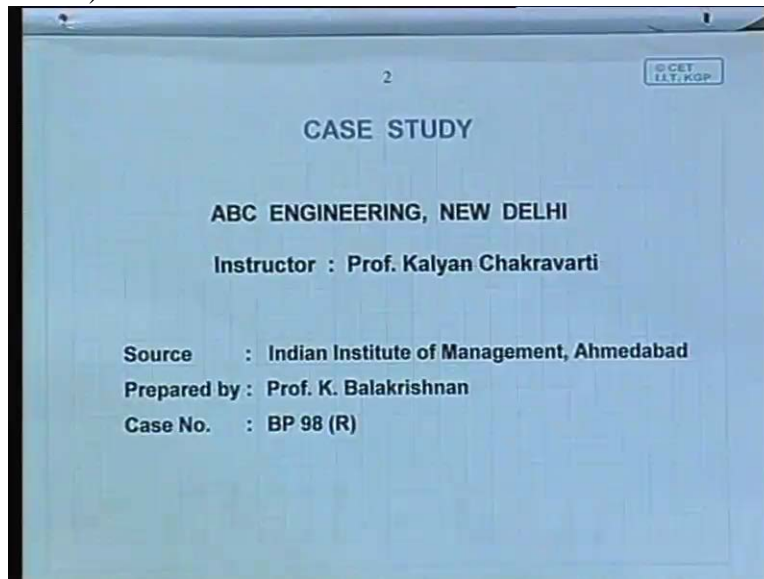


**Strategic Management**  
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**Lecture No. 04**  
**Case Study-Group Presentation on Case**

Good afternoon to everybody. Well, we are meeting after little while after the holidays. So, everyone enjoyed their holidays? Good. So, what we will do today, we will have a group presentation. Our case study and the name of the case study is ABC engineering New Delhi.

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The interesting part of this case is that unlike the previous cases, which we dealt with, this one deals with a relatively smaller company, a company setup by an entrepreneur, a civil servant turned entrepreneur, A. K. Kapoor. So, Mr. A. K. Kapoor had a long and distinguished career in the Indian Civil Service and why he is to this carrier. As a civil servant he had occasion to deal with the sugarcane farmers and came into contact with the sugar processing and in his capacity as an administrator he had helped the sugar farmers during the lean days in setting up a crushing mill for the sugar of a small capacity six hundred tons. And when he retired, he wanted to continue as an entrepreneur and he setup a sugar crushing unit by buying out the old unit which had been setup with his encouragement during his civil service days and that started his venture into entrepreneurship. So, this is a small business started by processing of sugar and over the next few years he expanded his business into supplying cement building factories for making cement building more factories for sugar crushing till he had a large number of cement and sugar unit is spread across the country. His main expertise was therefore developed in the sugar and cement business. So far as his marketing was concerned, he fell back on his extensive contracts in the government and that was his forte. As he says in the case, he knows the sugar and cement

industry and the government buys like the palm of his hand. During the course of the growth of the ABC group into the sugar and cement business he also started a small workshop basically with the idea of making spare parts for the sugar and cement machinery in the various factories which he had setup. And over the years they gained expertise of manufacturing the sugar and cement machinery also that is graduated slowly from making only spare parts to making the full machinery for the production of cement and sugar.

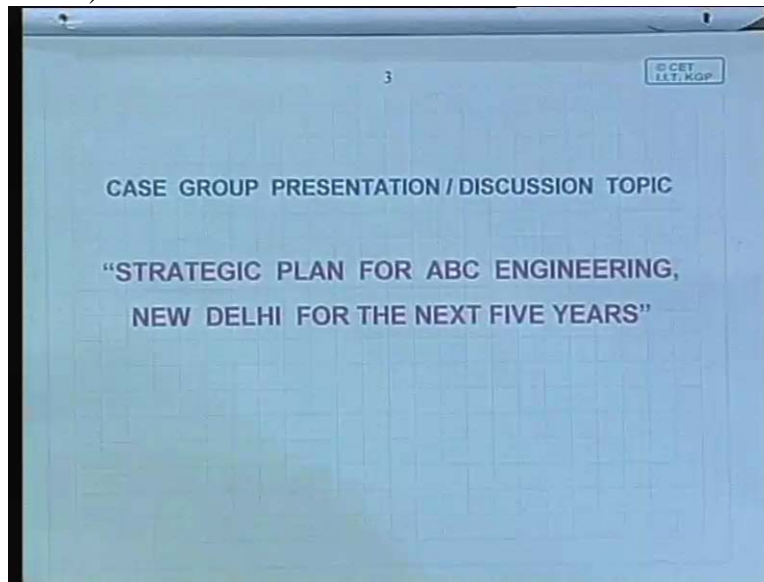
So that is how the business grew and the engineering unit was established. Thereafter as and when he setup more sugar and cement industries instead of buying the machinery from other manufacturers. He then started building the machinery in his engineering workshop and supplying it to the other unit is. During his business he had support from royal subordinates who were with him right from the civil service days. So, essentially it took the path of growth of the normal family concern setup by an entrepreneur. His elder son, B K, B K Kapoor, he set abroad to the Massachusetts Institute of Technology-very famous engineering and scientific institution. B K did his mechanical engineering from MIT, worked for sometime in America and then went to Germany got some practical experience in working in Germany and then came back and joined his father's company.

In fact it was B. K who was largely responsible for developing the small engineering unit from making spare parts into a viable modern factory which had the capacity and capability of making entire cement and sugar plant sub-machining and it was B. K's dream in fact to make their engineering unit into one of the top three suppliers of plant and machinery in India.

On par with L and T's unit and the unit at Walchand industries, B. K apparently was a brilliant engineer but where he lacked as his father said was the business acumen of the business sense and being very much a brilliant engineer he went in for innovation. He went in for quality. He went in for sophistication in the machinery. But what worried his father A. K. Kapoor was his lack of concern for costs and his lack of concern for, as his father said, the business. He said, I wish B. K would soon gain the business acumen.

So, this is the kind of case we are covering today and we as consultants, let us say, there is a group which is making the presentation has been asked to make the strategic plan for ABC company New Delhi for the next five years.

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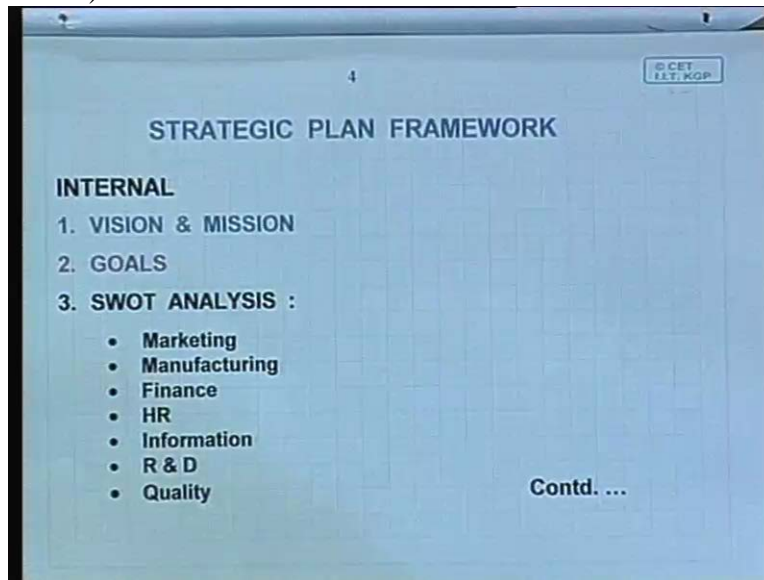


Why strategic plan? Because, in a sense, the ABC company were on the threshold of a major expansion. They had overcome the earlier trials and tribulations of setting up a small business. They had stabilized, they are diversified in the chosen field and now the time has come when the company saw further growth ahead particularly in engineering where B. K was very keen to expand the engineering unit diversify into other plants and machinery starting with the paper plant. So, growth and diversification and the question of therefore transforming a small or relatively small family-owned company into a large company drawing with the leaders in the chosen line of businesses in the country. And hence A. K intuitively felt that the time had come as he was in his late sixties and his son had already come into the business. The time had come to professionalize the company. In the meanwhile his second son, the younger son C. K had passed his Masters in Commerce from Delhi University and had been inducted into the family concern as the administrative director.

So the elder son was the technical director, father was the chairman, younger son was the administrative director and the other senior people in the company were general manager, who was an old trusted employee of A. K when he was in civil services and we had other people particularly in the stores and purchases who were old and loyal employees. Since the general manager was ageing and in failing health A. K had inducted a young professional as the deputy general manager of administration and this young professional had been working in an insurance company, a large insurance company and had a reportedly good track record as an administrator and so A. K through references given by some of his friends had recruited and his idea was that the GM who was in failing health would ultimately step aside as an adviser and the new entrant who was taken as the deputy general manager would then fill his place and professionalize.

Now in order for us to give the strategic plan for the next five years, all right, we would need to follow a kind of module and the module would be first assessing the strengths weaknesses opportunities and threats.

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Strength and weaknesses: now these are entities which are internal to the organization whereas opportunities and threats are those entities, which are external to the organization.

There is a market place, the regulatory environment, the political dispensation-all these make up for the opportunity and the market sets that any company experiences. So we have here a strategic plan framework, which may be followed while carrying out the exercise of presenting a strategic plan for five years for ABC engineering company. Let us see here first the internal element. Internal is internal to the organization. So, number one here is the vision and the mission. Now what is the vision and the mission? Well there are several ways in which they may be described but essentially vision and mission are the elements of fundamental business of the organization, fundamental business of the organization. So a vision would and mission would outline what business the company is in, all right, whereas the vision is more a statement of a desired goal. The mission is more practical in terms of outlining the route by which, the road map by which, the company wishes to achieve that goal. And then the next elements are the goals, are the actual practical objectives, which flow from the vision and mission.

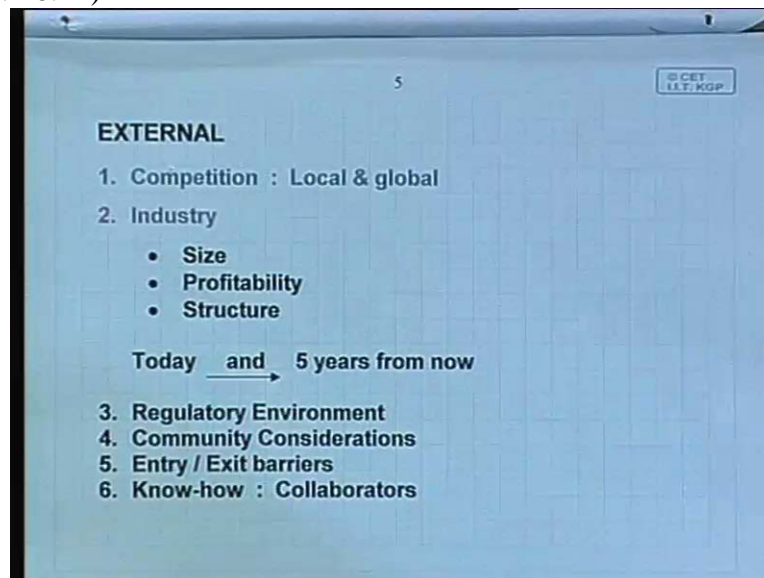
So it is necessary that during the analysis process for making the five-year strategic plan we try and enunciate that, in the case of ABC company what is it is vision, what is it is mission and how these are translated into specific goals for the organization in the next five years. And usually the tool, which is employed as I said, is the SWOT analysis, SWOT-s for strength, w for weakness, o for opportunities and t for threats. Now when we talk of SWOT analysis we may look at it within the framework of the important functions of the organization.

In in this case, it is a manufacturing and selling organization. It is in the manufacturing sector; it is in the heavy engineering sector that is cement, steel. In the sense that it makes machinery for cement, pardon me not steel, but sugar industry. It is also in the commodity business because it manufactures sugar, it manufactures cement and therefore it markets these commodities. So in the strategic plan, in the analysis, SWOT analysis, when we talk of the strength weaknesses

opportunities and threats we can align each of these four elements with each function and build a matrix.

So so far as marketing is concerned, it would have it is strengths it is weaknesses it is opportunities and it is threats. Manufacturing also would have as a function it is strength and weaknesses opportunities and it is threats and similarly the other major function that is finance, human resource information, R and D quality and so on. That is the major functions of the operational elements of the company could be aligned again, having it is own strengths weaknesses opportunities and threats and these then would be the elements or entities as we said which is internal to the organization.

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Then, external to the organization: Competition-that is the first. Local as well as global competitive environment. Who are the players in the market in which ABC engineering is today? Who would be likely players in the same market? In the next five years new players may enter. Similarly, what is the kind of competition you have from within the country and what would be the dispensation after five years? Would it also include competition from outside the country that is international competition? These are questions to be examined while speaking these strategic plan. Then in the industry, the current size of the industry, the profitability of the industry, the structure of the industry-is it a fragmented industry, is the large number of players each holding a small market share or is it a mature industry which has consolidated and a few players command the major market share of this industry?

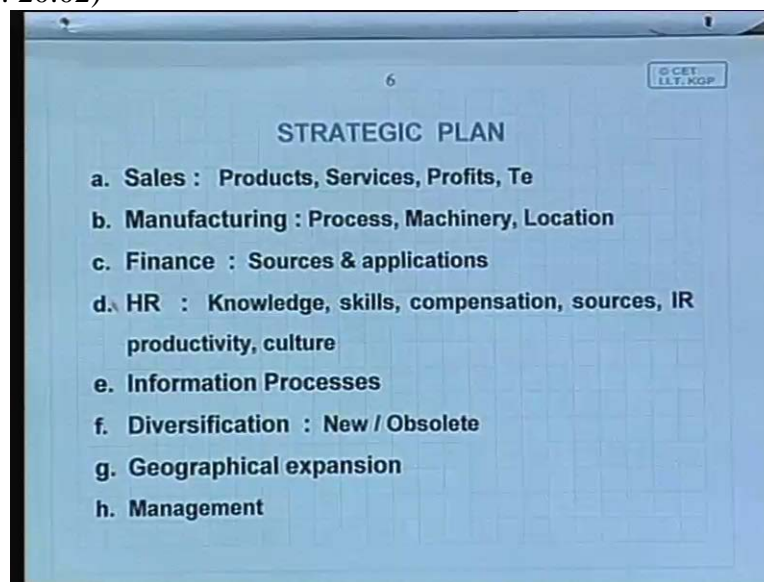
And all this along a continuum of five years. What is it today and what is it likely to be- the projections in the next five years. Amongst the external elements, apart from competition and the industry, there is the regulatory environment, which is very very important because these form very often the very underpinnings of the business, all right, in which you are in. Community considerations: more and more when you are operating within a community as a company organization a factory there are considerations of community in the sense of the pollution which you may bring into the community, the kind of products that you manufacture and how it

impacts a community, the kind of pricing that you do and whether this falls within the expectations of the community and the regulatory environment and so on. And then we have the entry and exit barriers.

When we talk about diversification, let us see and we include that in the strategic plan we will talk of varying products, may be services. Now, the ones, which we go in, is it difficult to enter it and is it difficult to exit it? What is the situation if we find it difficult? Would competitors also find it difficult should we choose a product where we have strength and where the competitors do not have strength? These are some of the questions, which have to be addressed while making these strategic plan for ABC.

Then the important question of know how: know-how an expertise for manufacture, know how an expertise for marketing, know-how an expertise for information technology and finance in the chosen area of the diversification. Very often if we don't have the know-how. How are we are going to acquire it? Are we going to go to collaborators, sign MOU's, enter into agreement with collaborator?

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Or are we going to do it through strategic alignments with competitors or through internal R and D efforts? These are some of the question and each one of this question has to be weighed within the framework of the costs which it would cost to build the resources. The strategic plan elements would have to include sales, that is, the products, the services the profit is, the technology, finance, sources of finance and applications. Where are you going to use the finances during the next five years?

The manufacturing, that is, the processes which you are using today, what would be innovation and improvements in such processes-processes which you may not be using today but you may require to use in order to remain competitive in the next five years? Similarly machinery and similarly the location. The strategic plan must necessarily include the people, the manpower, not

only the type of people or the quantity of people, the kind of knowledge and skills compensation sourcing of the people, industrial relations, productivity culture.

Information processes: more and more more and more the competitiveness of the organization is becoming dependent upon the information technology deployed in the operational processes in the forecasting processes in the delivery processes to clients. And therefore to be on the forefront in terms of the competition, to survive and prosper, it is important that the strategic plan also includes the information processes, which will be followed both in terms of hardware as well as software. Then the all-important question of diversification today's product for ABC. They are doing well, the expertise is there, developed in the machinery they are making, there is a ready market because of the contacts of the founder of the organization but within the next five years the founder, who is in his late sixties and wishes to step aside with his exit will probably go. The resource that was available, that is his personal contacts with the large clients to whom the organization was silly. What would be the alternative to this? Should it leave a vacuum? What are the ways in which we have to overcome this apparent potential weakness in the marketing of the organization in the future? When they diversify what sort of diversification should take place? Should the company diversify into the service sector, probably a light like taking up maintenance of plant refurbishing, retrofitting of machinery, which is essentially in the realm of the service sector?

Should it proliferate it is products into allied lines and go for paper machinery like B. K was planning to do? If they go, went into paper machinery although it was allied in it is manufacturing processes, would they have the expertise to market and sell these machinery, because the expertise today for marketing was essentially in the government sector of sugar and cement? And there was a big vacuum. There was no expertise available within the company to go into the paper and pulp sector of the industry and no contacts. Geographical expansion: already the engineering unit had run into militant trade unionism. Would it be wise therefore to think in terms of stopping all further expansions uh within the engineering unit in the same location? Would it be prudent therefore to diversify geographically also?

In the sense, the same sugar as well as the cement machinery, which is being marketed today and built in one location, should the location be diversified? Should the plant or second plant be setup in another state? A part of it would be manufacture so that in the event of labor problem, with the event of a shutdown of the one factory the company's business is not crippled and it still can produce in the second factory. If they are going into a new line like the paper, what would be an ideal location keeping in mind the industry norms, keeping in mind the customer profile or new product where they are located, keeping in mind the costs for the transportation of this machinery?

So all these are strategic questions, which have to be addressed and planned and provided for and last and the most important is the management of the organization. As we see, this is a small entrepreneurial business, which has flourished and grown. It has come to a stage where they are going for growth expansion and diversification. This is where so far it has been run with the knowledge and expertise of the founder and largely by people whose main asset was loyalty to the founder not so much their technical expertise, not so much as their expertise in administration, but basically chosen and promoted due to loyalty to the founder. This is classical



case of phase and the phase growth of entrepreneurial organization but today the management was brittle. They were all set and done. This company was a one man show-ABC industry. Although name of the company depicted A. K B. K and C. K, but in actual terms who was the man who made all the decisions? It was A. K, the founder. He was trying to delegate some of his responsibilities. He was trying to may be professionalize the company by taking a professional person as a deputy general manager who would fill the place of the general manager who was due to retire. But it was in a sense and an ad hoc reaction to the realization that the time has now come to professionalize the management and institutionalize the processes.

As you have noted from the case, basically, the strength of manufacturing was not marketing it was selling. It was basically a commercial activity. The contacts of A. K were already there and through this contacts the orders came, they are to be supplied and fulfilled. Marketing person was missing. What about HR? HR was totally missing in the words of A. K. We still don't have a personnel department and he says the personnel department may not be necessary at this stage but possibly a good accounting department should be setup. So it appears that on the administrative side, the commercial side they did not have a HR department. They had a purchasing stores department because that was essential to carrying on the manufacturing activity and they didn't have a human resource department at all. So these are some of the management gaps.

So when one talks of the strategic plan, one has to look at how this company is going to be managed in the next five years, okay? Any question? Yes? What should the plan include in terms of finance good? Asked a good question. In any strategic plan, whatever plan you make, you, it is going to cost you money and the plan must outline in a fair degree of detail what would be the money required, the money resource, how much and where from. Are you, for instance, going to rely heavily on borrowing in order to finance and fund your diversification or are you going to depend, all right, on going to the market and becoming public, that is, raising money from the market? Because each process has it is cost attached to it-the actual cost in terms of money and also the qualitative cost in terms of control.

In the latter case, for instance, if you decide that it would be more advantageous strategically to go to the market for money, what really are you doing?

You are taking money from the market but handing over part of your absolute control to others. That means the price you pay is handing over and diluting some of your control.

So these are the kind of issues, which has to be analyzed and then put into the plan, fitted into the plan. Any other question? Okay.

Paper machinery: should they go into the paper machinery? Anyone would like to give an answer to that or respond to that? Yes? Okay, paper machinery. Strength of going into paper machinery, as he says, is that the machineries for manufacture which they already have in the plant then themselves very well to manufacturing paper machinery because the kind of machinery they have to manufacture for cement plants and sugar plant, the same type of machine tool fabrication processes, assembly processes are really required to make the paper machinery. So looking at it from the manufacturing point of view, it seems to make good sense to go into paper machinery but the worrying point, the point of concern is that they don't seem to have much expertise, if any, in selling these paper machinery.



And let us remember that these are distinctly different industries-the sugar and the cement industry is very very distinct and have nothing really in common with the paper industry which is governed by different considerations. Only form of alignment may be that these are not commodities, these are not retail hardware, these are project. Selling the customer profile will be large clients but the industry is unknown. So one has to take balance view that whereas you do have distinct advantages in the diversification into paper machinery by way of the manufacture and implicit in that is by way of costs, at same time one has to remember and budget for the fact that we have to take a whole new set of people may be from the paper industry in order to be able to sell successfully in the paper industry, okay?

When finally the plan comes it will be a document, therefore, which will comment upon the products today and the products after five years, the market today, the market after five years, the technology which is used today and the technology that will be deployed in the next five years, the kind of processes, the kind of information network that would be necessary to run the organization successfully, the kind of HR, the human resource which has to be built and the type of management that will have to be employed. In the event of multiple unit is should it be a functional structure? Should it be divisionalized structure? And organization chart should be part of this strategic plan and therefore it should be a holistic plant whereby the projection of the sales and the costs and the profit is should be made as part and parcel of the plan.

So by looking at the plan five years from today, he could get an idea on what you had planned and what you actually achieved and that would be a test for your expertise and your insights and ability into making a good strategic plan for the next five years and beyond. I think with this kind of a framework, in the next session we will have a presentation by the usual groups we have been doing the presentations and the rules of the presentation will remain the same. So next week when you meet we shall have presentations from each of the group leader.

Thank you very much.