

2015-16

Case Study

Experience and Talent Going hand in hand

All the characters, names, and incidences in this case are fictional and are used to better understand the management situations in story format.

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Client Profile

JVG Automotives (P) Ltd. is a leading manufacturer of powder metal components, cold extruded parts, hot forged components, automotive pumps, gears, couplings, hubs and assembly casings. Its wide product range conforms to rigid international standards such as DIN, ASTM BS, ANSI, IS and ISO. Established in 2001, the company is completely equipped to produce its wide product range to customised customer demands. Situated in Nagpur, the heart of India, its products are distributed mostly in the States of Chhattisgarh, Madhya Pradesh and Maharashtra.

This case study is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

On 12th of March'2015, Mr. Sharma, President of JVG Automotive (P) Ltd., asked his Production Manager Mr. Parewar about the reason behind placing number of orders placed annually for a particular fastener component FC-12. As compared to two orders per year in the past, Mr. Parewar was placing six orders per year for FC-12 for similar quantity. The company used to get wide range of customised orders since its inception. The strategy of the company in this regard was to evaluate the orders and then supply with a mix of in-house production along with the outsourced components. These components were then assembled and finished for the delivery across multiple geographies.

A substantial share of JVG's funds was invested in managing inventories of large number of components it maintained. Typically, the company's sales department always desired large stocks in reserve to meet virtually every demand that came its way. The production department also was going on similar lines and always asked for large stocks of materials for uninterrupted manufacturing. Contrary to these two departments, the finance department always argued for minimum stocks.

Mr. Pandit, a stout, tall and solemnly respectable person, a VNIT Nagpur graduate, was Production Manager of the company since inception. He was reporting directly to the President of the company Mr. Sharma since 2005. Mr. Sharma recalled an informal meeting in the hot summer of 2010. Mr. Pandit, aged 54 then, came with his resignation letter and asked Mr. Sharma to be relieved of all his duties.

Somewhere in the second week of March'2015, Mr. Sharma's Home

Mr. Sharma: What happened Panditji? Something wrong?

Mr. Pandit: None Sir. Actually I am expecting my second grandchild anytime soon in the next month. My wife is insisting to be with daughter in law, so I am shifting to Mumbai for a while, maybe, at least couple of years.

Mr. Sharma: Oh, OK.

Mr. Pandit: Sir, it was great working in this company almost for a decade now. And it was a pleasure working under you for almost half of it.

Mr. Sharma: Thank you, Panditji. Don't know how we are going to fill the void now. Do you have anybody on your mind? Maybe in your department, who can take up this responsibility?

Mr. Pandit: In my opinion, either Parewar or Ismailbhai should do. I think you should pick one of them if you want an insider to handle the job. Or else, we can have somebody from without the company also.

Mr. Sharma: Don't be formal Panditji. I want YOUR opinion.

Mr. Pandit: Somebody from within the company would obviously be my choice Sir. And we do have competent persons like Parewar or Ismailbhai. Parewar is

with us since inception. Though he is just diploma holder, he enjoys good rapport with our departmental staff. Also, he has good connections in the Union. Ismailbhai, on the other hand, is technically sound as he is an engineering graduate. He is with us for last four years now. Technically he is a good choice. Nevertheless, Parewar can be groomed.

Mr. Sharma: Thank you Panditji. You were elaborate and precise. I wish you all the best for your new life then. Will keep in touch with you for sure, (pause) if anything comes up.

Mr. Pandit: Sure Sir and Thank You for Everything! I will be coming to say goodbye in the morning with my wife, she insisted last night, of course if you don't mind.

Mr. Sharma: By all means Panditji, you are being formal again. And take Babu (driver) with you, let him stay with you today, he will help *bhabhiji* in packing and will drop you tomorrow at the railway station. See you tomorrow then. [A firm Handshake]

12th March'2015, 11:00 hours, Mr. Sharma's Cabin

May I come in Sir?

Mr. Sharma: Come Parewar (takes his seat). Is there any logic behind number of orders we place for our outsourced components?

What happened sir? Have I made any mistake?

I have come across this order for FC-12. Panditji used to place only two orders annually and you are placing six orders. How do we decide on our inventories? Mr. Falke (Finance Officer) was here in the morning, he was happy with your decision. But, Mr. Singh (Sales Manager) came fuming. He thinks this decision of yours will create problems in the future. Singh told me that some of our fast moving items may not be available sometime if we keep on ordering small quantities throughout the year. He insisted on maintaining a good inventory of many items in FC Category.

Sir, we are actually saving on our costs on lot of items.

Be precise Parewar. I want a detailed report, in three days max and your logic if any behind arriving at these numbers of orders per year. And Parewar...

Yes Sir?

You should consult Ismailbhai. I know your relations are not so good since your new designation, but, mind you, he is all brains. Three days then!

You will have it, Sir.

16th March'2015, 09:00 hours, Mr. Sharma's Cabin

May we come in Sir?

Mr. Sharma: Please.

[Mr. Parewar and Mr. Ismailbhai take-up their respective seats]

Mr. Sharma: So? Done with it Parewar? Do we have the LOGIC then?

Mr. Parewar: Sir, actually its all Ismailbhai who helped me with it. We have the LOGIC now and that too for most of the components. It is all in the report. And Sir, for that FC-12 component, its neither two nor six orders sir, its actually ...

Mr. Sharma: Shhhhh Parewar. Don't think about it now. Have a good day and take Ismailbhai, our new Deputy Manager - Production, to some good joint tomorrow. You owe him I think.

Mr. Parewar: By all means, Sir.

Ismailbhai: Thanks a lot Sir. Thank You Very Much!

Mr. Sharma: And Parewar, you meet me in the evening (Mr. Sharma grins). Good day gentlemen!

13th March'2015, 14:00 hours,

[Mr Parewar goes to Ismailbhai in the canteen of the factory premise]

Ismailbhai, there is some issue Sharmaji wants me to discuss with you. After Panditji resigned, ...

Yes, I know. Sharmaji gave me a call yesterday morning itself. And I also know the problem I think, I have been working on it since last year. Anyway, your place or mine?

Mine. Your bhabhi and children are at their Grandpa's place. Between 7 pm to 8 pm in the evening then. Is that fine?

Very much. I will be there with all the stuff.

Like old buddies.

Yeah, like old buddies.

14th March'2015, 19:10 hours

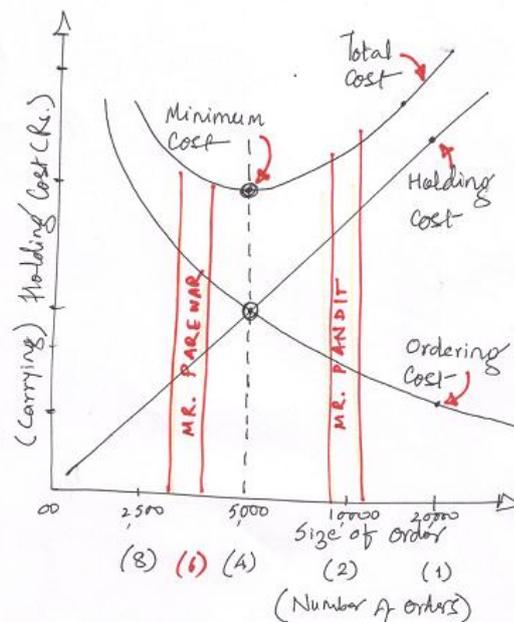
Ismailbhai drove his Swift-Desire to Parewar's house, about four kilometres from zero-mile. The house was a fair sized one standing a little back from the road, an old structure it seemed. Mr. Parewar opened the door himself and greeted Ismailbhai cordially. 'Come Ismailbhai', said he.

Rakeshji, you should call me Ismail as you used to.

Mr. Rakesh Parewar: OK... Ismail. And what all have you brought with you?

Ismailbhai: Sir, need to keep some stuff on the dining table and rest at the place where we will be working. 'This way Ismail', said Mr. Parewar. [Both settle down, Ismailbhai logs into his Laptop]

Sir, as I have told you, I have been working with this problem since at least a year. What I have observed is that there is an inverse relation in holding cost of an item against the ordering cost of that item. So, when I make few orders in a year I save on ordering cost. On the other hand, when I increase these numbers of orders I save on cost of holding these items. As I could see, since few years our demand for this FC-12 is about 20,000 annually. Now, when Panditji placed two orders annually of 10,000 each we saved on ordering cost. And since last three years you have been placing six orders of about 3000-3500 items each annually which is saving on holding these items for a year. Sir, it looks like this if can just go through this graph. [Ismail shows some rough work he has done]



Ismailbhai: Considering an ordering cost of 1,500/- per order and holding cost of Rs. 48,000/- for our demand of 20,000 items, I have directly arrived at the actual answer sir. And also, I have created a small MS Excel Application which can directly calculate the economic order quantities of various components. The PC /

Laptop even buzzers when a stock item reached the reorder level. I have calculated reorder level quantities based on 15 days lead time for the completion of the order; assuming 300 working days in a year.

Mr. Parewar: Very particular Ismail. Great job and thanks!

Ismailbhai: So, party time?

[Both proceed to dining room, Mr. Parewar opens the refrigerator]

Epilogue

Stores Incharge: Sir, there is some problem with the material handling of our stores. I need ... [Mr. Parewar cuts the sentence short]

Mr. Parewar: Take Ismailbhai along with you; (pause) ask when he will be free to do so. And do exactly as he says.

Questions

1. Evaluate the Case using SWOT Analysis
2. Comment on the organisation culture of JVG Automotive (P) Ltd.
3. How many orders of FC-12 component the company should place annually?
4. What shift in the inventory management policy the company should consider in future?

Exhibits (Consider 2008 slowdown)

1. Company Sales (demand) 2002-03 to 2012-13
2. Actual Purchases of FC-12
3. Human Resource Numbers
4. Formulae: EOQ, RoL, Holding and Ordering Costs, etc

Teaching Notes

- Suitability of case for UG / PG / Executive Programme
- Theory behind the problem
- Calculation Sheet for EOQ and RoL with Answers
- Class preparation (suitable for role play)
- Suggested Readings for case preparation and analysis