Phase 2 Case

Managing the Global Supply Chain at COGMA

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It was February 5, 2009 and Brian Finkle was desperate. How could he avoid being the first Finkle to bankrupt COGMA and betray its civic role to Chester's residents? Times were tough at COGMA, and they were caught in a trap that only seemed to worsen each day. He reminisced how different the environment was a mere six months earlier…

August 2008

In early August, a published survey called the Gear and Fulcrum report summarized data collected from manufacturing companies in Indiana. The executive summary of the report is provided in Figure 1, and the full report is provided in the url below.

http://web.ics.purdue.edu/~aiyer/gearandfulcrum2008.pdf

The report identified characteristics of the top 10 % of Indiana's manufacturing companies buying in bulk to get quantity discounts and save on transportation, eliminating JIT delivery, increased exports to take advantage of the weak dollar and high pipeline and physical inventories were all ways to make the supply chain more profitable in the year prior to August 2008. COGMA was identified by one of the local newspapers as one of the companies in the top 10 % and Brian Finkle was deluged with speaking requests by the press and local chambers of commerce.

It felt good to expound on the role of global supply chain management, the careful use of data to identify how best to run the supply chain and the export opportunities that COGMA had capitalized on. Though the pipeline inventories were high, COGMA's CFO was not worried because credit was ample and easily available. As long as COGMA showed steady growth bankers were glad to lend. Brian and his CFO continued to be nervous about the commodity hedges they had purchased that had locked steel prices, but given the continued rise in steel prices it seemed like a safe bet.

Brian also felt that COGMA's plan to explore direct purchases from manufacturers in China was a sound decision. A key feature of this purchase was that the vendors expected to get paid as soon as the product left their loading dock, thus exposing COGMA to the financing and ownership costs of the pipeline inventory in transit.

Fast forward to February 2009

At the start of February 2009, COGMA had two months of supply of steel loaded and en route from China at $ 400 per ton. Borrowing costs had shot up and credit seemed to drop to a trickle from their traditional banking sources. Any financing that was available was at such astronomical rates that it seemed to consume most of the margin that COGMA commanded.

Fuel prices had dropped by 50 % between August 2008 and February 2009 so that transport costs were less of a concern. Steel prices had dropped to $ 300 per ton locally. Local steel mills in Gary, Indiana had ample stock and were willing to negotiate terms and conditions that were unimaginable six months earlier. And finally, COGMA's CFO claimed that the new mantra was "Cash is King".

The burgeoning exports, which had grown by 50 % for companies in Indiana the previous year, had slowed considerably thanks to a strong dollar that made US exports less competitive. COGMA did have some cushion due to prior long term delivery contracts but had to become flexible and empathize with the plight of its customers.

But the main concern was that COGMA's key customer was showing the strain of the auto industry downturn. As GM, Ford, Toyota and others started shutting plants for 2 months or more, deliveries by COGMA's suppliers ground to a halt and thus orders to COGMA disappeared. It seemed that around 30-40 % of the demand evaporated overnight. It was not clear when that demand would return.

Managing the Auto Industry Whiplash

Brian first wondered if any of his decisions for the three projects (in the first case) should be reversed, given the new realities. Should steel purchases be moved to US suppliers? Should the Feta warehouse be closed and shipments made directly to customers? Should exports be committed at the same price in won to hold on to the Korean customer? But these decisions seemed fraught with uncertainty as the strength of the dollar, the fuel prices and supply and demand levels were pure guess work at this time. Would the Federal government intervention remove the credit crunch soon or would it take about a year to get resolved? How should COGMA devise a strategy if the basic assumptions regarding the future were uncertain?

Some of his desperate suppliers offered significant quantity discounts to generate sales – these purchases seemed attractive, but were they worth the risk? He recalled a discussion at the local chamber of commerce where his fellow executives were encouraging daily meetings between Finance, Marketing, Accounting and Supply Chain managers to coordinate cash needs and efficiency benefits.

He was also concerned with how to manage COGMA's cash needs, inventory levels and potential capacity needs. While money was tight, Brian realized that he could run down his inventory and move to a JIT delivery by suppliers, albeit at higher marginal costs. Should that freed up cash be used to increase capacity and thus offer customer faster turnaround? Will COGMA's speed of delivery enable order increases?

In order to analyze this decision, COGMA's CEO recommended increasing the financing cost for pipeline inventory to 30 % of cost but warned that credit could ease much quicker if new President Obama's administration started to get traction regarding "New Deal" like initiatives.

What Brian really needed was a strategy that would tie all of the initiatives together and create a rationale for COGMA to manage global supply chain risk. He needed to devise a plan that sequenced decisions and evolved with the changing business environment. He needed to do all this, but make some decisions immediately. He looked to his MBA team for help.

Figure 1: Executive Summary of the Gear and Fulcrum Report

Executive Summary

Manufacturers continue to be optimistic about profitability and growth opportunities. Increased use of productivity enhancing processes such as six sigma, ISO certification, total quality management and lean manufacturing all show significant adoption across the industry. Participants suggest that managing the supply chain is the most pressing business risk, closely followed by the weak dollar and potential recessionary trends. However, the weak dollar represents an opportunity for some firms and a weakness for others.

Globalization is indicated as both an opportunity to find new markets and a reason for price pressures on finished goods. Effective manufacturers have used strategies to stabilize orders from customers through volume commitments and collaboration. They have also coordinated with suppliers to reduce input costs.

Technologies such as RFID and computer aided design /manufacturing are seen as playing an increased role in enabling globally competitive manufacturing. Inputs from survey respondents suggest new challenges and opportunities for Indiana manufacturers. Rising freight costs have resulted in larger volumes shipped and warehoused, thus decreasing inventory turns. Worries about continued availability of skilled labor with low investments in training suggest a potentially vital role for local and federally funded opportunities to raise the skill base for all manufacturers.

Manufacturers suggest that the increasing complexity of products, supply chains and information technology tools are a significant business challenge. The breadth of products offered continue to increase. Global pressure for innovation suggest careful attention to nurturing innovation including both individual rewards and corporate wide peer recognition and celebration. However, continued low investments in training continue to be a worrisome trend.

The high performing manufacturers with the highest financial performance (net income as a % of sales > 20 % and return on assets > 20 %) demonstrate a significantly different perspective on managing manufacturing. Careful choice of product variety, attention to managing complexity while offering complex products, leveraging information technology, worries about maintaining the skill base and managing supply chain complexity characterize these high performers. The weak dollar is also seen as a positive by these companies leading the performance pack in Indiana.

Data gathered also suggests that there is hope for all manufacturers to avail themselves of the dynamic business environment for manufacturing in Indiana. Indeed, the survey suggests that globally competitive manufacturing continues to command a large segment of Indiana manufacturers.