Overview Of Kathmandu – New Zealand Travel And Adventure Outdoor Apparel And Equipment Company

New Zealand is a country with cold weather due to which there is always a need to have good warm jackets. Kathmandu is one of the companies which deals with travel and adventure outdoor apparel and equipment. This company was found by Jan Cameron and John Pawson in 1987 in Christchurch. Kathmandu operates itself in New Zealand, Australia and United Kingdom with total of 163 stores. The first store was set up in Christchurch and since then it has been expanding its business. Now, there are 47 stores located in New Zealand, 115 in Australia and 1 in United Kingdom.

Three Economic theories

Market structure

Kathmandu lies in MONOPOLISTIC MARKET competition as the products of Kathmandu are similar to its competitors like MAC-PAC, NORTH FACE, TORPEDO etc. but even then, they can be differentiated. All these given brand deal in same products but the brand and quality vary. In Monopolistic market there are numerous buyers and seller but if we compare this market structure to perfect market, the count of sellers is relatively low. As Kathmandu lies in Monopolistic market, therefore it has its own price policy. This is because every firm in this market is independent in terms of price as none of the company gets effected by any changes made by other. The entry and exit in this competition are not difficult like in oligopoly. The main aim of Kathmandu is to maximize its profits with minimal expenditure due to this its selling cost varies from time to time. Moreover, the buyers do not have perfect knowledge about the products and services which they are buying as they have close substitutes. The Demand of products in Kathmandu is Quiet elastic as they decide whether they want to reduce the prices for sale or want to keep it rigid to maintain brand image.

Theories of Profit

Outdoor adventure goods retailer Kathmandu is a big company which has been growing from past many years so as its profits. As discussed above Kathmandu does not have any threat from its competitor in terms of pricing therefore, it has its own profit-making strategies and goals. Kathmandu's earnings before taxes raised up to $72-$77 Million from $57 Million last year. This shows that the profits of Kathmandu are enormously high. The net profit which it earned in 2018 till now is $48 Million. In latest report Kathmandu's CEO Xavier Simonet shared that their gross profit margin is 7.7% more than the last year. He also shared that their promotional schemes for coming summers and autumn will lead to more profits. In Stock exchange Kathmandu's shares have increased by 15% due to their news of increased profits in coming years. They have been advertising their brand on quiet a large scale which plays an important role in growth. After the joining of company's new CEO the discounts provided to consumers are really low, which leave them without any option but to buy Kathmandu's product because of its quality of clothes, brand image and cooler weather conditions of new Zealand. This is one of their strategy which is making them more demanding.

Theory of firm

Kathmandu is competing well with its competitors but even then, there is some or the other threat to it. The strategy of the firm is to maintain its goodwill by selling products on a bit higher price than its biggest competitor (MAC-PAC). Due to the high prices customer at times prefer not buying expensive products considering it not be worth its price. The jackets of Kathmandu are made up of feathers of Goose due to which its cost is high. The aim of Kathmandu is to cut short it’s expenditure and instead focus on selling it on a good price. The cost is then estimated according to quality of the product. The main aim of Kathmandu is to maximize its profits and along with decreasing the costs. This might require the company to opt for more ways to advertise and open new stores simultaneously it should also convince the suppliers to provide them raw materials on cheaper price. Whereas, Kathmandu will purchase the raw materials in bulk from their suppliers.

The Growth and Performance of Kathmandu

Kathmandu is performing really well in market and taking its further steps of expanding carefully. As discussed above that after the CEO changed Kathmandu’s revenue has been consistently increasing year by year due to the strategies made by its team. The profits of Kathmandu increased by 7.7 % than last year. Furthermore, they are also now planning to cut short their costs and maximize their profit through selling more and more products and equipment. Although it is not an easy step for Kathmandu as even though it is operating in Monopolistic competition even then there are chances of facing failure and threats.

Need for Improving

There is always a scope of improvement in every firm, as discussed above the growth and performance of Kathmandu in market that it has been doing really well, even then there is a need of improvement as it is operating itself on a very large scale therefore it has many shortcomings as well. One of them is that their costs are really high due to which their profit falls short than their expected profits. Moreover, the price of products is already which makes difficult for the company to increase its price. These are few places where they need to improve themselves in order to earn more.

Recommended economic strategies

Kathmandu has its store in just three countries which limits its customers. In order to increase business, it should open its stores in other countries as well. Moreover, it should increase its exports a well this will not only increase its revenue but expand the business and improve the brand image as well. People today are well aware of environment and surroundings and are working towards sustainability. Such segment of people are against such companies who uses products made from animals or their body parts. Therefore, Kathmandu should use some other material instead of goose feathers.

Accounting rate of return (ARR)

Accounting rate of return is used to calculate the firm’s annual profit out of an investment done.

It is very crucial for the investors to calculate the amount of risk involved in their investment project and its returns. In second contract the business is reaping out a profit of 14 Million in 5 years but in first they tend to earn 11 Million in 4 years. If both of them are compared, it can be seen that the second contract is more profitable as compared to first one as the ARR for second contract is 70% whereas, in first contract it is 68.75% which is lower. ARR shows the returns of the investment made in both contracts are not same. Therefore, it is suggested to opt for second contract.

Payback Period

Payback period is the period in which the amount invested gets returned. Example if NZD 2000 are spent on a project and company recover NZD 1000 in first year and NZD 1000 in another, so the payback period for this project will be of 2 years as the money was completely recovered in 2 years. It is very important to know about a contracts payback period as it helps in checking that whether the project is profitable to invest in or not. As seen above in calculations that payback period for both contracts are different, which is in first contract the company will be able to cover its investment of NZD 8,000,000 in 2.9 years. On the other hand, in second contract the company will be able to cover the amount in 2.85 years with the same amount of investment. The contract which is covering the amount in least time and reaching its break-even point is more profitable. After comparing both the contracts it can be clearly figured out that investing in second contract is more profitable as it is covering the amount of investment in 2.85 years which is less than 2.9 years

Every company wants to invest in contracts which provides them maximum amount of profit.

Most of the companies today uses capital budgeting tools to analyze about the various contracts and projects for their company to get knowledge whether the contracts are profitable to them or not. Moreover, the company shall always go for the contract which is having higher rate of return and consuming less time to cover its investments. Similarly, after assessing the contracts which are offered to Horizon Constructions it can be concluded that the second contract offered to them is more profitable. This is because the tools which are used above such as ARR and PP for calculation of both the years shows that in second contract the amount invested will be covered in 2.85 years whereas, in first contract it will be covered in 2.9 years which is more.

Secondly, the rate of return in second contract is again more than the first one. In first contract the Accounting Rate of Return is 68.75% and in second it is 70%. In both the contracts the initial investment is NZD 8,000,000 but even than the returns in second contract is 1.25% more than that of first one. Long term investment should be made after looking at all the factors which will benefit the company or may cause losses to it. Therefore, as discussed above about both the contracts of constructing retirement village and new library it can be interpreted that the second contract is again better for long term investment. The reason being that for long-term investments the investors prefers to earn more profit with less investment and less time. In second contract as the payback period is less than first one therefore, the investment will be covered in less time which means that after covering the investment in 2.85 years the rest of the amount which they will be receiving will be their profits. Whereas, if they will invest in first one their investment will be covered after 2.9 years and take longer to earn money.

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Internal Rate of Return (IRR)

IRR is a financial tool used to analyze the cash flow, project proposals, business cases of the firm. It has always been considered as one of the vital capital budgeting tools to assess and analyze the various proposals offered. Moreover, it becomes easier for the investors to decide whether investing in the project is a mindful decision or not. It is generally analyzed that higher the internal rate of return is it becomes more desirable for the companies to opt it. At times IRR might be misleading if the accountants use it alone as a tool. Therefore, it is said to use it for calculations along with NPV (Net Present Value), ARR and PP. On the other hand, the investors use it on short-term projects. At first it shows the percentage to be higher but later on it causes losses.

As discussed above that IRR is a tool used by investors and companies to judge about profitability of project. Therefore, after understanding the information provided above it can be said that if the IRR is more than 10% then it is profitable for the company to go ahead with the proposal but if it is 10% or less than it there is no use of opting as it will cause losses instead of profits. If IRR is less than 10% it indicates that the cash flow of that company is less than initial investment made. These are the areas where the capital budgeting tools helps in analyzing.

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E) The following stakeholders plays a very important role in every organization:

- Employees - employees are the ones who are responsible to do all the work in the company.
- Shareholders - shareholders are people who holds shares of the company. Holding shares means holding some amount of ownership in the company based on their shares.
- Customers - they are the people who tend to buy the product and services rendered by the companies.
- Suppliers - suppliers supply the raw materials which is required by the company for the projects.
- Competitors - they are the companies or proprietors which deals in same business line and is rival to other companies.

The Initial step before making an investment is discussing about the project and negotiating in a way which could benefit all. Employees, shareholders, customers, suppliers and competitors play a vital role in impacting the company. Therefore, their support and satisfaction are utmost important. Firstly, the investment plan (amount of investment, the plan, outcome, pros and cons) has to be discussed with employees and shareholders are an integral part and are the ones on whom the company depends. Shareholders are owning some part of the company as they own shares and have invested their money.

Secondly, the suppliers have to be provided with some amount of knowledge which is in terms of the supplies which are required. After disclosing about the investment plan there is a need of discussion regarding suggestions which might be influencing in changing the plan, discussing and negotiating with all three stakeholders regarding their shares, salaries and price at which raw materials will be purchased. Moreover, the terms and conditions of the project as to be made by considering all the stakeholders and negotiating with them and deciding on common

ground. Customers and competitors are having a major impact on business as if competitors have better quality of service or products the customer will prefer them.

On the other hand, it is important to have loyal customers and it is only possible when a good relation and good prices are offered to them. Therefore, after assessing the customers demand and competitors plan the investment has to be considered that whether it is profitable and required to be made or not.

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