

# Case study – eliminate the middleman

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## **Case Study - Eliminate the Middleman Problem Identification**

In the case study, the focal point is the company USTech which has been outsourcing its manufacturing to a Taiwanese company Taisource. Over the period of time, as the relationship between the two companies has developed, Taisource has achieved competency in its field pertaining manufacturing products of high quality as required by USTech. However Taisource has also started to expand its operations to China where it is taking advantage of the economies of scale as well as the lower cost based operations provide in the Chinese region. This is giving way to the highlighted problem for USTech, as with the increase expertise of the market as well as the access to product information, manufacturing details as well as the string establishment of Taisource, the company has become a viable competitor for USTech in China.

The issues that are being faced by the USTech Company relate to the facts that the company has been relying on Taisource for the production of its products. However the low margins for products in the US market are forcing the company to look at alternative methods of operations aside from outsourcings. The board has suggested the company to also look at expanding operations to China where the manufacturing facility would be having advantages in terms of labor, utility costs etc. This strategy involves ending the long term business relationship with strength and the knowledge gained by Taisource over the period of time presents it as a future rival for the USTech Company in the Chinese market. The report therefore strives to identify the solutions to these problems as depicted in the case and how

they are feasible for the USTech Company in terms of costs, future market dynamics and current trends being depicted in the market.

### **Analysis**

The USTech Company is facing extensive competition problems in the US as the other two player in the market Caltech and Textech who were both providing similar innovative products at high prices are now offering innovative and diverse products at reduced prices, therefore taking away a significant share of the USTech target market. The company as a result is forced to reduce the costs of production for its products. As mentioned the company out sources its production to a Taiwanese company call Taisource which manufactures the products in Taiwan as well as in Japan while carrying out R&D activities and for USTech as well. Read " B ayonne packaging case study review"

Another problem that is faced by the company is that the company cannot continue to outsource its operations to Taisource. This is because Taisource has become a potential future threat for the USTech. The company has extensive operations in Taiwan and is seeking to operate independently in China as well. This enabled Taisource to use the innovativetechnologyof production as well as the product innovations that it has worked on for USTech in order to provide competitive and similar products as that of USTech to the Taiwanese and the Chinese market. This can cost USTech considerable market share as the Taisource Company is well known in the Asian region and by having localized knowledge of the industry and the market, they have a comparative advantage over USTech

The above mentioned problems are important for the USTech Company and need to be addressed as they have a significant impact on the operations and the future growth of the company in terms of their market share as well as their revenue in the US as well as the South Asian region. The USTech Company has a number of options that it can pursue in order to decrease its costs for operations. One of them is to work in collaboration with Taisource and manufacture their products in China taking advantage of the low costs of operations and production that the region has to provide. The benefit of this option is that the company will be considerably reducing its operating costs, and becoming competitive in the US. However the disadvantages of this option pertain to the fact that the company will increasingly become independent on the Taisource Company and will have to share extensive knowledge about their product and innovations with it.

This is not a good option as the Taisource Company is already thinking if operating independently through China and providing similar products to the South Asian market. The other option that is available to the company is to operate independently in China by eliminating the middle man of Taisource, a strategy similar to the ones adopted by Textech and Caltech. This option would allow the company to take advantage of the low costs of operations, raw materials, and skilled labor while safeguarding their product innovations from third parties/. The following diagram depicts the cost of hiring an engineering the manufacturing & IT industry for the US, the city of Shanghai in chin and the rest of China. Also read Colgate Case Study

Moreover, He Company would also have a much larger market of skilled labor and engineers in the Chinese market as China has some of the world's

best engineering programs and the highest number of degrees in the field. The following table depicts the statistics for the engineering degrees in USA, India, and China. It represents the intensity of engineering based talent pool for manufacturing industries in China, India and the US.

Bachelors and Baccalaureate in Engineering for the region of China, India and USA

Degree

USA

India

China

Total degrees in Engineering, Computer Science and Information Technology

222,335

215,000

644,106

Total Engineering Degrees - Bachelors

137,437

112,000

351,537

Number of Bachelor degrees in Engineering

52,520

17,000

-

Number of Bachelor degrees in Computer Science & IT

84,917

95, 000

-

Total CS & IT degrees - Sub baccalaureate

84, 898

103, 000

292, 569

Number of Sub baccalaureate degrees in Engineering

39, 652

57, 000

-

Number of Sub baccalaureate degrees in Computer Science & IT

45, 246

46, 000

-

Source: Framing the Engineering Outsourcing Debate: Placing the United States on a Level Playing Field with China, 2005

However the cons of this option pertain to the fact that the company will have to deal with the indirect costs as well as the bureaucracy in China and its government. Moreover the company is unfamiliar with the culture in China and the market dynamics which can become an increased disadvantage for the company.

Conclusion & Recommendations

Keeping in mind the problems that are faced by the company in USTech, it is recommended that the company should continue operating with Taisource and expand the operations to the region of China. For this strategy however

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the company will need to work closely in association with Taisource instead of simply as a outsourcing partner. The close association with Taiwan and the expansion of operations to China will provide the company with advantages pertaining to attaining cost related benefits form lower costs of production, and skilled labor as well as gather knowledge about the market form Taisource. The company can work with the Taisource Company for 2-3 years to gather information about the market and establishing links to combat the bureaucratic forces in the Chinese government. After the period of 3 years the company can start its operations independently. The advantage of this option would be that the company would have the support of information and knowledge gathered by partnering with Taisource in the region which would better enable it to take advantage of operating independently in the region of China.

The negative effects that can come about as a result of this option pertain to the product innovation sharing that would need to be present in order to work in collaboration with Taisource, which the Taiwanese company can use to its advantage in the future. However this option is still more feasible and can be sued as a pilot test project to test the waters pertaining ton operating in the Chinese region. This can allow for the gathering more information and enabling the company to assess the market and the competition posed by Taisource and other similar companies on the region.