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CONTENTS

- A) SHOPPING TIME FOR HOME LOAN SEEKERS - page 1
- Suresh S., Director, DMS Financial Services P.Ltd.
- B) TOYOTA – A CLASS APART - page 3
- S. Arvind
-

SHOPPING TIME FOR HOME LOAN SEEKERS

by Suresh S.

Director, DMS Financial Services Co. (P) Ltd.

- ❑ Housing loan rates are being slashed to capitalise on the festival season spend and hence the special offers are valid till 30 September, 2009.
 - ❑ As has been always characteristic of it, State Bank of India (SBI) has set the pace offering fixed rates of 8% for the first year , 9% for the second and third year, and a rate linked to SBAR thereafter.
 - ❑ These offers tend to confuse the reader as the fixed rates are different from year to year and become variable after three years. However the differential between banks is likely to make a significant difference.
 - ❑ An analysis has been done to understand how significant these differences in rates are to a prospective borrower. Taking the two big players State Bank of India (SBI) and LIC Housing Finance Ltd. (LICHF), we assume the borrower is seeking a 15-year term and a loan of Rs. 20 lakhs (house property valued at Rs. 30 lakhs). Such a borrowing represents a very reasonable proposition today particularly in Metros and Tier II cities.
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- The difference between SBI and LICHF is in the first three years. Whilst LICHF offers 8.9% rate fixed for first three years SBI is offering 8% for the first year and 9% for years 2 & 3. Our assumption is that from 4th year onwards till the 15th year the rate for both banks is identical, namely 12%. SBI is cheaper by 0.9% for year 1 and expensive 0.10% only for years 2 and 3.

Table 1.01

Comparing EMIs

EMI's for Rs.1 lakh of loan					
YEAR	SBI		LICHF		
	INT.	EMI (Rs.)	INT.	EMI (Rs.)	DIFFERENCE (Rs.)
1	8%	956	8.9%	1008	52
2 & 3	9%	1014	10%	1008	6
4 TILL 15	12%	1200	10%	1200	0

- When the EMI's are compared, Rs.52 is paid additionally per month for the first year and Rs.6 saved per month for next two years by choosing LICHF. The analysis has been done by discounting cash flows on a monthly basis. Cash flows have been considered for 180 months taking EMIs differently for Year1 as compared to subsequent years due to interest rate being different. Housing loans are generally bigger in terms of ticket sizes compared to personal loans. This makes for a substantial impact. **For a 5 year term the interest difference in absolute terms is Rs.7,920 and for 15-year term it is Rs.9,600. On property worth Rs.30 lakhs for which a loan for Rs. 20 lakhs is taken, Rs.9600 works out to 0.32% of property cost and 0.5% of loan of Rs.20 lakhs.** This could be a significant factor considering that there may really be no major product differentiation between the two organizations. This difference would be even more pronounced when private players other than LICHF who are late in reducing the rates are compared with banks.
- Pricing of a Housing loan plays a key role as it brings significant economies.
- As compared to Banks private sector HFCs would have a major disadvantage on rates of interest. The rate war triggered by State Bank of India has prompted most players to lower their rates. HDFC has lowered its floating rate from 9.50% to 9.0% for a loan of Rs. 30 to Rs. 50 lakhs. In case of LICHF, the above example is from their 'Fix-o-Floaty scheme' and LICHF had reduced the fixed rate for the first three years from 9.50% to 8.90%.

Impact on larger loan amount			
ITEM	SBI	LICHF	DIFFERENCE
Interest paid on Rs. 1 lakh	Rs.27,536	Rs.27,932	Rs.396
Interest paid on Rs.20 lakh	Rs.5,50,720	Rs.5,58,640	Rs.7,920

- This could be party time for prospective borrowers.
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TOYOTA – A CLASS APART

by S. Arvind

Over the last three decades, Toyota has consistently figured as one of the world’s most admired companies. Through boom years and recession, the firm has grown at an amazing rate to emerge as the largest automobile manufacturer in the world. In their book, ‘Ideas Are Free’, Alan G. Robinson and Dean M. Schroeder share some of the unique traits of Toyota. Some of the practices are so simple; yet, few firms across the world have adopted them.

WHY ORGANIZATIONS NEVER RUN OUT OF IMPROVEMENT OPPORTUNITIES

Two questions managers often ask when they learn how well some companies are doing at getting employee ideas are “Don’t employees ever run out of ideas?” and “Can an organization get so good that there is nothing left to improve?”

If these were real concerns, one company that would have had to deal with them is Toyota. In 1992, Yuzo Yasuda published a book about the company’s idea system, entitled *40 Years, 20 Million Ideas*. It told how Toyota got more than a million ideas per year from its employees and had been doing so for more than a decade. Around this time, a U.S. Army lieutenant general asked one of us how this could be. To him, it made no sense. Either Toyota was in very bad shape, he asserted - so bad that it needed a million ideas per year to fix its problem - or the whole thing was some kind of charade. Whichever was the case, Toyota’s idea system didn’t seem to be something other companies would want to emulate. It was a thoughtful comment from someone with considerable leadership experience. But it also exposed a degree of ignorance.

Let us look at the two possible explanations the general proposed. First, Toyota is hardly a screwed-up organization. In fact, it is one of the most successful automakers, and one of the most admired companies, in the world. And as for the idea system being some kind of charade, it is instead absolutely *central* to Toyota’s management philosophy. Toyota has long been a relentless improver. As Yasuda’s book pointed out, ever since 1951, a top executive - including several future CEOs and chairmen, and even members of the founding Toyoda family - has headed the company’s idea system. What is more, many members of its board of directors have been personally involved in idea system activities. Few companies have ever matched this level of top

management commitment to listening to employee suggestions. A significant percentage of the company's overall improvement comes from its idea system.

As for the quantity of ideas being a sign of a company with an inordinate number of problems, perhaps the general would be correct if the world never changed. Sooner or later, Toyota might get everything right and employees would run out of ideas. But everything changes, and changes constantly: technologies, competitors, customers, suppliers, employees, the economy, the overall business environment - *everything*. To stay competitive, a company has to respond. And since an organization is a living, interconnected, and integrated system, an action taken in one place influences things elsewhere. In other words, change creates the need for further change. New problems and opportunities are born all the time. There will never be a shortage of them, and the faster an organization can spot and act on them, the more successful it will be a shortage of them, and the faster an organization can spot and act on them, the more successful it will be.

Take what happens at Toyota, for example, a company with a long-standing active idea system. During the 1973 oil crisis, Japan's economy was hit severely, because the country imported almost all its oil. In less than a year, wholesale prices rose 31 percent, and consumer prices 25 percent. The automotive industry found itself in serious trouble. Gasoline prices went up by 60 percent, and the cost of some of its major raw materials rose by as much as 50 percent. Automakers were forced to raise the price of their vehicles substantially. At Toyota, sales plummeted by 37 percent.⁵ Many companies faced with such a crisis would have laid people off without hesitation. Instead, Toyota asked its employees for all the cost-cutting ideas they could think of that did not require major investment. The response was immediate. Prior to the crisis, employees had been averaging two or three ideas per person per year. In 1973 this jumped to *twelve* per person - a total of 247,000 ideas corporate-wide - and it is worth noting that the call for ideas didn't go out until *October*, when the crisis began. Since 1950, Toyota has not laid a single employee off, worldwide.

Ideally, those making suggestions themselves should make as many decisions as possible about their own ideas. At Dana Corporation (*another company mentioned in the book - ET*), it is corporate policy that every employee is the company's top expert in the twenty-five square feet he or she works in and has the authority to spend up to \$50 on an improvement without the approval of management. Toyota also emphasises action rather than ideas. They don't expect most ideas to be reported to the formal system until *after* they are implemented.

IDEA ACTIVATORS

One of the pioneers of the modern idea system was Toyota. In the early 1950s, the company initiated a long-term drive for performance improvement, with the goal of just-in-time production. As inventory was reduced and processes were linked more tightly, smaller and smaller problems seriously disrupted production. The company was forced to pay extraordinary attention to detail, and managers alone simply couldn't spot every tiny problem. The company had to ask its front-line employees for help and eventually developed a very active idea system.

Over time, Toyota introduced training programs to help employees come up with many more ideas. Instead of showing people how to do specific tasks, these programs showed them how to

improve key drivers of performance, such as quality, productivity, and safety. We have come to call such training programs *idea activators*, because their purpose is to spark more and better ideas by giving people a deeper understanding of their work. Some of Toyota's activators:

Poka-yoke or error-proofing

A *poka-yoke* is a simple way to ensure that a certain kind of mistake - one that people are prone to making repeatedly - can no longer happen. It is an empowering and easy-to-learn method that helps people come up with a great many ideas.

5S or rigorous housekeeping

A good 5S training program sensitizes people to all kinds of ways they can become more productive. The five *S*'s are *seiri* (putting things in order); *seiton* (arranging things efficiently), *seiso* (preventing problems by keeping things clean); *seiketsu* (standardizing work), and *shitsuke* (sustaining the enhanced work practices). Anytime it takes people more than a few seconds to find something, they will ask themselves why. Simple concepts - such as air-free and shallow storage schemes, and the importance of using vertical space - make it possible to store things more conveniently, while using less space. A decade after Toyota Kentucky began 5S training, we were told that employees were still coming up with thousands of useful 5S ideas each year.

Quick changeover (QCO)

The principles behind quick changeover can be taught in several hours and result in employees thinking of all kinds of ideas that they might not otherwise. With enough ideas, the length of time it takes to change machines over from making one part to making another can be reduced from hours to minutes.

Total productive maintenance (TPM)

TPM involves a brutal measurement, "overall operational effectiveness," to highlight problems that most organizations miss. With the advent of TPM, managers accustomed to reporting flattering efficiency levels - above 90 percent, say - find themselves sheepishly reporting overall operational effectiveness levels of maybe 30 to 40 percent. Opportunities for improvement that they had not seen before become quite obvious. Toyota's idea activators are well suited to the way it manufactures automobiles. But every organization has different needs and has to develop idea activators appropriately.

Perhaps we can adopt some of these simple practices at our organizations. Remember, Toyota was an unsuccessful automobile manufacturer until about forty years ago. If such simple practices worked for them, why would they not work for us?

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