The california-illini manufacturing company’s (ci)

Business, Company

The California-Illini Manufacturing Company's (CI) Q1. What is the firm's competitive strategy? Does the strategy seem appropriate? In the strictest sense, competitive strategy refers to how a company can gain a competitive advantage through a market while finding a distinctive way of competing. California-Illini Manufacturing Company is able to compete in the Global industry because they are handmade tillage and cultivating tools and they are American made; they use expensive metal pieces and are hand metal forged, along with using manual electric arc welders.

There is in most every market the opportunity for handmade products, for example Lamborghini cars are hand made vehicles, which are more expensive, but because of the extensive labor they are considered to be better built. The industry however, is very competitive in American and the global market, and there are cheaper options available. With that said I think there is still a substantial market for the rugged, handmade, American tools and they should stick to their design strategy and use theirfamilybuilt, third-Generation Company known for the quality of tools as their trademark. Q2.

What motivated the cost reduction strategy? Did the cost reduction strategy work? Why? The cost reduction strategy occurred because during the early to mid 1980’s during President Reagan’s first term an economic downturn struck companies, this depressed market caused many businesses like CI to struggle. Their inventory was down and the cash flow was poor, the company began to look into cutting cost, increasing prices, technologyand productivity. In the short run (1989) the cost cutting strategy failed, operating expenses were up 20%, along with increased inventories by 24% and net profits continued to slip!

Q3. How did CI's standard cost system affect the cost reduction strategy? CI’s cost system was developed to measure performance and profit potential, each materials and labor input is given and production managers are demanded to meet or improve the standards. In the end the new PCIC manager suggested increasing the job lots from 100 to 150 rather than the 6, 000. The company decided to remain loyal to their old performance cost system instead of taking an alternative approach which may have helped CI. The process seems to be broken and they are just blindly following the approach to measuring performance.

The cost reduction strategy seemed to be well meaning, and had the opportunity for success BUT, CI was chained to old ideas and old ways of thinking, past successes don’t always ensure future success. Q4. What is the role of work-in-process in the cost reduction strategy? The work-in process was important in the implementation of the cost reduction strategy. In General, there are three stages of cost of goods: Raw materials, work-in-process inventory, and finished goods. The cost of each stage includes materials cost, labor cost, and overhead. The cost reduction strategy needs to cut the cost from every stage.

Work-in-process is very important. There are always many steps during work-in-process, such as setup and Assembly. We can cut cost by using economic sizes, shorting routine time, and decreasing variances. In this case, the company planned to increase batch sizes to improve productivity. The short-time result was impressive because plant efficiency measures rose about 15%. But it also caused some negative effects. In order to improve efficiency measures, departments kept processing large lots regardless of

current demand. It brought much storage expense, overtime expense and it made scheduling difficult.

All these costs play a negative effect in the cost reduction strategy. Q5. Is the new (PCIC) manager on the right track with the smaller lot sizes? Yes, the PCIC manager is on the right track. Now the company has a big problem: Inventories increased by 24% and net profits continued to deteriorate. The current level of processing job lots 6. 000 is a main reason to cause this problem. It produced large batches when the demand is not that high. So it is an effective way to solve the problem by reducing the processing job lots. But the big change from 6000 to 100 or 150 cannot make sure the stability of the company.

It needs to be reconsidered. By managing the constraints, they are not over producing and building inventory levels for products that won't sell. Q6. What steps is the PCIC likely to take now? The final goal is to increase the profits. The most important things are to improve operations and increase sales volume. Firstly, reduce the processing job lots and control lead times. The company should not produce and build inventory levels for products that won't sell. They should provide the high quality productions to customers as soon as possible. Secondly, restore domestic sales. As reported that domestic volume decreased by 11. %.

The company should find the reasons and get back the domestic share. Thirdly, open up new international markets. Q7. What type of cost system should be used at CI? CI should implement a cost system that would be flexible and adhere to the changing market situations and that would be the ABC cost system. Importance should not be based so much on the amount

that a company would produce at a given time. CI may have saved so much in input costs while producing a lot within a shorter time but if these products are not what the market needs or wants, everything would just be a waste.