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GLOBAL METAL COMPANY: THE CHALLENGES OF SCALING UP IN THE UNORGANIZED SECTOR

Lubna Nafees and Rakesh Gupta wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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It was late evening in July 2018 when Raheel Ahmad, founder of Global Metal Company (GMC), finished his meeting with his finance manager to finalize the company’s financial accounts for 2017–2018. After the manager left, Ahmad began to think about the performance of his export unit, engaged in antique reproduction hardware, and the challenges facing the company. His thoughts were interrupted by a call from a top recruiter in Delhi, who asked Ahmad about the possibility of his taking up a senior management position on the supply chain side of a leading international retailer planning to enter the Indian market.

It had been three years since Ahmad started GMC, and the initial response to the business had justified his decision to quit a successful corporate career and start the venture in his hometown of Aligarh in northern India. The response had also made him confident that GMC could realize annual revenue of US$1 million[[1]](#footnote-1) within three years as he envisioned. However, after a promising start, things had taken a very different turn, and GMC closed the third year with annual revenue of only $0.15 million—way below his expectations. Ahmad was contemplating what had gone wrong in those years: Had his target of $1 million in revenue been overly ambitious? Or had his assessment of the overall market potential been off the mark? During those three years, he had expanded his operations, in baby steps, from Europe—which was overly price competitive and served by a large number of exporters from Aligarh—to the United States. Now he was wondering whether he should plunge deeply into the US market to grow GMC, or seriously consider quitting this business and moving back into his corporate career.

DECISION TO QUIT

A qualified mechanical engineer with an MBA, Ahmad had had a keen interest in the business of exports since childhood. In his school days he had been impressed by the lifestyle of some of his classmates who came from families involved in the export business. Being from Aligarh, which was the hub of the lock industry, he had always wanted to set up his exports unit there. However, things took a different turn for Ahmad after he completed his studies. In the early 2000s, he started his profession as a purchasing and supply chain executive with a large multinational company and then went on to work with India’s largest metal company, Tata Steel Limited, in 2005. From there he moved to Avon Beauty Products India Pvt. Ltd. in Gurgaon, where he headed Asia-Pacific sourcing for the company. His last post in the corporate world was with GlaxoSmithKline plc (GSK), on the company’s supply chain team in India. It was while working at GSK that Ahmad realized he was no longer satisfied with his corporate job, despite the comforts it provided, and developed a strong urge to start something of his own. The trigger to quit his job was a phone call from a Dubai-based childhood friend who asked him to rush to Aligarh to attend to his father. His friend’s father had had a massive cardiac arrest, and nobody in his family could attend to him. For Ahmad, who was an only son, and whose elderly parents were based in Aligarh, this incident left a deep and lingering imprint on his mind, and he became constantly worried about his parents back home. He started to think again about his childhood dream of running an export business in his hometown of Aligarh. Finally, after a great deal of consideration, and in the face of strong disapproval from his father (a retired professor from Aligarh Muslim University), on February 28, 2015, Ahmad took the plunge and resigned from his corporate job. Since he was financially comfortable and had strong corporate experience, he was confident that he would be successful in his entrepreneurial journey.

The BEGINNING OF the ENTREPRENEURIAL JOURNEY

In 2015, Ahmad returned to Aligarh, close to his family, with the clear intention of setting up his business in his hometown. Aligarh, a city in northern India, was roughly 90 miles (about 145 kilometres) from the Indian capital city of New Delhi. Aligarh, once famous for its lock industry, also had a world-class university and had emerged as a hub of the metal hardware industry. The city’s lock industry, however, had gradually died out as locks manufactured in China came to achieve global domination. With employees of the lock industry trying to find new avenues for business, the hardware industry began to grow roots in Aligarh. Ahmad visited many export units and spoke to many people engaged in that sector. During that time, he encountered his uncle, Rafiq, who was engaged in the export of antique brass hardware. Rafiq explained the nuances of this sector to Ahmad and inquired about his nephew’s plans for the future. Ahmad carried out a great deal of research on brass products before zeroing in on a niche product category—antique reproduction hardware—where he ultimately began his entrepreneurial journey. Ahmad then founded GMC with support from Rafiq, who had been in the field of brass hardware for several decades, and the company was registered in 2015.

The EMERGENCE OF ALIGARH AS a HUB FOR METAL HARDWARE

Aligarh was known globally for its lock industry, which, at one point in time, had accounted for 75 per cent of India’s lock production and the bulk of its lock exports. The city came to be known as *Tala Nagri* (“Land of Locks”), and the Aligarh lock came to signify not only a distinct brand but also an absolute confirmation of quality. By the start of the twentieth century, Aligarh was producing 500,000 locks per year, valued at ₹276,000.[[2]](#footnote-2) The British government, impressed by this success, set up a metal workshop in Aligarh in 1926 to train local artisans in the art of lock making. In the decades that followed, making locks became a household business in Aligarh.

There were thousands of lock industry units in Aligarh; by some conservative estimates there were 5,000 organized units and about 5,000 unorganized. From the unorganized units, only about 1,000 were registered.[[3]](#footnote-3) However, in the late 1990s and into the 2000s, the lock industry of Aligarh saw a steady decline due to fierce competition from Chinese lock manufacturers. With the entry of cheap locks manufactured in China and a more than two-fold increase in metal prices, the industry faced a slump.[[4]](#footnote-4)

When the Chinese companies started producing technologically superior pin cylinder locks, Aligarh manufacturers failed to recognize the warning sign and did not upgrade their outdated lever technology. This resulted in the decimation of the lock industry in Aligarh, which in turn resulted in a large portion of the skilled workforce becoming jobless and a need for the industrial city to readapt to the changed scenario. People gradually started shifting to other related trades. The city was also famous for its brassware and architectural hardware, and this segment seemed a close ally to the lock industry. Thus, many local industrialists remodelled their businesses and utilized the existing set-up to enter this segment.[[5]](#footnote-5)

The metal hardware manufacturing process at Aligarh was primarily labour-intensive. Unlike in China and many other countries, in Aligarh, not many units had high-technology automated machinery for mass production. Production largely depended on manual work and the skills of the workers. In Aligarh, the metal hardware sector was small scale, unorganized, and had its limitations.

GLOBAL METAL COMPANY

The initial capital for setting up GMC came from Ahmad’s personal savings and support from his family. Ahmad had set aside about $100,000, which was partly utilized for taking care of all the expenses related to setting up a company (paperwork, paying legal fees, etc.) and for providing working capital for purchasing raw material, acquiring labour, business development, and the other day-to-day expenses involved in running a business. These costs included the cost of travelling abroad to meet potential customers, develop personal relations, and take orders. With limited resources and a lack of any external funding, the challenge of starting up was huge. It had been Ahmad’s personal choice to limit the liabilities by not opting for a bank loan, and, as of 2018, the company was debt-free.

Since GMC did not have a production unit at the outset, Ahmad arranged a tie-up with his uncle’s existing company, Bright Metal Works, which had its own in-house manufacturing facility. The facility included a foundry shop with a furnace for metal casting, a fully equipped machine shop, a polishing unit, an electroplating plant, a lacquering facility, and other related facilities. The tie-up was a win–win situation. The idle capacities of Rafiq’s production unit were utilized for the production of orders received from GMC’s foreign customers. GMC and Bright Metal Works shared the production cost, as they worked in tandem. Therefore, the issues of acquiring land, setting up a new production facility, hiring a workforce, and starting production, which had all looked quite challenging initially, were resolved. This helped Ahmad to put his limited financial resources toward other important areas. As a result, the company was able to avoid taking any loans, and Ahmad initially avoided having to put his limited resources into fixed assets such as acquiring land, a plant, and machinery.

GMC mainly dealt in reproduction architectural hardware, which included door handles, knobs, window fittings, furniture accessories, hinges, and barn hardware, among several other items. It specialized in handcrafted antique designs of reproduction hardware and offered a variety of finishes on its products such as polished brass, antique brass, brushed finish, nickel plating, chrome plating, hammered finish, satin, oil-rubbed bronze finish, and waxed finish. GMC offered a wide variety of products, including door handles, knobs, window hardware, cabinet hardware, furniture accessories, hinges, hooks, bathroom accessories, rail fittings, decorative hardware, and numerals (see Exhibit 1).

TYPES OF ANTIQUE HARDWARE by ERA

According to the *United States* *Tariff Act of 1930*,[[6]](#footnote-6) an item was considered an antique 100 years after it was made, so any design more than a century old was antique. Therefore, door hardware whose original design dated back to the early part of the twentieth century would be considered antique. Antique reproduction hardware, commonly referred to as antique hardware, was classified into various categories based on the era or historical period it represented. Basically, this type of hardware was the reproduction or replication of designs that were prevalent during a particular period, such as the Victorian era, Georgian era, or Roman era. Some designs were authentic reproductions (meaning they were reproduced to look exactly as they would have looked in the era they represented), while others were slightly modified to suit modern architectural requirements. Interestingly, some antique reproduction hardware was used for decorative rather than functional purposes.[[7]](#footnote-7)

In his article “Defying Age: The History and Appeal of Antique Hardware,” Ahmad explained the different types of antique-design door hardware:

Some of the popular categories of antique design door hardware included Colonial, Classical, Victorian, Arts and Craft, Romantic, Art Deco and Mid-Century designs. Colonial (1650–1800) was simple and sturdy, built to thrive in the new world [and included] gleaming brass and rugged iron, hand-wrought into timeless designs; Classical (1800–1850) was the grandeur of Greece and Rome inspiring a young nation [with] dignified designs in brass and bronze, richly embellished with neo-classical ornament; Victorian (1850–1910) was [characterized by] industrial prosperity fueling a passion for variety and ornament, [and included] eclectic designs in brass, bronze and iron, fashioned with exquisite pattern and detail; Arts and Crafts (1890–1920) was a celebration of simple materials and honest craftsmanship, [represented by] hand-hammered designs in copper, brass and bronze, with a mellow, aged patina; Romantic (1900–1940) was a nostalgic vision of castles, cottages and old world villas [and included] elegant designs in iron and bronze, hand-wrought in the manner of European artisans; Art Deco (1925–1940) was sleek, urbane and stylized, a bold look for a new century, [represented by] cosmopolitan designs in bronze, chrome and glass displaying a passion for speed and stylized ornament; Mid-Century (1925–1940) was post-war confidence meeting space-age innovation, [represented by] futuristic designs in brass, copper and chrome, defined by simple, understated elegance.[[8]](#footnote-8)

According to industry watchers, the demand for decorative hardware within the luxury segment was gradually rising. While industry in India largely depended on the skilled workmanship of artisans and designers, emerging technologies would shape the design and production techniques of products. Companies elsewhere in the world were increasingly using three-dimensional (3D) modelling software to build complicated assemblies and designs. The introduction of 3D printers also greatly facilitated the creation of complex patterns.

GMC: a FLYING START (2015–2016)

Immediately after registering GMC, Ahmad went on to tour Europe with Rafiq in May 2015. Before leaving for Europe, Ahmad had researched the people dealing in antique hardware there, and he had begun approaching them. Some of these people showed interest, and thus meetings were arranged. He also worked on learning more about this sector, such as the kind of products made in Aligarh and the prevailing demand patterns in Europe. He brought many samples and catalogues with him to Europe. During the month-long trip, Ahmad visited many countries including Germany, Sweden, Denmark, Latvia, and Lithuania. At every place, he dedicated a great deal of time to understanding the market and consumers’ tastes and preferences, and he met many people doing business in this category.

GMC received its first contract with a European company in June 2015, worth $20,000. This gave Ahmad a tremendous boost of confidence, and he believed that with the advantage of a strong academic background, a better understanding of technology, persuasive communication skills, and fair exposure to global business, getting business would not be difficult. Following the successful Europe trip, Ahmad was happy with the way things were shaping up. He immersed himself in getting the production work of 10,000 furniture parts—his first order from Europe. The artisans started working on the products, but the production process and the way in which the labourers were working left Ahmad in a quandary: having been exposed to world-class production methods during his corporate days, the archaic method of production left him dissatisfied. Once the final sample was ready and was approved by the customer, production went into full swing. During the process, Ahmad prepared a great deal of paperwork to send this first consignment. It took almost two months to complete the assignment, and finally the goods were packed and shipped to the customer (see Exhibit 2).

Late one evening, Ahmad received a phone call from his client, who said that the entire consignment failed to meet their production specifications and that they were rejecting the entire thing. This came as a shock to Ahmad. On detailed inquiry, he learned that one of the screws in the furniture leg was 0.1 millimetres longer than the specification and that this was the basis of the client’s rejection. As Ahmad set about settling the issue, he realized it could have huge repercussions and threaten the very survival of his newly registered company. Ahmad found that the approved sample had had the same length throughout the entire process, and, based on this argument, the consignment was finally approved, but with the rider that GMC would have to discount the client’s next order. Encountering this incident right at the beginning of the venture taught Ahmad a huge lesson—clients in this business were very demanding, and taking a *chalta hai* (get away with anything) attitude toward the work could be suicidal.

Later in the year, he received three to four more orders, and GMC closed the first year with approximately $40,000 in revenue. Though this was not a huge amount, Ahmad was reasonably satisfied with the way things had shaped up in the first year.

GMC: REALITY CHECK (2016–2017)

Ahmad began 2016–2017 with high hopes and feeling confident that GMC would cross revenue of $0.3 million. Ahmad was assured of commissions by his European clients, and he believed this would create a good pipeline of orders. However, things did not turn out the way he had envisaged, and, to his surprise, he was not able to close any substantial order in the first few months of 2016. In all discussions, negotiations were stuck in the final stage on the pricing issue. Even though the buyers looked interested, Ahmad was able to have long discussions about the product range and quality, and samples were being approved, Ahmad was unable to close the deals. The buyers repeatedly asked for a lower price, and while Ahmad made a pitch for quality, the clients kept hinting about other vendors and their willingness to supply at lower prices. Further, he could not add any new client to his existing portfolio of customers.

The silver lining on all this was a repeat order from his first customer, who gave GMC an even bigger order, worth $31,000. Although this was a huge respite, even that order came with intense price negotiations, and ultimately the order came with much lower margins. The year saw GMC receive only five orders, which was marginally more than the first year, and the company closed the books for 2016–2017 with $77,000 in revenue, which was way below expectations.

the EUROPEAN MARKET

GMC decided initially to focus on the European market, as Europe was where Rafiq had a few contacts that Ahmad could build on. GMC approached IKEA for business and learned in the process that IKEA mostly routed its orders through its approved certified vendors. Given this new information, GMC contacted one of IKEA’s certified approved vendors and obtained its first order from that vendor—who was a tier-one supplier of IKEA and who became a repeat customer with GMC. The antique hardware restoration market was niche and made up only a small fraction of the total global hardware market. The most prevalent mode of business development within this industry was face-to-face meetings and referrals. Of the small and medium-sized players in the antique hardware segment, GMC had three customers in the European market.

However, the European market was very different from other countries like the United States. Nearly 80 per cent of suppliers in the hardware market were either Indian or were from other Asian countries where costs were low, and this led to severe price wars. There was a large number of suppliers, with Aligarh alone having more than 1,000 exporters dealing in this segment, fighting for their share of the pie. The market was very fragmented, and a wholesaler operating in Germany, for instance, had very little presence in France, and so on for other countries. The UK market was very different from the Scandinavian market, and so on for other markets. The European market, with its diverse nature and network of customers distributed over a wide area, was quite complex. In Europe, the language, culture, and trade laws could change every few hundred miles. Therefore, regional players dominated the European market, and there was hardly any big player in the hardware market with a pan-European presence.

Ahmad found the European market to be very demanding and, at the same time, very price competitive, and he noticed that a large number of exporters catered to the market from Aligarh. Slowly, reality began to dawn on Ahmad, and he understood the way the things worked in this segment. The biggest lesson for him was that this sector was intensely price competitive, with thousands of small exporters ready to cut prices. With a limited market to cater to, and the presence of a huge supplier base in Aligarh alone, it was almost impossible for GMC to achieve its targets by focusing on this market alone.

NEW MARKETS FOR GROWTH: 2017–2018

By 2017, Ahmad had started looking for options beyond Europe, as he was convinced that it was not possible to grow within that market. To add to this, there was a great deal of pressure on the margins. Since starting the business, Ahmad had been writing about antique hardware, and some of his articles had been published in a reputed US trade magazine.[[9]](#footnote-9) This had resulted in some business inquiries from the United States, which, in the past, Ahmad had ignored. However, in 2017, he started studying this market and found that it was dominated by large chains like Lowe’s Companies Inc., Home Depot Inc., Walmart Inc., and Restoration Hardware. This was very different from the way the European market was structured, but Ahmad’s assessment was that there was still opportunity for small and medium-sized players to grow. Among the other popular companies supporting the development of antique and decorative hardware in the United States were House of Antique Hardware Inc., Adkins Antique Hardware, Rocky Mountain Hardware, Signature Hardware, Baldwin Hardware, Eugenia Antique Hardware, Architectural Accents, and Van Dykes Restorers. The North American market, consisting of the United States and Canada, was large in terms of both geographical spread and market size. Purchasing power was on the higher side, especially in regions that were experiencing a high growth rate, such as Florida and the Bay Area in California.

Ahmad decided to visit the market personally to better understand it and explore linkages with the players operating there. He visited the United States in July 2017 and travelled extensively around both the East Coast and the West Coast. He met many people dealing in antique reproduction hardware during his visit. To his surprise, he found that many people in the industry had read his articles published in *Doors & Hardware* magazine. The meetings he had there were productive, but one question would invariably arise in every meeting: did GMC have any physical presence in the United States? To overcome this issue, Ahmad registered GMC in the United States and signed a contract with a third-party logistics company for leasing warehousing space in Dallas, Texas. This put pressure on his limited resources, but the company managed to be in business because of the small stream of revenue it was generating from these efforts. The visit to the United States helped Ahmad to meet different people dealing in reproduction hardware in that country. But besides helping him to generate industry contacts, the visit also resulted in securing orders from new customers. Due to these efforts, GMC received four orders from the US market in 2017–2018.

CHALLENGES and the WAY FORWARD

GMC closed 2017–2018 with annual revenue of $0.15 million, which was almost double that of 2016–2017 but way below the set target of $1 million. Of this, around 35 per cent came from the US market, where GMC started operating in 2017, and the remaining 65 per cent came from the European market (see Exhibits 3, 4, and 5). While the gross margins were around 20 per cent in Europe, the US market offered better margins, which were around 35 per cent. Ahmad was acutely aware of the fact that the business had not grown at a pace he had expected and that he had to do something radical to put the business on a faster growth path. The initial response from the US market, and the realization that pressure on margins was low, had given him hope that he could expand quickly in the United States. However, to make a strong entry into the US market, he had to make quick decisions and take speedy action, and for this GMC needed an infusion of capital (see Exhibit 6). At the same time, he was somewhat wary that the US market would result in a similar experience to the one he had encountered in the European market, where, after a promising start, things had not gone the way Ahmad had imagined for GMC. Many experts were of the opinion that the US market was a tougher nut to crack than its European counterpart. Ahmad was fully aware that time was running out. He soon had to decide: either put the foot on the accelerator and speed things up, or opt out and go back to his corporate career (which his father had always wanted) before it was too late.

EXHIBIT 1: Global Metal Company PRODUCT SAMPLES



Source: Company files.

EXHIBIT 2: END-TO-END ORDER CYCLE (8–10 WEEKS)

Step 1: The buyer places an order.

Step 2: A pre-production sample is manufactured and sent for approval.

Step 3: Once the sample is approved, production starts.

Step 4: A third party runs a TUV quality check for the buyer.

Step 5: A quality report is sent to the client.

Step 6: The client approves, and the consignment is shipped; shipment takes 21–25 days.

Note: TUV = TÜV SUD (Technical Inspection Association); TUV SUD issues product certifications globally.

Source: Created by the case authors.

EXHIBIT 3: global metal company annual REVENUES (US$)

Source: Prepared by the case authors based on discussions with Global Metal Company’s founder.

Exhibit 4: Projected five-Year Revised Revenues (US$ Millions)

Source: Prepared by the case authors based on discussions with Global Metal Company’s founder.

Exhibit 5: annual Order Details

|  |  |  |
| --- | --- | --- |
| Year | Number of Orders  Received | Market |
| 2015–2016 | 3 | Europe |
| 2016–2017 | 5 | Europe |
| 2017–2018 | 8 | Europe (5)  United States (3) |

Source: Prepared by the case authors based on discussions with Global Metal Company’s founder.

EXHIBIT 6: SELECTED FINANCIALS FOR GLOBAL METAL COMPANY, 2015–2018 (US$)

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2015–2016** | **2016–2017** | **2017–2018** |
| Net Revenue | 31,939.17 | 64,942.98 | 109,090.93 |
| Cost of Goods Sold | 23,954.38 | 48,707.23 | 87,272.74 |
| Gross Profit | 7,984.79 | 16,235.74 | 21,818.19 |
| Selling & Distribution Expenses | 8,503.29 | 8,987.21 | 9,332.87 |
| Founder’s Salary | 0 | 6,913.24 | 8,987.21 |
| Net Profit/Loss | −518.49 | 335.29 | 3,498.1 |
| **Annual Growth Rate** | N/A | 103.33% | 67.98% |

Source: Prepared by the case authors based on discussions with Global Metal Company’s founder.

1. All dollar amounts are in USD unless otherwise indicated. [↑](#footnote-ref-1)
2. ₹ = INR = Indian rupee; US$1 = ₹66.4403 on July 1, 2018; H. R. Nevill, *Aligarh: A Gazetteer*, *Being Volume VI of the District Gazetteers of the United Provinces of Agra and Oudh* (Lucknow: Government Branch Press, 1909). [↑](#footnote-ref-2)
3. Anuja Jaiswal. “Aligarh’s Centuries-Old Rs 4,000 Crore Lock Industry Stares at Lockout,” *The Times of India*, November 30, 2016, accessed July 15, 2018, https://timesofindia.indiatimes.com/city/agra/Aligarhs-centuries-old-Rs-4k-crore-lock-industry-stares-at-lockout/articleshow/55692001.cms. [↑](#footnote-ref-3)
4. Ibid. [↑](#footnote-ref-4)
5. Ibid. [↑](#footnote-ref-5)
6. The *United States Tariff Act of 1930* (codified at 19 U.S.C. chapter 4), commonly known as the Smoot–Hawley Tariff or Hawley–Smoot Tariff, was an act implementing protectionist trade policies sponsored by Senator Reed Smoot and Representative Willis C. Hawley and was signed into law on June 17, 1930. [↑](#footnote-ref-6)
7. Raheel Ahmad, “Defying Age: The History and Appeal of Antique Hardware,” *Doors + Hardware* (December 2015): 11–15. [↑](#footnote-ref-7)
8. Ibid. [↑](#footnote-ref-8)
9. *Door Security + Safety* magazine (formerly *Doors + Hardware*) was a monthly publication that covered the non-residential construction industry, focusing on door security and safety; “*Door Security + Safety* Magazine,” Door Security + Safety Professionals, accessed September 17, 2018, www.dhi.org/DHI/DHI/Business-Technical-Resources/Door-Security-Safety.aspx. [↑](#footnote-ref-9)