Toys (Cyprus) Ltd.

Toys Ltd. was established in 1990 in a provincial town close to Larnaca in Cyprus with the stated objectives of producing high quality toys and educational equipment for principally, the Cyprus market and later the middle-east. Over the period of 20 years it has seen various ups and downs in fortune but has been facing increasing competition especially in the education segment of its business.
Recently it has experienced a downturn in its profitability which its management ascribe to the deteriorating economic markets in Europe and the "knock on" effect in the Cyprus market. Various strategies to overcome this deterioration in its sales and profits have been proposed and cuts in the employee force and production techniques have been proposed. The management consider that these strategies together with more stringent cost controls and cost cutting will produce the desired results in the future.

One of the factors reported by the sales director, Kyriacos Dmitriou, is the increasing number of returns being received by the goods returned department. This phenomenon he says, "..... is not sustainable if the firm is to return to profitability. "

The production manager has suggested that if 100% of items produced are inspected at the end of the production line then the problem of returns of defectives will be solved. This operation could be achieved by moving 2 or 3 of the more experienced workers from the assembly line and onto final quality inspection. Again, this strategy would not involve changes in staff numbers. It has also been suggested by the production department that a higher degree of self assembly by the customers/consumers could be used as this would again reduce production costs and place the onus of the defectives issue on the consumers.

The Marketing Director, Stavrou Kiriacou, is concerned that so many items with working parts are being returned due to erratic or non-working parts. He is concerned that this will affect the reputation and image of the firm. His senior assistant has proposed that as a measure of good will the firm agrees to receive faulty goods back and replace them with new items. This, he says, will cure the image problems. He also suggests that the faulty units could be rebuilt and repaired then sold in the outlet shop. These could be sold at a compensating discount. He believes also that this would not detract from the sales of new items. Under this strategy no extra staff would be needed as regular staff could carry out the functions during lulls in their regular work.

It has been suggested by the accountants that the company should be looking for cheaper components even if they are considered lower quality as this would satisfy the company's need for cost reduction in production. With the change in staff organisation, cheaper components, cheaper materials, rebuilding products and sales in outlets the returns problems and profit levels would be addressed. The accountants have asked for more accurate figures of returns, defectives, fault points and total production volume figures are provided to them. It could be they say, that the levels of returns are at acceptable levels. After all they claim, the percentage "defectives" may well be within the parameters laid down in industry standards and bench marks.
Additionally, the accountants have queried if the firm can afford to choose strategies other than those they have proposed:

a)buying cheaper components and materials
b)working to industry norms on defectives and acceptance levels
c)"toughing" it out as far as returns are concerned by denying liability and resisting compensation by replacement of defective products.

Operations Management - Assessment 2 – Toys (Cyprus) Ltd. – Case study

You have been requested to provide advice and ***justified*** recommendations, as a new graduate of management studies, to the management of TOYS (Cyprus) Ltd. regarding their problems with their products and processes. They are particularly interested in your observations regarding their proposals to overcome their poor performance in the markets they are in.

They have asked that you provide them with justified reasons for recommendations.

You are to write your recommendations, findings and observations with fully justified arguments.