

And Now What Do We Do?

Management Tensions at IASoft

Carlos García Pont

Luis Palencia

In the end, the inevitable has happened. The situation was getting steadily worse and someone had to go. I'm not sure what position this leaves me in. In theory I'm running the business from now on, but even that is uncertain. Considering the tensions that have built up, the business may never be profitable and it's not going to be easy to sort things out.

Conrad Graf, the marketing and sales manager of IASoft, now in his fifties, was starting to reconsider his future. At his age it was no longer so easy to find work at his level. On the other hand, starting your own business was not so difficult and he was well respected in the industry. He had always considered himself something of an entrepreneur and had only ever worked for other people for short periods.

If he was going to take over the running of the company the following week, he needed to know what to do. This would obviously depend on the answers to the previous questions, but he was not going to come to any conclusion during the 55-minute flight from Frankfurt to Munich. He would have to do something on Monday and although he had the whole weekend to think about it, the sooner he started, the better. So taking pen and paper from his briefcase, he began to jot down some first thoughts about what his next steps should be.

Company Background

IASoft was founded in March 2001 for the purpose of designing and supplying high-performance IT solutions for the automation of industrial plants. The company was the brainchild of three skilled engineers from different backgrounds who had met through their work. They had detected a market opportunity in high quality customizations and adaptations of standard software packages for sophisticated clients.

This case was prepared by Professors Carlos García Pont and Luis Palencia. December 2022.

All of the material contained in this document has been developed by the author unless otherwise stated.

This case is based on the case "Now What?", ASN-43-E, prepared by the same authors.

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Last edited: 20/4/23



The partners had considerable expertise in industrial automation and soon obtained their first commissions. The clients were very satisfied, both with the service they received and with the quality of the solutions provided. Initially, therefore, the new company did even better than expected. The clients themselves assured the partners they were the best in the business.

The three founding partners—Angela Pfeiffer, Gunter Voss and Hans Brunnstein—considered themselves top flight engineers, but not such good managers. Before long it became clear that, while not exactly doing badly, the business was not growing or developing. As the partners commented, they were earning a living, but not much more. All three were over 40 and found the slow progress frustrating.

It was at this point that Friedrich Hardkopf came onto the scene. Hardkopf was an executive with a multinational. Faced with the prospect of a foreign assignment, he had chosen to look for alternative employment in Frankfurt and considered IASoft a promising option. He joined the company as CEO in 2011, having made a small capital contribution that helped the company out of one of its regular cash flow crises.

Friedrich Hardkopf promised sound management practices (he spoke of “professionalizing” management). The partners expected, and he promised, that under his management IASoft would become a prosperous and profitable business. In 2014, Hardkopf came into contact with Conrad Graf and it was agreed that Graf would collaborate with the company.

Conrad Graf

Conrad Graf was an industrial engineer. He had built up and sold his own software company earlier in his career. After working for the acquiring company for a few years, he had decided to resume his entrepreneurial activity and had started to look for companies in Bavaria that he could partner with and help develop. Graf’s career had been primarily in marketing and sales, so that was how he understood the role of the entrepreneur. Although he realized that the other functions could also be important, he felt that without sales there would be no business. He was drawn to IASoft on account of its excellent product and immediately contacted the company. Very soon an agreement was reached whereby Graf became an independent sales agent.

In the following months, Graf made the business prosper, especially in the Munich area, where he set about developing new accounts. He gradually became the de facto sales manager, a role which officially belonged to Hardkopf but which Hardkopf was delighted to delegate. For personal reasons, Graf maintained a business relationship with IASoft and never became an employee.

In 2015, IASoft had another minor cash flow crisis, which Hardkopf put down to growth. One of the creditors was Graf, and Hardkopf offered him the option of capitalizing the debt and becoming a shareholder of the company. Graf happily accepted this offer. He had some money from the sale of his first company and so was quite willing to turn the outstanding debt into capital. He considered IASoft an attractive business and thought that as shareholder he would be able to influence the direction the company took.

IASoft Today

After Conrad Graf had become a shareholder, ownership was shared equally among the five partners: Pfeiffer, Voss, Brunnstein, Hardkopf and Graf. IASoft had two offices: a head office in Frankfurt and an office in Munich.



Hardkopf, in the role of CEO, worked out of the Frankfurt office. He also managed the company's finances with the help of Zelma Vogt, a cousin of Pfeiffer. Pfeiffer was an excellent engineer and her product standardization project, launched in 2016, had been remarkably successful. Brunnstein, who also worked in the Frankfurt office, acted mainly as project manager, dealing directly with clients. Voss performed the same role in the Munich office. Lastly, Graf was the company's marketing and sales manager.

This meant that Hardkopf and Graf were jointly responsible for marketing and selling projects. The Bavaria region was managed by Graf on his own, while in the rest of Germany the two men worked in collaboration, which was not a problem, as they respected each other professionally. Once a deal was closed, Brunnstein and Voss would take over, as they were the ones who actually managed the projects, usually on-site. Each had his own project development team in Frankfurt and Munich. Pfeiffer would occasionally manage projects with teams made up of technicians from both offices.

The Product

IASoft sold a turnkey service. Its software contributed to the automation of industrial plants. The company adapted its software to its clients' needs and connected it to whatever MRP or ERP system the client had installed (in many cases, SAP).

Starting an application involved high level consulting and collaboration in the client's plant to provide advice and the definition of hardware and peripheral requirements, parameterization and customization, specific adaptations, hardware purchasing management, user training, implementation and aftersales service.

To offer these services IASoft had to be capable of integrating various technologies, which included the management of certain plant automation systems, the installation of data capture terminals in the plant, connections with automatic machinery, packaging machines, PLC, and the definition and development of user interfaces. Their product/service was considered "mission critical" in that if it failed, the plant could be brought to a halt, although its cost was insignificant compared to the cost of the plant as a whole.

The clients included local companies and German subsidiaries of foreign multinationals. As Graf said, "when I have to convince a prospect, I invite him to visit one of our existing clients. It works nearly every time. Our clients give good references. They're our best sales agents."

The Business

The business had been stagnant for several years. Until the end of 2013, the number of employees never rose above 10. Projects were executed by the four partners, especially the three engineers, Voss, Pfeiffer and Brunnstein. They were usually carried out to a high standard of elegance and polish and were technically pleasing. The engineers felt it their task to produce impeccable results, even if it meant devoting more time to projects than planned.¹ The three engineering partners felt that as the product was excellent, its implementation also should be

¹ For instance, Brunnstein proudly recounted how one of his clients had had to ask him to leave the project alone, as it was good enough already, although he insisted on fine-tuning the installation, despite having far exceeded the contract specifications and run months over time. "If you carry on like this, I'll never sign the maintenance contract," the client had said, "you're already doing it for free."