

EMI and Business Administration

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EMI (Equated Monthly Installments) has become a widespread form of business all over India. Stores try to sell their goods during Festival seasons offering EMI. Electrical goods such as refrigerators, water heaters, and air conditioners, etc. are often sold more quickly by offering this EMI facility even without the intervention of the Festival season. Cloth merchants offer this facility and sell expensive sarees, etc. People are eagerly waiting for the opportunity to buy things they need and desire when EMI is offered. Wedding season offers a major opportunity to buy goods using EMI. Flats in multistorey buildings are often sold using EMI.

The process of deciding on the price of a residential flat is clearer as a business activity. The interest paid every month is more easily calculated and known to the customers. On the other hand, the EMI we may pay for the commodities bought from stores is not explicit about what elements go into the EMI offered to the customer. The flat rate method may first present the cost of the goods sold and then add the interest charged for the price of the goods. If a refrigerator is offered for 30000 Indian rupees as sale price, the seller may decide on the interest rate and calculate what would be the cost price offered to the customer. For a price of 30000 Indian rupees, add, let us say, 5% interest per year. The total is 31500 if the customer is offered to pay back the cost in 12 months. The EMI then becomes 2625 per month, which becomes extremely attractive to the customer.

The EMI reducing-balance method is more complex. To calculate this type of EMI we may really need the assistance of an accountant!

Companies and stores do not usually reveal the rationale and the calculation behind the EMI they offer. The price mentioned in the sign board or the tag may be reduced by the seller if a customer plans to make a single payment and get his or her commodity delivered to their chosen address. If what goes into the EMI is explicit customers will have better freedom to choose. To what extent they reduce the price from the MRP (Maximum Retail Price) also may be indicated.

High turnover should play an important role in pricing policies. High turnover may help the seller to include low margin of profit and thus he or she will be able to offer an attractive price when EMI is presented.

High sounding technical abbreviation EMI makes it look like that EMI is a new process. Historically speaking, no businessperson is ever free from offering his or her goods using equated monthly installments even in rural markets. Even the street-corner stores have been offering some form of equated monthly installment payments. However, such facility was and is extended to the

customer/s who are fairly-well known to the seller. Often wedding sarees and clothes were bought on monthly installment payments (not necessarily equal monthly payments). The price of the item bought was shown to be a little higher than the price offered to those who paid their bills with ready cash.

Business administrators need to develop great sensitivity to the processes of Equated Monthly Installments in the marketplace. Huge corporations such as amazon corporation, Walmart, etc. have developed their own forms of EMI. These are not simply equated monthly installments. There are additions to the original EMI system. They may not charge any explicit interest for the payments made on installment basis.

To investigate the varieties of EMI, workout various models and assess how each model is controlled by factors including cost, pricing, social and cultural, etc. will be a great contribution to Indian business administration.

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