Lydia Yu
912328745
Case Prep 1 – TNG

1. TNG’s cost structure is very capital heavy, with most costs coming from maintaining the trailers and the special equipment inside them. Its operating costs are much lower in comparison. Its customers are shippers in North America looking to rent trailers to ship their products, particularly those who want flexible shipping options. The market is very diverse, ranging from small businesses to massive corporations, and often includes seasonal customers. For example, some agricultural businesses only need the trailers when their produce is in season for a few months of the year, and other customers only use TNG to cover temporary shortages of their own shipping fleets. Its customers are also professional buyers who are experienced in bidding, so TNG often has to act as a price taker to meet customers’ price matching demands. Its parent corporation is a large financial services conglomerate, so its focus is mainly on TNG producing a high ROI on its capital. The challenges, therefore, are that TNG is regularly faced with somewhat unpredictable demand and pricing with some customers needing its equipment on an ad hoc short term basis, and with the high competition from other leasers that have the potential to take away customers with lower prices. If TNG is not able to obtain enough revenue, its parent corporation will not find the company a worthwhile investment.
2. It seems like TNG’s use of ROI and its other performance measures is very generalized and averaged across all different types of leases. This method of just getting the simple ROI, for example, of a lease by multiplying the per-day revenue by 365 days and dividing by the capital cost seems overly generalized, especially since most leases do not occur for a year. TNG has several different types of leases, e.g. to different types of companies or different lengths, and some are also only 1-way, so it might be helpful to used a different method of calculating ROI for each of these types.
3. Even though TNG’s customers might all be very price sensitive as mentioned in the case, it could still be helpful to stratify its leases by type and/or risk involved. For example, a seasonal agricultural company likely has much more predictable demand for trailers rather than a smaller company that is just using TNG’s trailers whenever it is short on its own shipping equipment. Also, one-way leases involve more risk than round-trip leases because they are depleting inventory at one location and increasing inventory at another indefinitely. Thus, TNG may find it helpful to calculate a level of risk involved and find the demand for each of these groups, and incorporate those into the ROI calculations. It could also specialize its trailer park locations to accommodate for certain types of customers, depending on whether concentrations of certain types of customers exist in certain areas.