

# [Case report: de havilland inc.](https://assignbuster.com/case-report-de-havilland-inc/)

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Module 3, Session 3 Case Report: De Havilland Inc. January 22, 2010 Executive Summary My decision is to allow Marton Enterprises to the next stage of the purchasing cycle and pass them onwards to the Source Selection Board (SSB). Marton has surpassed the 25% cost reduction required from our parentBoeing. In fact the costs have been reduced by more than half. Furthermore Marton is able to manufacture and supply us with both the flap shrouds and the single equipment bay door therefore also meeting our mandate of moving to a smaller base of vendors, realizing long-term firm fixed pricing, and of course a contract. It is noteworthy that we will need to tread carefully during the SSB stage and negotiate the audit of their financial records for this division of Devon Holdings, assess their BATNAs; interest and priorities, to determine if they are buying the contract; if so why, and determine how this could impact a negotiated contract. It is difficult to pass on this deal and that is why we should move to the next stage of negotiations. At the same time we should also continue discussions with our original supplier, Dollard Plastics to determine if there has been some misinformation that has left them priced so high in comparison with all other bids.

Key Assumptions \* The labour rate produced by Marton is historically stable and sound in fact a labour contract is in place to cover the term of the five year contract proposal. \* The tool cost to remain the same throughout the contract period as we assume the most durable material is being used. \* Dollard Plastic has created value for themselves and de Havilland. The product is of quality and smooth on time delivery has been in place without interruption. Statement of IssuesThe first issue is that Marton may not be realistic in their bid as they appear to be “ buying” the contract with such a low bid.

Clearly this could lead to a variety of implications for our firm including; Marton being unable to viably produce the flap shrouds and doors throughout the term of the contract, and revisiting the contract costing once production has started possibly costing us more in the end-run. Another possible issue is whether added cost to products will be added by Marton. Areas such as delivery terms, indirect cost allocations can impose significant added costs. In recapping the normalized bid quote, Marton’s calculation of the ship set is questionable. In fact it appears they have understated the cost through a simple mathematical error.

The financial statements are not being made available so we can determine the long-term viability of the Marton division of Devon Holdings. Though Devon Holdings is a large conglomerate each division would be expected to remain profitable or eventually be restructured, sold or closed. Any of these results would negatively impact production of the plane. With respects to Dollard Plastics, it is apparent that the talks were only in the “ preliminary stage” and the move to the Bidder Selection Board (BSB) may be slightly premature. We have had a solid history with them yet have come to an impasse quite quickly.

Certainly there must be some discrepancy that can show us how they are so off with their pricing; perhaps a design miscalculation. We can work with them to help with understanding their processes better and make recommendations to solve any issues. CriteriaA good decision in determining a preferred vendor would be for us to realize our BATNA’s; a minimum 25 % reduction in costs, utilizing less vendors and therefore having them achieve economies of scale and us eventually reducing our cost even further, long term contract with stable pricing, allow access to their financial data, have the data audited to determine if they are financially secure, and finally to determine if they have a desire for long term relationship as a preferred vendor. Analysis It is apparent that there is a probability that Marton is using a penetration strategy. As I have review Devon Holdings ‘ Segment Information’ it reveals that the Automotive Segment of their business is suffering significantly.

Both the sales and profitability in this sector is down. In contrast the Industrial and Aviation Segments have seen improvements over the last three years of the data provided. As we look at the following graph we see the profit of the Aviation segment up 11. 5% from 1988. The largest increase in Sales is in Aviation Segment with a 59% increase over the three year period. Truly the company is quite interested in the Aviation segment as it is showing the most growth in sales and a strong profit line.

This supports my theory that a penetration strategy of buying the market may well be fact. AVIATION SEGMENT Exhibit 4 1990 (Pounds M) 1989(Pounds M) 1988 (Pounds M) Sales| 151. 9| 137. 5| 90. 6| Profit| 16.

1| 18. 1| 10. 4| The ship set (SS) Normalized Bid calculation in Exhibit 3 is stated as $2586 yet when using the Total Cost Breakdown data in exhibit #5 we see that one unit sells at $490. 31. Multiply this by 6 flap shrouds in a (SS) and the total should read $2941.

86 per ship set (SS) showing an underestimate of $355. 6 per (SS) for a total shortfall of $44, 482. 50 over the term of the contract. This data helps to alarm us to other data that may be either understood or incorrect. Further investigation will need to be determined to understand their cost of production.

Clarification on areas such as delivery terms, indirect cost allocations which can impose significant added costs also needs strategic analysis. As we take an overview of the financial statements of the parent company in Exhibit #4, Devon Holdings we first must realize that the GAAP principles are similar but NOT the same. For example the UK permits an upward revaluation of capital assets whereby the Canadian standard as I understand it is opposite. Their reserve numbers do decline over the three year reporting period which is a concern as their methodology should often see the reserve valuation take an upward move, and therefore poses questions about sustainability of their Reserves and Capital. The Income Statement shows overall Profit of the conglomerate for the three years, in continuous decline.

In fact it is down by over $22 million pounds from 1989 to 1991. This is a red flag and also may support their reasoning of penetration strategy. The challenge however is how long can they sustain this trend and if their profit drops further how will our company be impacted if they no longer are able to create the flap shrouds? Strategically, as I determine to evaluate the financial data and their strategy we must realize the negative impact of having a vendor who cannot live up to their commitments to our production of the Series 300A Dash 8. If any one part is held up the costs to our organization will be far greater than saving money on one part. The impact would cross all functional areas and disrupt our service to our customers.

Savings are expected and can be realized. Again it would be careless of me to stop this vendor from going to the next step of our buying process. We have a year worth of flap shrouds as a buffer. This will buy us time to make the appropriate decision who the preferred vendor should be. The best move would be to investigate their viability by bringing our experts of the Source Selection Board and have them screen the organization further.

Lastly, consideration will need to be given to Dollard Plastics. Technically a Request for Quotation (RFQ) is usually focussed on price. In this case the flap shroud is somewhat complex and we should therefore feel compelled to work with our current vendor to see if a solution can be presented whereby they can produce exactly what our specs are at a minimum 25% reduction. Once this is determined we can move towards negotiating our other BATNAs. We must determine if they understand we will need to look elsewhere for another vendor and if losing a two million dollar contract is something they are prepared to do.

Determining the Walk-Away-Point for them is extremely important. We need to determine if a long term contract will help them to commit to better costing through improved processes. Again this can be determined by the SSB. Plan of Action As we move forward for more analysis to determine if Marton should be the preferred vendor the following steps need to take place. The timelines will be based on current inventories available. Within 60 days the Marton vendor should be determined to either be preferred or not an option at all.

1. Meet with SSB to bring them up to speed to the findings and request that further investigation be done by finance regarding the financial data that I have accumulated and further determine if my assumptions have been legitimate, in that Marton may not be as strong as they present themselves to be. 2. Introduction to the members of both negotiation teams including: Buyer from Materiel, a Financial Analyst, Engineering and Quality assurance. Insist full financial statements of Devon Holdings, Marton Enterprises Inc must accompany negotiators. 3.

Proof of the labour contract to ensure this will not create a disruption in service levels. Note \*At this point we should be only 60 days into our existing stock and should have the Marton negotiations close to being complete. 4. At this point we should potentially reintroduce Dollard to the table. Even if Marton is a viable vendor we should first honour our existing vendor network and determine if they would want to attempt to find a solution. 5.

A preferred vendor will need to be in place no later than eight months into the existing stock.