

EMBA Project “B”



**STRATEGIC ANALYSIS OF PIT FALLS IN THE LAST FIVE YEARS AND
FUTURE RECOMMENDATIONS AT KSB PUMPS CO. LTD**

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1. Introduction

KSB Pakistan is a subsidiary of KSB Group (KSB AG), which was founded in 1871 with headquarter located in Frankenthal (Germany). KSB Pumps Company Limited specializes in pumps, valves and systems for industrial, building services, energy and water & waste water applications. It has a global market share of 7% in pumps and valves. KSB Pakistan was established in Lahore on July, 1959. The production facilities at Hassanabdal (District Attock) were completed in 1964 and a full-fledged state of the art foundry was commissioned in the same premises in 1980. KSB Pakistan prides on the high quality of its products. The company is ISO 9001 certified since 1994 and lately has added ISO-14001 and 18001 certifications for complete Integrated Management System as well.

KSB Pakistan employs over 400 people and operates through its fully functional sales offices in Lahore, Karachi, Rawalpindi and Multan and through a dealership / channel network named KSB Partners¹. In addition, the Company has full-fledged Service Department comprising qualified and experienced personnel capable of undertaking turnkey installation jobs and O&M Contracts.

KSB intends to innovate and add new solutions for the customers in its production range, particularly to meet the requirements of sugar, paper and other process and chemical industries apart from meeting needs of drinking water supply, sewage disposal and surface drainage schemes. KSB pumps are produced strictly in accordance with the design and specifications of KSB AG, Germany, in order to

¹ Geographical / Location Map of KSB offices & Channel Partner Network – Appendices (g)

maintain quality. Comprehensive inspection and test bed facilities are available at Works, Hassanabdal to ensure compliance with these quality standards. The production facilities are also being regularly modernized and extended to cope with challenges of new product technology. The foundry is capable of producing sophisticated automotive components apart from pump and valves castings and is a leading supplier of tractor/automobile castings in the country.

The water pumps, valves and systems industry has very high dependence on the Government policies for private / public infrastructure development. During the tenure of PPP Government, emphasis was less on infrastructure development which contributed to an overall low industry growth rate. The floods and war on terror also had a toll on the industry profitability. KSB Pakistan enjoys a market leadership position in the industry with 38% Market share.

KSB Pakistan has worked extensively on Corporate Social Responsibility programs to provide sustainable infrastructure and basic amenities to underprivileged students at schools in rural areas of Pakistan. Corporate & Environmental Excellence Awards have been bestowed on the Company. The company has also received Merit Trophies for exports of the Federation of Pakistan Chambers of Commerce and Industry (FPCCI) and Top Company Award for exemplary payment to the shareholders by Karachi Stock Exchange. With a 56 years journey of successful operations in the country, today KSB Pakistan stands as a market leader in its line of business and is a benchmark for new entrants. The Company's products, quality standards, people, business partners and leadership have all contributed to imprint this company's score in the history of Pakistan.

2. Vision

KSB provides the best solutions worldwide.²

3. Mission Statement

We manufacture and market a wide range of standard and engineered pumps and castings of world class quality. Our efforts are directed to have delighted customers in the water, sewage, oil, energy, industry and construction sectors. In line with the Group's strategy, we are committed to develop into a center of excellence in water application pumps and be a strong regional player. We want to market valves, complete system solutions and foundry products including patterns for captive, automotive and other industries. We will develop a world class human resource with highly motivated and empowered employees. The measure of our success is, being a clear market leader, achieving quantum growth and providing attractive returns to stakeholders³.

4. Strategic Objectives

1. Defend high market share in growing but competitive sectors.
2. Continuously expand product & service offerings in order to strengthen the position as the complete solution provider in the market.⁴

² KSB Annual Report

³ KSB Annual Report

⁴ KSB Annual Report

5. External Analysis

According to International Statistical Institute classification, Pakistan is included in developing nations. The inadequate infrastructure provides enormous opportunity for growth in the water management, energy and waste water management section. Present day environment politically, economically and regionally is most conducive, if handled properly by KSB management.

The country's political conditions have had a significant impact on the industry. The change of government systems i.e. from military rule to local government have resulted in inconsistent policies towards the pumps and valves industry. In the absence of adequate quality and copyright regulations, consumer rights on part of Government, KSB Pakistan faced stiff low price competition from Chinese and local competitors. The Energy crisis in the country affected the manufacturing industry as well. Firms had to emphasize on their own power generation to keep-up with the demand. This resulted in increased cost of production.

Natural calamities such as floods and Government's reactive approach also affected the industry as emphasis was more on reliving the flood victim and less on better water management.

Conductive policies towards better water management e.g. dams, power generation would have facilitated the industry. Tax evasion by a few local market competitors is yet another concern which hinders KSB joining pace with the local market in terms of cost but again brand name and product quality coupled with brand image are all those factors which must be leveraged to justify premium pricing strategy.

The China Pak Economic Corridor (CPEC) and developmental projects (in land) provide an enormous opportunity which will open a new door of foreign investment in the country. KSB should tap with opportunity with a strategic mindset. The huge investment has the potential to lure market leaders in pump and valves in to Pakistan. KSB with its local infrastructure should play proactively and take the early bird advantage.⁵

6. Competitor Analysis

KSB deals with different category of pumps which can be classified as Low Tech pumps, medium tech pumps and high tech pumps⁶. Based on each market segment, KSB Pakistan faces different level of competition⁷. In segments of public (water & wastewater), building and general industry usually there are low tech pumps installed. Industry approach is also inclined towards low cost bidder compromising on quality of products. Price war is major challenge in this segment. Low cost local and backyard manufacturers are really hard to compete. Their cost model enables them competitive because they don't employ qualified & high skilled HR, don't opt for ISO certifications, don't have testing laboratories and generally have very low overheads. KSB faces stiff competition in this segment from Chinese and local competitors and has only 11% share. The market is fragmented and KA Pumps and Golden Pumps

⁵ <http://www.businesswire.com/news/home/20160316006180/en/Pakistan-Country-Profile-2016---Instant-Guide>

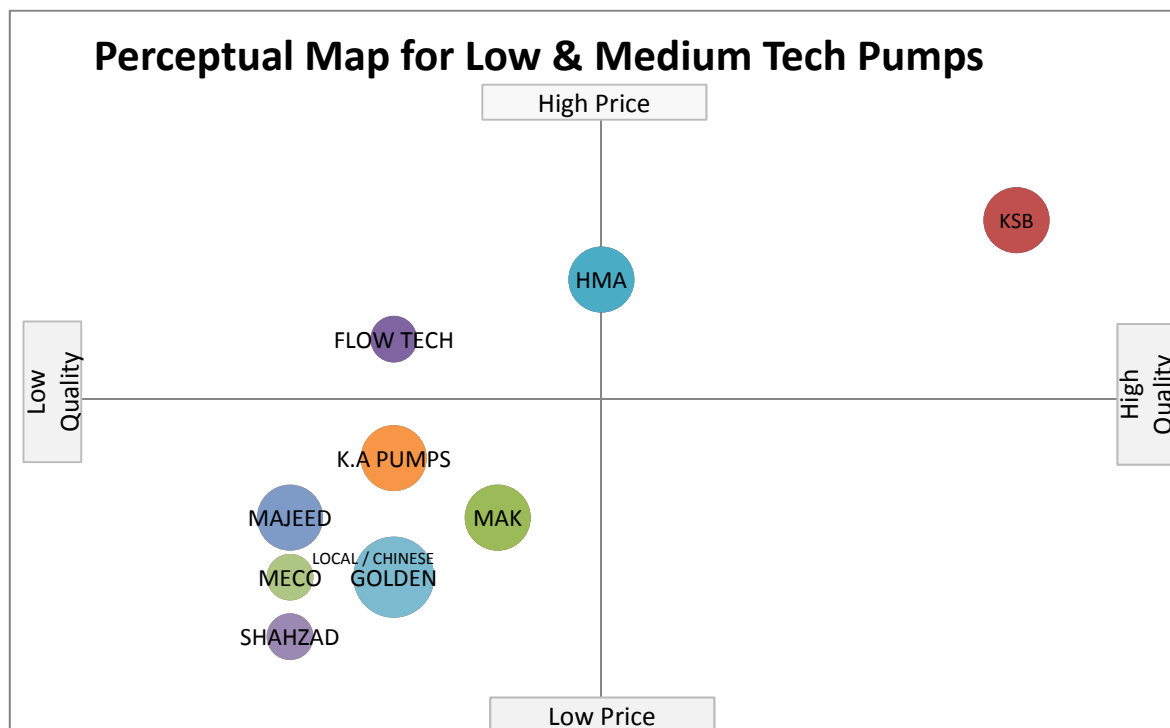
⁶ Product (pumps) Classification – Appendices (d)

⁷ Interview with Sales Manager & Competitor analysis – Appendices (c)

enjoy the highest share of 17% and 16% respectively. KSB deals this segment with its network of franchises and 40 dealers⁸.

In segments of public (bulk water & wastewater), high rise building and industry usually there are medium tech pumps installed. Industry approach is inclined towards cost as well as quality of product. Price war is not a major issue in this segment as they first shortlist the quality, reliability, efficient products & services and then asks for discounted deals from bidders. Low cost local and backyard manufacturers normally don't enter due to lack of expertise and quality products. There is competition through some low cost and Chinese equipment importers which is on the rise. KSB Pumps enjoys a significant position in this section with leading market share of 27%. KSB deals this segment with its network of franchises and major dealers. The perceptual map for Low and Medium Tech Pumps is shown below.

⁸ Geographical distribution of KSB Franchise & Dealers - Appendices (g)

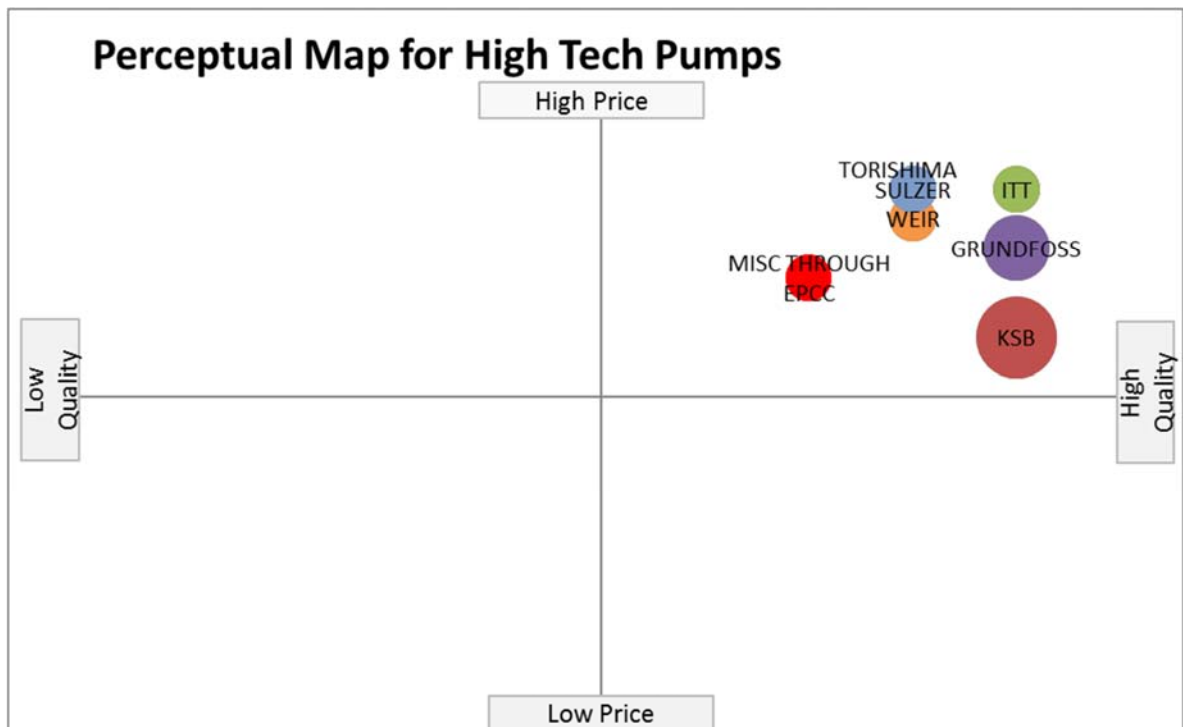


The maps clearly show that KSB Pumps offers high quality products. The focus on high quality leads to increased overheads and thus high price. Due to the nature of the segment and customer sensitivity to price, KSB is facing increased competition. As a result the number of pumps produced in the country by KSB is showing a declining trend decreasing signifying a decreasing market share in the low tech pumps market segment. The lack of quality standards, copyright regulations and tax evasion by low cost competition is further making it difficult for KSB to compete in this market segment⁹

⁹ Interview with Sales Manager & Dy. Manager – Appendices (h)

In segments of energy (power plants) oil & gas, process industry usually there are high tech pumps installed. Industry approach is inclined towards quality, reliability and efficiency of product supported by services at their door step. Imported and renowned suppliers usually compete for these segments. However among multinational only KSB has manufacturing setup in Pakistan¹⁰ and it takes advantage of the situation to cater high market share. Other global competitors usually compete through their agents or through EPCC contractors. KSB Pumps enjoys a leading market share of 80% in this section. The high tech pumps are sold in low quantities but have very high value in bottom line. KSB deals this segment through its well-trained sales team.

The perceptual map for high tech pumps is shown below.



¹⁰ <http://www.pakbd.com/businesses/q=Pump+Manufacturers/list>

The perceptual map for High tech pumps shows that KSB offers high quality comparable with ITT and Grundfoss but benefits from its local infrastructure to lower cost and remain competitive. Other high tech pump competitors do not have local setup and operate via importers and agents. With the upcoming opportunity of CPEC, international players might be tempted to enter Pakistan. KSB hence needs to be proactive in this context.

7. Cross Functional Analysis

The process flow in KSB works in cycle with interactions among various functions / departments at same time. It starts from Sales, then planning, production, materials, QHSE, stores, finance and then services¹¹. Any problem occurred at any stage directly affects the delivery to end customer. KSB is process oriented organization where SOPs for all matters are implemented and followed. Sometimes these processes become lethargic while giving relief to customers. However, today's environment is so challenging that any business organization should make its strategies more customer centric.

Within organization departments are independent functions and they do not take into account the ultimate objective to serve customer rather emphasize to follow their procedures and expect others to do their job completely. For example, production department could not do anything in case they receive the material late from supply

¹¹ Interview with Sales & production reps – Appendices (h)

chain or they receive in correct technical bill of materials (BOM) from engineering department. Ultimately the material delivery gets delayed¹².

The KSB setup requires very high level of coordination between functions to operate smoothly. I found that departments are working in Silos and have their own paradigm of viewing the things. For example, in resolving a complaint, it was observed that services faced delays in getting approvals, confirmation of material availability from factory etc. The whole process had to be followed irrespective of the fact that it's a customer complaint & had to be treated on priority¹³.

Similar sort of issues were found with material department due to their adherence to lengthy workflows and standard lead times. The large number of suppliers (1700) and lack of framework agreements resulted in delays¹⁴. There is need to streamline the process and reduce the list to major suppliers in each product category. Framework agreements can then be coordinated. The suppliers will then play their role in the process improvement and cost cutting for KSB. Further, financial approval has hierarchical constraints and limited powers lies with line managers.

SAP was implemented in 2011 to streamline the operations between functional departments and provide a consolidated picture to the management. Huge amount was vested in the implemented but the change management process was overlooked. No emphasis was paid in integrating the change. The SAP system is in place but not utilized to its entire potential. Employees are still comfortable with SAP and prefer to

¹² Interview with DGM Production - Appendices (h)

¹³ Interview with Service Executive - Appendices (h)

¹⁴ Interview with Dy. Manager Materials - Appendices (h)

adhere follow ups of plans & analysis through excel. As the result, the desired objectives of SAP implementation have not been met effectively.

The firm has a bureaucratic culture and a tall structure. A total of 10 levels exist between the junior most position and Managing Director (MD)¹⁵. This resulted in delayed decision making. The managers are vested with limited authority. The performance appraisal system is perception based and trainings are used as reward. This also contributes to underperformance and demotivation of employees.

In a nut shell, each department has its own working boundaries; I name it Silos, with set paradigm to only focus on processes of their own department. Besides this another element of shifting responsibilities to other's department do exists. The concept of synergy though found in written values but are not truly implemented. There is also an element of organizational culture, which is though supportive but do not sufficiently empower the respective managers. Control and exercise of power mainly lies with top management.

8. SWOT Analysis

KSB being the 3rd largest shareholder around the globe¹⁶ has been able to build a strong brand image in eyes of Pakistani market. KSB Pakistan strength lies in its strong brand image, local manufacturing expertise and quality products that distinguish it with competitors. Unlike its competitors, KSB Pakistan major strength lies in its excellent distribution network. They are able to extend its reach to whole Pakistan

¹⁵ See KSB Management levels – Appendices (f)

¹⁶ <http://www.flowcontrolnetwork.com/mcilvaine-ranks-worlds-top-selling-pump-companies/>

with its top of the line Distribution network that includes 4 Franchises and 40 distributors. One of the advantages KSB Pakistan has over its competitors is their ability to produce customized products with respect to Pakistani market. With the help of its partners (Franchises & Distributors), KSB Pakistan has been able to understand the needs of Pakistani Market much better than its competitors and is able to design customized products. They are also able to provide far superior customer & after sale services as compared to their competitors which has enabled them to build strong customer loyalty. The focus on KSB global is to increase their business in service segment also, which in brief covers parts, service, reverse engineering, and O&M contracts. The average growth of KSB Pakistan service business is approx. 18%. Last year sales were around 4 Billion PKR.

KSB Pakistan weakness lies in its high prices of products and also the poor management of their finances. Although KSB products are of far superior quality but the prices for their low & medium tech products are almost 50% and 10-15% respectively on the higher side¹⁷. This is giving room to their competitors to compete on price with KSB. Going through the financial analysis, I believe that financial management is one of the major weaknesses of KSB Pakistan. It is evident that there is lack of focus on proper financial management which has resulted in increase in Account receivables and bank borrowing. Short term financing is way on higher side for the last many years, especially viewing in comparison with total business this is affecting the bottom line profit significantly. Being an industrial leader, KSB

¹⁷ Interview with Sales Manager – Appendices (h)

management attitude towards customers & suppliers is monopolistic. Orders are not entertained in timely manner and customers have to wait for deliveries. In our opinion this attitude is a result of lack of focus on training and development of employees. KSB Pakistan has almost around 1700 suppliers in their pool and it becomes very difficult for them to manage this large number of suppliers. This has resulted in poor relation between KSB Pakistan and majority of suppliers. But being an industrial leader, KSB exploit these suppliers. There is a chance that if any other major companies like ITT or Ebara comes in Pakistan; most of the suppliers will shift to them.

Pakistan-China Economic corridor is one of the biggest opportunities for KSB Pakistan. This corridor is estimated to bring 46 Billion dollars of investment in projects like energy, security & infrastructure in Pakistan. This is considered to be game changer for the region which is expected to make Pakistan growing and strong economy than ever before. KSB having a wide distribution network can offer their products across the economic corridor but in our opinion KSB Pakistan is not focused on the economic corridor. They believe that it is a significant development but there is no evidence that they are doing research or market analysis to cater the upcoming needs. They have an attitude that being an industry leader; companies will automatically come to them. This strategy can be devastating as it can give big Chinese companies room to enter in pump markets in Pakistan. Present government is far more focused on development projects as compared to previous one. KSB can exploit this opportunity by investing in mega projects like metro, orange train, clean water in Punjab etc. Energy development projects are also the substantial opportunity. KSB

should make liaison with EPCC companies or to make joint ventures with such companies to enter right from the beginning. Government is also trying to bring tax reforms in the country which can positively affect KSB. Unlike KSB Pakistan, Local competitors have unfair advantage in price because they are evading tax. Their prices are low as compared to KSB because KSB is paying the taxes as per law.

The Biggest threat KSB facing is the penetration of low cost non branded products in the Pakistani market. Many new local and Chinese competitors have entered in Pakistani market over last five years. KSB products are being copied by Chinese and local Pakistani manufactures and are being sold at very less price as compared to KSB Pakistan. Weak implementation of copyright laws in Pakistan has made it very easy for KSB's competitors to copy their products without any consequences. KSB Pakistan is aware of low cost competition but still they believe that they are untouchables. They argue that their number of sales is on the rise and that is enough for them. Although government is spending on energy production but still Pakistan is severely affected by energy crises. This crisis is directly affecting KSB production line with increase in cost of manufacturing. Raw material prices are also not stable because steel, one of major ingredient of KSB products, has to be import due to less production and imperfect quality in Pakistan and therefore affecting the cost of production. As discussed earlier, KSB Pakistan being one of the largest tax paying company faces an unfair competition whereby the Chinese & local competitors evades taxes and do under invoicing. KSB being aware of the issue is still not focused on doing anything about it. KSB Pakistan can turn the uneven ground into its favor if it could put more efforts in

successfully lobbying against Chinese & local competition for tax evasion and hence rendering them more vulnerable to higher costs.

SWOT ANALYSIS

INTERNAL FACTORS	
STRENGTHS (+)	WEAKNESSES (-)
<ul style="list-style-type: none"> • Global Brand (World # 3), Leader in Pakistan • Local Manufacturing • Quality & Customized Products • Distributor network 44 channel partners • Technology with back up support from Germany 	<ul style="list-style-type: none"> • High prices • Delayed response • Weak financial management • Low focus on employee development & retention strategy • Silos working • <u>Beaurocratic culture</u>
EXTERNAL FACTORS	
OPPORTUNITIES (+)	THREATS (-)
<ul style="list-style-type: none"> • CPEC • Expansion in power sector • Improvement in drinking & supply water projects • Upcoming elections (funding) 	<ul style="list-style-type: none"> • Low cost unbranded manufacturers • Chinese products traders • Low tech market • Intrusion of foreign OEM after CPEC (Local manufacturing) • No copy rights – Unprotected laws

9. Financial Analysis

KSB pumps Pakistan is a leading firm and a major market share holder (38%) in water pumps industry of the country. An analysis on its past ten years (2006 to 2015) financial trends is conducted. It has been observed that holistically, the firm had shown stable financial KPIs as per its annual reports. However, a variation in few mentioned trends is also found from year 2008 to 2011, which will be elaborated further.

KSB felt an intense jolt in its financial condition during FY2011¹⁸. According to KSB's annual report of 2011, multiple factors contributed to this event¹⁹. As we can see the decrease in its growth rate from 2008 to 2011, whereas sales revenues were increasing. There are understandable reasons of increasing cost of production units due to inflation. The GDP growth rate trend of Pakistan was also on a declining road in those years, indicating strong conviction the local firm was affected by the same reason.

In global context, Japan was struck by the devastating earthquake and tsunami, and unrest increased in some oil producing countries. The year 2011 also witnessed a series of protests and demonstrations in Libya and Egypt. The euro region debt crisis also intensified further. The overwhelming challenges were the continued jobs crisis and the declining scenarios for economic growth, particularly in the developed countries. Pakistan during 2011 was once again hit by floods, the same as it had in year 2010, which adversely impacted economic growth, besides bringing distress and destruction to the country. Its economy suffered from acute energy and natural gas

¹⁸ Financial Statement Annual Report 2011

¹⁹ Annual Report 2011

shortages, intensifying and effecting power generation, the ongoing war on terror with its implication for the economy, inability to implement financial reforms, rising public debts and loss making public sector initiatives, continuing to drain scarce resources. Financing of fiscal deficit remained a challenge in the year 2011. Agriculture was facing challenges, e.g. flood damaged Khareef crops, taxation on inputs, decline in global commodity prices and low credit availability.

A recovery in construction was a challenge on account of sales tax in Sindh and high building material prices; which added a negative impact on sales. The company showed sales of 1944.76 million rupees in 2011, as compared to 2047.98 million and 2024.24 million rupees in 2010 and 2009 respectively, with continuously declining growth rate from past three years²⁰

A sudden dip in total number of pumps produced by KSB in year 2009 was observed, which continues till 2011. The reduction in the number of pumps produced signified a decrease in demand for KSB pumps in the low tech pump category. It is to be noted that prior to 2008, the number of pumps in the low tech category contributed heavily in total number of pumps produced. In 2008, the PPP Government opened trade barriers to promote local / foreign competition. As a result, KSB faced decline in sales on its low tech pumps. In the year 2012, after the flood in 2011, KSB extended its arms to enhance its reach in the market. It was accomplished through extending its system of franchises and dealers. The demand for pumps increased in 2012 but followed a

²⁰ Sales - Appendices (a)

declining trend then onwards. This is an indication of a serious threat from competitors in low segment of pump industry. KSB pumps focuses primarily on high level consumer markets, in which product quantity is less which profit margins are higher than low segment. The proliferation of Chinese low end products and the non-tax paying players in this segment are offering tough challenges. Due to tax aversions, the competition is increasing by leaps and bounds. On the other hand, KSB Pakistan is listed tax payer firm and fulfills its responsibility justifiably. Its higher cost of production with respect to competitors also bears a big amount which goes to the account of tax paying. This gives an upper edge to competitors over KSB, as in highly price sensitive low end market of country, a common customer is more inclined to buy low priced competitors' and Chinese products readily, when it comes to purchase decision.

In KSB's P&L statements trend, we see that firm faced the loss of 106 million rupees in 2011²¹. This was unusual, but was inevitable at the same time. As per respective annual report, the cost incurred on installation of SAP (extra ordinary expense) was 189.62 million²². It was strange for us to know from interviews and financial statements, that company incorporated this entire expense on same year balance sheet. The reason was that top management, as a policy matter, did not prefer to keep liabilities on firm's shoulders. However, this loss could have been avoided by amortization of SAP expense over next 5-10 years. This is highly workable suggestion, which, if considered at that time, could have skipped loss in 2011.

²¹ Financial Statement – Annul Report

²² Annual Report 2011

The feedback of getting heavy duty expensive SAP on board remained in question, as the processes (safety stocks, supply chain management, inventory and quality control etc.) have not been brought to automation, even after four years. On the other hand, due to SAPs payment on onetime, KSB had to get dependency on short term running financing/ bank borrowings, which increased continuously year by year from 2010 (165 million) and reached up to 529 million in 2014 & so on in 2015. This element deteriorated company's liabilities section and still seeking attention for resolution.

The company is also found to be compromising on its accounts receivable. The factor is growing up from 163.45 million (2009) to 183.82 (2010) and so on and is important as it affects cash flows severely²³. This has resulted due to top management's "devil may care" attitude towards balancing between keeping good relationships with customers vs. maintaining financial matters of the firm. The pending accounts receivables are adversely affecting its cash flows, resulting in decrease in profitability and share value. Decline in earnings per share of the firm from year 2009 to 2011; from profit of 11.2 rupees (2009), 7.56 rupees (2010) to loss of 8.04 rupees per share in 2011, owes to reduced profitability.

As a result of the loss in 2011, KSB Pakistan share price hit a low value of Rs 24.26 (End Dec 2011). The investor confidence was thus shaken. Since 2012, the share price value of KSB is on the rise. The current share price is Rs 370 (Nov 2016).

Summarizing all, KSB Pakistan is currently enjoying the fruits of its past efforts, brand power and being part of KSB international. It is consistently holding market share of

²³ Annual Report 2010

38% in Pakistan, far ahead of “rest of the players”²⁴. If seen from KSB management’s lens, there is no competition threat visible in near. However, recent developments in industry have indicated it otherwise. China has appeared in low end competition besides local competitors, tax evasion issues by competitors (leading to low cost production), sudden shocks to KSB in financial scope in terms of P&L, declining sales revenues, incurring loss, rising expenditure as in case of SAP and decreasing share value, is clearly indicating a potential threat to its market share from any section, particularly “rest of the players”. There is a big room for this section, as any competitor (local or Chinese) may emerge. It has been evaluated that firm’s old ways of working and paradigm which supported it in the past to bring excellence, will not be effective and become problem for the firm to get rid of. It’s the time for management of KSB Pakistan to learn from its mistakes, which led to financial breakdown in 2011. The weak signals of threat are becoming visibly stronger.

10. Minor and Major Problems

Based on analysis of the interviews and financial data, I have identified a number of symptoms and minor problems pointing towards a single major problem, “Monopolistic Mindset”. As a result of this major problem, the organization is unable to recognize a change in the environment. The general mindset in the organization is that, we are market leaders and customers will eventually come to us as they do not

²⁴ Appendices (e)

have any other alternative. I have identified 7 x minor problems that point in the same direction.

For instance, the KSB faced decline in sales from 2008 onwards and eventually incurring a loss in 2011. This decline in sales was a result of PPP Government policies when they opened trade barriers without incorporating quality standards and copyright protection and introduced low price competition from China. This leads to the minor problem of “low price competition”. KSB’s high quality products were ISO-9000 certified, while the low cost competition did not maintain good quality standards and could manage low cost. This competition was most significant in low tech pumps. The competition coupled with floods resulted in decline in sales.

“Poor Financial Management” was identified as second minor problem. KSB management laid emphasis on short term financing rather than focusing on recovering account receivables. As a result huge interest of 47M in year 2014 & 39 Mio in year 2015 was paid for short term financing. Non-Amortization of SAP implementation expense was quite a surprise which resulted in KSB declaring a loss in 2011. The expenses should have been amortized as it had to be paid to KSB AG. Top management’s attitude towards handling these affairs suggested that they had no fear of losing market share and investor confidence. As a result of the poor financial performance, the share price hit the lowest value of **Rs. 24.26** by End of 2011.

“Lack of both Strategic management process and customer centric approach” has been classified as another minor problem. As a result of monopolistic mindset, KSB did not have any strategic management system in place for SWOT analysis, ensuring iterative

strategic fit with the changing environment, mission / vision alignment and customer centricity. The non-branded products were growing in market, rapidly chasing KSB products in terms of popularity and sales, but no attention was paid to this issue. The customer queries were not answered in time. No CRM system was developed. SAP was implemented but due to manual work and sticking with old system, the departmental outputs were not coordinated resulting in local maximum rather than global optimum performance.

“Bureaucratic culture” of the organization has been identified as another minor problem. Due to Government Job like mindset, emphasis is not on performance. The appraisal system was also found to be perception based and not a true depicter of performance. Recent performance was recalled and was incorporated in appraisal, so the performance since start of year till mid was almost ignored, resulting in employees working casual initially but aggressively in end of year, before appraisal. This resulted in a feeling of unjust appraisals. The use of trainings as a reward rather than need was another problem. Tall organization structure and lengthy processes all resulted in low employee morale and demotivation.

KSB has around 1700 suppliers. Managing such a large number of suppliers in the absence of framework agreements resulted in delays. “Inefficient Inbound Supply Chain” was thus identified as a minor problem. The supplier did not play its role in reducing KSB’s process improvement and cost reduction. It is observed that there is high need to reduce the number of suppliers to few major suppliers / preferred suppliers. Framework agreements can then put in place for efficient inbound supply chain management.

Another minor problem observed was that of “Reactive approach towards market development”. An example in this context is lack of focus on system of delivery system. KSB modified its system delivery network after incurring loss in 2011. It was only then that KSB decided to extend its arms to increase in market reach. The bureaucratic cultured organization has no mechanism to trigger any initiative this. Since bottom up approach was not followed and top showed no concern towards it, hence the firm lagged behind in this chapter. Similarly, same mindset exists as there is no attention to market development and research keeping in view the huge opportunity of Pakistan – China Economic corridor. The firm is still reactive and waiting for a wakeup call.

“Ineffective persuasiveness” for lobbying towards tax evaders has been identified as another minor problem. The low cost competition is involved in under-invoicing, tax evasion and copyright violations. KSB management has been indecisive in this regard. As a result of this un-leveled playing field, the competition is benefiting.

These seven punctuated minor problems that relate a monopolistic mindset of the organization is the major problem of KSB.

11. Cause Issue Network:

Symptoms	Minor Problem	Major Problem
Decline in Sales from 2008-11	Low Cost Competition	Monopolistic Mindset
Decline in share value from 2010 - 2012		
Decline in P & L from 2008-11		
Increase in Financing cost from 2009 onward	Poor Financial Management	
Huge interest on short term financing		
Rising trend of Accounts Receivable		
No Amortization of SAP Expense		
Non-branded product competition	Lack of both Strategic Management Process & Customer Centric Approach	
High pricing of standard products w.r.t low cost competition		
Late response to customer enquiries		
Low customer satisfaction index		
Dissatisfied employees	Bureaucratic culture	
Inadequately trained self & dealer staff		
Slow decision making & lengthy processes		
Delayed deliveries	Inefficient Inbound Supply Chain	
Delayed material receipt from In-bound Supply Chain		
In adequate market reach	Reactive Approach to market development	
In appropriate sales forecast		
Inability to lobby against tax evaders	Ineffective Persuasiveness	

12. Strategic Alternatives

After performing a comprehensive cross functional, Financial and SWOT analysis, I believe that it is long overdue that KSB Pakistan comes out of its current paradigm. There is sense of complacency at KSB Pakistan which is leading to attitude of “untouchables” and arrogance. This culture of complacency is giving room to competition in the market. KSB needs to be proactive in determining the changing signals of the environment and change their strategy accordingly. The fit between strategy and environment should be iterative. They should form empowered strategic business unit who shall examine the in-house techno-social capacity, seek inputs from all levels, analyze the changing environment & develop iterative short term as well as long term goals. Hence, I suggest three major Strategic alternatives to mitigate the minor problems.

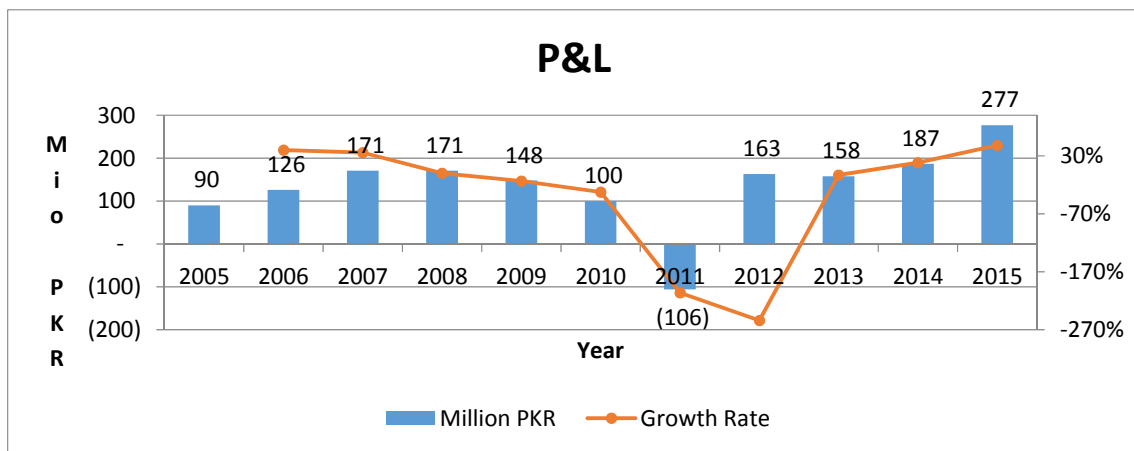
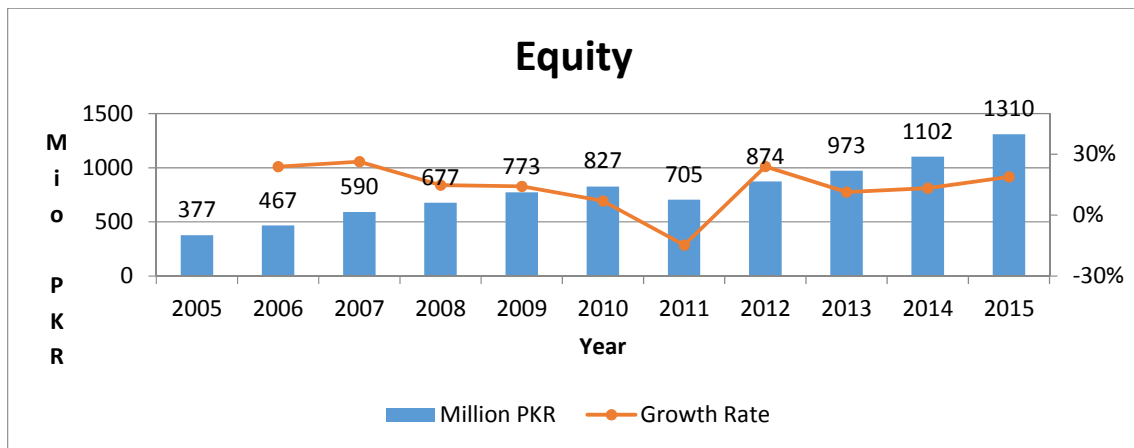
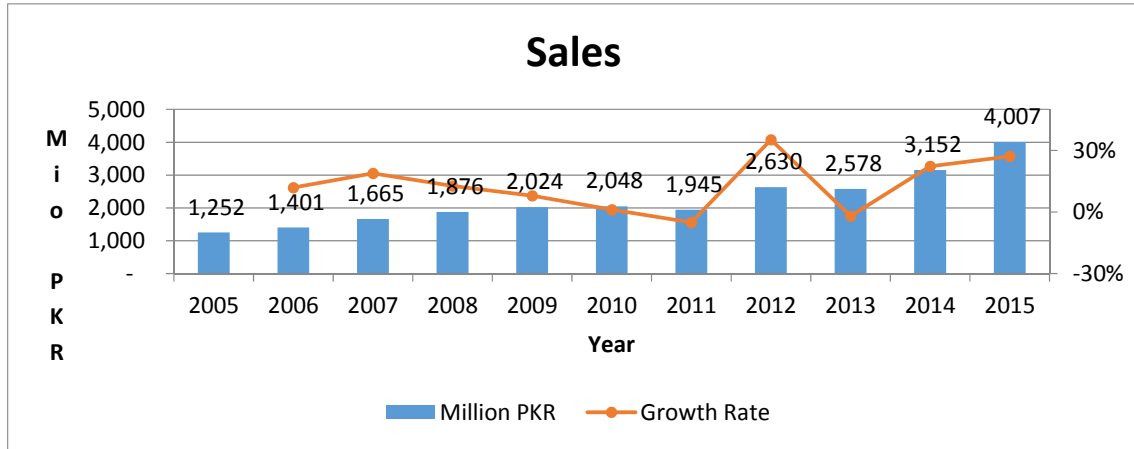
First, they should focus on sustainable business of low & medium tech industry as the demand remains constant throughout the year. This will keep them focus in the market with restoring their market share. They should adopt the standard approach for mass production of low/medium tech pumps as this will enable them reduction in cost & to be competitive with low price suppliers.

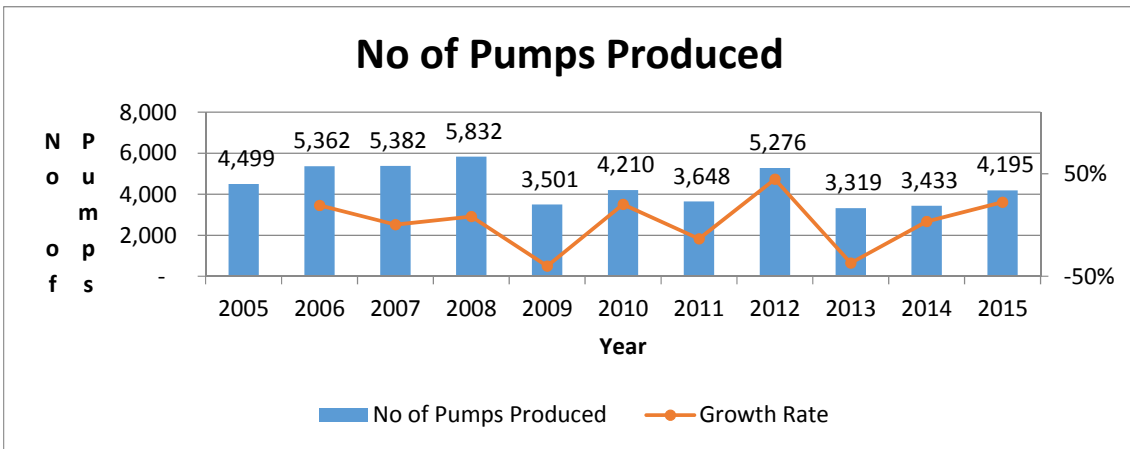
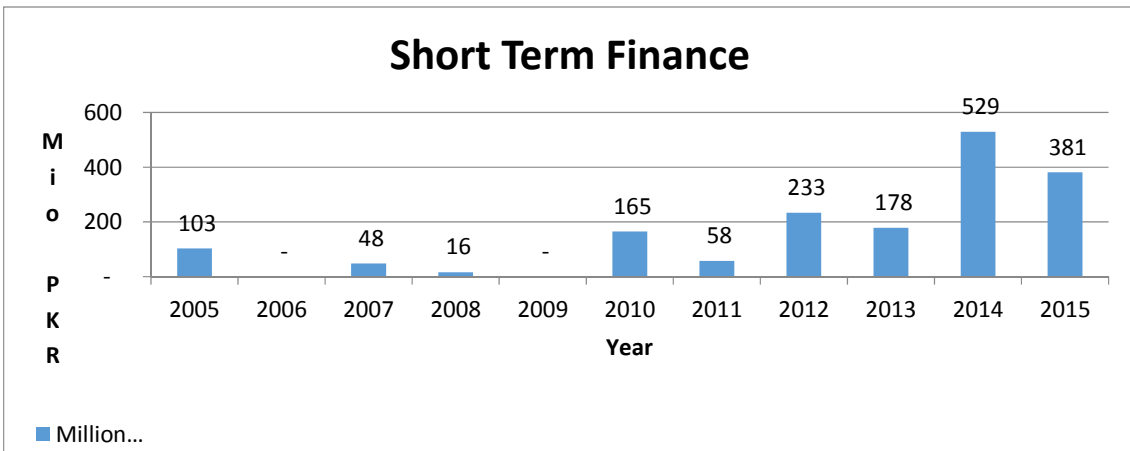
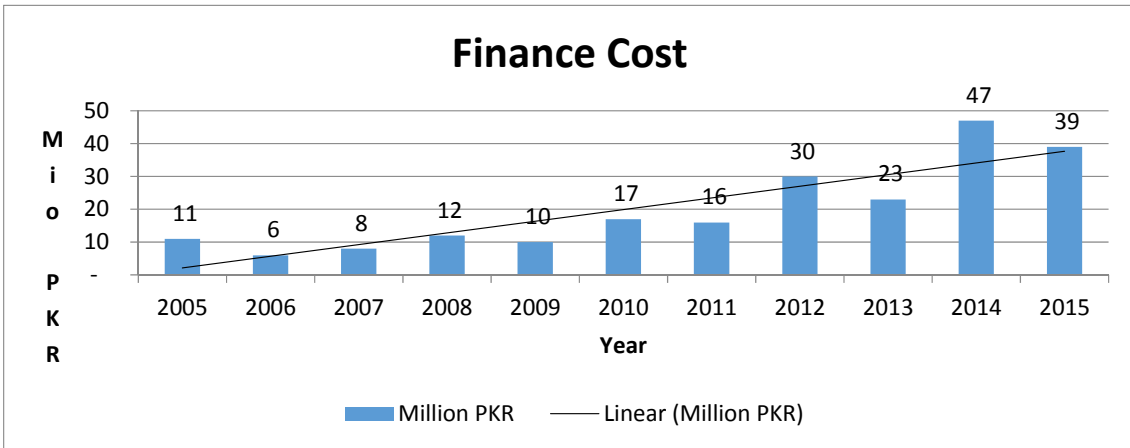
Second, I believe that KSB Pakistan must capitalize on the opportunity of CPEC. KSB Pakistan’s current distribution network is inadequate to cater for the current market needs. Inducting right partners followed by their training and development is key to strengthen the downstream arms. This will improve their reach & response time. They also should immediately start working on building relationship with future investors to gain first mover advantage in economic corridor project.

Third alternative is to be more focused on financial management. For public sector, where the credit time is unpredictable and usually prolongs many months, they should deal majorly through franchise & dealer network thereby avoiding direct credit investment. This will help in reducing future account receivables and free them up from need to opting for short term financing. This shall improve in managing their cash flow situation and also enabling them to tap business prospects through equity.

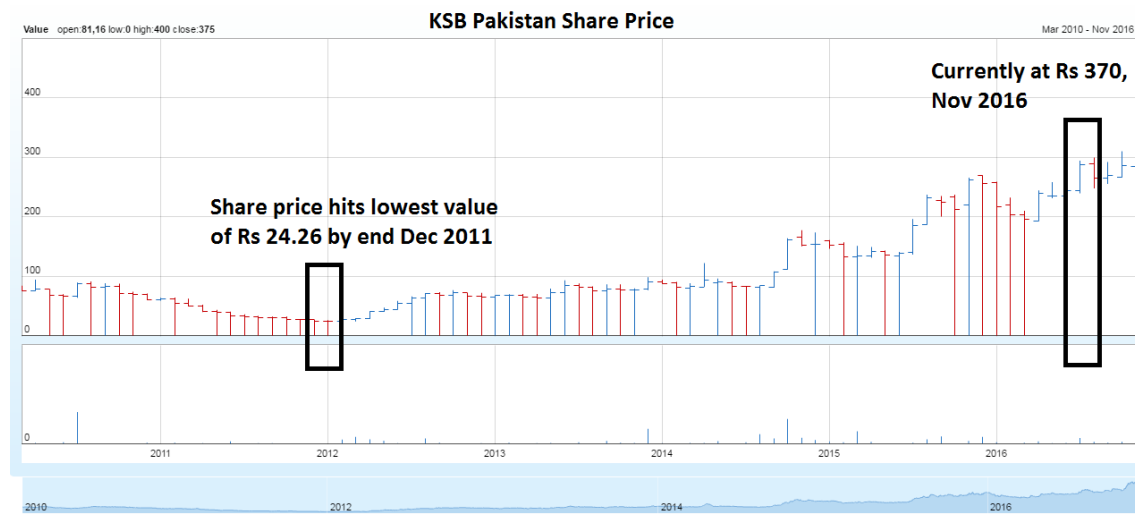
13. Appendices

a) Ten (10) Year Historical Financial Analysis





b) KSB Pakistan Share Price Value Trend.



<http://www.brecorder.com/company/?currExchange=K&currDate=2016-11-22&currPageType=D&currCompany=664>

c) KSB Competitor Analysis

McIlvaine has ranked the pump companies by sales revenues as follows:

Ranking	Company
1	ITT
2	Flowserve
3	KSB
4	Sulzer
5	Grundfos
6	Ebara
7	Weir
8	Baker Hughes
9	Schlumberger
10	Clyde Union

<http://www.flowcontrolnetwork.com/mcilvaine-ranks-worlds-top-selling-pump-companies/>

d) Pumps Category Classification

Low Tech Pumps

- Locally manufactured in Pakistan
- Used to lift / transport water
- Low pressure, single / multistage
- Used for building, water extraction, pools, Drainage, HVAC, spray etc.



Medium Tech Pumps

- Locally manufactured in Pakistan & Imported
- Used to lift / transport water / Mix Media
- Medium pressure, Med / High Flow single / multistage
- Used for building Booster, Fire-fighting, Industry, Chemical, Drainage, etc.



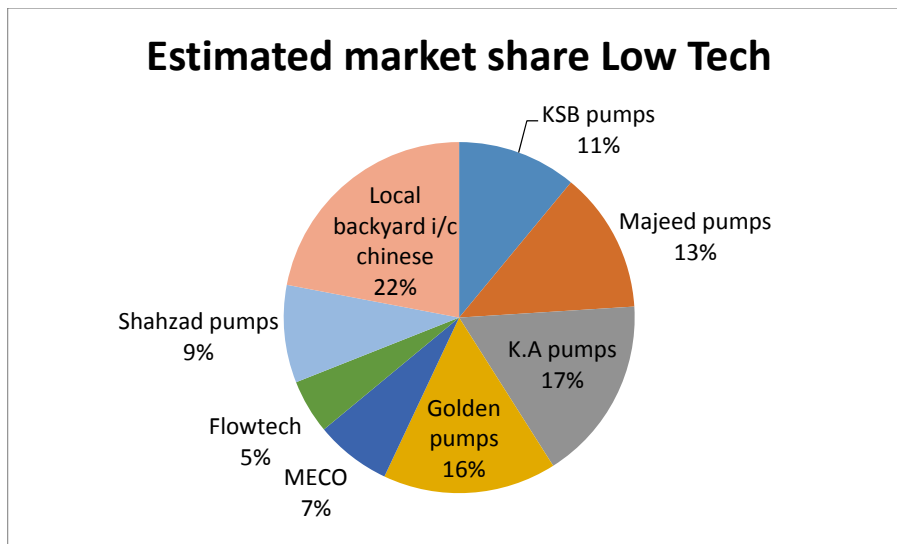
High Tech Pumps

- Locally manufactured in Pakistan & Imported
- Used to lift / transport bulk water / Chemical / Mix Media
- High pressure, High Flow, single / multistage
- Used in Energy, Chemical, Nuclear, O&G segment, High head schemes, mega water projects



e) Pakistan Pumps Market:

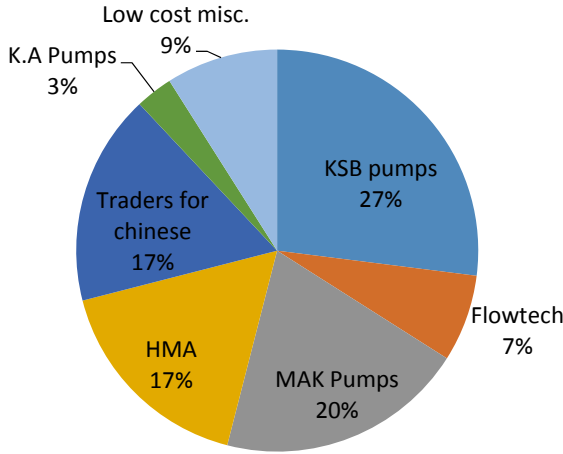
Low tech pumps	
Competitor	Estimated market share
KSB pumps	11%
Majeed pumps	13%
K.A pumps	17%
Golden pumps	16%
MECO	7%
Flowtech	5%
Shahzad pumps	9%
Local backyard i/c Chinese	22%



<http://www.businesslist.pk/category/pumps-manufacturers/>

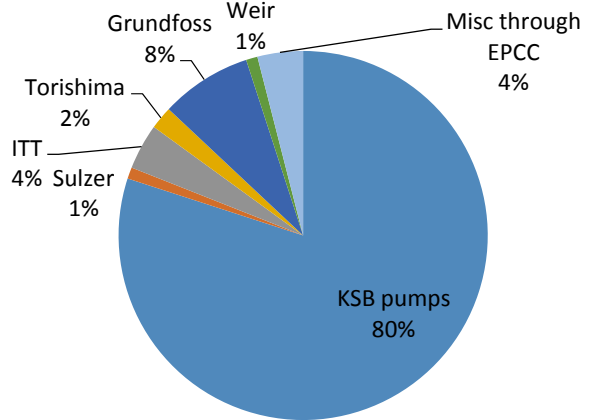
Medium tech pumps	
Competitor	Estimated market share
KSB pumps	27%
Flowtech	7%
MAK Pumps	20%
HMA	17%
Traders for Chinese	17%
K.A Pumps	3%
Low cost misc.	9%

Estimated market share Med Tech

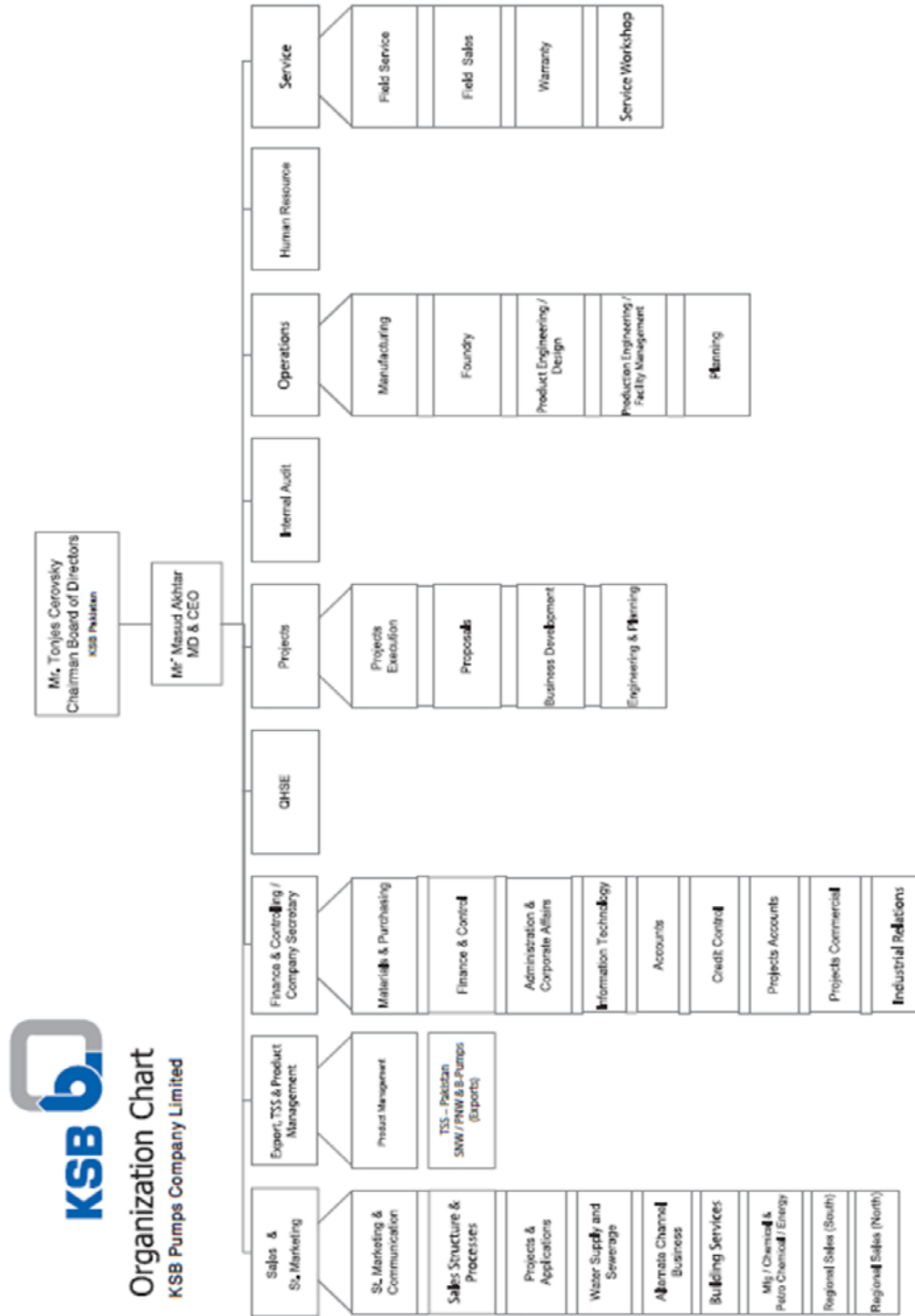


High tech pumps	
Competitor	Estimated market share
KSB pumps	80%
Sulzer	1%
ITT	4%
Torishima	2%
Grundfoss	8%
Weir	1%
Misc. through EPCC	4%

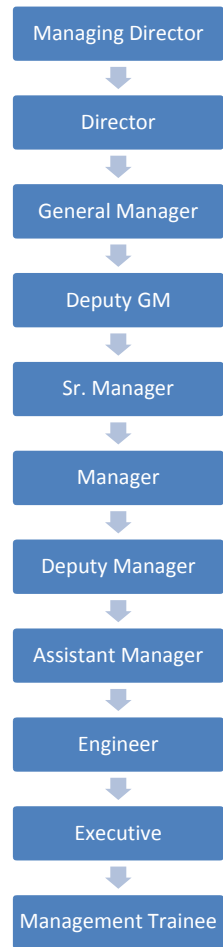
Estimated market share High Tech



f) Organogram & Departmental Hierarchy

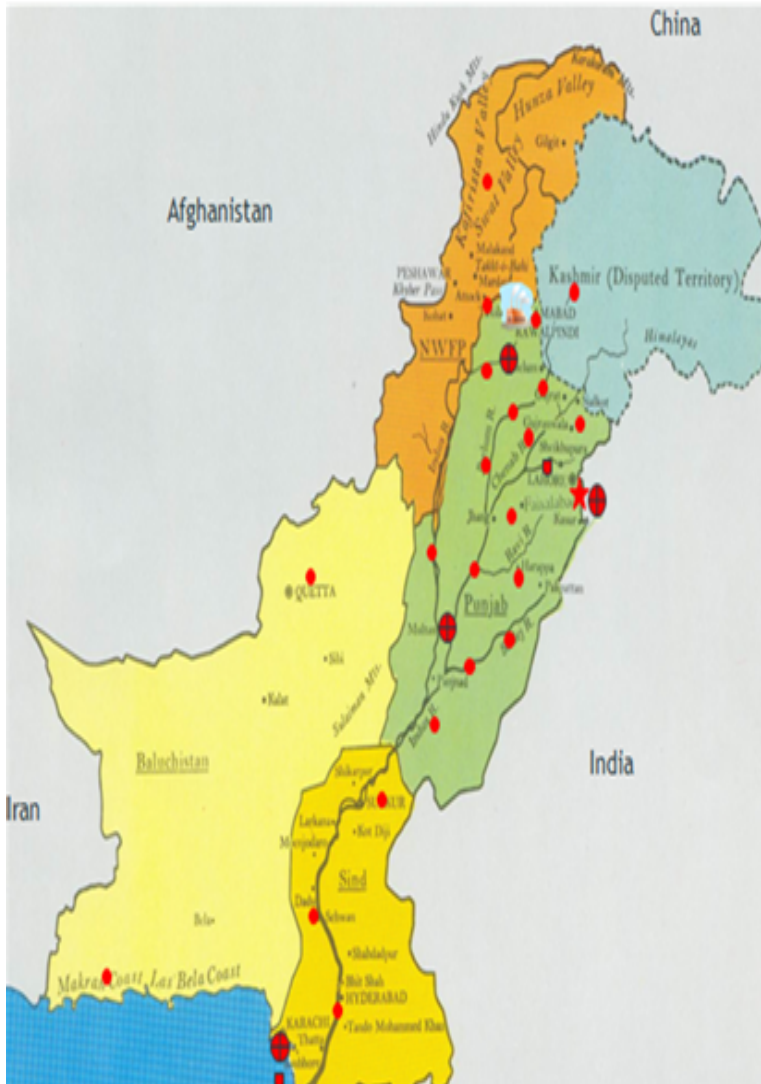


KSB Management Levels



g) Geographical Distribution of Franchises and Dealers

- ▶ The classification of Franchise & Dealers is based on following segmentation
 - ▶ Geographical
 - ▶ Customer / Product Wise (Industry, Energy, Building, Service & Water & WW)



KSB Pakistan

Company Set up

- ▶ Head Office in Lahore ★
- ▶ Manufacturing Site 🏭
- ▶ 04 Sales Offices ●
 - ▶ Lahore
 - ▶ Karachi
 - ▶ Rawalpindi
 - ▶ Multan
- ▶ 03 Service Centers 🛡️
 - ▶ Lahore
 - ▶ Karachi
 - ▶ Hassanabdal
- ▶ Alternate Channels ●
 - ▶ 04 Franchisee
 - ▶ 40 Dealers

17

h) Interviews

INTERVIEW WITH SERVICE EXECUTIVE

Amjad Bhatti
057-2520236

At Works - Hassanabdal
Dated: 04-07-2016

INTRODUCTION

Service department works under supervision of GM Service who reports directly to CEO. There are three Service offices across Pakistan. Role of service is to fetch business from customers for spares, repairs etc., and pass onto factory for manufacturing, delivery & bring back the payments. Besides this it provides support to sales for execution & in warranty handling. Main objective of department is to achieve sales targets, increase market share, achieve profit, handles customer complaints and execution jobs.

PROCESS

There are two main divisions in Service department, sales and support. Sales objective is to identify the leads, meets the customers, brings in the order and passes onto Factory. It then follows with factory for timely deliveries and then brings in the payments from credit customers. Support function is to handle execution jobs, customer complaints and warranty matters.

FINDINGS

In depth interview revealed that they are certain problems that includes;

- Priced competition is being faced due to low cost suppliers of parts & service in the market. Registration of backyard non-branded manufacturers with public authorities & kick-backs are giving tough time to remain competitive.
- In high end market, they are enjoying the local presence.
- Delayed deliveries from factory are one of the major issues being faced. Consequently annoying the customer and affecting the future relationships.
- Delay in handling customer complaints due to delay in availability of spare parts from factory causes annoyance of customer.
- Limited number of field staff sometime becomes bottle neck in timely handling customer complaints from multiple customers.
- Price of parts are higher than compared in market though the quality of parts for low & medium tech equipment in local market is very poor.

INTERVIEW WITH DY. MANAGER FINANCE

Anayat Hussain
042-36304173

At Works - Hassanabdal
Dated: 13-09-2016

INTRODUCTION

Finance department works under supervision of Director Finance. Accounts is also the part of finance. Role of finance is to control, monitor the expenses and also devise strategies for financial health of company keeping in view the interest of stake holders. Main objective of department is to facilitate operations of company, adhere the financial policies, laws and regulations under company Act.

PROCESS

Any financial expense including budgets, CAPEX, MREs etc. are being routed through concerned department head and approved by finance department. Department heads are authorized for some routine expenses however final approval is from finance.

FINDINGS

In depth interview revealed that they are certain problems that includes;

- There is some sort of bureaucratic approach as control of powers lies more with finance.
- Regarding non-amortization of SAP expense in year 2011, no significant reply received, as it was related party transaction.
- Regarding rising receivable trend, it was found that company is more focus to reduce its liability while forecasting that customers would pay on time, which actually did not happen. So to meet operational & investment expenses, company

has taken short term borrowing on high interests. Again under-forecasting to overcome the situation by taking receivables.

- Company has appointed a credible audit firm i.e. M/S Ferguson but still no concrete strategies found to overcome financial crises.
- As KSB is public limited company so its financial reports are available online.
- Credit control monitoring is also the responsibility of finance as every order requires approval in SAP from finance before it is dispatched to client.

INTERVIEW WITH DY. MANAGER MATERIALS

Adeel Ehsan
057-2520236

At Works - Hassanabdal
Dated: 21-09-2016

INTRODUCTION

Materials Department is a supply chain department working under supervision of GM Materials and reporting to Director Finance. Role of materials is to arrange raw & traded goods through various suppliers as per sales orders to planning and production for timely deliveries. Main objective of department is to achieve is to procure at cheapest cost with best quality and within defined lead time.

PROCESS

Materials department takes lead from planning department for demand and shortages. It then triggers its database of suppliers and seeks quotations from different sources. Upon receipt of quotation a techno-commercial comparative is being made and put to competent authority for approval. Once, approved order is placed to vendor / supplier. Payment mode is usually certain defined days after receipt of material. There are few straight re-buys vendors but in most of the cases three quotations is necessary.

FINDINGS

- In depth interview revealed that they are certain problems that includes;

- There are approximately 1700 number of suppliers for different items. These are classified with respect to financial limit of purchase from 1 lac to 5 lac, 5 to 10 lac and 10 lac onwards and also on the basis of local or import vendors.
- There were no or limited frame agreements with vendors, so they need to take RFQs each time for purchase.
- The process of procurement is conventional which requires at least three quotations for comparative and therefore lethargic. Consequently affecting the timely deliveries.
- There are also issues with clarity of information from Sales, planning & engineering regarding procurement of some high tech part / equipment which results in unclear RFQs.
- There were few experience people retired & left the company and to fill their vacuum with young staff will take time. Succession plans need to be devised in this case.
- Regarding organogram, the material department is working under control of finance director so their main focus would be saving. And also it exposes sort of bureaucratic culture.
- We comprehend that there should be frame agreements with suppliers in order to have good relations with them so to arrange cost effective and timely supplies.

INTERVIEW WITH DGM PRODUCTION

Ishtiaq Ahmed
057-2520236

At Works - Hassanabdal
Dated: 26-08-2016

INTRODUCTION

Production is an independent department working under supervision of Factory head, which is Director Technical but in close liaison with planning department. Role of production is to arrange manufacturing of parts, their machining, assembly, testing and handing over to stores for onward dispatch. Main objective of department is to achieve delivery performance of above 95%, with minimum rejection (less than 1.5%).

PROCESS

Production process is of lean manufacturing which is “make to order”. It initiates from planning who after receiving sales order directs the concerned departments to initiate the work. As soon production, receives the order through SAP, they generate casting orders to foundry & parts order to stores. Demand for trading items not in stock, especially electric motors is being raised to Materials Deptt (Supply chain) who arranges those parts as per lead time. After keeping follow up as per plan dates, when they receive parts from foundry, they start machining work. Once it is done and parts from stores, materials arrive, they start assembling the pumps, valves etc. followed by testing on test bed. After successful testing they handover the equipment to Stores.

FINDINGS

In depth interview revealed that they are certain problems that includes;

- Delay in readiness of pumps, etc. the reason identified was that production department receives the castings from foundry usually beyond the lead time. The rejection ratio in some of typical old design items is high on which production has to do rework. Foundry is run on electric furnaces, so power dependency is major issue. Foundry is under consideration for up gradation in coming years and they are hopeful that once it is done, the efficiency will improve.
- Delay in receiving of traded items from materials is significant problem. Also there occur some technical issues in traded items like motors etc. The process of procurement is traditional like having 3 quotations each time prior deciding supplier. In experience & comparatively young staff also needs training to select right supplier and technically correct items especially when dealing in machine parts.
- Machine breakdowns also hinders the production process and sometimes it takes long to rectify it. For example one of balancing machine (CNC imported) took more than 2 months to rectify; meanwhile the balancing was done through manual machine, which was time consuming activity. Maintenance department handles the breakdown but for CNC machine programming access & skills need to be further enhanced.
- There are also issues with inputs from engineering department, as it gives bill of material (BOM) for orders to production. There occur many problems regarding mismatches in assemblies for example, codes, sealing arrangement, impeller dia,

which also result is stuck up of work. Engineering department is lacking with experienced staff and quite young lot is working which shall take time to learn and develop skills.

- Dependency on experienced staff with in production department is another issue. They sometimes need to call off the leaves of such staff even on gazette days in order to complete the delivery. Succession plans need to be devised in this case.
- Customization of product is also one of the reasons for delay as different arrangements of parts both in-house manufactured and traded is required. Production line often needs to be altered as machine settings require re-adjustment for different pumps. However, this is also the competitive advantage and if managed & planned properly with support of supply chain, planning could result in efficient output.

INTERVIEW WITH SALES MANAGER

Rashida Majeed
051-5491481

At Sale office Rawalpindi
Dated: 23-09-2016

INTRODUCTION

Sales department works under supervision of Director Sales & Marketing who reports directly to CEO. There are four sales offices with franchise and dealer network present across Pakistan. Role of Sales is to fetch orders from customers, pass onto factory for manufacturing & delivery and bring back the payments. Main objective of department is to achieve sales targets, increase market share & achieve profits through pricing.

PROCESS

Sales department identify the leads, meets the customers, brings in the order and passes onto Factory. It then follows with factory for timely deliveries and then brings in the payments from credit customers. Sales department operates in five segments which are water & wastewater, Industry, Energy, Building & service.

FINDINGS

In depth interview revealed that they are certain problems that includes;

- Priced competition is being faced due to low cost suppliers in the market. Registration of backyard non-branded manufacturers with public authorities & kick-backs are giving tough time to remain competitive. Tax evasion by backyard suppliers also hits the competition intensely.
- In high end market, they are enjoying the local presence.

- Delayed deliveries from factory are one of the major issues being faced. Consequently annoying the customer and affecting the future relationships.
- Rising trend of receivables is also the critical issue, especially from government departments due to lack of funds availability with them. Sometimes, funds are also re-appropriate resulting in short budgeting with Govt entities.
- Economic crunch & energy crises are also affecting businesses, especially industries as most of them have shifted to other countries therefore loss of opportunity.
- Quite young and lack of experienced sales staff resulting in non-comprehending the customized requests from customers and therefore resulting sometimes in order delays and in arising complaints as well.
- Franchise and dealer network has enhanced the reach however they have insufficient technical expertise.
- About market share of KSB and comparison with other suppliers, a rough data was shared, same has been reflected in appendices above.

INTERVIEW WITH DY. MANAGER SALES

Mr. Irfan Bashir
051-5491481

At Sales office Rawalpindi
Dated: 10-08-2016

INTRODUCTION

Sales department works under supervision of GM Sales & Marketing who reports directly to CEO. There are four sales offices with franchise and dealer network present across Pakistan. Role of Sales is to fetch orders from customers, pass onto factory for manufacturing & delivery and bring back the payments. Main objective of department is to achieve sales targets, increase market share & achieve profits through pricing.

PROCESS

Sales department identify the leads, meets the customers, brings in the order and passes onto Factory. It then follows with factory for timely deliveries and then brings in the payments from credit customers. Sales department operates in five segments which are water & wastewater, Industry, Energy, Building & service. It also give forecast taken from dealers for standard low tech pumps to planning.

FINDINGS

- In depth interview revealed that they are certain problems that includes;
- Accuracy of sales forecast taken from dealers and provided to factory is doubtful.
- Sales monthly targets given by sales staff varies often.
- Strong hold of low tech non-branded competition provides tough time to KSB.

- Kickbacks in public sector is also one of challenge.
- Dealers require extensive technical support from sales as they don't have their own technical expertise
- Economic & energy crises are also hitting the opportunities
- Regarding late response to customer enquiries no firm reply was retrieved, except an argument of low staffing with huge loads
- Sales staff needs training on new product & applications
- Delayed deliveries from factory was one of major concern highlighted
- Delayed response from customer services regarding complaint handling was also reported, reasoning non availability of service personal and sometimes delays in approvals for extended warranties cases.

INTERVIEW WITH DIFFERENT CUSTOMERS

Segments: Industry (AC), Building (Centaurus), Public (WASA), O&G (ARL), Energy (WAPDA)

Telephonic & In Person
Dated: August & September

INTRODUCTION

Five end customers from different segments were selected for questionnaire to have an information from different perspective but on similar lines.

PROCESS

Six parameters were selected to gauge the response. The basis of these parameters were mutual KPIs of customers & supplier (KSB) based on the interview feedback. The rating criteria was 1 minimum to 5 maximum, an average grading from all segments was taken into consideration. A spider web model of value proposition was used to identify the gap between customer's expectation and their actual perception about KSB service & support.

FINDINGS

Easiness to deal through dealers

A part from key accounts, majority of the customers have to buy through dealers etc. Some of them found not happy at all, reasoning delayed responses from dealers and lack of technical expertise. They intent to have direct dealing with company.

High Quality of Product

Customers found having confidence and trust in quality of products from the company. They have high brand image in their minds for both of companies.

Quick delivery time

A genuine concern shown by most of the customers is delayed delivery time. As already explained, this can be a result of too many suppliers at upstream side and absence of frame agreements, EDI etc.

Technical Support

Most of the customers found very effective technical support whenever it is required. However a concern was shown on delayed response.

Innovation

Customers found the company innovative. However they feel that they are not being involved in product innovation or development stage. Their inputs should have been given value.

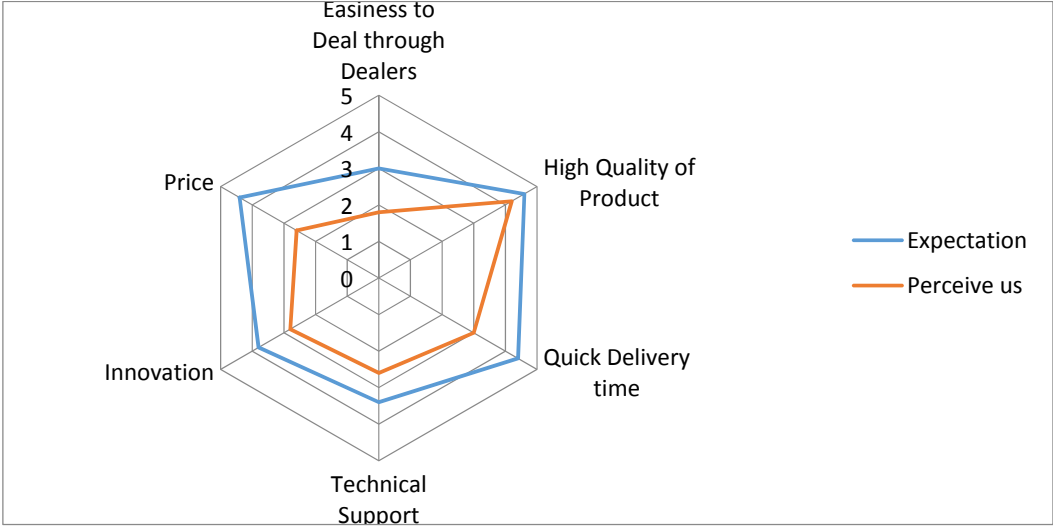
Price

This is a major concern found at customer end. They found the prices of products very high comparative to the open market. A part from quality, reliability and standard product, still customers have feel that prices should be rational.

Gaps Summary

On the customer side, the major issues included the delayed response time to queries and quotations, prolonged delivery times, slow after sales support and high price.

Questions On Scale of 1-5	Variables	1		2		3		4		5		Average	
		Industry		Public		Oil & Gas		Building		Energy			
		Expectation	Perceive	Expectation	Perceive	Expectation	Perceive	Expectation	Perceive	Expectation	Perceive	Expectation	Perceive
Easiness to Deal through Dealers		1	0	4	3	2	1	4	2	4	3	3	1.8
High Quality of Product		5	5	4	4	5	4	5	4	4	4	4.6	4.2
Quick Delivery time		5	3	4	3	5	3	4	3	4	3	4.4	3
Technical Support		2	2	4	3	3	2	5	4	3	2	3.4	2.6
Innovation		5	4	3	3	4	2	3	2	4	3	3.8	2.8
Price		5	3	5	2	4	3	4	2	4	3	4.4	2.6



INTERVIEW WITH DIFFERENT DEALERS

Segments: Industry & Classified (IMEC), Building (MMC), Public (SEA)

Telephonic & In Person

Dated: August & September

INTRODUCTION

Three dealers from different segments were selected for questionnaire to have an information from different perspective but on similar lines.

PROCESS

Six parameters were selected to gauge the response. The basis of these parameters were mutual KPIs of Dealer & supplier (KSB) based on the interview feedback. The rating criteria was 1 minimum to 5 maximum, an average grading from all segments was taken into consideration. A spider web model of value proposition was used to identify the gap between dealer's expectation and their actual perception about KSB service & support.

FINDINGS

Mutual target setting

The distributors are the front end players. The gaps clearly indicate that these are not involved in setting the sales targets either annual or monthly or client wise. This results in lack of ownership from their end.

Trainings

Dealers are not taken on board in terms of trainings on products. At product development stage dealers are not invited to get know-how and therefore they

cannot create market base for upcoming new products. However few dealers have been given preference but not through some standardized procedure. On the other hand, dealer's intention is not to invest more on staffing and getting people well trained due to involvement of expense.

Response to Queries

There is no such mechanism where the inputs or suggestions of distributor / dealers are locked and compiled. They are front force and provide market insight which is not being entertained at appropriate level.

Brand Guidelines

KSB has powerful brand image & its worth has to be maintained through proper guidelines, SOP which however is not being entertained at downstream end due to lack of training and approach. Customers have different feel while approaching directly to companies or to their dealers.

Bring Customer Insight

Due to absence of structures forum the customer insight brought by dealers is not being locked, recorded or analyzed. Being present and more in contact with customer, dealers can add more value to the products and processes, however they are not being handled in this way.

Quick Warranty Support

There is slow warranty support at dealer's end to end customers, reasoning lack of man-power and especially trained human resource. Dealers don't want to invest at their own and companies don't run structured training programs throughout the year.

GAPs Summary

On the delivery side, highlighted issues included lack of customer insight and value addition from dealers and franchisers. Though distributors are placed geographically yet, no clear boundaries were defined between dealer and franchise domains for handling customers as both worked independently. The

selection criteria for distributors were highly influenced by favoritism. The dealers had little knowledge about the company’s Global image and product awareness especially related to new products. The level of staff training at dealer and franchiser was inadequate. Managing the different franchises and dealers was quite a tedious task and required significant improvements. The order delivery system from Distributors was still manual. The sales and service support was primarily provided by company due to lack of trained man-power at distributor end.

Questions On Scale of 1-5	Variables	Franchise & Dealers										Average	
		1		2		3		4		5			
		Dealer		Dealer		Franchise		Dealer		Dealer		Expectation	Perceive
Does KSB involve you in setting annual sales target?	Mutual Target Setting	4	2	2	1	3	1	1	0	1	0	2.2	0.8
Does KSB train you on new equipment?	Training	3	0	2	0	4	1	2	0	1	0	2.4	0.2
KSB response to your queries in timely manner?	Response to Queries	5	2	4	1	5	3	4	1	3	1	4.2	1.6
Are there any brand guidelines provided to you by KSB (Importance of brand image)	Brand Guidelines	3	1	1	0	3	1	2	1	1	0	2	0.6
Does KSB encourage you to bring customer insight?	Bring Customer insight	5	2	3	1	4	2	4	1	3	1	3.8	1.4
Does KSB provide quick warranty support	Quick warranty support	4	1	5	2	5	2	4	1	5	1	4.6	1.4

