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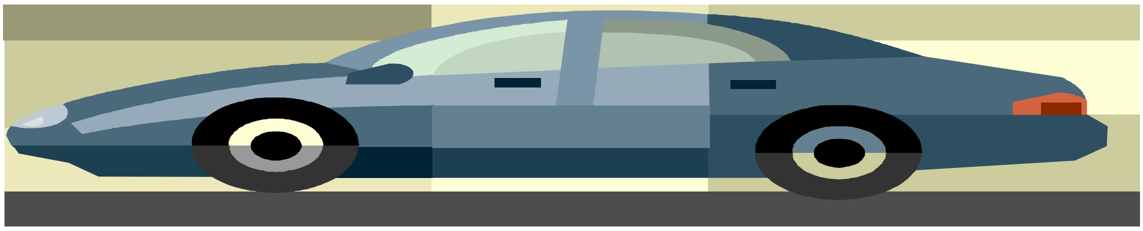

Cougar

Cougar is a European-based automotive manufacturer specialising in the mid-range family saloon and executive car markets. Now headquartered in Madrid, the Cougar group has a wide manufacturing and sales footprint across Europe, due to a succession of acquisitions of other car manufacturers. Over the last 10 years, the company has faced increasing competition from North American and Asian manufacturers and this trend looks set to continue.

The group's Head of UK Operations, Pete MacIntyre, has asked Capgemini to conduct a review of how Cougar currently operates and to evaluate two ideas that the company is considering.

You have arrived in the office today to find an email from Natasha King, a senior Capgemini consultant, asking you to assist her in preparing for a meeting with Pete next week.

Good luck!

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From:	King, Natasha
To:	Candidate
CC:	
Subject:	RE: Cougar

Dear candidate,

Welcome to Capgemini!

I hope your induction to our company and training course both went well and you are looking forward to your first project. I'm delighted that you are able to assist me with our new piece of work with Cougar, the large automotive manufacturer. We haven't worked with them before so this initial piece of strategy work is a fantastic opportunity for us to build a fruitful and hopefully long-lasting relationship with them.

As you will know from your conversation with your resourcing manager last week, I will be your project manager on this assignment. Next week I have a meeting with Pete MacIntyre, Cougar's UK Head of Operations, to explain how we will undertake this strategic review of his company. Pete will then pass on his findings to his colleagues in Madrid. I would like you to do some thinking on Cougar's position to help me prepare for my meeting. You can present your thoughts back to me when we meet.

Thinking about the structure of Cougar's business, could you list the sources of information you might consult and steps you might take in order to further evaluate this structure?

Secondly, Pete has also asked Capgemini to evaluate an initiative that Cougar has been considering over recent months: a Europe-wide implementation of e-Procurement software and standardised business processes. Please consider which aspects of this initiative you would need to consider before making a recommendation on whether or not to pursue it.

Also I would like your view on the benefits and risks of Cougar outsourcing its supply chain management.

Finally, Pete's other idea is to replace one of its European assembly plants with one in Asia. What would be some of the arguments for and against this?

I don't expect you to have an in-depth knowledge of Cougar, but I imagine you will be familiar with some of their cars already. Just apply logical thinking to some aspects and be creative where appropriate. I attach some background information.

I look forward to hearing your thoughts.

Best regards

Natasha

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Cougar Background Information

Finances

Last year the group posted its first loss: €103m on a revenue of €2,537m. It is listed on the Madrid stock market. Over the last few years the share price has been stable but more recently there has been a gradual decline. Analysts have generally rated Cougar shares with a "hold" or "sell" recommendation.

Products

The group manufactures 6 models of car across three different brands, with each model available with a choice of specifications, such as engine size and customisable interiors.

Manufacturing

Cougar has 13 assembly plants in 10 countries in Europe, with two key sites (Scotland and Poland). The company manufactures certain parts of its cars in certain plants, before all parts are shipped to either Scotland or Poland for assembly into one of Cougar's 6 models.

Cougar's manufacturing costs are higher than many of its competitors. Many of the workers at Cougar manufacturing plants are unionised, and several of these plants have been operating for over 20 years.

Supply chain management

Currently each plant makes decisions about which parts to buy, gains approval from head office in Madrid and then procures these items. Each plant uses a fairly complicated series of Excel-based spreadsheets to track the movements of its parts in its factory. Cougar does not currently use any radio-frequency technology to follow the progress of its stock.

Many plants' purchasing departments buy materials from their own country. The rules for purchasing and managing stock tend to vary according to the plant: each plant has a paper-copy of such rules in the stock manager's office.

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Organisation Design

There is a separate hierarchy of managers for sales and manufacturing in each country. In large markets such as the UK and Germany, the hierarchy of sales managers can be up to four levels in some regions (such as SE England), while in others there is only one sales manager (such as in SW England). Within manufacturing, managers report to the head of their production unit, regardless of the country in which they are employed.

IT, a fairly small department, and Marketing are both based in head office.

Customer Relationship Management

Cougar runs one call centre for customers to make general enquiries, complaints and requests for brochures. This is based in Germany and the facilities for this are leased from a company specialising in call centres. Currently Cougar keeps a database of its customers' personal data but does not use this information to tailor its marketing or other customer communications.

Cougar Case Study Solution

1 Introduction

In preparation for a meeting with Cougar's head of UK operations, Pete MacIntyre, Natasha King of Capgemini has asked the candidates to look into a number of issues related to Cougar, which will be discussed below.

2 Cougar's Business Structure

"Thinking about the structure of Cougar's business, could you list the sources of information you might consult and steps you might take in order to further evaluate this structure?"

- **Benchmarking:** To evaluate the structure of Cougar's business, it could be benchmarked against industry best practice in the automotive sector. Benchmarking involves 1) identifying the problem areas, and 2) Identifying organisations that are leaders in these areas.

    - **Competitive benchmarking** is part of competitor analysis. When researching Cougar's direct competitors one should also research the best company in the industry (even if it serves a different location or market segment and is therefore not a direct competitor). This benchmark company is then used as a standard of comparison when assessing Cougar's direct competition and the company itself.

    - **Internal Benchmarking:** It would be useful to compare Cougar's 13 assembly plants to each other to identify internal Best Practice. This would involve cost analysis per region and per factory. This would help identify problem areas such as low productivity, staff absence, downtime (unplanned/planned/changeover/etc.), stock levels, supplier costs, quality problems, delivery times, customer satisfaction, etc.). Employee and Management resistance to change may be less when it comes from within the organisation. Information may also be easier to obtain.

- **Sources of Information for Benchmarking** include informal conversations with customers, employees, or suppliers; exploratory research techniques such as focus groups; or in-depth marketing research, surveys, questionnaires, reengineering analysis, process mapping, and quality control variance reports. Financial analysts, trade associations, and magazines can also be consulted.

- **Market Research:** Is Cougar's structure suited to the markets it is serving and does it meet the customers' requirements?

    - **Indicators** to look for include target market **Demographics** (age, sex, marital status, income, occupation, education, religion, nationality, ethnic and cultural origin, number of children), **Geographical Area** (land, region, infrastructure, road network and conditions, rural or metropolitan area), **Psychographic Aspects** (social status, lifestyle, personality type), **Behavioural Aspects** (Intensity of product use, brand loyalty, driving style), **performance and profitability** of existing products, and potential for complementary or substitute products.)

    - **Product and Market Profitability Comparison:** Comparing the profitability of various Cougar brands and models in different markets might give hints as to why the company's profits have fallen. The range of products could be rationalised by discontinuing unprofitable models unless their manufacturing costs can be significantly reduced (e.g. through reducing the number of variations)

- **Key Stakeholders:** Other information sources could include identifying the key stakeholders (i.e. power sources) within Cougar such as Head of Operations in different regions, Head of Manufacturing, Head of Sales, etc. The specific issues related to Cougar's business structure that could be discussed include:

    - **Business Structure:** How has Cougar arrived at the current business structure? What factors have decided on the number of levels in the management hierarchy in different areas? Has this been updated regularly as the market changes? Should it be updated now?

    - **Sales vs. Manufacturing Hierarchy:** Since Cougar has a separate hierarchy of managers for sales and manufacturing, it would be important to ensure that responsibilities, accountabilities and communication channels between the two are clearly defined. The aim would be to keep inventories and stock levels as low as possible and this requires careful coordination of manufacturing and sales efforts.

- **Managing Teams Remotely:** Within manufacturing, managers report to the head of their production unit, regardless of the country in which they are employed. A certain element of risk may be related to having to manage manufacturing teams remotely between different countries. Again responsibilities, accountabilities and communication channels should be clearly defined to ensure effective operation of teams.

- **Manufacturing Costs:** Cougar has high manufacturing costs and therefore probably low margins. Costs should be analysed per region and per factory to identify where improvements could be made.

- **Marketing Department:** Cougar's marketing is based in the head office in Madrid. This is a risk because marketing is not located where the markets are. This introduces delays in responding to changing market conditions and makes gathering information, such as competitor analysis, more difficult. Having separate marketing teams in each country of operation might be considered, which would then report to the head office.

- **IT-Department:** Cougar has its own IT department in Madrid. Since this is a small department and it's not Cougar's core area of business, it should be considered for outsourcing. This would e.g. remove the need for regular (and expensive) technology upgrade investments.

- **Reengineering Analysis:** Reengineering analysis could be carried out to identify the potential to use information technology to improve performance and cut costs. An example of this would be e-Procurement as discussed later or CRM systems.

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3 e-Procurement and Standardised Business Processes Initiative

Before recommending whether or not to pursue the proposal, a number of aspects of this initiative should be considered.

- **E-Procurement:**
  - **RFID Technology:** Does the proposed e-procurement implementation support RFID technology for tracking the movement of parts? Although not used at the moment, this technology may be adopted in the future to replace the complicated series of Excel-based spreadsheets and therefore any e-procurement system should incorporate an option to integrate RFID technology into its functionality.
  - **Upgrades:** How upgradeable is the e-Procurement system? As business needs change can new functionality be added easily with little hardware/software investment?
  - **Cost of Implementation:** A cost-benefit analysis should be carried out before committing the company to the initiative. One should not only look at the initial investment but also the long-term costs accrued during the complete lifecycle of the system, including the aforementioned upgrades.
  - **Consolidated Parts Purchasing:** Does the e-Procurement system enable consolidated parts purchasing and automation of the approval process, which is currently time-consuming? If parts purchasing is consolidated, fewer suppliers are needed, which means an increase in order volumes and therefore potential for bulk discounts. The risk here is that delivery times may increase and language problems may be encountered if parts are no longer purchased from local suppliers.
- **Standardised Business Processes:**
  - **Legislation:** Different countries may have different legislation. If standardised business processes are introduced they must comply with all current legislation in all the 10 countries where Cougar's assembly plants operate.
  - **Change Management Programme:** Does the initiative incorporate a Change Management programme to assist in the transition to new business processes and IT systems? What is the strategy to bring together the different cultures and processes deployed at various sites at the moment? Employee resistance? From a HR point-of-view, things to look at could include the effects of headcount reductions on the presumption of improved business processes, relocation of staff, retraining of staff, etc.

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- **Risks:** What are the risks associated with going ahead with the proposed changes? Does the proposal incorporate a risk assessment strategy as well as a risk management strategy?

- **Pilot Programme:** A pilot programme could be deployed in one assembly plant to assess the initiative before Europe-wide implementation to minimise risks.

(NB: E-procurement is the business-to-business purchase and sale of supplies and services through the Internet as well as other information and networking systems, such as electronic data interchange (EDI) and ERP. E-procurement software may make it possible to automate some buying and selling. Companies participating expect to be able to control parts inventories more effectively, reduce purchasing agent overhead, and improve manufacturing cycles. E-procurement is expected to be integrated with the trend toward computerised supply chain management.)

4 Outsourcing Supply Chain Management

"I would like your view on the benefits and risks of Cougar outsourcing its Supply Chain Management (SCM)."

4.1 Benefits of Outsourcing SCM

The following benefits could be drawn from outsourcing Supply Chain Management:

- **Access to world class capabilities:** Outsourcing providers make extensive investments in technology, methodologies, and people. They gain expertise by working with many clients facing similar challenges. This combination of specialisation and expertise would give Cougar a competitive advantage and help it avoid the cost of chasing technology and training.
- **Freeing resources for other purposes:** Outsourcing permits an organisation to redirect its resources from non-core activities toward activities which serve the customer. The organisation can redirect these people or at least the staff slots they represent onto greater-value-adding activities.
- **Improving company focus:** Outsourcing lets a company focus on its core business (building cars) by having operational functions assumed by an outside expert.
- **Making capital funds available:** It is often hard to justify non-core capital investments when areas more directly related to producing a product or providing a service compete for the same money**.** Outsourcing can reduce the need to invest capital funds in non-core business functions. (Instead of acquiring the resources through capital expenditures, they are contracted for on an "as-used" operational expense basis.)
- **Reducing operating costs:** If you try to do everything yourself, you may incur higher research, development, marketing and deployment expenses, all of which are passed on to the customer. On the other hand, an outside

provider may have a lower cost structure as the result of a greater economy of scale or other advantage based on specialisation.

- **Reducing risk**: Risks are associated with the investments an organisation makes. Outsourcing providers make investments on behalf of many clients, not just one. Shared investment spreads risk, and significantly reduces the risk born by a single company
- **Providing resources not available internally**: If Cougar does not have the right resources and skills, outsourcing would be a viable alternative to building the needed Supply Chain Management capability from the ground.

4.2 Risks and Challenges of Outsourcing SCM

It is worth remembering that the product or service can be outsourced, but the risk cannot.

- **Outsourcing a function that is broken** – The natural tendency may be to get rid of things that are not working well. This tendency should be avoided because business requirements cannot be adequately communicated with a broken process, and managing a process effectively requires an understanding of how it is supposed to work. The process must be fixed before it can be outsourced.
- **Suppliers may not be financially viable,** thereby exposing the company to service interruption risk.
- **Employee resistance:** Losses in morale, productivity, and personnel are common.
- **Lack of management skills** - Current managers might have brilliant capabilities within their own functions but might not have the capabilities needed for managing outsourcing. The skills required include being able to assemble information from outside sources, the ability to evaluate alternative cost structures and to understand the strategic risks of outsourcing to one partner versus another. A totally different set of management skills is therefore needed.
- **Loss of Intellectual Property** – This is a risk as the company's internal processes are exposed to an outsider.
- **Loss of Competitive Advantage through Loss of Skills** – Outsourcing a function means that the skills required to run that function are lost within the organisation. Even if these particular skills do not constitute a competitive advantage at present, this may change in the future.
- **Loss of Management Control** – Management will lose direct control over an outsourced function. If changes are needed, it will be a lengthy process of renegotiating the contract unless flexibility is built into the outsourcing contract to begin with.
- **Upfront risk assessment not performed** – If the risks of the outsourcing program are not clearly understood before action is taken, it is easy to make a bad outsourcing decision, even when the best supplier is chosen.
- **Achieving end-user satisfaction** – Service Level Agreements hat meet the contractual requirements may not meet the needs of the other key business stakeholders.

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- **Service quality may suffer in outsourcing** - Companies must carefully select, qualify, and manage their outsourcing partners to ensure that quality does not deteriorate.
- **Understanding the hidden risks -** Outsourcing may have widespread impact on other business processes, Cougar's reputation, and its customers.
- **Achieving the promised cost savings -** It is important to understand, quantify and communicate the true value improvements generated through the outsourcing duration.
- **Misunderstanding the service levels** - Although they are often documented, it is common for SLAs to be misunderstood. This is why it is a good idea to run parallel operations for a period of time or to build an interim checkpoint into the agreement. The checkpoint can be used to make sure SLAs are achievable and understood, and to make adjustments if needed.

(NB for information: Supply Chain Management is the management and coordination of a product's supply chain for the purpose of increasing efficiency and profitability. Typically SCM will attempt to centrally control or link the production, shipment, and distribution of a product. By managing the supply chain, companies are able to eliminate waste and provide products faster. This is done by keeping tighter control of internal inventories, internal production, distribution, sales, and the inventories of the company's product purchasers.)

5 Manufacturing in Asia

"Pete has an idea to replace one of Cougar's European assembly plants with one in Asia. What would be some of the arguments for and against this?"

The following arguments for and against such a move could be presented:

For:

- **Labour Costs** would be significantly lower. Fixed costs may also be much lower in terms of land, maintenance, heating, etc. Compared to US labour costs, a manufacturer can save about 80-85% of direct labour costs moving to China. However, labour costs normally only amount to 30% of total costs. (www.blackerbyassoc.com/Overseas.html)
- **Cheaper manufacturing costs** may translate into cheaper retail prices. This has potential to boost sales figures for Cougar.
- **Becoming an Indigenous Manufacturer:** Opening a plant in Asia would enable Cougar to enter the Asian market as an indigenous manufacturer, thus avoiding trade barriers and import duty which can amount to as much as 300% of a car's value in countries such as Malaysia (In Malaysia 140%-300% based on engine displacement to be exact). This would significantly increase Cougar's competitiveness in the region.

Against:

- **Direct costs offset labour savings**. Increased direct costs include customs, duties, fees, insurance and licences.
- **Transportation costs**. Physical distance between parts manufacturing in Europe and assembly in Asia would introduce time delays and shipping costs. Also if the Asian plant would supply cars for European or North American markets, customs and transportation costs would be incurred.
- **Considerable Capex investment** required to set up a completely new assembly plant from scratch.
- **Language and cultural barriers** may hinder cooperation and liaison between Asian staff and their European counterparts.
- **Work coordination is difficult** with staff in globally diverse time zones. (E.g. if there is only a 1-2 hour window per day in which to communicate.)
- **Management control** is significantly eroded when manufacturing is a long way distant from the market.
- **Quality control is difficult.** If the actual quality of the cars would be worse than before, this may alienate customers and hurt sales figures.
- **Perceived quality and image** of the brand may be tarnished by moving manufacturing from Europe to Asia. This can make the brand less competitive especially in the executive market. However, moving the manufacturing of mid-range family saloons to Asia could be viable. Also,

most people do not know where their car is manufactured so the effect of lower perceived quality may not be too severe.

- **Political risk**: An intangible cost is the political risk of manufacturing in other countries. Political risks include the probability that the local government may change the rules, making manufacturing more expensive or more difficult. Examples include nationalisation of factories, changes in labour rules, payroll taxes, business taxes, environmental regulations, etc.
- **Currency risks** in terms of the uncertainty of an exchange-rate or a currency revaluation. (Managers can hedge against currency fluctuations over the short run (months), but long-term investments and the entire product cost structure can be significantly wiped out in a currency revaluation.)
- **Other unforeseeable risks**. A recent example of this would be Severe Acute Respiratory Syndrome (SARS).
- **Inventory and all of its costs** are necessarily increased when manufacturing overseas, just due to the difficulties of long logistics lines. Inventory adds cost but not value, and by definition reduces return on investment.
- **Closing a plant in Europe may be difficult** and costly due to unionised workforce. Legal action may be taken against the company in case of staff being made redundant en-masse. To counter this, severance packages could be offered but this may be expensive if many employees have been with the company for several years and even decades (most plants have been in operation for over 20 years). Selected Voluntary Severance could be an option.
- **Loss of Intellectual Property**. Protecting intellectual property is virtually impossible in some parts of the world; their cultures do not necessarily respect intellectual property rights and their governments are reluctant or unable to enforce the laws they have.
- **Time-to-market**. Being first in a market can be a competitive advantage. By the time competitors catch up, the market has moved on to other products, and the competitor is stuck with obsolete inventory. Overseas manufacturing virtually always lengthens time-to-market, reduces a company's agility and becomes a competitive disadvantage.

Too often, a manufacturer looks only at the labour + transportation + duty equation. In many cases, that equation will tell the manufacturer that overseas manufacturing is the cheapest solution. But that equation does not tell the full story. Overseas manufacturing also incurs some more intangible costs, intangible but nonetheless real. These intangibles most often take the form of risk as discussed above.

A key principle is to manufacture products near their markets. Manufacturing overseas may be the best solution if the products will be sold overseas but it is rarely the right decision when serving domestic markets.

A cost-benefit analysis would need to be carried out to determine whether it is feasible for Cougar to replace a European assembly plant with one in Asia.

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An option for Cougar to keep their manufacturing operations at home and still compete with the price leaders who absorb the overseas risks would be to implement so-called Lean Manufacturing techniques. A lean manufacturer will absorb higher hourly costs for labour, but will invest fewer labour hours in each product, because of higher productivity. A lean manufacturer will avoid the extra transportation, handling and duties costs and will not suffer political, currency or control risks, and will protect its intellectual property. A lean manufacturer will keep inventory to a rock-bottom minimum, and will be able to respond to market conditions in real time.