

CASE ANALYSIS

OPERATIONS STRATEGY AT GALANZ



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CASE SUMMARY

- Galanz was founded by Liang senior, father of Liang Zhaoxian (Current CEO) in 1978.
- Initially started with dealing in the trading of down feather products.
- Profits become stagnant in later years and thus Liang senior made a strategic decision to search for new business opportunities with greater potential for growth. After analyzing market for a year, he made decision to enter in appliance market with introduction of microwave oven.
- Early 1990 – Production blueprints purchased from Toshiba to start the production for USD 300,000
- By 1995, Galanz sold 250,000 microwave ovens in China, representing 25.1% market share in China.
- Galanz relied on suppliers like Toshiba and Panasonic for a core component magnetron . But they got threatened by rapid growth of Galanz and formed a cartel to cut short the supplies.
- In 1997, Galanz initiated major investment in magnetron R&D. By 2000, Galanz was able to produce own magnetrons.
- In 2003, due to huge demand, Galanz was short of magnetron (16 million out of 25 millions (67%) were available). Galanz outsourced remaining to OEMs (Original equipment manufacturers).
- In 2004, Signed a contract to outsource part of production of Galanz's designed and branded magnetrons to Japanese Manufacturer.
- In 2007, with capability of producing at low cost coupled with enhanced R&D made Galanz compete with Toshiba and Panasonic and LG in global market. Galanz was leading with more than 50% market share.

CURRENT STRUCTURE

- **Organizational Structure** – Primarily, centralized decision model where CEO is taking the decisions and others are following it. People are not having autonomy to take decisions
- **Suppliers** – Suppliers who supplied magnetrons like Toshiba, Panasonic, LG and Daewoo.
- **Competitors** – Companies who were also into microwave oven business and were competing with Galanz for the market share. Toshiba, Panasonic, LG, Whirlpool etc.
- **Customers** – Galanz was playing multiple roles like OEM, ODM and OBM. So for OEM and ODM, it had customers who were buying equipment or design like Fillony, Toshiba, Sanyo, Whirlpool, GE, DeLongi etc. and for OBM, Galanz was selling microwave directly to end customers.
- **Partners** – There were strategic partnership in place for Galanz like with Walmart and Kmart who were selling Galanz product in their stores.
- **Own Subsidiary** – Galanz have different subsidiary which were used to build magnetron and were also doing R&D work like Galanz Magnetron Subsidiary, Research Institute of Household Electrical Appliances, Galanz American Research Center.
- **Research Collaborations** – Galanz collaborated with institutions for the research like South China University of technology, Chinese Academy of Sciences etc.

PAST GROWTH AND OPERATION STRATEGY

- World's largest microwave oven manufacturer.
- From producing 10,000 units of microwave oven in 1993, Galanz annual production reached to 16,000,000 units in 2003
- Galanz acquired 70% domestic market share and 44% international market share in 10 years.
- Galanz started as OBM for domestic region in 1993. Started as OEM for overseas in 1996 and ODM in 2000.

Operations strategy were:

- **Transfer of Production lines to reduce Cost:** Galanz transferred entire production line with assembly of its client to Galanz, provide necessary training to Galanz operator. Galanz gained the right to use excess production capacity to produce own brand. Did same with suppliers like for transformers did cost cutting for clients from 30\$ to 8 and from 20 to 5. Further increase production, full utilization - 3 shift, 24 hours, 7 days all year. More than 4 time to competition in western companies.
- **Price war:** Aggressive pricing strategy by keeping prices low leveraging economies of scale. Producing in excess of market demand. Pricing to keep players out of the market and create a dominance.
- **R&D and Production Innovation** – Galanz started to produce its own magnetron and collaborated with multiple institution to provide innovative products to the customers and continuously increased its product line.
- **Drive for Self Sufficiency** – Additional effort to reduce cost and improve quality. 90% of parts used were produced by Galanz and for rest 10%, 3000 suppliers were engaged, of which majority was locale or in nearby cities.

EARLY PROBLEMS AND THEIR SOLUTIONS

- **Lack of technology and qualified staff initially during startup** – Purchased production blueprint from Toshiba for \$300,000 and hired group of engineers from Shanghai No.8 radio factory who knows about microwave oven technologies.
- **Retrenchment from suppliers of magnetron** – Suppliers who were supplying magnetron were threatened from Galanz growth as their microwave business was impacted. They formed a cartel and denied supplies of magnetron. Galanz invested in R&D to produce its own magnetron and transformed from OEM to ODM.
- **Increased demand and short of supply for magnetron** – Outsourced the magnetron production to a Japanese firm.
- **Difficulty in overseas market** – Created a strategic partnership with Walmart and K-Mart who will sell Galanz products in their stores.

CHALLENGES

- **Low Brand Awareness** – Galanz was not recognized as a brand in overseas market. It faced many cultural issues in foreign markets. Marketing team not big enough to reach customers. Foreign markets were not familiar. Partnerships with Walmart and K-Mart are limited to OEM/ODM. Globally fierce competition with branded products.
- **OEM, ODM and OBM dilemma** – Galanz growth and recently entry into OBM business overseas made Galanz a competitor to its own customers for whom Galanz was OEM. Also the suppliers of the Galanz were threatened and saw Galanz as competition. They created a cartel to not supply parts.
- **Old Organizational Structure** – Highly centralized structure. Decision were made centrally and communication was slow. This type of structure does not work in global organizations.
- **Antitrust (anti monopoly) lawsuits** – Galanz is accused of monopolizing the market by dumping its product at low prices and cutting off competitors.
- **After Sales Issues** – Galanz was not able to provide the after sales services to its customers in comparison to its competitors. After sale service of Galanz was weak.
- **Synchronization Problems** – 24/7 production, machinery experiences rapid wear and tear, needing frequent repairs. Internal conflict between R&D and production department changed the large scale production to small scale production of customized product.
- **Manufacturing System Problems** – With so many new models, Galanz need to balance the diversity and scale according to market needs. Increasing customization in products leads to decline in production and decrease in efficiency. Non compliance with codes of practice and overlooking data records has caused production problems.



CHALLENGES

- **Production Planning Issues** – Galanz was producing at a small scale and not focused on forecasting. This led to a situation where Galanz had excess inventory not needed in the market. . It had to push its sales team to sell these products. Galanz had a variety of products with no knowledge of how much to produce and which one to produce.

POSSIBLE SOLUTIONS

- Galanz being an expert in OEM and earning major part of revenue as OEM, should continue as OEM and leverage its low cost and excessive labour to keep the business strong.
- Galanz need to do balancing act in terms of OBM (overseas) and OEM/ODM business. It can look for a joint venture or a merger and acquisition in overseas market to create its brand and then slowly increase its footprint as a brand in overseas market. All this while dominate domestic market as a brand.
- Galanz needs to strengthen its marketing team overseas if it needs to establish as an OBM in overseas market. It also need to strengthen its after sales team to provide better services to customer and provide after sales services.
- Galanz needs to change the organizational structure and make it more decentralized where middle level managers are enabled to take decisions. This would increase the communication and timely decision.
- Galanz needs to make a distinction in OEM and OBM productions. This is needed to adopt two different strategies of production in two different models
 - For OBM, Galanz can go for complex production system with more diversity. The diversity can be better forecasted with a dedicated team to strengthen the forecasting of different products as per market needs.
 - For OEM, Galanz can have simple production system with focus on mass production and increased efficiency. Forecasting can be done based on customer demand rather than selling to customer.
- The R&D and production team needs to be in sync more and communicate often to help each other in increasing efficiency. The material detection testing program had to improve to minimize irregularity.

POSSIBLE SOLUTIONS

- Continue the investment in R&D to provide industry leading innovations in the product and producing its own magnetron designs. Leverage its outsourcing partners in Japan to fulfill its magnetron needs.
- Implement efficient systems for planning to maintain inventory level as per the demand forecasting.
- To avoid antitrust violations, keep a check on how much product is being pushed in different markets and create a threshold levels.
- All the company resources should be aligned in order to create an effective value chain.
- Adopt a brand strategy to create its brand awareness.

THANK YOU

