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| **Case Report - Connor Formed Metal Products** |
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**Abstract**

Connor Formed Metal Products manufactures metal springs and stampings for large equipment manufacturers in the U.S. by empowering employees through information technology and employee ownership. The generic strategy of Connor Formed Metal Products originated as cost-leadership, “customers typically chose their suppliers based on price, particularly since quality and service were notoriously poor within the industry.” (Cash, 2012); However, through the course of Connor’s transformation, their generic strategy became differentiation, “annual quality ratings had soared to near perfection and customers were hiring Connor despite its higher prices.” (Cash, 2012). After Bob Sloss took over as president, the organizational structure at Connor became divisional (although it could almost pass as a scalable holographic structure due to the delegation of responsibilities and lack of details on plant differentiation). Connor is comprised of a primary headquarters and four divisions separated geographically across the United States.

The main problem area for Connor Formed Metal Products (CFMP) is intra-industry competition from offshore competitors coupled with Connor’s traditional slow-growth, low-investment approach to business. “Offshore competitors, many with lower cost structures and superior product quality, had entered the US market and were stealing market share from the more traditional small job shops that had supplied the industry in the past. Many of these offshore firms were also attempting to buy the larger more successful U.S. competitors as a way of entering the market.” (Cash, 2012). To combat this issue, Bob Sloss, President of CFMP, has enacted several employee empowerment strategies in addition to utilizing an employee information system at the Los Angeles plant. The question now is whether or not to implement the employee information system at other divisions and, if so, how to go about the implementation.

**Porter’s Five Forces Analysis**

An examination of CFMP utilizing Porter’s five forces before and after Connor’s transformation reveals the following:

**Threat of new entrants: High, then medium-low**. The threat of new entrants in this market began as relatively high. While it would be capital intensive for new firms to compete with Connor on the same scale, it would be relatively easy to specialize in specific products lines and grow from there. Most manufacturers, by nature, are subject to economies of scale, which happens to be the case for this industry. However, after Connor’s transformation and switch to the differentiation product strategy, threat of new entrants effectively decreased to medium-low. Customer loyalty is an integral part of the differentiation strategy; as such, it would be immensely difficult for new entrants to compete with Connor. “Customers were hiring Connor despite its higher prices.” (Cash, 2012). Although the industry is indeed profitable, Connor has gained the advantage in this area through brand equity, product differentiation (through quality and service), and customer loyalty.

**Threat of substitute products or services:** **High, then medium-low**. The threat of substitute products began as relatively high. “Quality and service were notoriously poor within the industry” (Cash, 2012) which led to utilization of the cost leadership generic strategy. Thus, buyers switching cost stem directly from cost, making propensity to substitute high since it’s effectively determined by cost. “Customers typically chose their suppliers based on price” (Cash, 2012). With Connor’s competition being “comprised [of] 600 to 700 primarily owner-operated job shops” (Cash, 2012) in addition to offshore competitors that had begun to enter the US market, the number of substitute products is very high. However, after the switch to differentiation, the threat of substitute products became medium-low. With Connor’s perceived superior quality and reliability, the perceived level of product differentiation increased while buyer’s propensity to substitute decreased dramatically because owner-operated shops could no longer compete with Connor’s quality and service. The remaining threat of substitute products stem from foreign competition who had already achieved superior quality and lower cost structures.

**Bargaining power of customers: Very high, then medium.** The bargaining power of customers began as relatively high for the same reasons the threat of substitute products began as relatively high. High availability of substitute products, high buyer price sensitivity, and non-existent differential advantage gave customers very high bargaining power when dealing with firms in this industry. However, the switch to superior quality and service processes coupled with the differentiation generic strategy allowed Connor to effectively drive down the bargaining power of customers by creating a differential advantage that set Connor apart from owner-operated shops. However, the products produced by foreign competitors are still comparable in terms of quality and service and would likely be able to detract from Connor’s differential advantage by engaging the buyers price sensitivity; thus, the bargaining power of customers is medium.

**Bargaining power of suppliers: Low.** Bargaining power of suppliers in this industry is relatively low. There is no mention in this case of a scarcity of the raw materials required to produce metal stampings, complex wire forms, and assemblies. Thus we can assume there are multiple suppliers of the raw metals required for Connor’s manufacturing processes. Equipment may be costly due to specialization; however, with proper upkeep and maintenance, equipment costs would be relatively negligible relative to the profit it’s able to generate over its useful life. Labor is another key supplier for Connor; yet, with the plethora of employee empowerment tactics (such as the employee stock ownership program (ESOP)), it would seem logical that employees are not difficult to come by for this organization.

**Intensity of competitive rivalry: Very high, then medium-high.** At the beginning of this case, Connor was competing with 600 to 700 owner operated shops with the foreshadowed encroachment of offshore competition that had recently begun to enter the US market. This led to a very high level of competitive rivalry. After Connor’s transformation, the owner operated shops could no longer compete due to the competitive advantage Connor had generated through its employee empowerment techniques and utilization of the employee information system at the Los Angeles division. However, larger foreign competitors will still be able to compete with Connor despite this competitive advantage, the sustainability of which is called into question due to the ease of replicating technology systems. Thus, while competition from smaller organizations has decreased, the threat of competition with large organizations still exists and is becoming increasingly prevalent.

**Key stakeholders**

* **Bob Sloss**- He is the president of Connor and the driving force behind their significant changes. He desires to increase the company’s profitability through the utilization of technology and employee empowerment.
* **Employees of CFMP**- Employees of Connor are highly invested in the company’s success since they own 45% of the company through the ESOP. Any changes made at Connor can have a significant impact on their financial states as well as their jobs.
* **Division Managers of CFMP**- Division managers of Connor have essentially been given full responsibility over their division and are highly motivated to ensure success and profitability for their division.
* **Customers of CFMP**- Customers of CFMP are currently influenced by Connor’s superior quality and service. The level of quality and service Connor provides will have a direct impact on the reception of foreign competitors that have begun to enter the US market.

**Alternatives**

1. **Do nothing.** Under this course of action, Connor will not expand the employee information system to other divisions. The only logical reasoning for taking this course of action is if the benefits experienced at the Los Angeles division are treated as a singular occurrence that cannot be successfully replicated.Under this scenario, Sloss will not have been able to maximize the utilization of technology across divisions unless subsequent systems are developed that are customized to the unique aspects of the other divisions. Employees in divisions other than L.A. will not have received the same empowerment experienced by the L.A. employees, and could become resentful of that. The majority of division managers who expressed interest in utilizing the system in their division will be disappointed by this option, while the manager who expressed disinterest in the system will simply continue as before. Customers of CFMP will not have received the highest possible level of quality and service that can be potential generated through universal use of this system at Connor’s other facilities. This may lead to a better reception of foreign competitors when they enter these geographic segments.
2. **Utilize the push strategy.** Under this course of action, Connor would utilize the push marketing strategy for their new employee information system. This strategy would entail essentially forcing the system upon the other divisions; while some may accept the change, resistance is sure to be stimulated by this forcible approach, especially in the San Jose plant where the plant manager has already expressed resistance towards the system. The best way to ensure the success of this strategy is to minimize employee resistance by tying rewards and other action control incentives to the new system. The downside to this strategy is that tying reward and other incentives to the new system will be costly relative to other alternatives and may not completely quell employee resistance. Sloss will have been able to successfully empower employees in his other divisions with the new system and shall thusly experience benefits in the other divisions that are similar to the benefits experienced at the L.A. division; however, these benefits will be offset by the costs tied to incentives and rewards required by the push strategy coupled with initial (and perhaps lasting) employee resistance to the new system. Initial and lingering employee resistance may also lead to less than optimal system utilization, resulting in a reduction of potential net benefits. Division managers that are receptive of the new system will attempt to maximize its utilization in attempt to maximize benefits; however, managers that are resistant to the system could potentially exacerbate employee resistant to the system effectively lessening the effects of the reward and incentive action controls which equates to even higher reward/incentive costs to achieve the desired effect. Depending on the effectiveness of the action controls surrounding utilization of the new system, customers could experience an increase in the quality and service they receive from Connor, effectively strengthening customer loyalty while reducing their propensity to substitute when foreign competitors enter the market.
3. **Utilize the pull strategy.** Under this course of action, Connor would utilize the pull marketing strategy for their new employee information system. The pull marketing strategy entails consumers (in this case, employees) ‘pulling’ or wanting the product rather than having it forced upon them. This strategy couldn’t be enacted as swiftly as the push strategy but will result in maximum employee utilization without the incentive/reward costs (due to minimal employee resistance). Under this strategy, Connor would only install the system in divisions that want the system. The underlying idea is that, once other divisions witness the success (increased profits and empowerment) the system brings, they will associate that success with the system and want it too. When employees want the system, they’ll have no reason to resist its use; on the contrary, they will want to use the system to reap the benefits realized at other divisions; ultimately, this will result in maximum potential benefits (through utilization) with minimal associated costs. The key is that the other divisions need time to witness the success this system brings before they decide they want it too. Sloss will be very happy with this solution as it maximizes potential profit and employee empowerment while concurrently minimizing costs. Employees will likewise be satisfied with this solution since, in essence, they are being ‘rewarded’ with a system they want to utilize. Division managers will also enjoy the maximization of potential benefits coupled with the minimization of costs. Customers will be able to receive products manufactured with the highest levels of quality and service that could result from utilization of the system. This shall cause substantial customer loyalty to the extent that foreign competitors may no longer be considered competition for Connor if they cannot match these levels of quality and service.
4. **Sell CFMP to foreign competitors.** This course of action would entail Bob Sloss selling his 53% ownership in CFMP to a foreign competitor who’s interested in “[buying] the larger more successful U.S. competitors as a way of entering the market.” (Cash, 2012). After experiencing the success of Connor’s transformation, stock prices (company value) are sure to be on the up and up. While installing the employee information system in L.A. was a success, Sloss is concerned that “the success of the Los Angeles experiment had been largely due to the unique combination of Quarrey’s involvement and the circumstances of the particular plant.” (Cash, 2012). So, rather than take a risk in expanding the system to other departments, why not sell his majority ownership at a premium to a foreign competitor? In a few years, foreign competitors will be firmly established in the US market; if these competitors are able to offer customers the same level of quality and service as Connor, then pricing wars will surely ensue that will effectively decrease Connor’s net profit and stock prices while forcing a reversion back to the cost-leadership strategy. Additionally, when these foreign competitors witness or uncover the success of the employee information system, their first instinct will be to replicate the technology so that they will likewise reap its benefits. If successful, they shall be able to effectively compete with or perhaps surpass the quality and service offered by Connor. Rather than sit around and wait for a new level of competition to ensue, Sloss would benefit from selling his interest in the company while his stock prices are on the rise (yet forecasted to plateau and decrease upon the arrival of foreign competition). This way, Sloss would be able to sell his shares at a premium of market value, effectively further increasing the stock price and making his employees richer (through the ESOP). Employees would experience an increase in the value of their shares as a result of this acquisition. If we assume CFMP is a privately owned company (which seems likely based on the limited number of shareholder parties), the ESOP committee will likely have the right of first refusal; in this case, the committee can opt to purchase Sloss’s shares at the same price the external party was willing to pay. Division managers would not be happy with this alternative because top level management is often replaced as the result of an acquisition. Customers will not realize the increased bargaining power that would’ve resulted from a price war; however, they will continue to receive quality products and will ultimately remain unaffected unless changes are made by the organization that purchases Connor.

**Recommendation**

According to the Stages Theory of IT Adoption and Organizational Learning there are four stages for adoption and utilization of IT into an existing IT architecture; in order, the four stages are: initiation, contagion, control, and integration. Stage one for the employee information system occurred when it was first introduced at the Los Angeles plant. Currently, the system is in stage two, contagion, in which “management concentrates on introducing the innovation at all available opportunities” (Cash, 2012) in hopes system adoption and usage will spread. “With low control and high slack, adoption and usage grows rapidly, but at the loss of some efficiency.” (Cash, 2012). Utilizing the push strategy alternative would require high control in an effort to combat employee resistance, effectively reducing the aforementioned rapid growth in adoption and usage. The pull strategy provides greater benefit for Connor relative to the push strategy while simultaneously minimizing the costs of expanding the system to other divisions. Thus, it is recommended that Connor utilize the pull strategy to achieve maximum benefit during the contagion stage. After stage two is complete, the system will enter the control stage in which management will attempt to “[strike] the proper balance between control and slack” (Cash, 2012) as to maximize efficiency relative to employee learning and innovation. Once management succeeds in striking the proper balance the system will proceed to stage four, integration; at this point “the new technology becomes firmly integrated into the company’s operational business processes” (Cash, 2012) and existing IT architecture. At this point, the benefits of the system will begin to emerge in the bottle line, effectively raising Connor’s net profit and, by extension, stock price. It is at this critical junction (shortly after the jump in stock prices has occurred as a result of integration) that Sloss undertake alternative four and sell Connor to a foreign competitor at a premium. “The faster a business grows, the more willing investors are to purchase its stock, and the more they are willing to pay for it… Nothing motivates investors to buy a stock more than a rising share price. Such situations can become self-fulfilling prophecies when a rising stock price attracts more investors, who are willing to pay more for the stock.” (Demand Media, 2014). As was mentioned earlier, when foreign competitors begin to establish roots in the US market, it will likely result in Connor’s value (stock price) dropping and eventually plateauing as a result of equal competition (in terms of quality and service) and the resulting price wars. Quality and service is what has allowed Connor to succeed in utilizing the differentiation generic strategy; when foreign competitors arrive, if they don’t already have matching levels of quality and service, they will begin to emulate Connor’s employee information system and practices to become competitive; with quality and service being practically equal, Connor will be forced to revert to the cost-leadership generic strategy. The competitive advantage Connor has gained from the employee information system would be negated. “[Connor’s] annual quality ratings had soared near perfection” (Cash, 2012) so there is little room left for further innovation and improvement in this field. The best option for Sloss is to attempt selling Connor at a premium to foreign competitors. This will result in Sloss maximizing the potential benefit he could receive from Connor since a dollar today is worth more than a dollar tomorrow (i.e. the time value of money). Employees may be fearful of the acquisition, but the stock they own through the ESOP will have increased in value yet again as a result of Sloss selling his shares at a premium and Connor becoming part of a larger, multi-national organization. As mentioned previously, the ESOP committee will likely hold the right of first refusal (ROFR); essentially, they have the option to purchase Sloss’s 53% interest at the same price the external party was willing to pay. Based solely off the financial summary in exhibit 2, it seems very unlikely that the ESOP will be able to singlehandedly generate the necessary funds to purchase Sloss’s interest. However, *Barrick Gold Corporation v. Goldcorp Inc.* teaches us that junior partners can leverage the ROFR in order to maximize their interests or simply to select their own partner if they dislike the organization Sloss was attempting to sell too (although the case doesn’t occur until 2011, the same concepts would apply theoretically). Regardless, Sloss will be able to sell his interests at the set price. Depending on the preferences of the acquiring business, division managers may or may not be replaced; nevertheless, the shares they hold of Connor will have increased in value; furthermore, having been the divisional manager of a successful and profitable division should provide them with the background necessary to move on to bigger and better opportunities if the acquiring business does decide to replace them. Customers will have never realized the potential bargaining power they would’ve gained from a price war between Connor and foreign competitors; however, on the plus side, they will receive products of relative maximum quality and service.

# Works Cited

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