Case: Car Company

A.T. Kearney, Round 2

Problem statement narrative

Frank is 65 years old, and for his entire working career, has owned a manufacturing company which manufactures unibody car frames. He has always had one contract with one vehicle OEM, however this year that OEM has decided not to renew its contract. What should Frank do?

Overview for interviewer

This is a high-level strategy case. The interviewer should guide candidate into exploring Frank's various options and ultimately weighing each option to determine which he should take. Various frameworks could be used to explore Frank's options in the industry , including, but not limited to a Value Chain Analysis or Five C's.

Case Type: Market Strategy

Information to be provided upon request

The reason Frank's longtime customer has decided to end their contract with Frank is because a new type of welding technology is being used to make unibody frames, and Frank's plant does not support this technology.

This new welding technology will soon be mandated for cars by governing regulatory body.

Frank's company is privately owned, 100% by him, with an annual contract revenue of $5M.

Frank has won numerous production efficiency and supplier quality awards.

His supply chain is almost fully optimized, however he could source some materials elsewhere and save $100K / year.

Potential Categories of Candidate's Framework

Notable comments / potential discussion points

However the candidate chooses to address Frank's options, he should recognize that Frank's revenue has been eliminated in its entirety so his focus must be responding / repositioning in order to survive:

Value Chain Analysis (where can Frank gain advantages to lower his cost base or better meet customer demands?)

- Design / R&D
- Supply Chain Management
- Production
- Distribution
- Customer Management

Profit Drivers

- **Revenue** (Can Frank provide his product to other customers, can Frank adapt his plant to manufacture products for other customers, Can Frank lease out his facilities to others?)
- **Costs** (What will it cost Frank to upgrade his facility? What will it cost Frank to manufacture other products? What will Frank have to invest to gain new customers?)

5 Cs:

- **Customers** (Frank currently has one customer, can he expand that?)
- **Costs** (Where can Frank cut costs What will it take for him to upgrade his facility and adapt the new technology)
- **Competition** (Where is Frank's competition positioned? Are there others in his position? Are there markets where Frank can explore that are more profitable?)
- **Company** (What are Frank's companies strengths? Can that be adapted to another market/customer?)
- **Context** (What is causing the change in customer behavior? Can Frank do anything to shape the regulatory environment or get ahead of future changes?)

Potential Issue Tree & Approach to Solving the Case

Key elements of analysis to solve the case

Value Chain (Profitability)

- Design & R&D
- Supply Chain Management
- Production
- Distribution
- Customer Management

(Basic Math should be done to determine Frank will not be profitable if he upgrades since Frank wants to see a return on any investment within 2 years)

Possible follow-up and guidance to interviewer

For Frank to invest and upgrade his facilities he will have to invest $10M. His current (soon to be expiring contract is $5M and all-in costs are $4.5M). If Frank were to relocate, his upgrade costs would remain the same (patented technology would still have to be purchased.) Frank can make a few cuts in his supply chain and save $100K. Frank cannot save in distribution and end customer costs as the OEM he serves is right next door. Frank has won numerous production awards for being a lean plant.

5 C's

While cost is covered in value chain discussion, the other "C's" can help determine potential alternatives:

- Customer
- Company
- Competition
- Context

Possible follow-up and guidance to interviewer

Customer: It will be difficult for Frank to find new customers for his current technology since that technology is being replaced per regulations. If he were to upgrade his plant, potential new OEM customers have signed long-term contracts with Frank's competition.
Company: The strengths of Frank's company lies in the R&D and design of the unibody frame technology. Frank's company does not sell anything else, nor does it have high brand recognition other expertise.

5 C's (Continued)

While cost is covered in value chain discussion, the other "C's" can help determine potential alternatives:

- Customer
- Company
- Competition
- Context

Possible follow-up and guidance to interviewer

Competition: Frank's competitors have signed contracts with other OEMs and some have diversified portfolios. All have adapted the new technology.
Context: Frank is 65 years old and would like to spend more time with his grandkids. He could consider lobbying the regulatory body for a freeze on the changes, but this would require a longer-term, dedicated effort.

Sample Recommendation

Recommendation	Based on analyzing Frank's value chain/profit drivers, the strengths/weaknesses of his company, the market, Frank should exit the current market as he is currently the sole proprietor and quickly aging. The costs of implementing the new regulatory technology are high, and it does not appear that Frank would be able to recoup them in his required 2-year turnaround. Therefore Frank should begin to develop an exit strategy, which may include a sale to a strategic buyer that can make use of his existing assets and/or has more patience to make longer-term investments.
Risks	If Frank were to close his company, he would need to consider closure costs, including any long-term supplier contracts, outstanding debt, warranties, union fees, potential ill will in the community.
Next Steps	Frank should further explore if any of his current equipment, technologies can be adapted to make new products and the costs/revenues, although initial signs (his company's strengths are not in new technology) indicate this may be difficult. Frank should explore salvaging current assets and/or selling the business outright.

BONUS
Who may be potential buyers for Frank's business? • Strategic buyers / competitors: Frank's underlying technology may still be attractive in some ways. • Financial buyers: probably not given difficult growth story, but perhaps as part of an industrial roll-up strategy of similar businesses.