decision-making in SMEs

SMEs face information opacity and financing constraints (Berger & Udell, 1998), which raises the value of internal funds and makes working capital discipline important. Howorth and Westhead (2003) found that UK small firms concentrate their working capital routines on selected components rather than the full cycle. Both points suggest that structured, low-cost monitoring formats can matter for small firms.

4. Research Gap

Within the sources reviewed for this paper, three gaps are apparent. First, working capital and inventory studies mostly rely on panel data from listed firms, so SME-level evidence from internal records is thin. Second, studies seldom compare how the same indicators behave under different operating models, such as inventory-driven distribution and project-oriented manufacturing, within one analytical frame. Third, the link between operational practice (purchase cost control, customer concentration, project process) and margin outcomes in low-margin Indian SMEs is rarely examined with firm-level figures. This paper addresses these gaps through a descriptive comparative analysis of two anonymised cases. It does not claim to fill them statistically.

5. Research Problem and Research Questions

Research problem. Small businesses frequently track sales more closely than margins, working capital or process cost, so deterioration in profitability may be noticed late. It is unclear how the financial and operational levers that matter most differ between an inventory-driven distributor and a project-oriented manufacturer-retailer.

Research questions

1. **RQ1.** How did the distributor's financial performance change between FY25 and FY26, and which components explain the change?
2. **RQ2.** What do sales mix, receivable ageing and ABC analysis reveal about the distributor's working capital exposure and customer dependence?
3. **RQ3.** What are the margin and cost structure of the furniture business, and how much does profitability depend on overhead and cost control?
4. **RQ4.** How do financial and operational management priorities differ between the two operating models?



6. Research Objectives

1. To analyse FY25 versus FY26 sales, purchase cost, gross profit, operating expenses and net profit of the distributor.
2. To assess the distributor's receivables position, credit-linked sales and customer concentration.
3. To analyse the revenue, cost structure and profitability of the consolidated furniture business, including an illustrative break-even position.
4. To compare the two businesses on cost structure, working capital exposure and operational focus.
5. To identify data gaps and derive practical recommendations on monitoring, inventory control, credit control and MIS.

7. Research Propositions

The study has two cases and no sampling frame, so no inferential statistical test is applicable and none was conducted. Formal statistical hypotheses are therefore replaced by four analytical propositions, each checked arithmetically against the case data.

Proposition	Statement	Assessed in
P1	The distributor's FY26 profit decline is explained mainly by gross-margin compression from purchase cost growth, not by operating expense growth.	Section 9.1
P2	Credit-linked sales dominate the distributor's sales, making receivable control material to its liquidity.	Section 9.2
P3	The distributor's sales are concentrated in a small share of customers.	Section 9.3
P4	The cost structure of the two businesses differs, so the dominant control lever differs.	Section 11

8. Research Methodology

8.1 Research design

The study is a **comparative case study** (Yin, 2018) combining three research types, in line with the scope of the internship: **descriptive** (business model, sales mix, customers, cost structure), **analytical** (ratio, trend, ageing, ABC and break-even calculations) and **exploratory** (identification of operational gaps and improvement options). The unit of analysis is each client business.

8.2 Nature of data and collection

The data are quantitative and qualitative. Quantitative data are internal financial and operational figures supplied by the clients during the internship: sales, purchases, gross profit, operating expenses, net profit, sales by category, receivable balances by age, and customer-wise sales. Qualitative data are the author's observations of business processes (procurement, warehousing, billing, collections for the distributor; the lead-to-handover sequence for the furniture business). Data were organised in Excel working sheets and checked before analysis, following a sequence of classification, structuring, validation and analysis. No questionnaire, survey or interview sample was used, and no respondent count or sample size applies. Secondary sources are used only for concepts, formulas and the literature in Section 3 (listed in Section 18).

Figures for the furniture business were provided by the client as percentages of final sales (70% purchase and production cost, 30% gross profit, 11% net profit) on ₹6 crore of final sales; absolute amounts and operating expenses were derived from these. Benchmarks quoted for the distributor are the client's internal targets and are not treated as industry norms.



8.3 Analytical tools

Measure	Formula	Managerial use
Growth rate	(Current − Previous) / Previous × 100	Compares pace of sales, purchases and profit
Gross profit (GP)	Sales − Purchases (distributor); Sales − Purchase/production cost (furniture)	Direct margin before overheads
Gross margin (GM)	GP / Sales × 100	Pricing and purchase-cost control
Operating expense ratio	Operating expenses / Sales × 100	Overhead intensity
Net profit margin (NPM)	Net profit / Sales × 100	Overall profitability
Receivable ageing share	Balance in age bucket / Total receivables × 100	Collection quality
Receivable days (indicative)	Closing receivables / Credit-linked sales × 365	Speed of collection
ABC classification	Customers ranked by sales; cumulative contribution bands	Customer concentration (Flores & Whybark, 1986)
Break-even sales	Fixed costs / Contribution margin ratio	Minimum sales to cover fixed costs (Garrison et al., 2018)

Percentage-point (pp) changes are used for ratios. Profit decline was decomposed into the change in gross profit and the change in operating expenses to test P1.

8.4 Comparative analysis technique

The two cases were compared on a common cost-to-sales structure (purchase or production cost, operating expenses and net profit as percentages of sales, which sum to 100%), on operating expense as a share of gross profit, and on qualitative working capital and operational drivers. Because the sectors differ in size, model and data period, comparisons are of structure, not of performance ranking.

8.5 Ethical considerations and confidentiality

Client names, identifiers and proprietary details are withheld; clients are identified only by sector. Only figures that the OJT report permits for academic use are reproduced, and the figures are used for academic analysis only. No claim is made that a management practice caused an outcome; the analysis shows association and arithmetic decomposition.

9. Data Analysis and Interpretation: Pharmaceutical Distribution (Client 1)

Client 1 distributes OTC and Ayurvedic products. Its sales are mostly credit-linked and its margins are thin, so the analysis focuses on margin movement, credit exposure and customer concentration.

9.1 Financial performance, FY25 versus FY26

Table 1. Financial performance of Client 1 (₹ lakh unless stated)

Particular	FY25	FY26	Change	Client's internal target
Total sales	1,646.81	1,702.76	+3.40%	not stated
Purchases	1,503.57	1,582.61	+5.26%	90% of sales
Purchases as % of sales	91.30%	92.94%	+1.64 pp	90%



Particular	FY25	FY26	Change	Client's internal target
Gross profit	143.24	120.15	−16.12%	not stated
Gross margin	8.70%	7.06%	−1.64 pp	10%
Operating expenses	65.07	66.93	+2.86%	not stated
Operating expenses as % of sales	3.95%	3.93%	−0.02 pp	7%
Net profit	78.17	53.22	−31.91%	not stated
Net profit margin	4.75%	3.13%	−1.62 pp	3%

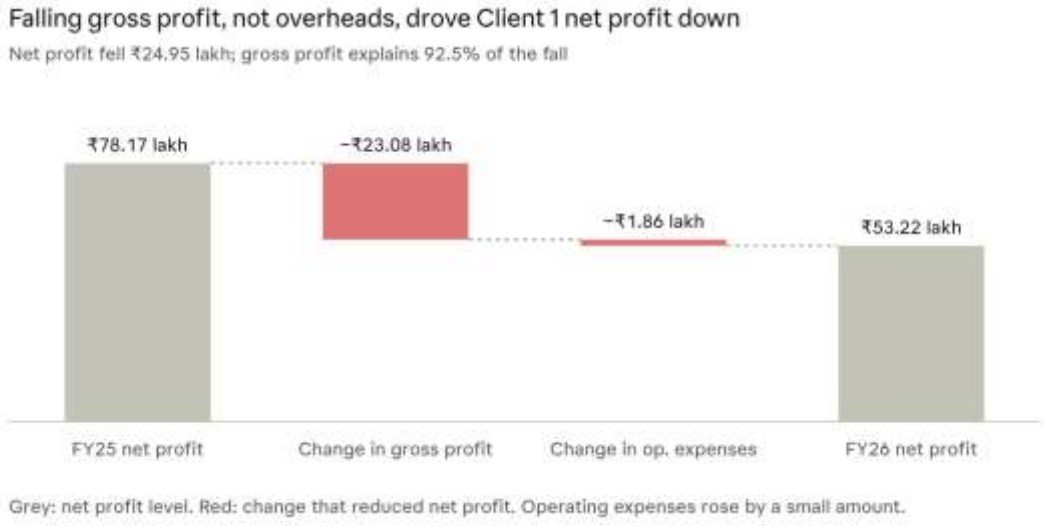
Source: client-provided figures; percentages and ratios computed by the author. Gross profit is sales less purchases, as supplied; opening and closing stock were not available, so the gross margin is purchase-based.

Observation. Sales rose by ₹55.95 lakh (3.40%) while purchases rose by ₹79.04 lakh (5.26%). Gross profit therefore fell by ₹23.08 lakh and gross margin slipped 1.64 pp to 7.06%, below the client's 10% target. Operating expenses rose by only ₹1.86 lakh, and stayed near 3.9% of sales, well under the 7% target. Net profit fell by ₹24.95 lakh.

Interpretation. The decline in net profit of ₹24.95 lakh is decomposed as a ₹23.08 lakh fall in gross profit and a ₹1.86 lakh rise in operating expenses. Gross-margin compression thus accounts for 92.5% of the decline, which supports P1. The report's narrative that rising operating expenses contributed is correct in direction but small in size. The management issue is purchase cost relative to selling price, not overhead. As a sensitivity, each 1 pp of gross margin on FY26 sales is worth about ₹17.03 lakh, or 32% of FY26 net profit; had the FY25 margin (8.70%) held on FY26 sales, gross profit would have been about ₹27.95 lakh higher. This is arithmetic, not a forecast, and the data do not show why purchase costs rose faster than sales (for example supplier price changes, product mix or discounting).

The operating expense to gross profit ratio rose from 45.4% to 55.7%, so the business has less cushion: a further margin fall of the same size would reduce net profit sharply, because overheads are largely unchanged. Net profit margin of 3.13% remains only marginally above the 3% target.

Figure 1. Net profit bridge, Client 1, FY25 to FY26 (₹ lakh)



Source: client-provided FY25 and FY26 figures; author's calculations



9.2 Sales mix and receivables

Table 2. Sales mix of Client 1 (₹ lakh)

Sales category	FY25	Share	FY26	Share	Growth
Cash sales	59.26	3.60%	41.52	2.44%	−29.94%
Credit sales	532.44	32.33%	537.74	31.58%	+0.99%
Cash credit	1,055.11	64.07%	1,123.50	65.98%	+6.48%
Total	1,646.81	100%	1,702.76	100%	+3.40%

The source labels the largest category "Cash Credit" without a definition; it is treated here as credit-linked sales and flagged as a clarification point (Section 16). On that reading, 97.56% of FY26 sales were credit-linked, and the whole of the sales growth came from the cash-credit category (+₹68.40 lakh) while direct cash sales fell. This supports P2: growth was bought with more credit exposure, which raises the importance of collection control.

Table 3. Receivable ageing of Client 1

Age bucket	Amount (₹)	Share
0–10 days	58,50,294	43.6%
10–30 days	46,18,023	34.4%
30–60 days	18,70,454	13.9%
60–90 days	3,25,453	2.4%
Above 90 days	7,51,124	5.6%
Total	1,34,15,347	100%

Source: client data; shares computed. Bucket amounts sum to ₹1,34,15,348, a rounding difference of ₹1 from the stated total. The ageing date is not stated.

Observation. Total receivables were ₹1.34 crore, of which 78.0% were under 30 days. The two oldest buckets, 60–90 days and above 90 days, total ₹10,76,577, or 8.02% of receivables; this equals the "overdue" amount in the client data. **Interpretation.** If the ageing relates to the FY26 closing position, indicative receivable days are 29.5 (closing receivables ÷ FY26 credit-linked sales × 365), a short cycle for a distributor with a credit-heavy mix. Collection quality is therefore generally sound, but ₹7.51 lakh is older than 90 days and warrants account-level follow-up. Average receivables, which the formula normally requires, were not available.

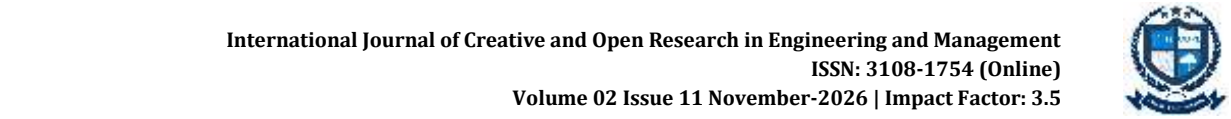
9.3 Customer concentration (ABC analysis)

Table 4. ABC analysis of Client 1 customers

Class	Customers	% of customers	Sales (₹)	% of sales	Average sales per customer (₹)
A	195	9.3%	10,39,11,174	62.5%	5,32,878
B	309	14.7%	4,51,78,712	27.2%	1,46,209
C	1,603	76.1%	1,70,36,425	10.3%	10,628
Total	2,107	100%	16,61,26,311	100%	78,844

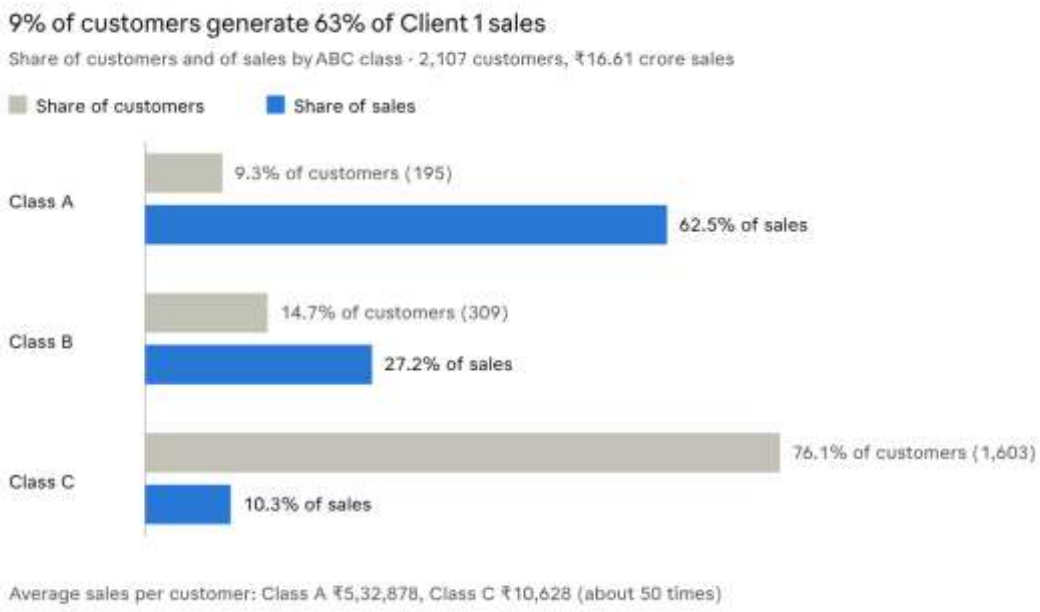
Source: separate customer-wise client dataset; the total (₹16.61 crore) differs from FY25 and FY26 sales and must not be combined with Table 1. The period covered is not stated. Percentages and averages computed.

Observation. 195 customers (9%) generate 63% of sales, while 1,603 customers (76%) generate 10%. An average A-class customer buys about 50 times as much as an average C-class customer. **Interpretation.** This supports P3. Customer



retention and credit exposure in the A class matter far more to profit than the long tail, and the C class should be reviewed for servicing cost against its ₹10,628 average sales. The data do not show margin by customer, so it cannot be said whether A-class customers are more or less profitable.

Figure 2. Customer concentration by ABC class, Client 1



Source: client customer-wise sales dataset (period not stated); author's calculations

The client also supplied a distribution of the 195 A-class customers by age category (0–3, 4–6, 7–9 and 10–12 months), with 173 customers and 92% of the amount in the 10–12 month category. The amounts in that table sum exactly to A-class sales, so it describes sales, not receivable balances, and the meaning of the age basis (for example customer tenure or month of last purchase) is undefined. It is excluded from inference until clarified.

9.4 Inventory, expiry and working capital

Inventory and expiry management were central to the engagement, but the report contains no inventory valuation, stock ageing, turnover, expiry write-off or payables figures. Inventory days, payable days and the cash conversion cycle therefore cannot be computed, and no quantitative claim about expiry loss is made. What was observed was process-level: limited stock visibility, manual stock monitoring and the absence of integrated inventory and accounting records, which led to the evaluation of barcode-based tracking and integrated software (Section 15). The financial logic is nonetheless clear. With purchases at 92.9% of sales and a gross margin of 7.06%, slow-moving or expired stock directly consumes margin, and the 29.5-day receivable cycle is only one of three working capital components that remain unmeasured.

9.5 Summary for Client 1

P1, P2 and P3 are supported by the case figures. Sales growth of 3.40% produced a 31.91% fall in net profit because purchase cost outpaced sales; credit exposure grew faster than total sales; and customer sales are concentrated.

10. Data Analysis and Interpretation: Modular Furniture and Interiors (Client 2)

Client 2 operates a showroom that takes customer orders and a manufacturing unit that serves only the showroom. The consolidated view is the correct unit of analysis, because transfers between the two units are internal. As an illustration from the engagement, if a customer order is ₹100, the showroom may buy internally at ₹80 while the manufacturing unit's actual cost is ₹60; the ₹80 transfer is counted neither as external sale nor as external purchase, and consolidated gross profit is ₹100 − ₹60 = ₹40. Counting both units' sales and purchases would overstate revenue and cost.



10.1 Revenue, cost structure and profitability

Table 5. Consolidated financial structure of Client 2

Particular	% of final sales	Amount (₹ crore)	Basis
Final customer sales	100%	6.00	Client-reported
Purchase / production cost	70%	4.20	Client-reported share; amount computed
Gross profit	30%	1.80	Computed
Operating expenses	19%	1.14	Derived: 30% − 11%
Net profit	11%	0.66	Client-reported share; amount computed

The client indicated the 70%, 30% and 11% shares; operating expenses were derived as the difference between gross and net margin. Only one period was available, so no trend is analysed.

Observation. On ₹6 crore of final sales, purchase and production cost is ₹4.20 crore, gross profit ₹1.80 crore and net profit ₹0.66 crore (₹66 lakh). Operating expenses absorb 19 points of the 30-point gross margin, or 63.3% of gross profit.

Interpretation. Two cost lines determine profitability. Purchase and production cost is the largest, at 70% of sales, so material procurement, wastage and production efficiency drive the gross margin. Operating expenses are the second lever: because they consume nearly two-thirds of gross profit, each 1 pp change in either cost line moves net profit by ₹6 lakh, or about 9.1% of the ₹66 lakh net profit. The business earns an 11% net margin, but the thin gap between gross and net margin means overhead growth that is not matched by sales growth would erode profit quickly. No client benchmark for this business was available in the report, so the margins are not rated as high or low.

10.2 Illustrative break-even position

The break-even formula in Section 8.3 needs a fixed and variable cost split, which the report does not provide. To show the sensitivity of the business to volume without inventing data, the calculation below treats purchase and production cost as fully variable (contribution margin ratio of 30% before variable overhead) and tests three assumptions about the share of operating expenses that is fixed.

Table 6. Illustrative break-even sales for Client 2 under assumed cost behaviour

Share of operating expenses assumed fixed	Fixed cost (₹ crore)	Contribution margin ratio	Break-even sales (₹ crore)	Break-even as % of ₹6 crore	Margin of safety
100%	1.14	30.0%	3.80	63.3%	36.7%
75%	0.855	25.3%	3.39	56.4%	43.6%
50%	0.57	20.5%	2.78	46.3%	53.7%

Illustrative calculation by the author from the client's percentage structure; not a client figure. The 100% row is the highest break-even point consistent with the data.

Under every assumption, break-even sales fall below ₹4 crore, so sales could decline by at least 36.7% before the consolidated business stopped covering its costs. This indicates a reasonable margin of safety, but the conclusion depends on the assumed cost split, and on the premise that production cost varies in proportion to sales. A proper feasibility assessment requires the actual fixed and variable cost schedule.

10.3 Working capital, cash flow and process

The report identifies procurement and customer payments as the working capital drivers of this business but contains no receivable, advance, payable, inventory or cash flow figures for it. Working capital and cash flow are therefore discussed qualitatively and not computed. The project sequence runs from lead generation through site measurement, design,



quotation, order confirmation, procurement, manufacturing, installation and handover. Delays at procurement, manufacturing or installation lengthen the cycle between cost incurred and payment received, and errors in material estimates reduce project gross margin directly. Since material and production cost is 70% of sales, estimation accuracy and project-wise costing are the most valuable controls to add.

10.4 Summary for Client 2

The consolidated business reports a 30% gross margin and 11% net margin; overhead and production cost are its main levers; and the illustrative break-even range of ₹2.78–3.80 crore suggests adequate cover, subject to a verified cost split.

11. Comparative Analysis of the Two Business Sectors

The comparison uses structure (ratios to sales), not absolute size or performance ranking. Client 1 figures are for FY26; Client 2 figures are for a single period reported by the client.

Table 7. Cost and margin structure compared

Indicator	Client 1: Distribution (FY26)	Client 2: Furniture and interiors
Purchase / production cost, % of sales	92.94%	70%
Gross margin	7.06%	30%
Operating expenses, % of sales	3.93%	19%
Net profit margin	3.13%	11%
Operating expenses, % of gross profit	55.7%	63.3%
Effect of 1 pp change in purchase cost on net profit	₹17.03 lakh (32.0% of net profit)	₹6.00 lakh (9.1% of net profit)
Period evidence available	FY25 and FY26	One period

Table 8. Operating-model comparison

Dimension	Distribution (Client 1)	Furniture and interiors (Client 2)
Business nature	Inventory-driven, credit-heavy	Project-oriented, integrated showroom and factory
Main profit lever	Purchase cost relative to selling price	Production cost and overheads
Working capital driver	Inventory and receivables	Procurement and customer payments
Quantified working capital evidence	Receivables, ageing, indicative days	None in the report
Concentration insight	9% of customers give 63% of sales	Not available
Operational risk	Stock visibility, expiry, collections	Estimation errors, execution delays
Systems need	ERP, barcode, AR/AP and inventory integration	ERP, MIS, project costing

Interpretation. The distributor earns a small spread on a large purchase base, so a 1 pp movement in purchase cost is worth about 2.8 times as many rupees (₹17.03 lakh against ₹6.00 lakh) and about 3.5 times as much relative to net profit (32.0% against 9.1%) as the same movement in the furniture business. The furniture business has a wider gross margin but carries heavy overheads, which absorb 63.3% of gross profit compared with 55.7% at the distributor. In other words, the distributor's main exposure is the purchase-to-sales spread plus credit and stock, whereas the furniture business's



exposure is project cost accuracy and overhead control. This supports P4: the dominant control lever differs by operating model, and a common ratio template would not direct management to the right issue in both.

Figure 3. Where each rupee of sales goes: cost and profit structure of the two businesses



Source: client-provided figures (Client 1 FY26; Client 2 reported shares on ₹6 crore final sales); author's calculations

12. Major Research Findings

Each finding is labelled by evidence type: **O** for an observation from client figures and **I** for the author's interpretation.

1. **Sales growth did not convert to profit (O).** Client 1's sales grew 3.40% while gross profit fell 16.12% and net profit fell 31.91%.
2. **Purchase-cost growth drove the decline (O, I).** Purchases grew 5.26%; gross-margin compression explains 92.5% of the net profit fall, and operating expenses stayed near 3.9% of sales.
3. **Credit exposure grew (O).** Credit-linked sales were 97.56% of FY26 sales, and the cash-credit category grew 6.48%.
4. **Collections were mostly recent but not clean (O, I).** 78.0% of receivables were under 30 days; ₹10.77 lakh (8.02%) were older than 60 days, including ₹7.51 lakh above 90 days. Indicative receivable days were about 29.5.
5. **Sales are concentrated (O).** 9% of customers produced 63% of sales; the A class averaged about 50 times the sales of the C class.
6. **Client 2 earns a 30% gross and 11% net margin (O).** Operating expenses of 19% of sales absorb 63.3% of gross profit.
7. **Break-even cover appears adequate under stated assumptions (I).** Illustrative break-even sales were ₹2.78–3.80 crore against ₹6 crore of final sales.
8. **Control priorities differ by model (I).** Purchase-cost, credit and stock control matter most in distribution; production cost, overhead and execution accuracy matter most in the project business.
9. **Key evidence is missing (O).** Neither case has quantified inventory, expiry or payables data, and Client 2 has no working capital or cash flow figures (Section 16).

13. Discussion

The results are consistent with, but cannot confirm, the main strands of the literature. The distributor's short receivable cycle and pressure on a thin margin align with the view that working capital discipline and cost control are central to SME profitability (Deloof, 2003; García-Teruel & Martínez-Solano, 2007). Nothing in the data shows that a shorter cycle caused better profit, and the lack of inventory and payables data prevents a full cash conversion cycle assessment (Richards & Laughlin, 1980). The finding that gross-margin compression, not overhead, explains the profit fall echoes the caution of Gaur et al. (2005) that margin should be read alongside inventory behaviour, and it shows why Kaplan and Norton's (1992) call to link financial results with operational measures is practical: the financial symptom (margin) can be understood only by examining purchasing and stock processes.



Customer concentration at the distributor parallels the concentration findings of Patatoukas (2012) in a different setting. In that study, concentration was associated with lower operating cost per sales dollar and with higher returns for suppliers; at Client 1, the low operating expense ratio is consistent with that pattern, but the present data cannot establish the link, and concentration also increases dependence risk. For Client 2, the importance of procurement and execution accuracy is consistent with evidence that supply and operating disruptions are associated with weaker operating performance (Hendricks & Singhal, 2005). Finally, the ERP and barcode proposals made to both clients rest on evidence that system benefits depend on implementation and use (Hitt et al., 2002; Hunton et al., 2003; Nicolaou, 2004), so they should be framed as enablers of monitoring, not as guaranteed profit improvements.

14. Managerial Implications

- **Track margin, not only sales.** For a thin-margin distributor, a monthly view of purchases as a percentage of sales would have shown the 1.64 pp deterioration while it was still correctable.
- **Match controls to the model.** Distribution managers should prioritise purchase spread, credit and stock; project-business managers should prioritise cost estimation, overhead and execution time.
- **Manage customers by contribution.** Where 9% of customers produce 63% of sales, credit limits, service levels and collection effort should differ by class.
- **Treat benchmarks as targets, not norms.** The 10%, 7%, 3% and 90% references are the distributor's own targets and are useful for internal tracking only.
- **Build the missing data first.** Inventory value, expiry loss and payables cannot be managed until they are measured.

15. Recommendations

The following recommendations are proposals derived from the analysis. Their effects have not been tested, and the OJT did not observe implementation.

No.	Recommendation	Evidence basis	Suggested monitoring indicator
1	Review supplier pricing, discounts and product mix, and track purchases as a % of sales monthly against the 90% target (Client 1)	Table 1: purchases at 92.94% of sales; 92.5% of the profit fall from gross profit	Purchase ratio; gross margin
2	Introduce age-based collection follow-up with a named owner for balances over 60 days; review credit limits for large customers (Client 1)	Table 3: ₹10.77 lakh over 60 days; credit-linked sales 97.56%	Receivable days; share over 60 days
3	Segment customers by ABC class: key-account management for class A, cost-to-serve review for class C (Client 1)	Table 4: 9% of customers, 63% of sales	Sales and retention of class A
4	Implement batch-level stock and expiry tracking, with barcode scanning linked to billing and accounting through an ERP or inventory system (Client 1). Establish baseline inventory days and expiry write-offs first	Process observations, Section 9.4; no quantified baseline	Inventory days; expiry write-off % of purchases
5	Adopt project-wise costing that compares budgeted and actual material and production cost (Client 2)	Table 5: cost is 70% of sales; ₹6 lakh per 1 pp	Project gross margin variance
6	Monitor operating expenses monthly against the 19% baseline (Client 2)	Table 5: 63.3% of gross profit	Operating expense ratio



No.	Recommendation	Evidence basis	Suggested monitoring indicator
7	Prepare a fixed and variable cost schedule and a cash flow forecast, then replace the illustrative break-even (Client 2)	Table 6 is assumption-based	Break-even sales; cash balance
8	Build an integrated MIS dashboard for sales, margins, expenses, receivables, payables, inventory and cash (both)	Findings 8 and 9	Monthly dashboard review

Technology items (4 and 8) should be treated as enablers of measurement; the literature indicates that benefits depend on implementation (Hitt et al., 2002; Hunton et al., 2003).

16. Limitations of the Study

1. **Two cases, no inference.** Findings are indicative and cannot be generalised; no statistical tests were run.
2. **Client-reported, unaudited data.** Client 2's margins were supplied as percentages and its operating expenses derived.
3. **Limited periods.** Client 1 has two years; Client 2 has one period; the periods of the ABC dataset and the ageing date are not stated.
4. **Internal benchmarks.** Targets of 90%, 10%, 7% and 3% are the client's own and are not industry benchmarks.
5. **Purchase-based gross margin.** Opening and closing stock were unavailable, so Client 1's gross profit is sales less purchases.
6. **Short duration.** The internship did not allow observation of recommendation outcomes.
7. **Confidentiality.** Detailed statements and customer or supplier data are withheld.
8. **Undefined terms.** "Cash Credit" sales and the age basis of the class A table are not defined in the source and should be clarified before further use.

Table 9. Data gaps identified

Data not available	Analysis it would enable
Client 1 inventory value, stock ageing, expiry write-offs	Inventory days, expiry loss, working capital tied in stock
Client 1 payables and average balances	Payable days and cash conversion cycle
Client 1 customer-wise margin	Profitability by ABC class
Client 2 receivables, advances, payables, cash flow	Working capital and liquidity analysis
Client 2 fixed and variable cost split; prior-year figures	Actual break-even and trend analysis

17. Conclusion

The study examined how financial and operational management practices relate to business performance in a pharmaceutical distributor and a modular furniture business. The distributor's FY26 result shows that sales growth of 3.40% can coexist with a 31.91% fall in net profit when purchase cost grows faster than sales, and that a credit-heavy, customer-concentrated business needs margin, collection and customer-class monitoring. The furniture business shows a different profile: a 30% gross margin, 11% net margin and overheads that absorb 63.3% of gross profit, which makes project costing and overhead control the central levers.

The main conclusion is that financial indicators have no fixed managerial meaning across operating models; they must be read with the processes that produce them. The study also shows that useful analysis is limited by data availability,



since inventory, expiry, payables and cash flow figures were not available. Future work should collect these data over several periods, test the proposed controls after implementation and use larger samples to allow statistical testing.

18. References

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