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Research Task

Use the globalEDGE site (http://globalEDGE.msu.edu/) to complete the following exercises:

1. The World Bank's *Logistics Performance Index* (LPI) assesses the logistics environment of countries. Locate the most recent LPI ranking. How is the index constructed? Identify the top 10 and bottom 10 logistics performers. Prepare an executive summary highlighting the key findings from the LPI. How are these findings helpful for companies trying to build a competitive supply chain network?
2. Struggling to remain competitive in the medical devices industry, your firm has decided to begin sourcing components internationally. Though your firm's current operations are only in the United States and Germany, you must assess the relative costs for manufacturing medical devices in a variety of cities worldwide. Your manager, previously a consultant with KPMG, indicates that the *Competitive Alternatives* surveys published annually by KPMG may assist you. Develop a brief report addressing the following questions: (a) Which three cities in the survey have the lowest and highest manufacturing costs for your firm's specific industry? (b) Do you think that changing your firm's sourcing strategy will resolve the current problems? Why or why not?

Minicase: Balagny Clothing Company Outsources Domestic Production

Balagny Clothing Company Inc. is a major apparel manufacturer in the United States. It makes men's, women's, and children's casual wear such as denim jeans, cotton slacks, skirts, and sweaters. Balagny Clothing has taken the low-cost provider strategy and is constantly trying to find ways to cut costs and maintain their 4 percent profit margin while maintaining a competitive advantage over its major competitors. Because direct labor makes up approximately 65 percent of the total cost of an apparel item, Balagny Clothing closed all of its domestic manufacturing facilities and outsourced the production to contractors in China. In the United States, Balagny Clothing was paying an average hourly wage of $8.65 per hour. The Chinese labor rates average about $1.18 per hour, depending on the location of the factory. The company felt that relocating their production to China was a viable change for the long-term life of the company. Not only could it reduce labor costs by 86 percent, but it would no longer have to deal with labor unions; plant maintenance; and government regulatory offices such as the Occupational Safety and Health Administration (OSHA), the Fair Labor Standards Act (FLSA), and the Equal Employment Opportunity Commission (EEOC).

It took Balagny Clothing almost two years to complete the transition. After startup costs in China, domestic plant closings, and the associated costs, Balagny Clothing was ready to reap the benefits of its decisions. It slashed wholesale prices for the upcoming season to undercut the competition and planned for a 6 percent profit margin. Balagny Clothing had increased sales by more than 20 percent, garnering the majority of the business.

There were, however, a few discoveries that limited its cause to celebrate. It had relinquished almost all control over the manufacturing processes and product development after the initial designs were transmitted to their China contractors. Production was set up to be delivered in four batches per season (eight batches per year) with orders transmitted approximately four months in advance. These contracted production amounts were firm and, later that year when business slowed, Balagny Clothing could not lower the production rate nor refuse shipments. This resulted in large inventories of finished goods.

An additional and unexpected problem was caused by longer-than-expected transportation times from China to the Balagny Clothing distribution center. Balagny Clothing had originally planned for two-week in-transit inventory and customer delivery dates based on the import agents' estimated travel time across the Pacific, but the company had not foreseen an additional two- to three-week delay caused by the backlog at the port of Los Angeles. This pushed back shipment dates to Balagny Clothing's customers, resulting in a shorter selling period at retail and nullifying Balagny Clothing's expected refill orders, further enhancing already high finished goods inventory levels. The holding costs associated with these high inventory levels negated a large amount of the forecasted savings Balagny Clothing counted on for its profits.

In addition, customers were complaining that the fit and feel of the garments were different. The Chinese production facilities had altered the Balagny Clothing product to fit their production processes. The Chinese had their own raw material suppliers and their products were slightly different than Balagny Clothing's domestic suppliers.

Another problem that became evident was the producer's lack of flexibility. Because of the high inventories, model changes became more expensive because more inventory had to be marked down to clear the way for the new product. Balagny began to see a decline in sales and became concerned for the future of the company.

The CEO called the top management team together and charged each one of them to find ways to improve the situation.

William Duncan, vice president of operations, felt that he had an answer to the company's problems. After investigation, he proposed that they immediately buy or construct a wholly owned manufacturing subsidiary in Mexico in one of the border maquiladora parks. Finished goods could be transported from the maquiladora to the Balagny Clothing distribution center within 72 hours of completion. The plan would call for the maquiladora to produce the rapid turnover product needed for quick replenishment. The China contractors would be given the seasonal products that were not a part of the replenishment system and that could be produced and shipped in batches. The plan called for approximately 40 percent of the production to be moved to the Mexican maquiladoras while 60 percent would remain with China, yielding an average labor cost of $1.72 per hour. Duncan calculated that this change would decrease Balagny Clothing's on-hand and in-transit inventory dramatically, yielding a much higher profit.

Questions:

1. Identify specific concepts in the case found in this chapter, and discuss their relevance to the problems facing the company.
2. Considering all of the problems incurred in China and the immense effort and capital needed to start up the Mexico operation, would it have been a better idea for Balagny Clothing to keep its domestic operations? Why or why not?

Source: This case was contributed by Kevin Cruthirds of Nicholls State University.