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[CASE 6-3: CONNOR FORMED METAL PRODUCTS]

Executive Summary

Connor Formed Metal Products was a small family-owned business that manufactures custom metal springs and stampings for large U.S. original equipment manufacturers. 20% produced coil springs, which were “commodity-like” in their composition and manufacturing, and the remaining 80% produced metal stampings, complex wire forms, and assemblies, all of which required significant engineering expertise to produce. In 1947, Joe and Henry Sloss who were the owners at the time, purchased Connor as an investment. In the 1960s, they sold off their hardware business and opened up divisions in San Jose, Phoenix, Los Angeles, and Portland. Through the 1970s, the company was run by VP of Operations George Halkides, who maintained tight control through traditional accounting and control systems split between corporate headquarters in San Francisco and the plant in Los Angeles. When Halkides retired in the 1980s, Bob Sloss took over. Connor had no debt and it was a typical slow-growth and low-investment spring company. When Sloss enrolled in Stanford’s summer executive education program, he realized that Connor could either keep plugging along and eventually get lost, or he could really turn it around and set it apart from the competition. His new image rapidly spread throughout the industry and shipments rose from under \$8 million in 1982 to over \$17 million in 1988. (Cash)

Problem

When Bob Sloss took over as president for the company, he recognized that the business could not survive by maintaining its traditional way of doing 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. They were also attempting to buy the larger more successful U.S. competitors as a way of entering the market. While the closing of the Phoenix plant and the transfer of its employees to Dallas had accounted for much of the company's losses in 1989, the Dallas plant had not been profitable in its five years of existence and the Los Angeles division was going through a hard time as well. Even though the other divisions in Portland and San Jose were making a profit, the overall results still did not reach Sloss's goal. (Cash) So long story short, the debate is whether or not to implement and distribute its IT architecture in further divisions.

Mission Statement

Sloss's goal was to reposition Connor as a service-oriented business which would focus on providing custom-developed metal stampings and wire forms that would be 100% reliable. In his move away from a hierarchical organizational structure, he established a "hands-off" divisional structure approach to overseeing the business. He realized in order to respond to the threats of the offshore firms, he had to decentralize the company, turning day-to-day authority over to the plant managers, buy new machinery and establish a statistical process control system. To increase Connor's technical expertise, he had to hire engineers which had never been done before. Because motivating the employees was just as essential, he raised wages, established a quarterly cash bonus system, and set up an employee stock ownership program. (Cash) He also hired Michael Quarrey as Connor's human resource and information systems manager to develop an order tracking system that supported his goal of empowering workers with more information and autonomy.

Generic Strategy

The generic strategy of Connor was based on cost-leadership, but when Sloss drove the company through significant change, it turned to a focus on differentiation. With Sloss's new approach as a service-oriented company, his goal on some level was still to "make money now and in the future" (Goldratt), but more so getting customers to learn more towards them despite their higher prices compared to other firms in the industry, and based solely off of their service and high quality custom-made products. As explained in Porter's Generic Competitive Strategies, differentiation strategy is when a "firm seeks to be unique in its industry along some dimensions of its product or service that is widely valued by customers." (Tanwar)

Industry Competitive Analysis

Industry Rivalry

"Not only is it wise to know about the information technology applications of competitors, but it is critical to understand how and how well these applications support competitors' business processes." (Fried) So in terms of the degree of rivalry, the risk of this threat occurring runs high because Connor's competition, which were fragmented around product lines, comprised about 600 to 700 primarily owner-operated job shops, most of which had an average of 20 to 30 employees, and many offshore competitors were coming in and stealing market share from these jobs. (Cash)

Threat of Substitutes

Normally if the risk of competition is high, the threat of substitutes will be high as well, but in this case due to Sloss shifting the main focus of Connor to custom metal products rather than commodity-like products, the risk of this occurring is low.

Bargaining Power of Suppliers

When it comes to the bargaining power of suppliers, the threat is low because Connor used basic supplies from scratch to design their products, so since their recently hired engineers acted as their suppliers, Connor could always switch suppliers if they wanted to.

Bargaining Power of Buyers

The risk of bargaining power of buyers in this case is high because typically customers chose their suppliers based on price, particularly since quality and service were notoriously poor within the industry. (Cash)

Barriers to Entry

The threat of new entrants is high, again because of the offshore competitors and the fact that they offer lower-priced high quality products unlike Connor.

Stakeholders

In this case, Sloss and Quarrey, along with top managers, executives and supervisors have the largest stake in the success of Connor because they are in charge of monitoring the system and the employees, not to mention they are responsible for investment and implementation.

Employees also are not just stakeholders from an employment perspective, but they also invest money into the company. Shareholders are also considered stakeholders in this situation because those who put money into a business contribute to the financial success of the company, so they have a right to be informed about what all is going on in the company. The customers also have a large stake in the success of Connor externally because they are the ones that owe money and ultimately keep the company going or else it would not survive, not to mention their feedback based on the new service-oriented system is needed to determine if the company is improving or not. “The lists of user delight factors created through the validation process provide input for a meeting at the executive level to obtain concurrence and approval for implementation.” (Fried)

Alternatives

- 1) **Do Nothing:** With this option, Connor would proceed with its current system and operations and not implement the new software/architecture into any of the other divisions. Even though the new system implementation into the L.A. plant saw significant improvement does not mean that the other divisions will perform just as well. “In the Los Angeles shop where you have 100 people, things like the ‘shop hold’ really

cut through the layers. You may not need to do that in San Jose or Portland, where internal communication is already excellent.” (Cash)

- 2) **Implement the new system to all divisions:** This option will require all Connor divisions to adopt the new software/architecture. The majority seem very enthusiastic about this plan, stating “Custom is perfect for us. Data entry is counter-intuitive and to correct an error is unacceptably complex. Plus, we don’t even have word processors or spreadsheets. What we have now is a dog. We’ll all probably go out to lunch if we get the new system.” (Cash)

- 3) **Implement the new system to select divisions:** Since the L.A. plant is large enough and communicating information was already difficult enough, perhaps implementing the new software/architecture to select divisions will be the most beneficial to Connor. Sloss and Quarrey believed that maybe the smaller divisions would find it too structured and bureaucratic due to their communication and flow of information being inherently easier, in this case select divisions may be more favorable.

Impact on Stakeholders

When it comes to considering the impacts the alternatives would have on stakeholders, doing nothing and not implementing the system at all wouldn’t necessary hurt them, but this could leave out potential improvements in quality and service, so executives and management would be the least satisfied with this alternative. As long as profits and value in the company remain as

they are, employees, shareholders, and customers will remain content. If Sloss and Quarrey decide to implement the new system in all divisions of Connor, overall management seems enthusiastic however the San Jose plant had concerns about switching from Job Boss to the new software because they had invested a lot of training in the office to use the current system, so throwing their information systems up in the air wasn't exactly a risk they were willing to take. "When strategic considerations lead the executive staff of a multinational to divest its holdings in a particular industry, to close down a particular plant, or to restructure its operations, the consequences can be devastating for the communities and countries involved." (Morgan) Taking shareholders, employees, and customers into consideration, implementing the new system in all divisions large and small has a potential for a decline in profitability, which will decrease their motivation to stay productive with the company if that were to happen. If the new system is only implemented to select divisions, this could increase profitability in the long run which obviously every stakeholder will approve of to some extent, however it will depend on how the adoption of this new technology will work out to determine if shareholders, employees, and customers will benefit or suffer from it.

Recommended Course of Action

Based on what I've acquired from this case, the most realistic approach for improving the system of Connor is to implement it to only select divisions. When employees are given a choice in the matter, this will improve motivation and production in the company, which will again increase profitability. For those who don't want the new system and work just fine without it, this alternative would benefit management, and they won't feel like their autonomy is being

undermined. Although it is in the company's best interest to have all divisions run under the same system, just because it worked in a larger plant we cannot assume a smaller plant would react the same way because of how differently they're set up and how they operate. "The policies that serve the best interests of a multinational firm may not be in the best interests of the community or nation in which the firm is located." (Morgan)

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