

The Art of Decision Making

**“Good Decisions
come from
Experience.
Experience comes from
Making
Bad Decisions”**

-Mark Twain

CASE CHAPTER 13

Allied Power Solutions (APS): A Decision Dilemma

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Teaching Objectives

This case is appropriate for Introductory Business, Entrepreneurship, Decision Making and Management courses. It also may be used as an assessment tool.

Students will be asked to perform the following tasks:

- 1.) Identify basic entrepreneurial traits
- 2.) Assess the options available to arrive at the best business decision
- 3.) Assess which competencies are required to be an effective

entrepreneur

4.) Assess and identify uncertainty factors and how to measure them

Synopsis

Waqar Mughal, a young entrepreneur and a recent MBA graduate from a reputable business school, was exploring new opportunities to expand his business, which went by the name of Allied Power Solution. APS was Waqar's family-owned business, established by his great grandfather. After his father left for the U.S., he became the business manager.

APS was initially involved in fabricating machine tools and parts. At a later stage the company seized the opportunity to enter the generators market, becoming the vendor and maintenance service provider for generators installed at Engro Foods Limited (EFL) and Nestle Milk Collection Centers (MCCs).

Having successfully run the business for five years, Waqar had accumulated savings of PKR 5 million that he wanted to re-invest in his business. He had several options for expanding his business. In addition, he could also emigrate to the U.S. and open a grocery store. This had appeal because his father often insisted that Waqar consider re-locating to the U.S. due to the deteriorating law and order issues in Pakistan.

APS: A Decision Dilemma

On July 15, 2018, Waqar, the sole owner and Operations Manager of Allied Power Solutions (APS), Sukkur, had just finished assembling an order of 30 generator sets for Nestle Pakistan Pvt. Limited's (NPPL) Milk Collection Centres (MCCs). He was anticipating orders for at least 150 more generators in the coming six months.

After Engro Foods Limited (EFL), NPPL was Allied Power Solutions' second major customer and the main contributing factor in the company's comfortable financial situation. However, success offered Waqar further challenges, as he now worried about sustaining his growth as well as creating new business ventures in which to invest his profits.

Business Background

Waqar's family had moved from Amritsar (India) to Sukkur (Pakistan) in 1946. His grandfather, Mohammad Din Mughal, and his brother, Feroz Din Mughal, started a machine repair workshop called Feroz Din Engineering Works, located at Barrage Road, Sukkur in 1955. At the time, the workshop repaired oil engines and fabricated spare parts for machines used in sugar mills and other industries.

After a decade, they became the sole distributor for the John Deere Company in upper Sindh, supplying tractor parts and engines. This sole distributorship continued to 1975, at which point Iftikhar Ahmed (Waqar's father) and his brother Israr Ahmed, joined their father. Waqar and his brother took on new initiatives, expanding the business into the development and fabrication of parts for new cold storage units, ice factories, concrete mixtures, and auto service elevators. They renamed the business Allied Engineering Works.

Mohammad Din died in 1986. After his death, Israr Ahmed left the business and migrated to the U.S. in 1996, leaving his brother, Iftikhar Ahmed to manage it. In 1999, due to Pakistan's deteriorating law and order situation, Iftikhar Ahmed along with his wife and younger son, Sheeraz Ahmed, also migrated to the U.S. All responsibilities then shifted to Waqar.

Waqar Ahmed Mughal

Iftikhar continued to manage the business from the U.S. by telephone, while Waqar's role was primarily limited to monitoring and supervision. His father visited Sukkur once each year to physically observe and evaluate his son's telephone reports. In Waqar's words:

"Before my father migrated to the U.S., I was not very interested in my family-owned business. This is because I was never given the opportunity to manage the business in the manner that I wanted to. All I did was to follow my father's instructions and then report back to him. Consequently, I

continued to manage the business half-heartedly, even after my father left for the U.S”.

He added:

“On the suggestion of a close friend, Abdul Rehman, I decided to pursue an MBA from Sukkur Institute of Business Administration (Sukkur IBA) in 2003.”

Waqar continued to look after the business and also engaged in his coursework. Waqar’s studies exposed him to the market and other businesses in Pakistan. His frequent interactions with visiting faculty changed his outlook on the conduct of business. On his very last day at the business school, Waqar decided to revitalize his family business.

Allied Power Solutions

Waqar's first breakthrough came in 2005, when he was approached by his former classmate and friend, Abdul Rehman, who needed fire buckets for the Milk Collection Centres (MCCs). Abdul Rehman was working in the procurement department of the recently established EFL in Sukkur.

EFL was planning to start a milk processing and packing plant under the trademark of Olpers in Sukkur and had established 208 MCCs in small towns in upper Sindh to procure milk. In order to maintain a specific temperature for the milk, each MCC had a chiller that had to be continuously operational to avoid milk spoilage. Given the unreliable power supply in Pakistan, the chiller needed a backup generator. EFL had installed generators at every MCC to ensure the uninterrupted operation of the chillers. EFL was purchasing these generators from two different vendors: one in Lahore, and the other in Rahim Yar Khan. In the very first year of operation, EFL had serious issues with maintenance and downtime of the generators.

During an informal discussion with Abdul, Waqar became aware of the problems EFL was facing with the maintenance of its generators at different MCC locations. The very same night, Waqar evaluated the

possibility of offering his generator repair and maintenance services to EFL. APS won the service contract for generators purchased from the Punjab-based vendors installed at EFL's 208 MCCs.

Waqar considered ways to maximize this opportunity. In 2006 he renamed his new business *Allied Power Solutions* (APS). He assembled a team of five people: an auto-electrician, a radiator mechanic, a general mechanic, a team leader, and an assistant. He identified the problems with the generators purchased from Punjab and successfully corrected them. His performance earned him increased credibility at EFL. He was asked by the Engineering Head of EFL, Murtaza Rizvi (currently working as Plant Head at Sahiwal), to install generators at MCC locations in the Punjab.

Waqar developed a prototype generator. He invested PKR 235,000 in working capital to start this project. The prototype was a success and met the quality standards of EFL at a competitive price. In 2007, APS received its first order from EFL to install one generator at its MCC in Pakpattan – Punjab.

Waqar expanded his workforce to 10 people—one took care of the purchase, one was responsible for production, and eight employees were cross-trained to be able to serve multiple functions across the purchasing and production departments. Waqar himself personally supervised the overall business.

Soon after, more orders started to pour in, and APS was continuously engaged in meeting these orders. Despite this limited workforce, the production capacity at APS increased to 25 generators per month. The company was also producing a few small parts used in the generators. In 2009, with the energy crises in the country, Waqar expanded into the consumer market, selling regular and customized generators in Sukkur and its vicinity. The electricity shortage issue continued relentlessly, allowing Waqar to expand continuously into the consumer market until 2018; the consumer segment became one of the prominent business segments among others at APS.

Current Issues

By March 2018, APS was generating 60% of its sales from the dairy industry, and 40% from local markets. Waqar was evaluating the industrial generator market since both the main players (EFL and NPPL) had almost established MCCs in all of the major towns in Sindh and Punjab. EFL and NPPL were operating 800 and 2,700 MCCs, respectively, at different locations in Sindh and Punjab. So far, APS was able to sell 275 new generators to EFL and 50 to NPPL. Due to unprecedented growth in business and 35% return on investment over the last five years, Waqar had savings of PKR 5 million that he wanted to re-invest. He continuously thought about the growth of his business, and further potential orders from NPPL and EFL.

He was confident in his ability to expand the business, but he also thought about his father's insistence that he wind things up and move to the U.S., especially since the law and order situation in Pakistan was deteriorating. Unable to decide what course of action to take, he sought the advice of his friend Abdul.

On July 10, 2018, Abdul visited Waqar. He encouraged Waqar to focus on his existing business and convince his father that this was the preferred choice. He further disclosed that in the upcoming year, EFL and NPPL were considering a mega extension of MCCs, adding another 500 MCCs. Abdul advised:

“If you really want to excel and grow your business, you have to capitalize on this opportunity; otherwise, your five years of effort will end up in smoke.”

Waqar thought long and hard about Abdul's words. He was at a very serious crossroad, weighing the two options as carefully as possible.

a. Migration to the U.S.

Migrating would mean opening a grocery store in the U.S., with an initial investment of USD \$50,000. He could expect expert advice from

his family since his younger brother, Sheeraz, was already running a grocery store. The expected return from this investment was 4%.

Waqar either would have to close APS and move his investments to the U.S., or hand over APS to his cousin Shahzad, who had been working there as a Production Manager for the past five years. Shahzad had not completed high school, so if he managed APS, Waqar would have to hire someone else, preferably a woman with expertise in computers because the bidding process for major clients, including EFL, was online. Alternatively, Waqar would have to manage APS remotely from the U.S. In other words, Waqar would liaison with clients in Pakistan and simultaneously run his grocery business in the U.S.

b. Staying in Pakistan

Should Waqar decide to remain in Pakistan, he had other business options, including venturing into some of the emerging industries with high-growth potential, in addition to making further investments in his existing business. A number of these possibilities are outlined below.

Siemens Distribution

In addition to the generator business, Waqar had the option of taking on distribution for Siemens products: pumps, generator parts, and maintenance services for upper Sindh. He was likely to be awarded this distribution contract because he was the only contender in the region who paid taxes along with having the relevant expertise. This option could require an investment of PKR 2.5 million. The estimated market for Siemens products in upper Sindh was 5 million per annum. The profit margin on Siemens products was approximately 15%.

Maintenance Service Provider for the Telecom Industry

The telecommunications tower industry in Pakistan also had enjoyed a healthy growth and profit margin over the last decade. Pakistan's mobile market in 2010 was the 10th largest in the world, with the highest penetration into South Asia. Viewed as a major growth engine for the

country, the telecommunications sector was contributing approximately 2% to the GDP. This sector also was a major contributor to the national exchequer, depositing USD \$1.3 billion during fiscal year 2008–09 and USD \$0.5 billion during the first half of fiscal year 2009–10. According to the United Nations Conference on Trade and Development (UNCTAD)'s latest report on the Information Economy, Pakistan was among five dynamic economies in developing Asia in terms of increased penetration of mobile phones, internet, and broadband.

Looking at tele-density figures, Waqar's third option for investment was to become a maintenance and repair service provider for generators and air conditioners installed at the tower sites of the telecommunications industry. This service could be extended to banks and other companies. The investment in this venture was expected to be 2 million with a 20% return on investment.

Packaging Material Factory

The fourth option under consideration was to set-up a packing material (cardboard) factory. Sukkur already had four small-sized units, but in Waqar's opinion, there was still potential since the Ghotki, Shikarpur, Jacobabad, Khairpur and Larkana districts were receiving these materials from Sukkur. This option required an investment of PKR 5 million, with an expected annual return on investment of 25%. Cardboard was being used to make confectionery boxes, shoe boxes, bindings for books, etc.

Solar Panel Manufacturing

The fifth option was the possibility of tapping into the emerging solar panel manufacturing market. This option seemed promising as more and more companies, and even households in upscale neighborhoods across the country, were switching to solar owing to the growing energy crisis in the country. However, a number of caveats were associated with this option. First, it required a considerably greater investment compared to other options Waqar was contemplating. Second, he did not have prior

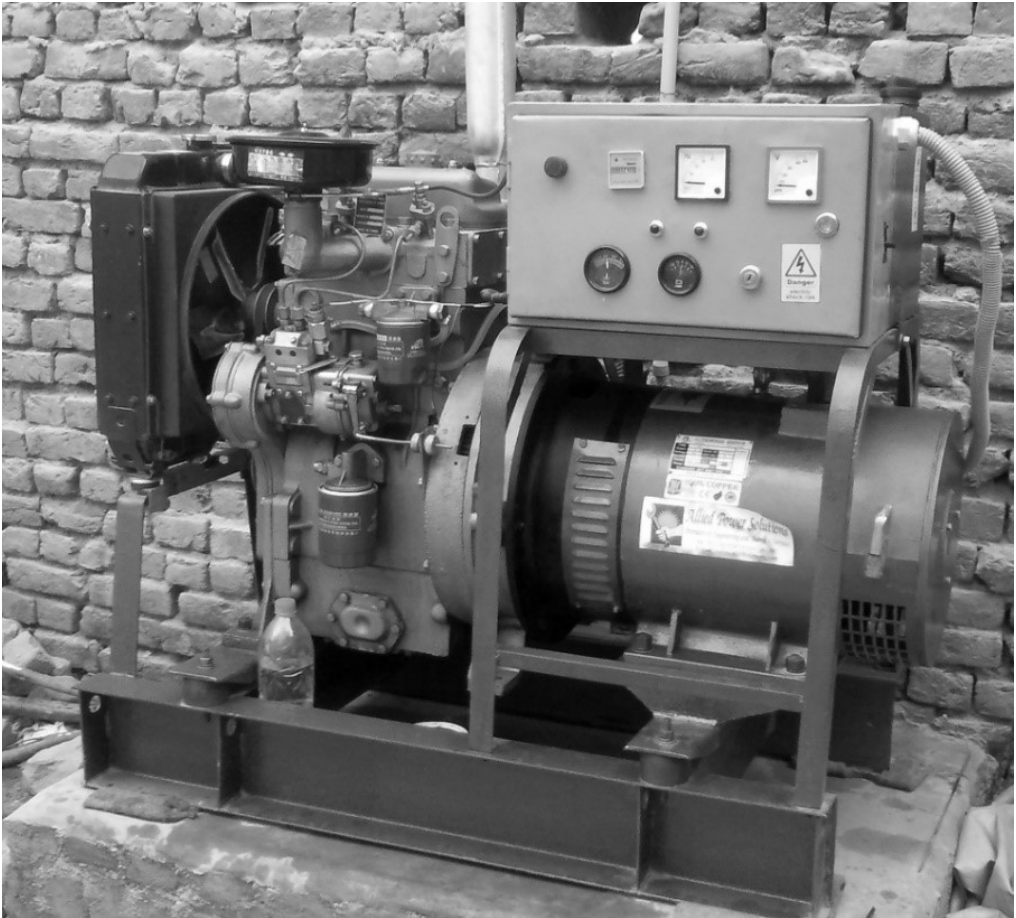
experience in this field, which was a key issue in pursuing this option. Third, given that solar panel manufacturing was altogether a different ball game and neither fit well with Waqar's existing manufacturing setup nor corresponded with the skills set of his existing workforce, this was a high-risk option.

Despite thinking these options through carefully, Waqar was unable to arrive at a decision.

A few days later, while Waqar was purchasing equipment and tools in a market in Lahore, a bomb blast in the vicinity killed many people. Although Waqar was unharmed, it upset him. He knew his wife and children would panic and ask him to return to Sukkur immediately. He also knew that as soon as the sun rose in New York, his father would call and reprimand him for not migrating to the U.S. He was not prepared to give his father a decision yet and needed more time to analyze the pros and cons of the options before him.

Exhibit 1: Pictures from APS's Workshop



**Note:**

This case is an advanced version of an earlier case, 'Waqar Mughal at a Crossroad', which was presented at the 1st 'AJMC International Case Conference 2011,' at the Lahore University of Management Sciences (LUMS), May 24-26, 2011.



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