

Precision Worldwide, Inc.

Introduction

When a competitor develops and introduces a superior product that is less costly to manufacture and even many times usable and durable, the key to people at Precision Worldwide must decide whether to match the competitor's product, when to do so, how to price or what sustainable competitive advantage it needs to adopt during the next strategic period, given that it holds a large inventory of its now inferior product. This issue concerns the steel and plastic rings which the company, Precision Worldwide, Inc. (PWI) is opting to produce as a matter of competing intensively with a French company, Henri Poulenc, which was at the same time posing a big threat to the viability of the steel rings PWI is producing. .

PWI is confronted not only with a substitute product which is both cheap and durable. Compared to PWI's steel rings, the plastic rings being produced by Henri Poulenc is both cheaper and lasts longer. PWI is also facing the risk of earning the ire of its customers if it manufactures but selectively introduces the cheaper plastic rings in areas where it is faced with the 'plastic' competition. As a result, PWI is now confronted with a dilemma of differences in strategic measures to undertake given the differing opinions of its key people.

Questions Posted for this Note:

- 1. You have to analyze the existing data, the conflicting views of the sales manager and the Development engineer. And make a decision as to whether PWI should begin the manufacture of a plastic ring.**

Answer: From the standpoint of the qualitative aspect of competition, PWI is encouraged to start manufacturing of the plastic ring if it is to avert a more serious consequence of being eased out of the market due to a cheaper, more durable plastic ring. Regardless of the fact that PWI still has an inventory of the special steel material and the completed steel rings, yet PWI should approach the problem with a resolve in

terms of the qualitative factor of competition. The cost of the existing inventory will have to be matched with the opportunity cost of being eased out of the competition – that is, pitting the income from the substitute with the potential loss of the opportunity income due to a prompt entry into the plastics market. For PWI, the signs of change are showing: the presence of a cheaper and better substitute which should not be ignored totally. Hence, this needs to be seriously considered as a threat. The presence of alternatives as exemplified by Henri Poulenc should encourage PWI to explore this option.

2. In addition, a plan needs to be designed as to the pricing policy to follow for both the steel and the plastic rings.

Answer: A plan for the pricing policy is similarly considered urgent to explore the opportunities of lower cost or such cost being at par with the competition, both for the steel and plastic rings. Any form of pricing policy will have to be dependent on the cost of production and operations of PWI. Opportunities for cost reductions through outsourcing, reengineering and redundancy layoffs should be seriously considered.

Among the avenues that can be explored include outsourcing of the manufacturing of the steel and plastic rings, either with Henri Poulenc or with other equally cost-effective firms. A number of plastic or steel rings manufacturer may offer a cheaper cost structure for PWI.

An additional strategy to a pricing policy for the steel and plastic ring is to reengineer the manufacturing operations for the rings to explore ways of reducing production cost to lower the selling price for the part. Part of this operations restructuring measure include: evaluation of the sources of raw materials as means of looking for cheaper suppliers. (Kaplan & Norton, 2004) Comparatively, indeed, the costs of raw

materials for both plastic and steel rings are too big to be ignored. PWI has to take the initiative to explore the use of alternatives like plastic which has been found feasible by Henri Poulenc.

On the other hand, the labor and overhead cost may be studied in detail to explore automated production to manage the cost-price relationship. Cost variance analysis is needed to determine areas for improvements and opportunities. Pricing policies will then come after target costing measures are explored. (Garrison & Noreen, 2003)

3. Finally, some considerations should be given to the effect of the decision upon the firm's image in the marketplace.

Answer: There are a number of considerations that may likely impact the image-building processes of PWI are to be seriously considered when making decisions. Thus the effect of decisions involving the following issues is considered: (1) the issues involving the cost structure which continue to hamper the pricing policies and market potentials of PWI's products. It appears that PWI has not really looked into the possibility of actively pursuing efforts to compete in the market through cost-effective production processes, lower prices to recognize the availability of better-equality substitutes such as the plastic rings; (2) the possible discovery of distributing the planned cheaper plastic rings in areas where competition is tight. This issue might prove to be an indefensible issue if customers discover such unfair selective distribution scheme; (3) the disposal of the remaining inventory of special steel and the finished steel rings might not be acceptable to the market unless prices are made more attractive and useful to the buyer. However, disposal made at a cheaper price and the prompt introduction of the plastic rings at a competitive price might mitigate the possible losses of the steel materials and steel rings. This can bring a positive impact in favor of the PWI for its initiative at providing its customers

with marked down prices of steel rings. And, (4) the production of plastic rings at a cheaper cost will enable the company to bring a message of dynamism to the market despite the prospect of competition. (Hill, 2008)

4. How long is it prudent to sell a short-lived highly profitable replacement part without jeopardizing the company's image and market share?

Answer: The introduction of the plastic rings into the market should be followed by a market survey to determine the acceptability of the market to the innovation. An analysis of the consumer behavior is important in planning the appropriate action to be taken on the period required to sell the plastic rings. The survey should be able to tell the effects of the innovation for PWI to assess how long the product can be introduced into the market without affecting the image and market share of the company.

5. What price relationship is likely to prevail between the steel rings and the plastic rings once the latter become widespread?

Answer: The price relationship expected to prevail between the steel rings and the plastic rings might at a ratio of 5:1 which means that five plastic rings is equivalent to one steel ring. This relationship however, can significantly change as the cost structure is re-evaluated and inputs analyzed to arrive at a more competitive cost structure enough to sustain the production of both the steel and the plastic rings.

6. How should the 15,100 finished steel rings that will still be on hand in September be treated for analytical purposes?

Answer: The inventory of finished steel rings will be used up in due time by September based on estimates of periodic and regular consumption. The remaining inventory can be classified at scrap and marked down accordingly to encourage sales and turnover.

7. Will the price rings hold at \$1,350 once plastic rings are introduced?

Answer: The price will no longer hold at \$1,350 for the steel rings. The price of the traditional steel rings will drop accordingly due to the presence of substitutes and the demand to become more competitive.

8. Will the price of steel rings fall to one-fourth of the plastic rings' price?

Answer: It is probable that the price of the steel rings will fall to one-fourth or even beyond as components of the cost become stable, but there are still variables to consider that may affect the pricing: that is, the issue of reengineering the production which may lead to lower costs.

9. What effects will the decision in respect to plastic rings and steel rings have on the sale of other PWI products—particularly of the industrial machines?

Answer: Since the pricing policy of PWI will affect the options to be made by the company, the effect of decisions on the plastic and steel rings may rationalize the prices of the machines as the cost burden is shifted from the steel to the plastic area. (Garrison & Noreen 2003)

10. Can the plastic rings be sold in France without affecting PWI's other markets?

Answer: At the short run, there will be no effect. However, in the long run, when customers are able to gain access to the French market through the globalization phenomenon, customers will start to shift sourcing of rings from the traditional sources to France where are able to make good use of their financial resources.

11. What action should Hans Thorborg take? Why?

Answer: Thorborg should explore existing and future capabilities to arrive at the various options. Here, the bottom line is the capability to produce the plastic rings at a competitive price while disposing the inventory of steel materials and the steel rings. Thorborg needs to start retooling the production lines for the plastic rings. The threat from Henri Poulenc is real and may soon take some market share from PWI. The cost structure is a very fluid support for decisions as these can significantly change with a decision to outsource, reengineer or rationalize the labor and overhead component. Whatever options Thorborg choose to act on, needs the support of his key people in the company especially Henk and Eisenbach. (Anthony & Govindarajan, 2003)

Works cited

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