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DEL: Against All Odds (A)

Abstract

When Sunil Dalal joined Digital Electronics Limited (DEL), an instrumentation products manufacturer and distributor, in 1991, he had no idea of what he was getting into. DEL was his father's venture and Sunil had decided to support him in growing the business. Initially Sunil had no specific role; he was going to spend the first few months understanding the business and over time find his true calling. Sunil had spent the prior four years in the U.S. studying engineering and management of technology, having a great time as a student. He arrived back in India, charged up, ready to join his father. He was only 21 years old. Sunil had been brought up in a wealthy Gujarati business family in India, in a protective, cared for environment. In a way Sunil had been brought up in a bubble. The bubble was about to burst.

John Hunt and Geetu Sharma prepared this case under the supervision of John Mullins, David and Elaine Potter Foundation Term Associate Professor of Management Practice, London Business School, as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Some names and places have been disguised. The authors thank the Goldman Sachs 10,000 Women Programme for its support of this project.

The early history of DEL

Sunil's father, Kishore Dalal, founded DEL in 1973 in Mumbai, India. Dalal had already started experimenting with a few other ventures over the previous 10 years, but they were yet to succeed. He could have remained in the U.S. after completing his engineering degree in 1963, but he had wanted to start something of his own and contribute to the development of his home country. He had continued to explore various options until he met with an old friend, George Moore. George had founded Houston Instruments (HI) in the U.S. and Dalal, impressed with HI's range of products and technical expertise, agreed a licensing agreement with Moore to manufacture and market HI products in India. DEL was born.

DEL's first product was a 'Strip Chart Recorder', an instrument that was used in manufacturing plants to monitor and record critical process parameters. It could also be used in research, connected to laboratory equipment to collect electronic signals and chart the data on paper. DEL's HI-based Strip Chart Recorder was the first of its kind in India and DEL was the only manufacturer. Although there were some initial quality issues, the product was successful among colleges and universities. Enthused by the success of this product, DEL introduced more HI products over the coming years. In the early 1980's HI invented a 'Pen Plotter', which was the first plotter or 'wide format printer' to connect to a computer and print on paper using automated pens. The primary markets for pen plotters were architectural and engineering drawing offices. DEL swiftly followed HI's lead and introduced pen plotters in India in 1985. (See Exhibit 1 for pictures of DEL's products).

However, the elder Dalal was not satisfied. He wanted DEL to offer more than just HI products. So in the mid 80s, DEL worked with the Indian Metrological Department (IMD) and the Indian Institute of Technology (IIT) and designed and developed a weather monitoring system[1]. Up until this time the IMD had imported weather monitoring devices, incurring heavy import duties. Now the IMD could buy an Indian product for a fraction of the price. While the financial impact of the weather monitoring system was small, it went a long way in cementing DEL's reputation as a manufacturer of high quality technical instruments, and also reinforced Dalal's belief in his own abilities.

Settling in and making an impact

By 1991, when Sunil joined DEL, the company had grown to 150 employees, had revenues of $2.2m and was profitable. Sunil started by trying to understand the products, meeting customers and employees, and designing company brochures for marketing purposes. He soon realized that his father's interest had mainly been in the technical aspects of the business. The commercial side, especially sales, finance and cash management, had been delegated to a hired commercial manager, titled the Executive Director (ED).

[1] This device received microwave communication from a 'Sonde' regarding temperature, atmospheric pressure, humidity etc. A 'Sonde' was a transmitter attached to a helium balloon and sent into the upper atmosphere.

A few months after joining, Sunil started to meet with unions and negotiate pay deals on behalf of management. This had previously been handled by the ED. In doing so, Sunil soon realized that the ED was creating problems between the management and the union only to solve those problems later. “He was, in his view enhancing his reputation and cementing his importance to the business. But I was appalled!” Naturally Sunil confronted the ED over this, and of course he heard a whole range of denials. This also led to some disagreements between father and son on how the company should be managed. The months dragged and the conflict continued, only to be resolved when Kishore Dalal finally found documentary proof of the ED’s machinations. The ED left, but, unexpectedly, Kishore decided to retire from the business, too. After announcing that “this business is not big enough for both of us” he left to carry on the family equity investing business in Mumbai.

Sunil, at the age of 23, became the CEO of DEL. He had already learned his first lessons. While technology is important, knowing the numbers that lie behind the business and having a coherent market strategy are the critical factors for success.

Liberalization of the Indian economy

Until 1991 India operated under a system known as the “License Raj”. All industries were protected by extensive regulation and licensing, with a heavy emphasis on import substitution, localized manufacturing and state control in financial and labour markets. However in 1990 and 1991 two historical events pushed India down the path of reform. First the onset of the first gulf war pushed oil prices to historically high levels[2]. India, being a large importer of oil, started to run a high deficit and its foreign reserves quickly depleted. Second, in 1991, the collapse of communism and the fall of the Soviet Union, which at that time was India’s largest trading partner, meant that India had to start searching for new trading alliances.

With an external debt of $84bn and foreign reserves of only $5bn, barely enough to pay for 2-3 weeks of imports, India sought a bailout loan from the International Monetary Fund and in turn agreed to introduce economic reforms[3]. India adopted several new policies for the economic liberalization of the country. It did away with the “License Raj” and ended many public monopolies, allowing automatic approval of foreign direct investment in many industries. Import duties were slashed and quantitative restrictions on imports reduced. A number of new policies were introduced to reform the financial and capital markets to attract foreign capital and investment. The impact of these measures was immediate and lasting. Over the next 15 years, growth rates in India averaged 6-7% per annum, high when compared with the historical average of 3-4% per annum from 1950 to1991[4].

These economic changes also changed the business environment in India. With the abolition of the “License Raj”, new domestic and international players entered every industry, increasing competition but also enabling existing players to leverage new products and technologies from international markets. Existing firms were suddenly

[2] Prices rose from $21 per barrel at the end of July 1990 to $46 by mid-October, 1990.
[3] Source: Reserve Bank of India
[4] Source: Reserve Bank of India

exposed to the vulnerability of their businesses in this globally competitive environment. While many firms restructured themselves to face this new challenge and emerged stronger, some failed or went bankrupt. Finally the liberalization offered huge benefits to the Indian consumer as access to cheaper, better, and more advanced products increased.

Sunil's first brush with adversity

DEL was not spared by the sweeping changes occurring in the Indian economy. Up until that point most foreign players in the technology space were acting through small distributors and had little interest in India. But with the opening up of the economy, they saw an attractive market, and set up subsidiaries or formed joint ventures to take advantage of it. Firms such as Hewlett Packard (HP), Honeywell, Yokogawa, and Siemens entered the Indian market with their more advanced products. As Sunil recalled, "We soon found ourselves under intense pressure."

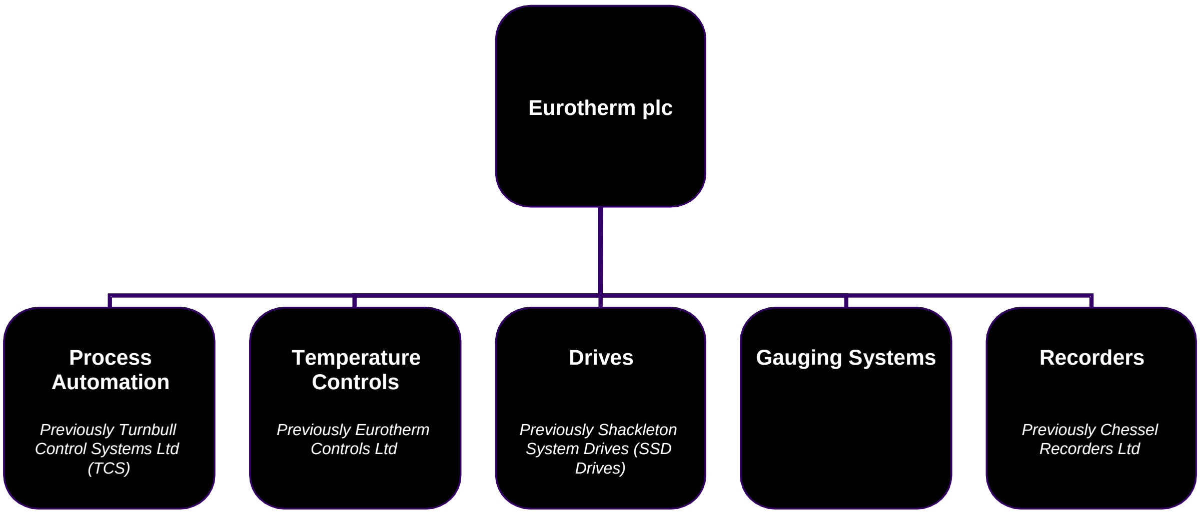
In the early 1990's HP launched its inkjet plotter range in India which, with their high speed and superior quality, made pen plotters instantly obsolete and put DEL in a precarious situation. Even HI in the U.S. found it difficult to compete and because of HP's superior technology pen plotters started to fall out of favour all over the world.

Sunil realized that he would be without a business and scrambled to act before it was too late. Realizing that his key strength lay in his well established distribution network, rather than manufacturing, he searched for a new product to import and sell through his sales team. Leveraging on DEL's reputation, Sunil arranged a meeting with Eurotherm, a British engineering firm that sold process automation and monitoring products. At this time Eurotherm was a mid-sized company with ~$400m of revenues and was listed on the London Stock Exchange. One of their successful products was a device called a recorder which recorded process information for plant managers to analyse.

With declining sales of plotters and DEL's unions starting to make trouble for the business because of expected lay-offs, Sunil signed up with Eurotherm and started the process of retraining his workforce to manufacture, sell and service Eurotherm recorders.

Eurotherm plc

Eurotherm had been founded in 1965 in a small town called Worthing on the South Coast of the United Kingdom. The first business, Eurotherm Controls, manufactured temperature controllers for industrial processes. More businesses were started soon after and these were named after each of their founding directors. Chessell Ltd was created to manufacture data recorders, while Turnbull Control Systems (TCS) was formed to produce advanced process control systems, and Shackleton System Drives (SSD) to produce variable speed electronic drives. All four companies marketed their specialist offerings internationally, and in 1974 it was decided to create an international holding company, Eurotherm International, to bring management control together under one umbrella. By 1978 the highly successful holding company was strong enough to "go public" and it became quoted on the London Stock Exchange in May of that year. In 1993, when Sunil signed the joint venture agreement, the corporate structure, which would prove pivotal in later years, was as follows:



Process Automation. Process automation products were used to provide complete control of processes such as stability in manufacturing processes. Relevant industries included plastic extrusion, heat treatment and semiconductor processing.

Temperature Controls. Temperature control products were used for controlling heat during manufacturing processes. Uses included furnaces for production of metals and alloys or heaters used in plastic extrusion. These controls were often very complex and used lasers or high frequency waves to track and manage temperatures, as actual immersion of temperature sensors in the process would destroy the sensors due to the extremely high temperatures at which these processes operated.

Drives. AC drives and DC drives controlled the rotational speed of an electric motor by regulating the frequency of the electric power supplied to that motor. Control of speed, tension and torque was essential to many industries where 'rolls' of product were produced, such as paper manufacturing and paper products, the manufacture of steel sheets, or plastic extrusion.

Gauging Systems. Gauging systems measured the thickness of a product on a production line using non-contact methods (usually optics). They were necessary in the production of paper, glass and other products.

Recorders. Recorders measured and recorded various aspects of manufacturing processes so that managers could track performance and make necessary changes. Types included Paperless Graphic Recorders, Strip Chart Recorders and Circular Recorders for data recording, archiving and other management needs.

Eurotherm in India

In addition to the agreement with DEL for sale of recorders in India, Eurotherm had a joint venture in Chennai (the capital city of Tamil Nadu, in the South of India) called Turnbull Control Systems India (TCS India). The joint venture was with a local entrepreneur named Ramachandran. Ramachandran did not solely sell process automation equipment supplied under the Turnbull Controls brand, but rather operated as a systems integrator by combining various Eurotherm products to provide automation solutions for manufacturing plants in industries such as pharmaceuticals, plastics, glass and paper manufacturing. Being a solution provider, Ramachandran was not directly competing with other instrumentation product suppliers, including DEL, but had access to Eurotherm's full range of products.

Another threat arises

The recorders licensed from Eurotherm were a run-away success. In Sunil's words, "We were able to leverage our existing customer relationships to open this new market." Other manufacturers were present in the market, including multinationals such as Honeywell and Yokogawa, but they struggled to establish distributor relationships and DEL benefited as a result. By 1995, DEL was the clear market leader in the recorders business. But, as ever, there seemed to be a cloud on the horizon. "We knew that recorders and recording techniques were quickly becoming obsolete and would be replaced by computer-based control systems. But our knowledge of such systems was limited although we had a desire to try and enter this new industry." Knowing that his business was under threat, Sunil realized that he needed to diversify into other product segments. "We had to find new avenues for growth and we had to find them fast."

Sunil approached Eurotherm to distribute their other products in India. Eurotherm 'hemmed and hawed' for a while and pointed out that they already had a joint venture partner in India. Eurotherm was more interested in expanding its U.K. and European business and saw India as a non-core market and an opportunity to earn incremental revenue only. In Sunil's words, "They couldn't care less".

Seeing Eurotherm's cold response, Sunil directly approached Ramachandran to consider options for partnering, hoping that they could come to an agreement to leverage their complementary strengths. In Sunil's eyes DEL could market Eurotherm products in western India where it had a strong foothold while Ramachandran could concentrate on southern India. Together they could grow the business much faster. However, Ramachandran saw that Sunil had a more advantageous position and gave him short shrift.

Sunil felt cornered. DEL was Eurotherm's distributor for recorders in India but it only had access to what in Sunil's mind was a dying product. Eurotherm was unresponsive and Ramachandran would have been the last person to help him. Sunil was left with limited options.

Calling Eurotherm's bluff

Though things looked bleak, Sunil was not the kind of man to give up. As Sunil put it, "There was little hope for our recorder business with Eurotherm, so we had to find another partner." In June 1995 DEL entered into an agreement with Siemens (Germany) and Shimaden (Japan) to distribute their wider range of instrumentation products in India. Now DEL had a product line which was not under threat from obsolescence; though it was in direct competition with Ramachandran and Eurotherm.

Understandably Eurotherm was upset. But Sunil thought he had the upper hand. In his view, despite his predicament, "They needed us more than I needed them. The rumour was that Eurotherm and Ramachandran were having difficulties in their relationship and that Eurotherm feared that our expertise and superior distribution network would kill their business in India, which had become more significant over time. The pressure created on Eurotherm was worth the risk."

Sunil's courage was rewarded. In early 1996 Eurotherm pushed Ramachandran to sell his 49% stake in TCS India (subsequently renamed as Eurotherm India Limited (EIL) to Sunil. Sunil jumped at the opportunity and negotiated to buy Ramachandran's stake for $500,000. The money was lent to Sunil by his father and came from the family investments business. Sunil was now the sole distributor for the entire Eurotherm product line in India.

Integration challenges

Sunil was now running both DEL in Mumbai and EIL in Chennai (See Exhibit 2 for a map of India). Integrating the Chennai operation with his existing business was proving a difficult task. Sunil faced cultural clashes as the EIL employees in Chennai were mostly Tamils (natives of Tamil Nadu), spoke the Tamil language and had a strong link to the prior owner, Ramachandran. Many workers viewed Sunil as a Gujarati broker[5], implying that Sunil was only interested in doing deals and making money, and thus not "one of them". They feared that operations in Chennai would close and jobs would be moved to Mumbai, Sunil's home town. Scepticism of his decisions rose.

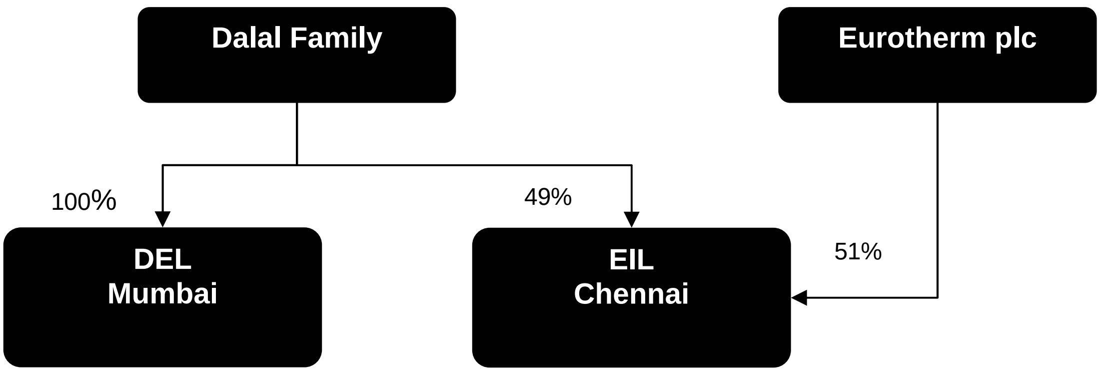
This was a tough time for Sunil. In March 1996 he married and then in July Kishore, his father, became seriously ill. At the same time he was spending 3 days a week in Chennai in order to manage his newly acquired business. Within 6 months of the purchase Sunil had lost 4 of the top engineers in Chennai, all of them leaving to join Ramachandran in a new venture. Two senior managers remained though and slowly, but surely, the two businesses moved closer together and things improved. Instrumental during this period was Sunil's relationship with his sales manager in Chennai, Balaji. Balaji had joined Ramachandran in 1995 and had been the pioneer in the drives business in TCS India, pushing for sales and growth when others did not see the value in the division. By the time of Ramachandran's exit, drives had become one of the most important constituent part of the company's turnover. Balaji would prove to be invaluable to Sunil as time progressed.

[5] "Dalal" in Hindi means "broker".

Ownership structure

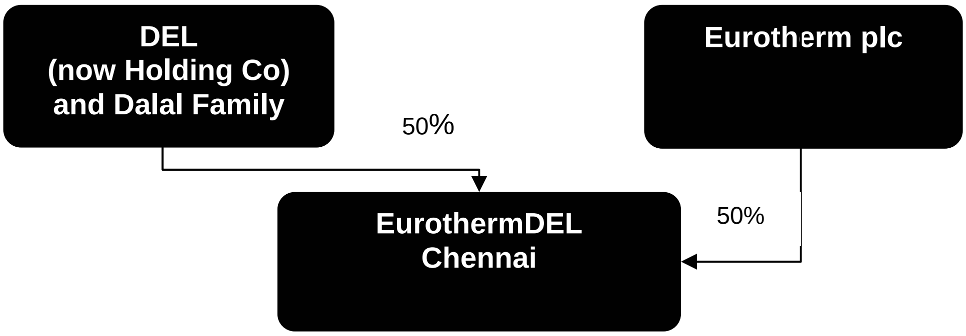
The acquisition of EIL also caused ownership and managerial problems. Sunil owned all of DEL and was free to take his own decisions. However Eurotherm was the majority 51% owner of EIL in Chennai. Therefore when joint decisions had to be made with both the firms involved Sunil usually had to defer to Peter Jones, Eurotherm's Deputy Finance Director and Sunil's main point of contact. While Jones trusted Sunil's judgement and usually let him run the show, the shared ownership still delayed the decision making process. "It was awkward at times, and made it harder to be responsive to customers," Sunil recalled. A diagram of the ownership structure is shown below.

Holding structure



The formation of EurothermDEL

Sunil was not happy with his minority position in EIL, so after negotiations he convinced Eurotherm to allow EIL to buy DEL's Eurotherm operations (i.e., DEL's controls and instrumentation business) so that both the businesses would be under one legal entity with equal shareholding between Sunil and Eurotherm. Negotiating the deal on behalf of Eurotherm was Peter Jones. Sunil and Jones agreed the following structure:



Sunil sold his Mumbai current assets to EIL for $1m (Rs 41.3 mn) and received $700,000 in cash and the balance in stock of the newly enlarged company. DEL was turned into a holding company for Sunil and some other family assets. EIL was renamed EurothermDEL and Eurotherm and Sunil entered into a new joint venture agreement (See Exhibit 3 for key terms of the joint venture agreement). Crucially while the holding was split equally, Jones insisted that Eurotherm retain four of the seven board seats so that Eurotherm would be able to consolidate EurothermDEL's strong financial performance into its financial statements. Sunil thought nothing of this at first, but it was a decision that later returned to haunt him.

Growth of EurothermDEL

Sunil redoubled his efforts to grow EurothermDEL. While he received a lot of technical and product support from Eurotherm, he was left alone to independently run the business, in part because Eurotherm's beginnings were very entrepreneurial and this culture still ran right through the organisation. The company was decentralized with little emphasis on policies and procedures. Sunil's main contact at Eurotherm continued to be Peter Jones, and Sunil and Jones got along very well. Eurotherm looked upon Sunil as a partner and not as an employee. There was little interference and Sunil was left to get on with the day to day management. To Sunil it seemed like a perfect marriage.

Sunil made the most of his non-technical entry into the industry. Many of his local competitors were run by technicians turned managers who liked the sound of a big deal but did not understand the financial consequences. To Sunil cash was king and the business was converting almost 80-90% of its revenues into cash. Eurotherm monitored performance through a "PBT to Cash Conversion Ratio" and this measure enabled EurothermDEL to look at business opportunities differently than his competitors. Whereas his competitors chased the large, but often ruinous deal, which was heavy with penalty clauses; Sunil opted for the smaller contracts with less powerful clients that placed smaller orders, but put the firm at less financial risk.

As a result the business grew strongly and EurothermDEL became a market leader in some of its target industries such as glass, steel, auto ancillaries and rubber. Furthermore the firm had started to specialise in systems integration, not just selling individual Eurotherm products but designing complete systems and providing installation and maintenance services throughout the products' life. Not only did systems integration provide additional revenues, it also helped build strong customer relationships that lasted after the initial sale. Sunil's strategy was to focus on the side processes of key industries where he did not directly compete with the larger players such as Honeywell or ABB. It was here that he could differentiate and create a niche, outside of the watchful eye of big competitors.

Buyout by Invensys plc

As ever in Sunil's world, or so it seemed to him, good things never lasted forever. In June 1998, Eurotherm was bought by Invensys plc, a British engineering firm listed on the London Stock Exchange. Invensys had been formed by the merger in 1999 of Siebe plc and BTR plc two large British engineering firms. Alan Yurko, CEO of Siebe, became the leader of the joint company and undertook a strategy of growth through acquisition.

It was the late 1990's and the technology sector was booming. Huge multiples in technology M&A deals were the norm. Eurotherm was well established in the process / factory automation sector and seemed like a good target. Moreover, the original founders were getting old. They had made a lot of money in the IPO of 1978 and had continued to take significant dividends out of the business since then. While growth had continued and the founders enjoyed their achievements they had failed to develop a second generation of management. Cashing out was the best alternative. Accordingly Invensys acquired Eurotherm at 2.5 times revenue, which Peter Jones later proclaimed was a "very good deal" for the founders.

A turning point

The acquisition by Invensys was a major turning point both for Eurotherm and for EurothermDEL. Invensys was a professionally managed company. It had clear, well established policies and regulations for conducting business along with financial targets. Invensys focused on financial performance and as long as sub-divisions met the financial targets, there were no problems. This was very unlike Eurotherm's working environment, which encouraged entrepreneurial spirit, innovation and risk taking. As Peter Jones said, "the acquisition of Invensys was the end of entrepreneurship at Eurotherm". Within a year the remaining founder had left, Jones was moved to Holland helping to run Baan, another of Alan Yurko's acquisitions, and a replacement GM, Tom Peterson, had been named.

Peterson had been a sales manager at Eurotherm and had spent 11 years in the Netherlands growing the business in that region. He had little experience in senior leadership and had not been involved in the evolution of the relationship between Eurotherm and DEL. His experience was mainly in sales and he had not run a business before.

Invensys began to impose its rules and regulations on EurothermDEL. They wanted to ensure that all their subsidiaries followed Invensys' global policies and detailed approval procedures. However, what Peterson failed to realize was that EurothermDEL was not a subsidiary. It was a joint venture where Eurotherm (now Invensys) and Sunil had equal stakes. Moreover, under the terms of the joint venture agreement, Sunil's role had been more of an independent business head of EurothermDEL with total autonomy in operations while Eurotherm was like a technical partner. So when Peterson started interfering in the day to day operations of EurothermDEL, Sunil was quite taken aback. For instance, Peterson asked Sunil to justify the number of employees at EurothermDEL and why it was not in line with Invensys' global "Revenue per Employee" policy. EurothermDEL was required to seek Invensys' approval before bidding for a contract of more than $300,000 in value, when they were earlier allowed to independently bid for contracts of any value. EurothermDEL was also asked to implement the Baan information system which was being adopted in Invensys internationally.

Sunil decides to get out

Sunil resented such interference. Besides the fact that EurothermDEL was not a subsidiary of Invensys, and thus should not be subject to Invensys' global policies, Sunil did not like being bossed around. He found it difficult to keep Peterson at bay and to shield the internal operations of the company from this destructive and growing rift. Sunil's motivation started to wane. He felt he was an entrepreneur whereas Peterson treated him like an employee. "I could see the writing on the wall – dealing with policies and procedures at Invensys would take away all my time and I would not be able to concentrate on growing the business." In September 2000, with great reluctance, Sunil decided to exit from the joint venture that he had worked so hard to build and sell his 50 per cent stake to Invensys. Over the next 9 months, Invensys and Sunil negotiated and agreed on a price of $3m for the UniDEL Group's stake.

Once again external factors intervened. The technology sector had gone from boom to bust and Invensys started to feel the cost of its numerous acquisitions. Alan Yurko was fired. Internally Invensys' cash flows plunged and debt covenants were breached. In May 2001 Sunil was told that Invensys had decided against the deal and the EurothermDEL purchase was cancelled. There was simply no cash to pay Sunil.

It didn't stop there. Invensys was prepared to put any asset up for sale if a buyer was interested. Then one day in November 2002 Sunil learnt through an off-hand comment from Peterson that Invensys had decided to sell Eurotherm's drives business to a private equity firm, Compass Partners. Compass had plans to rename the business SSD Drives (the original Shackleton System Drives name, a brand that still had resonance in the market). In fact Compass had already taken possession of the business before Sunil had the conversation with Peterson.

Staring into the abyss

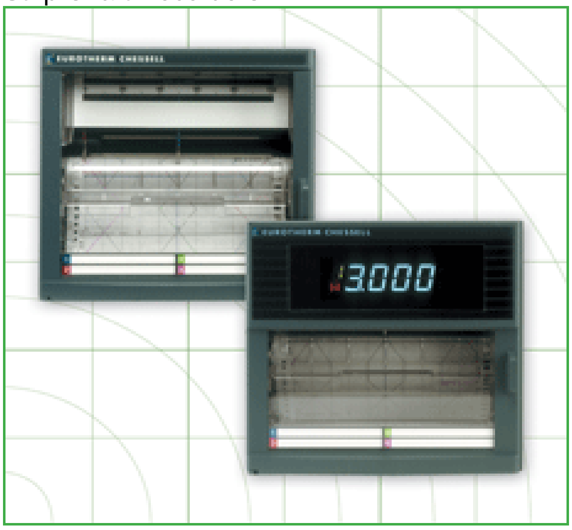
Sunil was stunned. Almost 50% of his revenues (and a similar portion of his profits) had been sold from underneath him, as drives were no longer part of Eurotherm (now Invensys), thus no longer part of the joint venture; and without his consultation or without any compensation, too.

Sunil felt cheated. EurothermDEL had become a market leader in many of its target operating industries such as glass, steel, auto ancillaries and rubber. (See Exhibit 3 for a chronology of the company's history to date.) Sunil's strategy had been to focus on the side processes of key industries where he did not directly compete with the larger players such as Honeywell or ABB. It was here that he could differentiate and create a niche, outside of the watchful eye of big competitors. By 2002, EurothermDEL had become a $6 mn revenue business. Drives contributed 44% of these revenues under the stewardship of Balaji while other Eurotherm products made up the balance. (See Exhibit 4 for summary financials.) Sunil had come a long way in a short space of time, but all that he had created was now threatened yet again.

Sunil questioned the survival of EurothermDEL without the fast growing drives business. If Invensys no longer owned the drives business, how could EurothermDEL distribute those drives in India? Would his clients still want to deal with him now that his firm did not represent the most popular range of drives in the market? What should he do to protect his and EurothermDEL's interests? What options did he have? Indeed, were there any?

Exhibit 1: Instrumentation products

Strip Chart Recorders



Pen Plotters

Inkjet Plotters

AC Drives

DC Drives

Exhibit 2: Map of India

Source: www.cia.gov

Exhibit 3: Extracts of the Joint Venture Agreement between UniDEL Group (Dalal family & DEL) and Eurotherm Group (April, 1998)

Acquisition: The Control & Instrumentations division of DEL will be acquired by EurothermDEL for US$ 1m (Rs 41.3 mn) to be funded as follows:

- US$ 0.3m from the internal resources of EurothermDEL
- US$ 0.35m from Eurotherm plc by way of increase in share capital
- US$ 0.35m from UniDEL Group by way of increase in share capital.

Reorganisation: EurothermDEL to integrate its sales and customer support force with DEL. The people concerned at DEL will be transferred to EurothermDEL.

Business of EurothermDEL: Shall be the manufacture, sale and exploitation of products and systems from Eurotherm's Process Automation, Recorders, Controls, Drives and Gauging Systems companies.

Share Capital / Equity Ratio: Eurotherm Group and the UniDEL Group will have equal equity participation in EurothermDEL. In order to increase the shareholding of the UniDEL Group from 49% to 50% in EurothermDEL, the joint venture shall privately place additional shares at book value in favour of the UniDEL Group.

Directors: The total strength of the Board of Directors of EurothermDEL will be seven. Eurotherm Group will have the right to nominate four Directors and the UniDEL Group shall have the right to nominate three Directors to the Board.

Managing Director: The UniDEL Group shall be entitled to nominate for appointment any one of its nominee / designated directors as the Managing Director of the company who will have substantial powers of management of the Company with power to appoint and dismiss officers, and to enter into contracts on behalf of the company and in the ordinary course of business.

Chairman: The Directors shall elect among themselves a Chairman of the Board, who will have a casting vote.

Representations: Eurotherm and the UniDEL Group jointly and severally agree to ensure that the provisions of this agreement are fully and faithfully complied with and implemented; and shall not adopt any decision which is inconsistent with any of the provisions of this agreement.

Representations only by Eurotherm Group: Eurotherm Group shall not directly or indirectly engage in the manufacture, assembling, marketing and distribution of the products sold by EurothermDEL or goods similar or incidental to or competing with the said products in India except as mentioned in this agreement. If Eurotherm desires to manufacture, sell or distribute in India any other products of Eurotherm Group not already handled by EurothermDEL, Eurotherm will give it the first right of refusal for such new products.

Transfer of shares: If at any time, Eurotherm or DEL desire to transfer all or any shares held by it in EurothermDEL, it shall first offer all such shares to the other party at the current market value or fair value as determined by an independent accountant. Only if the other party declines the offer, may the shares be sold to a third party.

Termination: The Agreement may be terminated at any time after 7 years

Governing Law: This Agreement shall be governed by the laws of India.

Joint Venture Status: EurothermDEL is understood by both Eurotherm Group and the DEL to be a joint venture company managed by the UniDEL Group in full co-operation with Eurotherm Group. Eurotherm Group exercises “dominant influence” over EurothermDEL by virtue of its supply of technology and products and its Board majority but understands that DEL has full day to day control of the affairs of the company.

Exhibit 4: Chronology of Events

Time	Company/Event	Activity	Financials (US$ m)
1973-1991	Digital Electronics Limited (DEL) set up and led by Kishore Dalal	Manufacturing of electronic instruments	1991: Sales: US $2.2 EBITDA: $0.5
1991	Economic liberalization in India	Intense foreign competition	General decline
1993	Technology transfer with Eurotherm plc, UK	Manufacturing under license from Eurotherm	Sales: $2.5 EBITDA: $0.2
1996	Buyout of Turnbull Controls, Chennai; DEL 49% & Eurotherm plc, UK 51%	Turnkey automation solutions	Sales: $3.0 EBITDA: $0.1 Assets: $1.4
1998	Merger of Turnbull Controls and DEL business; JV converted to 50/50 with Board majority to Eurotherm plc ("dominant influence" for Plc consolidation)	Turnkey automation solutions & distribution of automation products	DEL sells for $1.0 financed by JV's cash and fresh capitalization by both partners.
1998-2001	Eurotherm plc bought by Invensys plc for US$750 mn; No change in India JV structure	Business growth and consolidation	EurothermDEL makes dividend payments $1.4 to its shareholders
2001	Invensys sells 50% of Eurotherm (its drives Business) for an estimated US$150 mn to a UK private equity firm - Compass Partners	Business growth and consolidation	Sales: $6.1 EBITDA: $1.0

Exhibit 5: Summary Financials of EurothermDEL

Eurotherm Del - Summary Financials 1999-2002 (US$ mn)	1999-2000			2000-01			2001-02		
	C&I	Drives	Total	C&I	Drives	Total	C&I	Drives	Total
Sales	3.3	1.1	4.4	2.8	2.3	5.0	3.4	2.7	6.1
Gross Margin	1.3	0.5	1.8	1.0	0.9	1.9	1.2	0.9	2.1
Gross Margin - %	40%	42%	41%	38%	40%	39%	35%	35%	35%
EBITDA	0.4	0.3	0.7	0.3	0.6	0.9	0.5	0.5	1.0
EBITDA - %	12%	23%	15%	12%	25%	18%	14%	19%	16%

Financial years are April 1 to March 31

Summary Balance Sheet 2002 (US$ mn)	2002
Assets	
Net Block	0.06
Current Assets	1.52
Total Assets	1.58
Liabilities	
Current	0.91
Long term Debt	0.17
Shareholders Equity	0.50

ecch:

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LBS REF: CS-09-018
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DEL: Against All Odds (B)

Abstract

It was August 2005 and Sunil Dalal was facing the toughest decision of his career. He had already come far and overcome great odds since 1991 after taking over his father's business supplying the Indian factory and process automation sector. Now, yet again, EurothermDEL was facing the loss of one of its key businesses as well as a deteriorating relationship with his long standing multinational joint venture partner. Should Sunil try and patch it up with his partner? Should he seek a new supplier or try and keep the old one? Or should he try and get out of the business all together. Sunil could not work out which direction to take; all he knew was that time was running out.

John Hunt and Geetu Sharma prepared this case under the supervision of John Mullins, David and Elaine Potter Foundation Term Associate Professor of Management Practice, London Business School, as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Some names and places have been disguised. The authors thank the Goldman Sachs 10,000 Women Programme for its support of this project.

What happened

Thinking over the issue of what to do about the sale of Eurotherm's drives business, Sunil Dalal realised that there was little he could do, in the immediate term at least. As part of the deal to sell SSD Drives to Compass Partners, Eurotherm management had negotiated a three year contract (Nov 2002 - Nov 2005) with Compass to supply SSD drives to all Eurotherm subsidiaries / joint ventures under existing arrangements. This gave Sunil three years breathing space for selling SSD drives within EurothermDEL, but, as Sunil put it, "I had no doubt that the long term future of the joint venture was in jeopardy."

Sense of insecurity

Sunil and EurothermDEL felt more insecure than ever. The source of half the firm's revenues had been sold without Sunil's knowledge. The drives business was now under new ownership, a private equity firm no less. And who knew how long SSD Drives would remain in the private equity firm's hands and who the next acquirer would be? The sale had also brought other emotions to fore.

Sense of injustice

Sunil felt a profound sense of injustice. Under Sunil's stewardship EurothermDEL had become the fastest growing seller of drives outside of the UK for the Eurotherm group. It had also surpassed the UK operations in terms of profitability margins. While Sunil recognised the strength of the Eurotherm brand and the quality of the product, he also knew that a large part of EurothermDEL's success had come from its excellence in sales and in execution in systems integration; something that Sunil had spent many years fostering in the company. With this in mind, did not some of the $150m that Invensys received for SSD Drives belong to EurothermDEL, at least what was proportionate to the Indian share of the global business? At the very least should he not have been consulted about the sale of a business that brought 44% of his sales and even more of his profit? Sunil brought this up with the Invensys board and Tom Peterson, but was given short shrift. When he pushed the issue of compensation, and the legality of the sale, the reply was "So sue us." Sunil was shocked, but he did not forget the comments made to him by the Eurotherm management team.

Then there were question marks over Peterson and his role in the sale. As CEO of Eurotherm he must have been at the heart of the deal. But Peterson was also part of the EurothermDEL board. Did he not have a fiduciary duty[1] to EurothermDEL to notify the board of this important decision? Where did Peterson's loyalties lie? Sunil mulled over these thoughts as he started to consider the future options for his business.

[1] Fiduciary Duty is an integral part of UK and Indian corporate law (as well as in many other jurisdictions), where board members of any corporation have a responsibility to act in the best interests of that corporation even if the board member has a conflict of interest.

The relationship sours further

Not only did Sunil feel let down, he found that his working relationship with the Eurotherm management was getting worse. As a result of having overpaid for some of its acquisitions and financing them with heavy debt loads, Invensys' financial situation was deteriorating, which led to a round of re-financing with their bankers. Adequate funding was found but it led to onerous conditions and covenants being placed on the company and its divisions.

Sunil started to feel the pressure, too, as Peterson imposed more restrictions on Sunil in managing the day-to-day operations at EurothermDEL (See Exhibit 1). Sunil felt that this was against the spirit and the letter of the joint venture agreement he had with Eurotherm (as shown in Exhibit 3 of DEL: Against All Odds (A)). EurothermDEL was not even a Eurotherm company, and Sunil was not a Eurotherm employee in the legal sense. "Why are we being subject to all this?" Sunil thought to himself.

While the business grows

Although there was difficulty in the board room, sales continued to expand. Balaji, the sales manager who had come along in the DEL – EIL merger some years earlier, was now the COO of the business and he was aggressively building the drives business as well as sales of other Eurotherm products. By the end of 2005 EurothermDEL had grown into a highly profitable $15m revenue company. A full 50% of this revenue was contributed by the drives business and the balance by other Eurotherm products.

To Balaji a future without SSD Drives was unthinkable. This was a product that he had introduced to India all those years ago when he first joined EIL. In a way he saw these products as his baby, and he felt an emotional as well as a commercial attachment to them. The relationship he had built with the engineers in Eurotherm Drives, now SSD Drives, was very strong. Despite the fact the drives division had only made a factory margin they had been willing to amend designs and run prototypes specifically for the Indian market. This relationship was far stronger than the relationship EurothermDEL had with Eurotherm management and the value of this, in Balaji's eyes, was large. Balaji worried that the loss of this valuable resource would take months if not years to replace and might irreparably harm EurothermDEL's position in the market.

Competitors start to take notice

EurothermDEL's success had been built on the back of selling to niche markets where margins were greater and competition less fierce. Sunil had deliberately left the biggest contracts to the large multinationals such as ABB or Siemens. Sunil had classed himself as a tier 2 player while he saw the engineering giants as tier 1 players. However, due to his, Balaji's and his team's hard work EurothermDEL had risen to the top of tier 2 and the giants had started to take notice.

While this was a reflection of their success, it brought more problems. As Sunil recalled, "Increasingly, we were finding ourselves up against multinational operations when bidding for jobs, and we were getting a lot of pressure on price." Furthermore the competition was well aware of the issues behind Eurotherm, Invensys and the sale of SSD Drives and it was not beneath them to use that against him in bidding for contracts. Having an uncertain source of supply was always a contract killer in this business. Sunil felt under more pressure than ever (See Exhibit 2 for a summary of the competitive environment).

Sunil tries to sell again

In March 2003 Sunil restarted negotiations with Eurotherm to exit the business. “We proposed that we would exchange Invensys’ share in EurothermDEL’s drives business for our share in EurothermDEL’s process controls businesses. This way, Eurotherm could exit the drives business in India (as they no longer owned the drives business globally) and give it to us, and we could exit the joint venture, giving our stake to them.” If he could make such a deal happen, Sunil would then own the Indian distribution rights to SSD Drives, despite the possibly short life of that ownership, and Eurotherm would get the Indian distribution rights for the process controls products that EurothermDEL distributed. At least this way, Sunil would not have to deal with Invensys’ rules and regulations and he could focus on building the more profitable and faster growing drives business.

Sunil felt that he had taken the business as far as he could and that he could shield the EurothermDEL team from the problems inside Eurotherm and Invensys for only so long. He was tired and he was ready to start looking at new ventures. Since the two segments contributed equally to EurothermDEL’s revenues, they could be arguably valued equally and the transaction could be settled by a simple share swap. However, once again after protracted and costly negotiations Invensys pulled out of the deal. The deal had been named ‘Project South’; an apt and not very fortuitous name Sunil reflected in hindsight. Sunil’s options were becoming few and far between.

The inevitable

By mid 2005 Sunil received unwelcome but inevitable news: Compass had started the process of selling SSD Drives. As the process was confidential the potential buyers could not be disclosed. Instead Compass named the two companies in the running ‘Detroit’ and ‘Philadelphia’. The first letters of each of the US towns matched the first letter of the prospective companies’ names. Compass also informed him that while ‘Philadelphia’ did not have its own distribution in India, ‘Detroit’ did. If ‘Detroit’ won the bidding then EurothermDEL’s drive business would have a limited role.

Sunil was livid. “Our nightmare had taken a surreal turn,” he recalled. To make matters worse, in August 2005, Compass sent notice to Invensys that they would not renew the three year deal to supply drives to Eurotherm companies as they wished to pursue other distribution opportunities and further distance the SSD Drives brand from Eurotherm.

An unexpected phone call

Sunil’s options by now were very thin. Then, on a Thursday afternoon in late August 2005 after a particularly difficult management meeting, Sunil received an unexpected call. It was

Peterson. The relationship between the two men had deteriorated badly since the sale of SSD Drives and the two had not spoken in several months. It was therefore a surprise to Sunil to hear Peterson on the end of line not sounding angry but conciliatory. The reason for this became immediately clear. It was not only EurothermDEL that was facing the prospect of losing its only source of drives. Subsidiaries of Eurotherm in other territories also faced the same dilemma. Eurotherm had suddenly realised the situation they were in.

Sunil, of all the senior managers within the Eurotherm businesses, had the best relationship with the SSD Drives management and its general manager, Peter Jones, because Jones had worked with Sunil for many years in Jones' earlier role with Eurotherm. Indeed, Jones had been part of the team who had negotiated Sunil's initial contract to form EurothermDEL. Peterson wanted Sunil to call Jones and get a new deal not just for EurothermDEL, but for all the Eurotherm businesses.

Sunil's decision

Sunil had a decision to make. The agreement with SSD Drives would expire in November 2005, in only three months' time. Furthermore there was a chance that SSD Drives would soon belong to a different firm - 'Detroit'- who had no interest in maintaining a separate distributor in India. He needed to take action now. There were several options open to him. Ideally he wanted to get out. But he had tried on two previous occasions to sell his stake to Eurotherm, only to be rebuffed both times at the last minute.

Sunil had the option of trying to patch things up with Peterson and the rest of the Eurotherm management and request Compass to extend the SSD Drives deal. He thought he could get the extension easily enough. Sales were good and he felt that his relationship with Jones counted for a lot. It would also mean that the company he had built with Eurotherm would stay intact and potentially have a rosy future. But could he really go back and work with Peterson after what had happened? And what would happen if 'Detroit' bought SSD?

The second option Sunil pondered was tying up with another drives supplier. Sunil had been thinking about this for a while and he thought this might be a viable solution. There were several producers like Toshiba, Hitachi and Vectron who had large global presences but were relatively weak in India. This was one way to ensure a stable supply of drives and it might offer new opportunities in terms of products and markets. However Sunil knew the value of his relationship with the SSD Drives engineers and Balaji for one would not be happy.

There was a third option, too. Sunil could go it alone and set up a new business independent of the existing joint venture. If the relationship with SSD was too good to give up, but the pain of patching up with Eurotherm was too great, then this was a possible way out. The non-drive side of EurothermDEL was ticking along well and there was no reason why this should not continue. If he joined forces with SSD Drives outside of EurothermDEL then this would give him the best of both worlds. But then there was a glaring legal issue. If he went ahead would it be legal and would he end up facing law suits in British and Indian courts for years to come? Finally Sunil had his own conscience to contend with. Eurotherm had, after all, been a joint partner in building EurothermDEL, and thus building Sunil's reputation. Would this course of action be perceived as stabbing an old partner in the back? Or had Invensys' and Eurotherm's actions destroyed any allegiance Sunil owed to them? With time running out and a business to run it was time for Sunil to make up his mind.

Exhibit 1: Authorisation Limits Issued to EurothermDEL by Invensys

Business Matters	**Authorisation limit for Sunil and his team**
Quotations to and orders from customers with standard terms and conditions	Up to 5% of budget sales
Quotations to and orders from customers with non standard terms and conditions	Rs 0 / $0
Capital expenditure, research projects or capital disposals	Rs 700,000 / $16,000
Information systems, hardware and software (including PCs)	Rs 0 / $0
Cheque payment authorisation	Rs 8,750,000 / $200,000
Opening new bank accounts	Requires Invensys management approval
Consulting contracts	Requires Invensys management approval
Subcontract and temporary employees	Requires Invensys management approval
Foreign currency and forward contracts	Requires Invensys management approval
International travel	Requires Invensys management approval
Non-Invensys group policy premiums and claims	Requires Invensys management approval
Employee loans or long term advances	Requires Invensys management approval
Incentive programs	Requires Invensys management approval

Exhibit 2a: Wider Competitive Environment in India

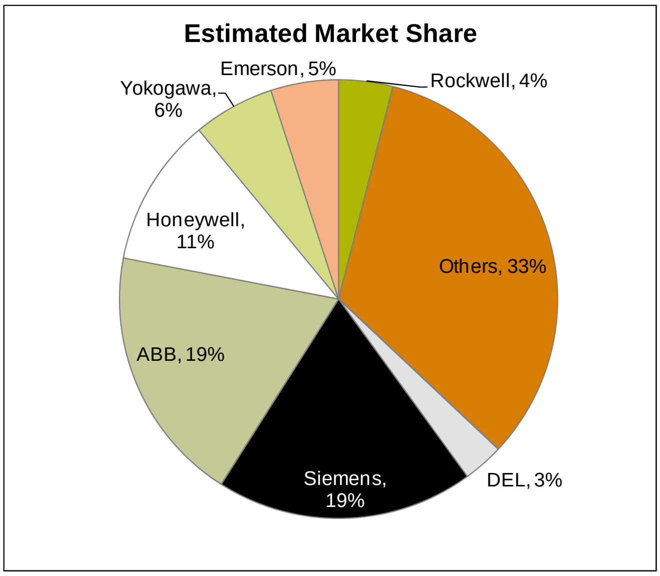

Exhibit 2b: Competitors by Product Category

	DCS	PLC	SCADA	Drives	Instr	Others
Siemens	✓	✓	✓	✓	✓	✓
ABB	✓	✓	✓	✓	✓	✓
Honeywell	✓				✓	✓
Yokogawa	✓				✓	✓
Emerson	✓				✓	✓
Rockwell		✓		✓		
DEL	✓			✓	✓	
Total Market Size (US$ m)	125	65	44	88	99	102
Growth rate (%)	22	15	9	12	24	18
DEL's share (%)	0.5			8.6	6.0	

DCS: Distributed Control Systems
PLC: Programmable Logic Controllers
SCADA: Supervisory Control & Data Acquisition Systems
Drives: Variable Frequency Speed Controllers
Instr: General process control instrumentation products like transmitters, controllers, recorders etc

Source: UniDEL records

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DEL: Against All Odds (C)

Abstract

Having resolved yet another threat to his company's fortunes, Sunil Dalal had identified an opportunity to extend his product range and enter into a joint venture agreement with a British company called LAND Instruments International. However Sunil's past experiences with foreign multinationals had been less than perfect and he needed to protect his business from the same issues he had faced in the past. What should Sunil put in the agreement and what should he try and leave out? How could he structure it to protect himself but still remain interesting to LAND? At this point all Sunil knew was that he had plenty of experience to draw on.

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Going it alone

Sunil mulled over his options again and again and the more he thought about it, the more he was convinced that there was only one way to go.

He was not interested in patching up with Peterson, especially after what had happened. He sincerely believed that Peterson had not had EurothermDEL's best interests at heart at the time of sale of the SSD Drives business to Compass. Moreover, it had been a very difficult relationship to manage given the conflicting interests and Sunil had felt quite frustrated working with Peterson.

The option of tying up with another supplier did not excite Sunil either. Balaji and his team had spent several years developing a strong relationship with the SSD Drives engineers and had also established an enviable reputation with their customers due to their expertise and knowledge of the products. A new supplier would mean that they would have to start all over again. Most likely EurothermDEL would lose some customers – and perhaps employees, too – who had become loyal to Eurotherm's, now SSD's, drives. The company could also lose a year or two of business in just understanding a new supplier's products, training the staff and developing new customers.

"The only option that made sense," in Sunil's mind, "was to re-establish the drives business on our own and separate from Invensys and Eurotherm, while continuing the relationship with SSD Drives." Since Invensys had sold off its drives business globally, drives were not a product line that belonged to them anymore; hence there was no reason for Invensys to continue with drives in India. The sales agreement between Invensys and Compass was for a limited time and about to expire. There was no indication of a further extension; hence it did not preclude Sunil from starting his own venture in the same line of products. Finally the original agreement that had set up the EurothermDEL joint venture did not have any clause forbidding Sunil from competing in the same line of business as EurothermDEL; nor did it have a "non-solicitation" clause relating to staff.

Sunil picked up the phone and called Peter Jones. "Peter, I'm setting up a new company and I'd like to continue our long-standing drives relationship through that new entity." SSD Drives and Peter Jones had worked with Sunil and EurothermDEL for almost ten years. Furthermore Compass Partners had completed its sale of SSD Drives and the winner in the bidding process had been 'Philadelphia' who turned out to be the US motion control world leader Parker Hannifin. Parker had no presence in India and after the acquisition it was looking for a distributor for its drives. Who could be a better distribution partner than Sunil Dalal?

With Jones and SSD Drives' support Sunil knew exactly how to proceed. Two months before the contract between Eurotherm and SSD Drives was to expire, Sunil started hunting for a new office. He managed to rent a building next door to the EurothermDEL Chennai facility. He refurbished the office with his own capital and set up a new company called SSD Drives India which was 100% owned by DEL. On the day of expiry of the contract between SSD Drives and Eurotherm, 30 EurothermDEL employees resigned and joined Sunil in SSD Drives India. Sunil was officially now India's sole distributor of SSD drives.

Legal issues

Inevitably Sunil's actions led to a legal battle between DEL and Invensys. Invensys claimed that DEL had illegally taken the SSD Drives business away from EurothermDEL. However it quickly became clear that due to the structure of the joint venture agreement between EurothermDEL and Eurotherm that Invensys did not have a case. As Eurotherm had ceased to manufacture drives three years prior after the sale of SSD Drives, and as the distribution agreement with SSD Drives had expired, albeit one day prior, Eurotherm could not challenge Sunil's actions.

Furthermore Sunil threatened Peterson with a suit of his own claiming that he had neglected his fiduciary duties as a EurothermDEL director. This charge, as it came under criminal law, mandated that Peterson face the courts should he travel to India. Very soon it had its desired effect. The case against DEL was dropped and, in what was an unexpected bonus, for Sunil at least, Peterson never dared set foot in India again.

Growing the product line

Sunil's success in building strong customer relationships motivated him to explore other potential partnerships with multinationals. Several months earlier, Sunil had met with executives from LAND Instruments International. LAND was a privately held UK company that was a world leader in the industrial temperature field, specializing in the design and manufacture of infrared temperature measurement, process and thermal imaging, combustion efficiency and environmental emissions monitoring. Sunil saw this as a chance to deepen his product offering in the temperature control market as well as an opportunity to move into the potentially lucrative environmental impact measurement field.

However Sunil had reservations. His dealings with Eurotherm and Invensys over the past several years had left him sceptical and fatigued. If he was going to enter into another joint venture agreement with a multinational, he needed to ensure that his interests would be protected. Given his experience he knew this was hard to do.

Sunil paused for thought. What terms should be in this new joint venture agreement and what should he leave out. What were the positives he took out of his experience with Eurotherm/Invensys and what issues did he need to be wary of? What did he want out of an agreement and what could he offer to entice LAND to the table?

Sunil put pen to paper and started to draft the key elements of an agreement.