Strategic Decision of Ambee Automation: A Case Study

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Abstract: Startups struggle for many reasons; some even go out of business or never quite attain the level of success that the founders had anticipated. They might not have anticipated some of the obstacles and, hence, failed to respond to them in an adequate and timely manner. This case focuses on the financial challenges faced by Ambee Automation, a technology startup, and how the founders and employees of the startup handled them. Ambee Automation had completed projects for one of their big clients, TekTool, but the owner of the TekTool, Rajesh, did not clear the dues even after the successful completion of the project. Rajesh was all along pretending that he was facing financial problems and was putting up false excuses to defer payment to Prasad. Prasad, one of the owners of Ambee Automation, was facing serious problems related to working capital management and urgently needed funds to keep the startup running. Prasad understood that Rajesh was taking advantage of their weak position in the market because being a startup company they didn’t have many contacts in the industry. After deliberating on many possible solutions, Prasad decided to implement a rather risky, even somewhat unethical, solution. This solution needed to be implemented immediately for the very survival of the company and saving the jobs of its employees. Engineers of Ambee Automation surreptitiously inserted a timer in the software solution they had deployed at TekTool in a way that the software program running the critical equipment at TekTool stopped functioning within two days of the insertion. The risk here was if Rajesh would come to know about the software tweak then Prasad might lose business and face consequences of defamation by Rajesh. When the software stopped working, Rajesh asked Prasad for help and agreed to clear all dues. Rajesh did clear all dues; and was happy as he was able to complete orders from his customers on time. He was under the impression that Prasad had helped him in his difficult time. Rajesh also recommended Prasad and his team to other companies. This developed strong relationship, and Ambee got all subsequent orders from TekTool. For all subsequent orders from TekTool, Prasad could get all his receivables from TekTool in time by incorporating appropriate legal terms and conditions in the sales contract.

Keywords: Startup, Startup Advice and Strategy, Financing, Entrepreneurship, Technology Startup, Decision making, Entrepreneurs, Competitiveness of Startups.

Executive Summary
This case focuses on the financial challenges faced by Ambee Automation, a technology startup and how they had resolved it. Ambee had completed projects for one of their big clients, TekTool, but the owner of the TekTool, Rajesh, did not clear the dues even after the successful completion of the project. Rajesh was all along pretending that he was facing financial problems and was putting up false excuses to defer payment to Prasad. Prasad, one of the owners of Ambee Automation, was facing serious problems related to working capital management and needed funds to keep the startup running. Prasad understood that Rajesh was taking advantage of their weak position in the market because being a startup company they didn’t have many contacts in the industry. After deliberating on many possible solutions, Prasad decided to implement a rather risky solution. Though somewhat unethical, this solution needed to be implemented immediately for the very survival of the company and saving the jobs of Ambee employees. After discussion with his team, Prasad decided to implement this solution. His team inserted a timer in the software which would run automation for two days and later halt the machines at TekTool. The risk here was if Rajesh would come to know about the software tweak, then Prasad might lose business yet Prasad took the risk. Engineers of Ambee inserted a timer in the software program running critical equipment at TekTool. Rajesh still had not paid dues. After two days, the timer halted the machines. Rajesh called clear all his dues. Rajesh did clear all dues and engineers from Ambee solved the problem. Rajesh was pleased as he was able to finish his order and thought that Prasad had helped him in his difficult time. Rajesh recommended Prasad and his team to other companies. This developed a strong relationship, and Ambee got all subsequent orders from TekTool. For all subsequent orders from TekTool, Prasad could get all his receivables from TekTool in time by incorporating appropriate legal terms and conditions in the sales contract.

Strategic Decision of Ambee Automation
Prasad, one of the owners of Ambee Automation Pvt. Ltd., had started his company a year ago and had the vision of making Ambee one of the best companies in automation. He was deeply concerned about how to get out of the current financial crunch that his startup was facing. TekTool, the most significant project he had got till then, had given postdated cheques but those could never be uncashed because the owner of TekTool, Rajesh, used to request him not to deposit those as he was facing money problems. It wasn’t the case that Rajesh did not have money, he was just taking advantage of the weak position of his startup company and not clearing dues. Prasad himself was having serious working capital problems and was badly in need of money. What should he do to recover his money without losing the client? As usually happens with every startup company, Ambee Automation was also going through financial issues while it had several small projects in hand; and Prasad was deeply concerned about this. Ambee Automation had already done a few projects and were looking forward to work on big projects which would solve their financial problems. After undertaking extensive promotional activities for his company, Prasad had got his first big client TekTool. Rajesh, the owner of the TekTool, wanted to get the automation done for his machines. As a part of the promotion, Prasad had participated in an industrial automation fair, and in that fair Prasad had met Rajesh. After technical discussions, Rajesh
asked Prasad to send the quotation for his project. Rajesh received many quotations, but he selected Ambee Automation’s proposal. Following were the reasons as to why Ambee Automation’s quotation was selected by TekTool:

1. Price quoted by Prasad was lesser than the other competitors.
2. Rajesh was convinced that Ambee had a promising team of competent technologists, who would execute the project in the best possible manner.
3. Ambee Automation was aggregable to the payment terms dictated by Rajesh.

Prasad was very excited because this was a big order which would solve all his financial problems. TekTool was a big organization; Prasad thought he might get many more orders from Rajesh in future if he could do this automation project successfully. Rajesh had many contacts in the industry, and he could recommend Ambee Automation even to other sectors which would help Prasad to get even more business. Prasad and his team started working on this automation project. He got initial payment right at the beginning of the project as specified in the sales contract. Ambee had done initial beta testing; and TekTool had certified that this automation was as per their requirement.

There were several discussions between engineers of Ambee and field engineers of TekTool to get things done exactly as per the requirements. Several trial rounds were successfully done to accurately tune automation of the machines so that TekTool could fulfill their orders from Mercedes Benz. But business always has its share of surprises and shocks. Ambee Automation being a startup company and badly in need of customers, had focused almost exclusively on the work rather than the money aspects while drafting their sales contract. In their enthusiasm to delight their important customer, they had diluted some of the most crucial terms and condition related to payment in their sales contract. At the start of the project, TekTool paid the agreed-upon 25% of the total amount. They were supposed to pay the remaining 75% of the total amount on completion of the project. Despite having enough money, Rajesh was giving cheques from an account where he did not maintain cash. Rajesh was, thus, deliberately delaying the payment and exploiting the weaker position of the startup Ambee Automation. Prasad had reliable information about the healthy financial condition of TekTool from some reliable sources. What action should Prasad take without taking the risk of losing an important client? How should he get the already delayed receivables from TekTool without getting into any serious relationship issues? Ambee was facing very serious financial issues and desperately needed money to execute important projects. Despite many reminders through phone calls, Rajesh was not clearing dues of Ambee automation. Prasad had visited TekTool many times and personally requested Rajesh to clear dues as the project had been successfully completed. Rajesh gave postdated cheques for the remaining amount but asked Prasad not to deposit the cheques in the bank until he gives a go-ahead signal. After a week or so, there were no calls from Rajesh regarding depositing of cheques, when Prasad called him, Rajesh again asked him to wait for two more days. Prasad was helpless as he did not want to lose this important customer, who could also help him get more projects from prominent companies. Rajesh called Prasad; and once again convinced him not to deposit the cheques even after the promised two days. Finally, frustrated by Rajesh’s behavior, Prasad concluded that he had to do something that would help him get his money without damaging the relationship. Prasad deliberated on many options listed below before taking the final call:

1. Make arrangements for funds from other sources and keep on pestering Rajesh and keep following up with him about remaining money and not to execute further projects of TekTool unless previous dues were cleared.
2. Prasad, however, ruled out this option because lenders were asking for high interest rates which he could not afford. Prasad was already doing the follow-up with Rajesh, and it hadn’t helped; while Prasad needed cash on an urgent basis.
3. Prasad had considered the option of taking legal action once any of the cheques given by Rajesh were to be dishonored. He had to rule out this option as well because TekTool had a lot of contacts in the industry which might help Ambee Automation to grow its business in future. Legal action against Rajesh would damage the relationship for good and severely impact the future prospects of his startup.
4. Prasad had often discussed this problem with his team of engineers who had executed the TekTool project; they came up with this idea of a software tweak that would bring TekTool’s operations to a halt and force them to come to Ambee for help, which they were to provide only after all their dues were cleared.

Prasad informed Rajesh that engineers from Ambee would visit TekTool to deploy a very important and absolutely essential upgrade to the software solution deployed by them in the PLC (Programmable Logic Controller) running their machines. Rajesh was told that the PLC might start malfunctioning or stop working altogether unless this upgrade was installed immediately. Rajesh agreed; and engineers from Ambee surreptitiously inserted timer into the software program, which was to allow the program to run for two days without any problem; but then halt the machines completely. TekTool engineers had no clue about the functioning of the automation software; and were unable to understand as to what caused the problem and were unable to do anything about it. While this was taking place, Prasad had deposited the cheques in the bank after getting go-ahead from Rajesh. Even though the cheques were dishonored, Prasad did not call up Rajesh as he was sure Rajesh himself would call after the machines were to stop working. As planned, Automation of TekTool machines stopped working; TekTool’s field engineers could do nothing to restart the machines. Rajesh panicked; and called Prasad to get the things going. This time Prasad told him in no uncertain terms that he would be able to help only if Rajesh cleared all his dues immediately because his engineers were demanding their overdue wages. As Rajesh was in serious trouble, he promptly cleared all his dues; then Prasad sent his engineers to get the machines working again! Engineers informed Rajesh they had resolved the problem. Rajesh was pleased as automation started working, and his Mercedes-Benz project was completed on time. Rajesh had no clue what had happened. Prasad was
quite happy as he was able to recover his money without any legal action while keeping the relationship intact. Prasad won the trust of Rajesh as his team had resolved the problem quickly enabling TekTool to finish their project on time. As expected, Rajesh also recommended Ambee Automation to his clients and other contacts helping it to get many more important projects.

Conclusion
The decision taken by Prasad might look unethical on the face of it, but that was absolutely essential for the very survival of the startup and also to save the jobs of the Ambee employees. Prasad took the risk and put the plan into action; and it did solve the financial problems of Ambee Automation and also earned the trust and goodwill of Rajesh. Rajesh was under the impression that Prasad and his team had helped his company in its most difficult time.

- What do you think about the decision taken by Prasad?
  Was it the right thing to do to get the money?
- Do you have any alternative solution which would have helped Prasad get his money without any further delay?
- What could have been the repercussion, had Rajesh come to know about the trick played on him by Prasad and his team?

Teaching Note
Overview – Startups struggle for many reasons. Some even die, or never quite attain the degree of success as early as they had hoped. They may not have anticipated obstacles and may not even know how to respond. This case talks about the financial challenges faced by the startup Ambee Automation; and how they had resolved it. It describes and examines the challenges faced by the technology startups in initial years and how strategies had to be implemented to overcome the financial challenges of a startup. Effective management of strategic issues remains an ongoing concern for any startup.

The Concept
The case study is essentially about the question: Whether it is ethical for a startup to resort to an unethical method to recover their legitimate, overdue receivables from a customer, who clearly has been acting in an unfair and unethical manner with the startup putting the very survival of the startup at risk.

Intended Audience/Course
This case provides a general overview of ethical dilemmas that a small business faces; and is suitable for undergraduate students in the final year of general business/management studies who would be expected to draw upon a wide range of topics for a single case (i.e., operations strategy, business ethics, legal aspects of business, etc.). The case is about how a small business can successfully navigate ethical issues. Further and deeper analysis could be provided by students at the MBA level who would be challenged to think strategically about the course of action to be followed by a startup.

Teaching Objectives
In business things are not always black and white! Entrepreneurs and managers often come across situations where it’s extremely difficult for them to decide whether a proposed course of action necessary for the survival and/or growth of the business is ethical or unethical under a specific situation. The case aims to develop confidence among the participants that irrespective of how complicated the situation might be, they as entrepreneurs or managers can always take sound decisions provided they look at the whole picture, consider all the pros and cons of the scenario, predict the possible outcomes of the course of action and the risks involved with each outcome with reasonable accuracy; and modify the decision to mitigate risks so that they can, then, go ahead and execute the final decision with confidence; and increase the chances of success of their enterprise.

Analysis Questions.
For a detailed analysis of the case the participants should discuss the following questions; the discussion would help participants to move towards a proper solution:

1. SWOT analysis of Ambee Automation to evaluate the risks involved in implementing/executing the proposed plan of action.
2. What are the major challenges faced by any technology startup in India in general? And how serious was the problem faced by Ambee Automation in particular?
3. What are the possible solutions for Ambee Automation? What were the pros, cons, and risks associated with each of the strategic options?
4. What could be the best possible way for Ambee Automation to implement their final solution so as to minimize the risks?
5. Having analyzed the causes of the bad experience described in this case, what precautions should any startup take while drafting the contracts for executing technical projects in India?

Comprehensive Analysis
1. SWOT Analysis of the company

- Strength of Ambee software is a strong technical team who can resolve financial and other problems through professional solutions.
- Weakness: Ambee does not have enough funds; and cannot afford to have a loan.
- Opportunity: Ambee can implement a strategic solution albeit risky that will give them more opportunities to work on other projects.
- Threat: If software tweak is understood by the client, then there is a risk of losing business.

The SWOT analysis points towards a technological solution engineered by its technical team, which must be tried despite the risk, because non-availability of loan means the very survival of Ambee Automation itself would be at stake.
2. Major Challenges Faced by Any Technology Startup in India in General and by Ambee Automation in Particular

- No availability of many options for funds for the startups; and higher interest rates
- Lower prices and unfavorable terms of payment dictated by the established clients exploiting the weaker position of the startups; also, higher possibility of unethical practices by the clients
- Lack of timely, cost-effective legal remedies

3. Possible Solutions for Ambee Automation: The Pros, Cons, and the Associated Risks

- It should be quite obvious to the participants in the case discussion that, with the possibility of taking legal action ruled out, the only solution that Ambee Automation could think of was to use their technological expertise to put the client company in a situation that they would be forced to pay their dues.
- However, the technological solution involved doing something that was inherently unethical; and additionally, also involved the risk of getting into bigger trouble should the client company discover the plot. These were the only cons and risk.
- But at the same time the participants could be made to realize that not implementing the only possible solution would mean a much bigger risk of going bankrupt and putting their competent and efficient employees in a very unfortunate position.
- The ethical dilemma can be quite comfortably resolved using the idea of end justifying the means. It should be quite obvious to the participants that the solution that was put into effect attempted to use unethical means to secure a very legitimate, ethical and morally correct objective of getting an overdue payment for a job well done long time ago! Ambee Automation was not to get any additional benefit over and above what was legitimately due to them from their unethical and immoral client; moreover, Ambee Automation was not to get any interest payment for the delayed payment.

4. The Best Possible Way for Ambee Automation to Implement Their Final Solution So as To Minimize the Risks

It should be quite obvious to the participants in the case discussion that the best way to implement the solution was precisely the one that was finally implemented by the technological team of Ambee Automation.

5. Precautions to Be Taken by a Startup While Drafting Contracts for Executing Technical Projects in India

Participants should be asked as to what they would do to prevent such incidences happening in future. A possible solution that might emerge could be as follows. To avoid getting into similar predicament, Ambee Automation and other Indian startups should take the help of legal experts to properly set the terms and conditions for their new contracts and should never make compromise on the legal terms and conditions.

Acknowledgement

I want to thank my student Deipti Chaugule who helped me in preparing this article.

References