Transworld auto parts

Case Briefing: Transworld Auto Parts November 11, 2012

Company Overview: Transworld Auto Parts (TAP) is a Tier 1 manufacturer of original and after-market parts for automobile producers both in the United States and abroad. TAP focuses on manufacturing in two core product lines: electronics and interiors. Apart from that, it also separates its customer-centered divisions into four divisions: luxury, economy, mid-priced, and truck. TAP also serves in three main geographic markets including North America, Europe, and Asia.

Problem Definition: Which of the two balanced scorecard approaches better illustrates how Transworld Auto Parts can improve their ROCE by 8% given the current economic downturn? Situational Analysis: Transworld Auto Parts belongs in the automobile manufacturing industry. This industry is very susceptible to industry trends and changes because much of the industry’s sales depends on the externalenvironmentwhich affects both consumer and supplier behavior. During 2008 when the economy experienced a global recession, many auto makers such as Chrysler and General Motors were on the brink of insolvency due to the decline in car sales.

Utilizing the PESTEL framework to better understand the macro-environment, the recession reflects economic factors in the external environment which can influence the industry. The recession affected consumers in the sense that they possessed less disposable income, causing them to be less inclined to purchase new cars during this time. However, other aspects of the external environment can benefit firms within this industry. For example, with the rising automobile production in Asia, many suppliers can consider global expansion and developing sales in international markets.

Many car manufacturers in Asia possess low labor costs and a great demand in local markets, so suppliers within the industry have this opportunity to expand. Not only is it important to consider the industry and external environment in which TAP operates in, it is also important to analyze its internal resources and capabilities in order to better understand the company. TAP currently has operations in four different customer-centered divisions: luxury, economy, mid-priced, and truck. However, TAP decided to only focus on improving their luxury and economy division because these two divisions will allow TAP to compete ggressively and make the most profit, according to their research.

Each of the separate divisions is managed by a separate manager and supporting staff. This allows Ellen Bright, CEO of TAP to distinguish results from each division and form her own board of directors to make strategic decisions. TAP flourishes with this hierarchical structure because it allows the company to micromanage each separate division’s profitability for the company and for it to implement any changes when necessary.

Strategy: After Bright decided to cut the other two divisions, each manager from the luxury and economy division respectively were assigned to create a balanced score card to describe their objectives on how to improve their division and what must be done to achieve their parent company’s target goal of an 8% return on capital employed (ROCE). Eckhardt, president of the luxury division presented a balanced score card that was simple yet with focused objectives for each aspect of the balanced score card.

For example, the financial perspective contained 4 maingoals: increase ROCE, increase cash flow, increase revenue, and increase gross margin. The customer perspective simply included: improve customer satisfaction, manage innovation, and initiation customer R&D partnerships. Similarly, the process perspective included two main goals: reduce raw materials cost and maintain qualityleadership. Lastly, the learning and growth perspective only included one objective: increase employee engagement. On the other hand, Kwon, president of the economy division took a more complex and descriptive approach with the balanced score card.

He went into detail about each of the four perspectives and proposed very specific, action-oriented goals. He had similar financial perspective objectives, but each of the other perspectives contained about four or five different objectives. For example, the learning and growth perspective contained six objectives: train buyers on low cost procurement, enhance electronic interchanges with customers and suppliers, transform workforce into JIT/lean experts, make JIT/lean a priority for all workers, alight IT to support TQM and JIT, and enhance workforce capabilities in TQM.

Both approaches of the balanced score card aim to attain similar overall goals. Below are some pros and cons for each approach: Luxury Division- Pros: focusing goals in broad chunks make it easier to attain, with attainable goals employees are happier, creating healthier company morale Cons: too simple without specifically stating what actions must be taken in order to meet objectives, might cause confusion among employees Economy Division- Pros: very detailed with specific measures and actions on how to achieve objectives Cons: may seem to expect too much from employees, which makes goal appear to be and discourage employees

Action Plan: After analyzing both approaches to the balanced score card, the economy division presented a more well thought out and action specific plan to reach the company's target goal. The most important factors to consider when analyzing balanced score cards are: * Does it describe and link? * Does it provide incentives and balances? * Does it predict and plan? Kwon did a great job describing each objective and linking it to other perspectives of the BSC. This in turn created specific goals which are measurable.

The objectives he proposed included both financial and non financial goals creating an overall balance. Lastly, his balanced score card plans for not only short term objectives but also long term objectives which helps plan for the company's future success. In conclusion, Kwon had a better approach to the balanced score card and Bright should promote Kwon to the COO position.