

## **Solving Gridskipper Footwear's Return on Sales Problem**

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## Identification of the Problem

One large area where Gridskipper Footwear experiences a cost on production is in the North America region. These costs come from two sources, worker compensation and branded production. Worker compensation in our North America Facility is almost triple that of our Asia-Pacific and Latin America Facilities. We spend \$41,556 per year per worker in North America. Our branded production in North America also faces problems. The North America Facility has a rejection rate of 7.5%, triple the rate in Asia-Pacific and double the rate in Latin America. Both these problems combined raise questions about how we can improve our return on sales.

## Possible Directions

Gridskipper Footwear's position as of right now can allow for multiple different directions. Firstly, we can increase the incentive pay per non-rejected pair of shoes. Currently, we offer fifty cents per non-rejected pair, but if we increase this benefit by only \$1, we can lower our rejection rate by a whole percent. This lowers the North America Facility's rejection rate, but only marginally, and it increases costs. Another possible solution would be to purchase special equipment to reduce our rejection rate by 50%. At the current price, Gridskipper Footwear could spend \$3,750 to purchase said equipment, and then based on our current rejection rate, get projected annual cost savings of \$1,489. In just 2 and a half years we will earn back what was spent, and then continue to save money into the future.

## A Potential Solution

One possible solution that I propose over the rest, is that we can sell off our production capabilities in the North America Facility and put those resources towards our cheaper and higher output facilities in the Asia-Pacific and Latin America regions. Currently, our marketing in these two regions is higher than in North America or Europe-Africa. Putting more effort into our facilities in these areas works in our favor as Gridskipper Footwear already has a sizable market share. Worker compensation in these regions is lower than in North America, we would be able to increase productivity with only a fraction of the cost. Our rejection rate at both locations is also significantly lower than in North America, at 2.7% in Asia-Pacific and 3.2% in Latin America. Although we would have to deal with tariffs on imported pairs of shoes, the lower facility costs will heavily outweigh the shipment prices.