

# Prologue

This book is a story of a company called High Gear, which makes parts that fit into vehicles. It supplies these parts to vehicle manufacturers, called OEMs or Original Equipment Manufacturers, who in turn sell vehicles to individual customers. High Gear also sells parts through a distribution network, called the After Market, where people buy parts to replace the worn out or broken parts in their used vehicles.



# Contents

Chapter 1:	<b>Review meeting</b>	15
Chapter 2:	<b>Capacity mystery</b>	27
Chapter 3:	<b>Just another scheme</b>	41
Chapter 4:	<b>Big Brother is right</b>	55
Chapter 5:	<b>Does the small matter?</b>	69
Chapter 6:	<b>Insights from the kitchen</b>	83
Chapter 7:	<b>Not a typical conference</b>	99
Chapter 8:	<b>The right inventory</b>	113
Chapter 9:	<b>Lean is mean?</b>	123
Chapter 10:	<b>Same story every month</b>	139
Chapter 11:	<b>Lessons from a tube of toothpaste</b>	149
Chapter 12:	<b>Small is big</b>	159
Chapter 13:	<b>Glimpses of Guardwell</b>	165
Chapter 14:	<b>Buffet of lessons</b>	177
Chapter 15:	<b>Gleanings from the water crisis</b>	191
Chapter 16:	<b>Discovering the inherent harmony</b>	209
Chapter 17:	<b>A Pilot Project</b>	233
Chapter 18:	<b>Another review meeting</b>	243
Chapter 19:	<b>In retrospect</b>	251
Chapter 20:	<b>Healthy lessons</b>	257
Chapter 21:	<b>The importance of sequence</b>	271
Chapter 22:	<b>Redemption</b>	281
	<b>References</b>	283



## Chapter 1

# Review meeting

“We’re optimistic that we will meet the sales target in the next quarter. My team has already identified large pockets which will absorb the volumes needed to fulfill the numbers,” Sunil Sehlar said, coming to the end of his presentation. He looked around the boardroom at his audience, chiefs of departments of High Gear, and smiled nervously, relieved they’d allowed him a full 15 minutes without interruptions. As the chief of the After-Market sales department, he’d made numerous presentations, only a few of which had gone as smoothly as this one.

“What about the cumulative shortfall?” Bobby Verghese, the chief finance officer spoke up just as Sunil shut his laptop and picked it up. “How will you make up for that? After-Market sales is miles behind OEM sales figures. At the same time, the receivables in your market segment is at an all time high. The After-Market is the reason for the ballooning working capital requirements of the company.”

Sunil stood still for a moment, placed his laptop back on the table in a slow deliberate movement, taking his time. The question had caught him off-guard. Had Verghese timed it such to put him on the spot, he wondered.

"It's After-Market sales we are talking about here. Not OEM sales," Sunil said, his tone icy. "After-Market sales are retail, unlike OEM sales which is nothing but selling huge volumes to four or five large vehicle manufacturers.

"I have to sell to 200 difficult customers – distributors, who are spread across the length and breadth of the country. These distributors then have to do the same to thousands of retailers. It doesn't end there. The retailers have to push our products to millions of mechanics. Distributors, retailers, mechanics - this population could be as large as that of a small country," his delivery was almost menacing. "Let's not forget the distinction between After-Market sales and OEM sales, Mr Verghese."

"We don't need lessons on the distinction between selling to a vehicle manufacturer and selling to a distributor," the CEO Godbole's voice boomed from the other end of the long faux-wood table. Apart from his lips, which formed the words, no muscle moved on his expansive, fair-complexioned face. "The contrast between the sales of the two segments is too striking to be overlooked. OEM sales figures, or sales to vehicle manufacturers, as you educated us," his words were laced with sarcasm, "have overshoot the budget, but the After-Market or retail, if you prefer to call it that, Sunil, is trailing behind by miles. What's happening in your department?"

Sunil rummaged his mind for a civil pitch, befitting presentations at such review meetings, and spoke with forced calm. "With all due respect to my colleagues in the Original Equipment Manufacturer sales segment," (he chose the expanded version to the more common abbreviation OEM for effect, enunciating the three words as if un-

sticking them from his tongue with great force) “whose presentation on the outstanding performance I appreciated, I beseech you not to critique After-Market performance with the same magnifying glass. I must admit, it was a tough act to follow. However, the OEM sales figures are tied to the sales of the manufacturers. The more vehicles they make, the more widgets and rotors they buy from High Gear. Boom! OEM sales figures shoot up. But we, at the After-Market, don’t have it as easy. Our lot has to fight for every inch, every centimeter, in the intensely competitive market,” Sunil argued, his bushy eyebrows knitted, losing the civil pitch somewhere along the way.

“Actually, there are no sales to be done to the OEMs.” Sunil continued arrogantly, sensing the curiosity for his defense. Turning to his counterpart in the OEM sales department, he stated, “They, the OEMs, make vehicles, you supply the components for those vehicles. Your sales are automatic!”

“It is much more complex than that!” responded the head of OEM sales. The petite, round-faced man looked at the CEO as if urging him to discipline Sunil. “Since we are talking about it, let me be honest. Things are not that rosy. We’ve managed to keep the numbers high by bringing in more customers, introducing new products. At the same time, the share of business from some of our old OEM customers has been falling. You need a more nuanced approach to understand these things, Sunil.”

“OK! Let’s refrain from making personal remarks,” Godbole directed in the manner of a judge rapping a counselor. “I see why you were suggesting team-building activities,” he said to the Head of Human Resources, sounding exasperated. “There is no doubt we need it. But

we can't afford to take time out for at least a few months.

"Back to you, Sunil," Godbole ordered sharply.

Sunil took his time, turned his stocky frame toward the white board behind him. Then, facing the room again, concluded on a promising note, "In the next month, we will exceed the budget by at least ten percent and maintain those levels throughout the remainder of the quarter."

Sunil ambled back to his chair, his short, stocky frame gliding behind the row of high-backed chairs that seated the department heads. The silence lasted only a few seconds.

"That was overly optimistic. But how do you plan to exceed the budget when you have repeatedly failed to meet targets in the last three quarters?" Godbole leaned forward. "Even if you manage to achieve that, we will not be able to make up for the cumulative shortfall in the next three months. Come on Sunil, be realistic."

"The annual business plan was very aggressive to start with..." Sunil deliberately left out the 'Sir'.

"But those numbers were far from aggressive," Verghese interrupted. "To meet the bottom line numbers, we were planning a very conservative increase. It was marginal, in fact. If we can't achieve a decent top line, we can't possibly grow our bottom line. It is barely anything." Verghese glanced at Godbole and then fixed his eyes on Sunil.

“We’ve grown four percent in the last year despite tough market conditions. We have met eighty-five percent of the budget...” Sunil flashed the silver lining.

“The fifteen percent shortfall is enough to upset our plans,” Verghese declared. “The margin in After-Market is about fifty percent more than in OEM or exports. We all know that. I don’t have to reiterate. For us to meet our profit figures, the After-Market sales team has to meet the budget!”

“Yes, if that doesn’t happen, we will have to cut a sorry figure before our shareholders...” Godbole paused for an instant as the thought settled in, “for a second year in a row. This is unacceptable, Sunil!”

“The plant has not helped After-Market sales in the least bit,” Sunil deflected. “The sales division cannot be blamed for the entire shortfall. We’ve been up against terrible stock outs in the new model of rotors through the last three quarters. I can meet all your expectations if production gets its act together.”

“That’s not the whole picture,” Majumdar, the head of Operations spoke up. “We did have a few issues in the recent months. I’ve rectified those. For the last few months, I’ve been supplying the rotors exactly as per your forecast. Those sold faster than you expected! I am not to blame for the stock out. And what about the widgets we manufactured exactly as per your forecast? They’ve been lying around. You could’ve met your numbers if you’d sold those.”

Their animosity was no secret. The bitter rivalry between the two departments and displays of the mutual contempt between Sunil and

Majumdar no longer raised eyebrows. "They can't stand each other," was common knowledge. Five years Majumdar's junior, Sunil enjoyed equal rank, drew a higher salary, and incessantly violated the typical corporate protocols, by expediting After-Market orders in the shop without even keeping Majumdar informed.

"Why are we so wrong in our forecasts? Any answers?" Godbole spoke before Sunil could launch into another diatribe. He looked around at the men seated at the conference table.

"The forecasting module of our ERP system has not been implemented properly... Our forecasts are not scientific," Verghese diagnosed. "Currently, forecasts are ad hoc, based on hunches and intuition. We need a proper system."

"We have been going over this problem time and again," Godbole said impatiently. "We all know why our forecasting module failed. The sales team did not agree with its very first output. It felt that its hunch was more reliable than the module's forecast. We all agreed that we couldn't follow the output either. Had we done that, we would have been way off. Let's keep that debate out for now."

"The market is dynamic," Sunil spoke up, fully aware he was lapsing into rhetoric. "It's not what it used to be three decades ago. We are not in the pre-liberalised economy. The production mindset is still in that era. We have to be more customer-oriented. The plant has to be more flexible. Forecasts can never be accurate." Sunil looked around the room, but avoided Majumdar's eyes.

"Sunil has a point. Why are we so rigid? Don't tell me you work exactly

according to plan," Godbole said to Majumdar. "You indulge the OEMs, change schedules to meet their demands. Why can't you offer the same support to Sunil? Why this step-motherly treatment to After-Market?"

This jarring doublespeak from the CEO infuriated Majumdar. OEMs shall be given unconditional preferential treatment – that is one of the top commandments of the auto world! No point arguing now, he thought swallowing the urge to issue a sarcastic comment. "I planned for excess raw material for rotors. But the additional batch I produced had to be channelised to the OEMs. At the last moment, the vendor couldn't supply more raw material."

"Which vendor are you referring to?" Godbole moved on to the next problem.

"Kapadia. Santosh Kapadia. He supplies the shafts for rotors."

"Is that so? But just last week, at the vendor meet, he was complaining that he isn't getting enough business from us despite having a lot of capacity!"

Majumdar sat up, taken by surprise. "Sir, these vendors concoct such stories to secure more business from us. The fact is, Kapadia doesn't deliver on time. He's highly unreliable. He tends to bite off more than he can chew." It wasn't the first time a vendor had gone directly to the CEO. But this vendor would have to answer for exceeding the brief, he thought.

"Do you have a supply problem with all vendors or is this an exception?"

“We do have this problem on and off...with all the vendors, not just this one.”

“Your vendors have a lot of capacity, yet Sunil isn’t getting the material he needs?” Godbole put on an expression of confusion.

“Some vendors are unreliable!” Majumdar shot back. He wanted to add ‘And you can’t generalize that all vendors are sitting on plenty of capacity after talking to just one.’ Then he thought better of it.

“I don’t want to hear about the lack of raw material and of vendors being underutilised again. Go straighten out the mess,” Godbole ordered.

Majumdar nodded slowly. The vendor was not only unreliable, he was an unreliable liar. Kapadia has some explaining to do, he thought.

“Vendors are not a big problem. Let’s deal with the real issue, the bigger problem – widgets sales!” Majumdar deflected the heat to Sunil. The two men exchanged glances. “If we had sold that stock, we’d not be breaking our heads over meeting the budget. We’d be celebrating.”

“But the demand for widgets has fallen!” Sunil shot back loudly, clenching his teeth. He leaned forward and thumped the table hard. His palm turned red.

“That can’t be. Guardwell has grown thirty percent in the same product line. And we are posting a mere three or four percent growth.

What's happening?" Godbole demanded, bringing the company's arch nemesis into the board room.

There was a moment of silence. Sunil spoke slowly, "Without price support, it's just not possible to compete in the market--"

"What? Price support? Again?" Verghese said jumping up in his seat. "Our material costs are high, overheads are high. If we offer any further discounts on widgets, our numbers will take a severe beating."

"Why don't we get more aggressive with value engineering to make our widgets more cost effective?" Godbole addressed the Head of Engineering who, sagging in his chair, sat up, surprised at being dragged into a discussion on sales targets.

"Already done, Sir," he said without thinking. His response came out as if it was automated. "We've reduced the steel content in widgets. Could try again, but the way steel prices are fluctuating, it will not really help our numbers."

"But why are we talking about reducing cost and value engineering?" Majumdar said. "Last month Guardwell increased prices by ten percent and its sales of widgets are still heading skyward."

"Mr Majumdar, it seems like you know a little more about the market than me," Sunil said. The sarcasm made Majumdar flinch. "Our company would have been better off if we knew how to improve production and how to work with weekly instead of monthly forecasts."

"Gentlemen, gentlemen..." Godbole intervened before Majumdar

could return Sunil's insult. "We are not opponents. We all work in the same company. Let's remember that."

"So, maybe we need to look at all of what Guardwell is doing. We should know what is happening in the market," the Head of Exports butted in.

The cloaked insinuation that he was ignorant of competition strategies hit Sunil squarely between the eyes. But he held a straight face, betraying no signs of the strong urge to slap the guy hard.

"I think they are spending more on mechanics. We should do the same," the Head of Brand management took time off from his cell phone to comment.

"Boss, let's first make money. We just keep talking about shelling out more and more," Verghese said.

"Right!" Godbole said. "We are going around in circles, talking about Guardwell as always. We're never sure of what they are doing." He stood up, rested his palms in his pocket

"Sunil, find out what's pulling down widget sales. And while you're at it, do some research on how Guardwell is reaching mechanics. If there is a special scheme, I want you to dig up more on that. Majumdar, learn to juggle the needs of both After-Market and the OEMs. Don't blame the vendors for delays. You are not clued into what's happening with your vendors. Base your decision on data, not anecdotal information. I want well-researched presentations in the next review meeting."

With that, Godbole had called an end to yet another meeting that had meandered without getting anywhere. His last lines left Majumdar wondering if Godbole himself had not concluded that vendors had spare capacity based on 'anecdotal information'?

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