Rondott automobile in jackson document scan

Business, Work

6Case 5-2: Rondot Automotive Name: Lovee Sachdeva, Bin Wen, Matthew Miles, Ryan Buxbaum , Yuguang Wang, Shaoying Lu. Group: 3 Date: 2/22/2013 ---------- Situation: * Glenn Northcott is the purchasing planner at Rondot Automobile in Jackson, Mississippi. The company is a wholly owned subsidiary of Rondot Worldwide, a leading global designer and manufacturer of electrical and electronic components. Note: You are Glenn) * Responsible for evaluation the outsourcing opportunity * Meet with Terry Gibson and purchasing manager to decide whether or not to take actions on outsourcing * Glenn had been approached by Greven E-Coating willing to provide electro coating services to Rondot Automobile *Goalsof decision making: Reducing the total costs while maintaining and minimizing the risks from any changes made * Considerable global competition under severe cost pressure * Customer’s price reduction pressure expectancies from global competition * Total Sales and employment at the Jackson plant had steadily declined * Company is under significant pressure on cost reduction. The company’s current priority is to reduce operation costs * Rondot is a wholly owned subsidiary of Rondot Worldwide, a leading global designer and manufacturer of electrical and electronic components. Rondot Automotive operated 85 plants in 25 countries. The purchasing organization at Rondot automotive had a hybrid structure and the Jackson plant’s purchasing department consisted of four people, including two buyers, a planner (Glen) and Terry Gibson. * Schedule with the purchasing manager, Terry Gibson, and the plant manager, Dick Taylor in one week, and both of them are under significant pressure to reduce costs at Jackson plant. * Greven E-Coating outsourcing opportunity *

Greven E-Coating Company uses a system whereby a DC electrical charge is applied to a metal part immersed in a bath of oppositely charged paint particles. * Considered more cost efficient compared to traditional wet paint systems * Samples provided from Greven E-Coating Company Tests results: 5/6 of families of housings could be converted to e-coaring using Greven at a cost of 15 cents each * Parts for five of the six represents 60% of the Jackson Plant’s volume *Failurebecause of different methods of adhesion of a magnet to the housing. Hot –bond adhesion process fits e-coating while cold-bond adhesion process does not fit e-coating system Current situation: * Total sales and employment at the Jackson plant had steadily declined over the past five years. * The number of employees at the plant had dropped from 1450 to 600 and plant management was under pressure to lower costs and regain market share. * Glenn has the option to do outsourcing on cleaning and painting work to Greven E-Coating. Glenn needs to come up with an ideal recommendation on how to reduce the cost and propose that to Terry Gibson and Dick Taylor. * The cleaning and wet painting had been installed 17 years prior and undergone a number of upgrades, and the current painting method costs 25 cents for each housing. (There are six parts in a housingfamily) BASIC ISSUES 1. Company to take decision on insourcing or outsourcing 2. Higher costs related to painting & cleaning 3. Lack of advancedtechnologyto compete in cost reduction for a lower price 4. A decision to make, once made, is often difficult to reserve. If Rondot Automobile decides to make agreements on e-coating system, The plant needs to convert 100% hot-bond adhesion system 5.

Total cost of converting 40% of cold-bond adhesion system to the total cost savings: Long-Term estimation, not short term 6. Whether the use of e-coating will lead to sole source dependency: Is the e-coating system a common painting method in market? 7. The durability of e-coating VS. of traditional coating system 8. Cost benefits analysis on the process 9. Inexperienced decision making on outsourcing opportunity Tasks: * What does Richard Kaplan do? Richard needs to clarify and calculate the total cost savings and the cost of converting from cold-bond adhesion to hot-bond adhesion * 25 Cents * 6 = $1. 50 * 15 Cents * 6 = $0. 90 * Does the difference $0. 60 can cover the conversion from traditional wet coating system to e-coating system? The durability and re-paint rate is also needed to consider: If the wet-coating system has durability of 10 years while e-coating repaint rate is 8 years, The total cost of conversion from traditional wet-coating system to e-coating system will increase significantly * What are alternatives? * Negotiate with Greven E-Coating for a lower costs * Conduct a careful research on both advantages and disadvantages of E-coating system * Search for more options in potential sources and substitute items other than traditional wet-painting and e-coating * The challenge of maintaining long-term technological and economic viability for the possible 100% hot-bond adhesion system * The revision of policy of supplier selection Criteria of standardization and policies regarding the choosing of suppliers * An understanding of the market conditions in order to set appropriate expectations for the price provided from Greven E- Coating * Analyze data collected for cost and technical information * Identify the root causes of sales decline. If the sales revenue can be improved, the company can maintain the

current painting process to avoid future external risks * * Determine that is the cold-bond adhesion system a necessary facility for the particular family to manufacture any specified electrical and electronic components * Dose this outsourcing plan fit the business goals and objectives? * What does the company’s top management think about the Jackson plant’s outsourcing plan? * Which level of management makes a final decision on outsourcing? Talk to manufacturing manager and clarify more information about cold-bond adhesion * Talk to the manager in the family that uses cold-bond adhesion system. Clarify the reason why the family of housing choose to use cold-bond adhesion * Identify and estimate total cost to uninstall and setup the new bond system if the method of adhering a magnet to the housing is not mandatory SUGGESTED QUESTIONS FOR DISCUSSION; 1. How to make analysis of the cost of switching current painting process versus the cost of setting up a painting process? What kinds of training should be provided due to the new standards of temperature, air and etc? 2. If the result of outsourcing is rejected, is the subcontracting an alternative for the company?

What are the benefits and risks of using reverse auctions for specialized OEM parts? 3. What risk management and contractual steps are necessary before moving company owned tooling to a new supplier? 4. What are the benefits and risks of outsourcing? Actions: * Determination of detailed function & mandatory of Cold-Bond Adhesion system * Meet with both Manufacturing manager and the family manager in Jackson Plant. * Determine the total costs of uninstallation the current cold-bond adhesion system and the installation of hot-bond adhesion system * Total Cost Savings calculation *

Identify the cost savings potential after the modification. With the newly modified standards, communicate with Greven E-Coating and analyze the decision based on the feedbacks from the supplier. * Determine whether the total cost savings can cover the conversion cost from cold-bond adhesion system to hot-bond system * Estimate the future necessity and future technological tendency of replacing traditional wet paint to E-Coating. If the company is going to replace the traditional wet painting in the future anyway, the cost of conversion can be ignored. * Talk with Betty McKinley again and determine the detailed cost of holding two more weeks of inventory * Make agreements on price and quantity, meanwhile negotiate the term of warranty and quality assurance with Greven E-Coating Results: If accept outsourcing opportunity * Cost savings: 25-15-3= 7 cents on each housing * Add another two weeks worth of inventory * Lower labor and material costs * Product price reductions i. e. ability to offer reduced price to customers. * Become more competitive and there will be a gradual increase in the profit and market share. * If not accepting outsourcing opportunity (i. e.. using the earlier system) * No savings- no price reductions * Reduce risk for investment * Extra cost in upgrading the system * Spending on more labor in this operation which results in additional costs * May result in lower operating time * Extra time for testing upgraded system. If total cost savings is greater than the costs of uninstallation of Cold-bond adhesion + Installation of hot-bond adhesion + extra inventory carrying costs: * Prepare the agreements and contract documentation on outsourcing decision with Greven E-Coating * The contract content with Greven E-Coating tends to be short-term to avoid sole-source dependency situation. Reach out lower

priced suppliers while maintain the quality assurance * If total cost savings is equal to or less than the costs of uninstallation of Cold-bond adhesion + Installation of hot-bond adhesion + extra inventory carrying costs: * Determine the importance of common tendency of using E-coating for other manufacturing companies.

If the E-coating is not mandatory in the future market, reject the outsourcing plan to avoid extra possible risks * Find out other alternative ways to reduce total costs, such as reduction of labor costs, manufacturing overhead or the replacement of cost-efficient equipment or facilities Priorities: * Maintain cost reduction at the Jackson plant. * Increase sales volume and high market share. * Ensure a successful outsourcing decision. * Maintain company’s reputation-image for reliability. Conclusion: The painting process should be outsourced in order to achieve significant cost savings. Ensure supplier selection process is properly done, forecast and mitigate against outsourcing inherent risks and ensure quality standard is met at all times. These will help in achieving a successful outsourcing agreement.