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9B18E003

Allied Founders: Surviving Internationally

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Ramchandra Mallya, the director of marketing and development for Allied Founders Pvt. Ltd. (AF), was sitting in his office, gulping down some coffee to calm his nerves. It was 2:30 a.m. on June 25, 2014, just nine hours before the scheduled meeting of the AF board, whose members included his father, his older brother, and three other close family members. During his 12-month tenure in the position, Mallya had worked 77 hours per week and had managed to secure the company’s first export order in a bid to make AF an international brand. He had also succeeded in obtaining a few more export orders from clients based in the United States and France, and was in the negotiation phase for several others in Australia and Dubai. The scheduled delivery for the U.S. and French orders was less than two months away.

Mallya credited a lucky break in successfully executing the company’s first export order. But this time, he did not want to rely on luck. Unexpected machine failures were causing him great grief. At the last board meeting, held on June 18, 2014, he had proposed implementing a preventive maintenance initiative by using information system (IS) applications to deal with the problem. Although he had failed to convince the board members, he had managed to get one week’s time to revise the proposal and make a final call on whether to develop an in-house IS or acquire one from external sources. He must determine whether to use traditional means (i.e., manual record keeping) or implement a new IS application.

Company History

In 1968, Ramanand Mallya (Ramchandra’s father) founded a small-scale enterprise named Allied Engineers and Founders in Belgaum, Karnataka, India. The company manufactured manifolds and valve bodies. Soon, the foundry thrived and the company built a reputation for manufacturing quality cast iron, ductile iron castings, machined components, and assemblies (see Exhibit 1).

By 2014, the company had been doing well in the domestic market for 46 years without any significant investment in machinery, and had managed to carve a niche for itself despite increasing competition (see Exhibit 2). Allied Engineers and Founders had been able to retain its customers mainly by being willing to incorporate last-minute requirements and customize customer orders, unlike its competitors. The founder believed that his employees worked in the best interest of the organization and valued their expertise and their ability to deliver best-in-class production quality, even though they worked at their own pace, without heeding to planned schedules. The workers knew the company’s customers personally, and went out of their way to accommodate customers’ requests for changes in production, often leaving delivery schedules in disarray. This approach also helped the company tackle the growing menace of poaching by competitors.

The company continued to flourish, thanks to the founder’s hard work and dedication, becoming the first foundry in South India approved by the National Thermal Power Corporation Ltd. to manufacture and supply graded cast iron castings. Eventually, Raghvendra and Ramchandra, the founder’s two sons, joined the Mallya family business, and in 1978 the company’s name was changed to Allied Founders Pvt. Ltd.

AF’s First Export Order

On February 25, 2014, Mallya finalized AF’s first export order with Moonshine Pumps from South Africa for the supply of pump casings. The company had nearly missed the deadline but managed to save the day with last-minute adjustments (see Exhibit 3). This order was the result of more than 19 months of hard work by Mallya to secure the account. Executing the order had not been easy due to various hurdles along the way including disorganized factory operations, breakdowns of machinery, and unreliable human resources. However, Mallya ensured that the order was executed on time and on budget, despite the challenges. His efforts won appreciation from the overseas client, who expressed its satisfaction:

Dear Mr. Ramchandra, I am highly impressed with the pump casings supplied by your company. The casings reached my plant on time and were in compliance with the quality standards. Please be assured that we would be ordering from you again. Also, I would be happy to share your reference within my network, as you had requested. Good luck!

Mallya realized that in order to leverage the success of the company’s first export order, he would have to redefine the company’s current approach to order execution (see Exhibit 4). According to his analysis (see Exhibit 5), machine maintenance was the most critical factor needing immediate attention.

Mallya’s experience with the first order also taught him three other valuable lessons. First, the functioning of the international market was different from the domestic market. Second, negotiations of price and delivery time were crucial to securing a deal. Third and most important, unlike in the resilient domestic market, a lack of adherence to delivery and quality could lead to the cancellation of an order in the international market.

The meeting’s Attendants

On June 10, 2014, Mallya requested a meeting with his older brother Raghvendra, who was the director of production and planning, and with the maintenance team (see Exhibit 6) to plan the company’s future. The proposed meeting was scheduled for June 18, 2014. Several key members attended the meeting, each of them holding important positions within the company:

**Ramanand Mallya:** The founder and chief managing director of AF, and a veteran of more than 50 years in the foundry business, was well-acquainted with his customers and had valuable insights to share about the business and its functioning.

**Raghvendra Mallya:** The director of production and planning, he was a seasoned mechanical engineer. He was the founder’s oldest son, in his late 40s, and was highly respected by all employees.

**Ramchandra Mallya:** The director of sales and marketing was the founder’s youngest son. He was a dynamic and passionate worker who held a mechanical diploma. He was a dreamer, outgoing, and had a deep desire to convert AF into a global brand. He was also considered a risk taker, and was known for pulling people out of their comfort zones.

**Ramesh Nayak:** As one of the company’s managers and a graduate of the Industrial Training Institute, he was the first line of command in the maintenance team. He had five years of experience in equipment maintenance and was well respected by the workers, a fact that made him the ideal informal link between shop floor workers and management.

**Naveen Kamath:** Another of the company’s managers, he was a school dropout who had been with the company for more than 10 years. He was very familiar with the equipment in the facility.

**Vinayak Hudge:** As the manager of sales, he had been handling domestic sales for AF for six years.

transcript of The meeting

At the June 2014 meeting, the following discussion took place:

**Ramchandra Mallya:** “Thank you all for your presence here today. Let me begin by congratulating you all for the successful execution of our first export order. Mr. Donald of Moonshine Pumps has expressed his appreciation for the product quality as well as the timely delivery.”

**Ramanand Mallya:** “I would also like to congratulate you all. Unlike the domestic market, the international market is still an unchartered territory for us. The fact that we were able to make a smooth delivery speaks volumes about our teamwork and commitment.”

**Raghvendra Mallya:** “Thank you for your kind words. It was indeed a wonderful team effort. Deliveries can be made, provided everything goes as planned.”

**Ramchandra Mallya:** “We had a major breakdown in the induction furnace. Fortunately, the supplier representatives came to the rescue and we could execute the order in time. I am afraid that we won’t be so fortunate every time, and hence it is time we devise an action plan for fixing any unexpected machine breakdowns.”

**Raghvendra Mallya:** “We had faced similar problems earlier. However, this time, it was a bit more complicated.”

**Vinayak Hudge:** “Yes, I agree. We constantly face problems with our machines. Sometimes, there is a snag in the induction furnace, and other times, wear and tear [at bottom and walls] of the sand mixer. We have also had issues with some spare parts of the shot blast machine. In fact, we faced all these issues during the fulfillment of our first export order; however, we still managed to deliver on time and on budget. But we may not be that lucky always.”

**Ramchandra Mallya:** “That’s my point. Now that we are going international, we have to keep in mind that offshore clients are very particular about on-time delivery, without any compromise on quality. We have received two more export orders, and I am expecting at least a couple more orders from Moonshine and from some Australian and Gulf-based clients in the coming weeks.”

**Ramanand Mallya:** “That’s great news!”

**Ramesh Nayak:** “Even before the order from Moonshine [Pumps], we had faced a similar problem; however, Naveen [Kamath] managed to sort it out.”

**Ramchandra Mallya:** “Why didn’t you ask him to fix the problem this time?”

**Ramesh Nayak:** “He was on leave because he had gone to attend some festival in his village. I tried calling him, but was unable to reach him.”

Mallya looked over at Kamath, who was also at the meeting, hoping to get a response.

**Naveen Kamath:** “Sir, I had to leave my phone at home. Our festival takes place in a forest area, 24 kilometres from my village, and there is no mobile network connectivity there. I came back from the festivities three days later and checked my call history. I immediately called Ramesh, who informed me that the induction furnace had again developed problems and that the supplier representatives had come to repair it. I thought since they were working on it, they would be able to take care of all the issues.”

**Ramchandra Mallya:** “So, when was the last time we faced a similar problem? Please share the data of the machine breakdowns.”

**Naveen Kamath:** “Sure. I think it was around 20 days back” [see Exhibit 7].

**Ramchandra Mallya:** “Naveen, since you have faced this problem several times, can you tell us how you dealt with it?”

**Naveen Kamath:** “Sir, we can only fix such problems as and when they occur. We have to be constantly on our toes with regard to snags in our machines. Our approach is simple: we fix the problem and complete the task at hand. I would also bring to your attention that the maintenance personnel are not present all the time to recommend preventive measures” [see Exhibit 8].

**Ramchandra Mallya:** “Naveen,also, the preventive approach would require AF to dedicate a specific person for keeping a record of all maintenance activities. Also, another person would have to be trained in the event of the designated person taking a leave. In the export business, I have my own apprehensions.”

Ramesh Nayak nodded in agreement.

**Raghvendra Mallya:** “Had Naveen been present that day, we could have fixed the snag in-house. Besides, we could have taken it easy for a day or two, had Moonshine [Pumps] not been so adamant about the deadline. The shop floor people work as a team, and they are always there to help in case of problems, but we now know that this is not enough.”

**Ramchandra Mallya:** “Why is our maintenance in-house only; can’t we outsource it? We don’t have the relevant expertise. There are so many technological advancements happening and we can’t keep abreast of all of them. Doesn’t it make more business sense to outsource maintenance to a specialized company? There are people who are good at this [see Exhibits 9 and 10] and I am willing to outsource the maintenance activities to them. I also want to propose a few strategic-level changes [see Exhibit 11] so that we can fulfill our export targets on schedule.”

**Raghvendra Mallya:** “Outsourcing! Ramchandra, there are lot of risks in outsourcing such a critical function of our company to unknown entities. And for the technological aspect, why can’t we make our own software? If we develop the software in-house, we can save in terms of money. I can talk to a friend of mine, who is a freelance programmer. We can get him on board and set up a small IT [information technology] section, which would take care of this requirement. Also, the cost would be around 50 per cent lower than the quote you have received [see Exhibit 10]. Besides, our own software will be risk-free, and we can also customize it to our requirements and train our personnel. And about the strategic changes, I think you are too optimistic. We need to change our approach completely. I don’t think our employees are in a position to handle these changes.”

**Ramchandra Mallya:** “I don’t think we have the expertise, resources, funds, or time for setting up an IT section for in-house development. And as for the changes, well, the only constant is change. If we do not redefine the way we work, we will not be able to survive, at least not in the international market.”

**Raghvendra Mallya:** “How does it matter! We are doing well in the domestic market, so why should we venture into unknown territories? The international market is a black hole, as far as I am concerned. If we mess with our processes, we might even lose the hold we have in the domestic market.”

**Ramchandra Mallya:** “We have to take a chance, otherwise we will not be able to survive competition.”

**Raghvendra Mallya:** “Ramchandra, I think you are asking for too much. Preventive maintenance will put all our employees under scrutiny all the time, and they may not be able to handle the pressure. Apart from the discomfort of being under scrutiny all the time, they will be haunted by the fear of losing their jobs. Besides, I am also skeptical about the technology adoption issues.”

**Ramchandra Mallya:** “It’s precisely because of what you are saying that I am proposing these strategic-level changes [see Exhibit 11]. If everything goes well, we will do wonders.”

**Raghvendra Mallya:** “I doubt your calculations, Ramchandra. Besides, a bird in hand is worth two in the bush. In the pursuit for international market, we may end up losing our domestic credibility.”

**Ramchandra Mallya:** “Raghvendra, don’t put too many irons in the fire. I believe we should get going with our manufacturing activities and get the experts to do their jobs.”

The room suddenly became silent. The air cooling system in the room was working at full power, but its effect seemed to be lost. There was an uneasy calm, until Ramanand Mallya broke the silence.

**Ramanand Mallya:** “Ramchandra, we can discuss these changes in detail and devise a roll-out plan accordingly. We will meet again on June 25, 2014. Meanwhile, I suggest that you revise your proposal and decide whether to develop the IS in-house or to outsource it. We will evaluate these options and take the final call on the 25th of this month.”

The barking of dogs outside stirred Mallya from his reverie. It was 3:00 a.m. and he still had not decided on a revised plan for the company. Time was running out. Should the company continue with its manual way of maintenance or switch to IS applications? Should AF outsource the maintenance of its machines? Would the new IS adoption happen on time? How could he ensure that his employees would adapt to these changes? Mallya recalled the old adage: “Too tired to stay up—yet too awake to fall asleep.” He could not agree more.

Exhibit 1: Allied Founders Product Portfolio

Pump Components

|  |  |  |
| --- | --- | --- |
|  |  |  |

Valve Components

|  |  |
| --- | --- |
|  |  |

Elevator Components

|  |  |  |
| --- | --- | --- |
|  |  |  |

Gearbox Components

|  |  |
| --- | --- |
|  |  |

Motor Components

|  |  |
| --- | --- |
|  |  |

Source: Company information.

Exhibit 2: Allied Founders Financial Statements (in ₹ Million)

A: Profit and Loss statement

|  |  |  |
| --- | --- | --- |
|  | March 2014 | March 2013 |
| **INCOME** |  |  |
| **Revenue from Operations (Gross)** | **70.00** | **70.00** |
| **Revenue from Operations (Net)** | **70.00** | **70.00** |
| **Total Operating Revenues** | **70.00** | **70.00** |
| Other Income | 12.00 | 6.00 |
| **Total Revenue** | **82.00** | **76.00** |
| **EXPENSES** |  |  |
| Cost of Materials Consumed | 18.20 | 5.10 |
| Operating and Direct Expenses | 12.90 | 10.60 |
| Employee Benefit Expenses | 10.40 | 9.10 |
| Finance Costs | 7.70 | 5.90 |
| Depreciation and Amortization Expenses | 2.40 | 2.00 |
| Other Expenses | 5.30 | 7.00 |
| **Total Expenses** | **56.90** | **39.70** |
| **Profit/Loss Before Exceptional, Extraordinary Items, and Tax** | **25.10** | **36.30** |
| Exceptional Items | –0.10 | –0.40 |
| **Profit/Loss Before Tax** | **25.00** | **35.90** |
| **Tax Expenses—Continued Operations** |  |  |
| Deferred Tax | –13.90 | –5.20 |
| **Total Tax Expenses** | **–13.90** | **–5.20** |
| **Profit/Loss after Tax and before Extraordinary Items** | **38.90** | **41.10** |
| Extraordinary Items | 8.60 | 91.00 |
| **Profit/Loss from Continuing Operations** | **47.50** | **132.10** |
| **Profit/Loss for the Period** | **47.50** | **132.10** |

Exhibit 2 (continued)

b: Balance Sheet

|  |  |  |
| --- | --- | --- |
|  | **March 2014** | **March 2013** |
| |  | | --- | | http://img1.moneycontrol.com/images/blank.gif**EQUITIES AND LIABILITIES** | |  |  |
| **SHAREHOLDER'S FUNDS** |  |  |
| Equity Share Capital | 44.30 | 44.30 |
| **Total Share Capital** | **44.30** | **44.30** |
| Reserves and Surplus | 65.80 | 18.30 |
| **Total Reserves and Surplus** | **65.80** | **18.30** |
| **Total Shareholders’ Funds** | **110.10** | **62.60** |
| **NON-CURRENT LIABILITIES** |  |  |
| Long-Term Borrowings | 41.90 | 33.20 |
| Deferred Tax Liabilities (Net) | 0.00 | 6.60 |
| Other Long-Term Liabilities | 0.00 | 0.00 |
| **Total Non-Current Liabilities** | **41.90** | **39.80** |
| **CURRENT LIABILITIES** |  |  |
| Trade Payables | 1.90 | 1.70 |
| Other Current Liabilities | 11.00 | 0.00 |
| Short-Term Provisions | 0.30 | 18.70 |
| **Total Current Liabilities** | **13.20** | **20.40** |
| **Total Capital and Liabilities** | **165.20** | **122.80** |
| **ASSETS** |  |  |
| **NON-CURRENT ASSETS** |  |  |
| Tangible Assets | 115.30 | 111.20 |
| **Fixed Assets** | **115.30** | **111.20** |
| Deferred Tax Assets (Net) | 7.30 | 0.00 |
| Long-Term Loans and Advances | 0.20 | 0.60 |
| **Total Non-Current Assets** | **122.80** | **111.80** |
| **CURRENT ASSETS** |  |  |
| Trade Receivables | 19.70 | 6.70 |
| Cash and Cash Equivalents | 14.40 | 1.30 |
| Short-Term Loans and Advances | 8.30 | 3.00 |
| **Total Current Assets** | **42.40** | **11.00** |
| **Total Assets** | **165.20** | **122.80** |

Note: ₹ = INR = Indian rupee; US$1 = ₹68.875 on June 25, 2014.

Source: Company files.

Exhibit 3: Production schedule of Moonshine Pumps casing

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Week 1 | | Week 2 | | Week 3 | | Week 4 | | Week 5 | | Week 6 | |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Casting process design and client approval** | |  |  |  |  |  |  |  |  |  |  |
| **Design approved by client** | |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Material procurement** | |  |  |  |  |  |  |  |  |  |
|  | **Material procured** | |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **Pattern design and manufacturing** | | | |  |  |  |  |  |  |
|  |  | **Pattern design and manufacturing done** | | | |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  | **Trial production** | |  |  |  |  |
|  |  |  |  |  |  | **Trial production successful** | |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  | **Casting production and finishing** | |  |  |
|  |  | Planned Activities |  |  |  |  |  | **Delay in casting production\*** | |  |  |
|  | Actual Activities |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  | **Final inspection and dispatch** | |
|  |  |  |  |  |  |  |  |  |  | **Final inspection and dispatch** | |

1. Pattern design process is subject to client approval.

2. Week 4 and Week 5 will see low worker turnout due to unavoidable circumstances.

\* Delay due to induction furnace breakdown. Ramchandra contacted the supplier and got it fixed on a war footing.

Source: Company files.

Exhibit 4: Allied Founders’ Current approach to order execution

|  |
| --- |
| On schedule  Yes  Creation of production plan  Plan issued to shop floor  Production commences  Inform customer of delay  Revise the production plan  Complete production  Resume production  Order received  Inspection and dispatch to customer  No\*  \* The average delay in schedule was 19.4% (2008–2013). The top three reasons for this delay were the last-minute changes suggested by the customer, machine breakdowns, and worker absenteeism. |

Source: Company files.

Exhibit 5: Allied Founders Schedule Management

|  |
| --- |
| a: FishBone Diagram for production delays  **Production Delays**  **Workers**  **Operational**  **Management Approach**  **Machine**  **Absenteeism**  **Local Festivals**  **Changes in Product Specifications**  **Design Issues**  **Change in Quality**  **Delivery Delays**  **Poor Documentation**  **Old Equipment**  **Wear & Tear**  **Frequent Breakdown**  **Poor Maintenance**  **Training**  **Traditional Approach**  **Leadership**  **Family-Run** |
| b: Criticality Versus Urgency matrix  High  Criticality   |  |  | | --- | --- | | Management Approach | Machine | | Operational  Low | Human Resources/Workers |   Low  High  Urgency |

Source: Company files.

Exhibit 6: Organizational chart, detailing the Production area

Manager Production

Manager Stores and Purchase

Worker

Worker

Worker

Vinayak Hudge,

Manager Sales

Raghvendra Mallya, Director (P&P)

Ramesh Nayak,

Maintenance Team

Naveen Kamath,

Maintenance Team

Worker

Note: P&P = Production and Planning

Source: Company files.

Exhibit 7: Average monthly production downtime due to breakdowns (2009–2013)

Source: Company files.

Exhibit 8: Average monthly worker absenteeism (2009–2013)

Source: Company Information

**Exhibit 9: Process to develop an Information System**

Systems Planning and Selection

Systems Analysis

Systems Implementation and Operation

Systems Design

System Maintenance

System Maintenance

Source: Company files.

Exhibit 10: Proposal for Enterprise Resource Planning preventive Maintenance

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  | | --- | --- | | ***EzyMaintain*** | EzyMaintain Systems Pvt. Ltd  #24, BKC Towers, Indiranagar  Bangaluru–40, India. |   **10th June 2014**  **To Mr. Ramchandra Mallya,**  **Director – Marketing & Development**  **Allied Founders India Pvt. Ltd**  **Belgaum -11**  **Sub: Quotation for EzyMaintain software**  Respected Sir,  Thank you very much for your mail dated 9th May expressing interest in the purchase of the EzyMaintain software for your esteemed organization.  Further to our discussions, please find our best price as below:   |  |  |  |  | | --- | --- | --- | --- | | Description | Unit Price (INR) | Qty | Amount (INR) | | EzyMaintain 3.0 (Multi User) | 5,00,000.00 | 1 | 5,00,000.00 |   Terms and Conditions:  1. This price is strictly confidential and should not be disclosed to any third-party.  2. **Delivery:** -Software for the company would be delivered within 2 weeks after receipt of commercially clear purchase order barring no unforeseen circumstances viz war, calamity or other external factors. Software shall be delivered electronically.  3. **Manuals:** - Online Tutorials & Help files are available in the software. No separate manuals are provided.  4. **Validity:** -Strictly valid till **20th May 2014.**  5. **Pricing, Payment terms:** -100% payments along with the Purchase Order.  6. **Taxes extra:** 15% Service Tax applicable.  7. **Order Cancellation:** - Order once placed cannot be cancelled under any circumstances.  We are confident that EzyMaintain would help your esteemed organization to track your maintenance activities in real time.  We look forward for your valuable order.  Yours truly  Sahil M.  Sr. Manager – Sales |

Note: INR = ₹ = Indian rupee; US$ = ₹68.875 on June 25, 2014.

Source: Company files.

Exhibit 11: Strategic level changes suggested by Ramchandra mallya

Human Resources Policies

* **Overtime Pay:** Standard overtime rates to be considered for overtime work. However, overtime to be considered in the case of reduced schedules and not due to delay from the worker’s side.
* **Payment Mode:** All overtime payment to be made along with weekly payments.
* Payroll records Implementation of Payroll software to track working hours. This data is to be linked with accounts to facilitate wage payments.
* **Deductions:** Guidelines to be drafted with our labour consultant regarding deductions in case of unplanned absenteeism.
* **Rewards and Incentives:** Reward workers who have put in extra efforts to ensure that work is completed ahead of time. A committee comprising of one management member, a production manager, and two senior shop-floor members would do the selection of workers.

Policies for Operations

* Ensure that all production activities are planned.
* Inform existing customers regarding change in execution of production activity. Request customers to give all relevant information before execution. Explore options of change contract in case the customer changes requirements.
* Initiate “Worker of the Month” appreciation system. Conduct a meeting in the last week of every month and give a letter of appreciation to the worker selected in the presence of the entire workforce.

Policies for Machines

* Plan for a phased replacement of machines over a period of five years.
* Put a preventive maintenance plan in place. Ensure that the plan is meticulously followed.
* Have a bigger team to ensure that maintenance activities are also considered under priority.

Source: Company files.