Case study: gian auto corporation

Business

One of Assignation's earliest plant is the Denver Cover Plant, which basically prepares ND sews coverings, mainly leather and upholstery fabrics. The person who was in charge of operating the Denver Cover Plant was Ted Vision. ISSUES OF THE CASE Giant Corporation found an external supplier, which can provide coverings at a lower price than the Denver Cover Plant.

The budget for Denver Cover Plant's budget was set at $82 million, whereas Gallants can purchase those coverings from an external party at the price of $60 million.

Identify the key strategy factors that should be considered Auto's(GA) competitive strategies are as follows:- * GA upholds excellent customer services and reliability. As such, this attribute to the increase in sales of more than 10% each year. * Always endeavors for lower production cost which reflect in its actions of intuiting outsource more of its productions to the cost efficient manufacturer, take advantage of lower wage rates and favorable business environment around the world and others. To apply the obsidian strategy for Denver Plan is only applicable for strategy number 2 whereby the Denver Plan in general without consider any other cost I.

E compensation Tort lay or, termination AT contract Ana etc could generate cost saving of $60 million per annum. However, by purchasing the entire annual output of Denver Cover, there are possibilities that it would affect the quality of its products and reliability, which interdict, with its core strategy of excellent customer service and reliability.

By depending to only one supplier would result to concentration risk whereby if the Denver Cover plant fails to produce as per expected, the whole GA operations flow would be effected as well. The key strategy factors that should be considered are as follows:- * High quality and reliable products * Efficient production / low cost production * Good customer service. Q: Giant Corporation plans to prepare an analysis to use in deciding whether to close the Denver Cover Plant.

Using the preceding information, identify the relevant and non-relevant costs in this decision.

Analysis: – $22 m Gross Saving – Related costs a. Direct material compensation = $4. 8 m b. 1 year employment assistance = $1 m Net Benefit = $16.

2 Relevant information: a. Termination charges of direct material = $4. Mm c. Equipment depreciation – as it uses the units-of production method. If the plant closed, it will not be depreciated Non – Relevant International: a. $ 3 million of the 2004 pension expense would continue whether Denver Cover open or not b.

Ted and his direct staff- they will be re-employed to managed the other 3 plants c.

Building depreciation charges – depreciation charges will be applied either the plant running or not CONCLUSION In this particular case of Denver Cover plant, we can see that cost structure of the plant is not in line with the cost minimization business strategy practiced by Giant. If the company thinks short-term, then it may purchase the coverings from an external party. However, if the company is concerned about long-term implications, there should be an intervention from the top-management of the many to investigate the causes of the higher operating cost of Denier's plant.

Maintaining the internal supplier, the company will be able to control the cost, quality and reliability of the used materials (coverings). Therefore, it is very critical for the company to conduct to identify inefficiencies which led to higher operating expenditures in Denver plant.

With that, the company will be able to correct the transfer pricing mechanism which is dysfunctional at the moment due to higher internal price offered by Denver Cover plant compared to an external party.