

## Client Profile

**Client:** Joint Venture of a Custom Electronics Manufacturer and a Large Industrial Vehicle Manufacturer

**Product Lines:** Hardened Electronics and Power Invertors

**Headquarters:** United States

**Revenue:**  
 JV > \$60 Million USD  
 ElectCo Parent > \$200M USD  
 TractorCo Parent > \$30 Billion USD

## Participating Client Functions

- Executive/General Management
- Corporate Purchasing
- Product Development
- Manufacturing operations
- Supply Chain

## Expertise Used in Project

- Corporate Strategy
- Product Cost Management
- Production Quantity Analysis
- Supply Chain Engineering
- Cost Modeling

HA helps a joint venture to find \$1.1 million of savings today, \$7.2 million in the future. The JV's parent companies recommit to expand the JV's strategic importance.



## Challenge

A joint venture (JV) was about to be dissolved, because its owning parent companies had started to question the value they derived from the JV. The parents, "TractorCo" (the OEM customer of the JV's products) and "Electco" (the JV's contract manufacturer of hardened electronics) asked HA and its consulting partner to recommend one of three options:

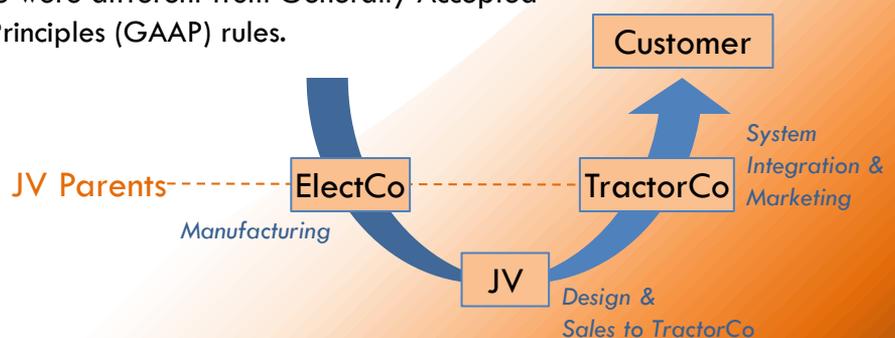
1. **Close the JV**, TractorCo would design and ElectCo would manufacture directly
2. **Maintain** some business with the JV, but look for alternative suppliers
3. **Significantly improve** the JV results for TractorCo & ElectCo, and grow the JV

If the JV was to survive, the parents needed to be confident that the JV was an efficient supplier. Second, the JV needed to find savings, so that the JV could reduce prices to TractorCo. Finally, the parents needed to strategically understand which products the JV should manufacture for TractorCo, which should be outsourced, and which should be manufactured directly by ElectCo.

## Discovery and Solution

Hiller Associates (HA) and its consulting partner worked with all three stakeholders (TractorCo, ElectCo, and the JV) and examined all aspects of the JV's business and relationship with the parents. This full strategic and operational assessment included product development, pricing & product cost, operations strategy, supply chain & delivery, and warranty. Hiller Associates led the pricing/product cost and the operations strategy areas of the engagement.

HA determined that the JV's problems were a combination of both misperceptions of the product real costs and operational strategy challenges. TractorCo's methods for calculating a supplier's Gross Profit were different than ElectroCo's method, and both of these were different from Generally Accepted Accounting Principles (GAAP) rules.



*“We were concerned at first that this project would be another way to make us sacrifice margin to price reduction, but Hiller Associates were very fair, worked with us, and found a solution that was a win for us, too.”*

CHIEF OPERATIONS OFFICER, ELECTCO

### About Hiller Associates

Hiller Associates is a business performance consultancy that specializes in Product Cost Management (PCM), helping discrete manufacturing companies reduce product cost, whether the product is before or after launch.

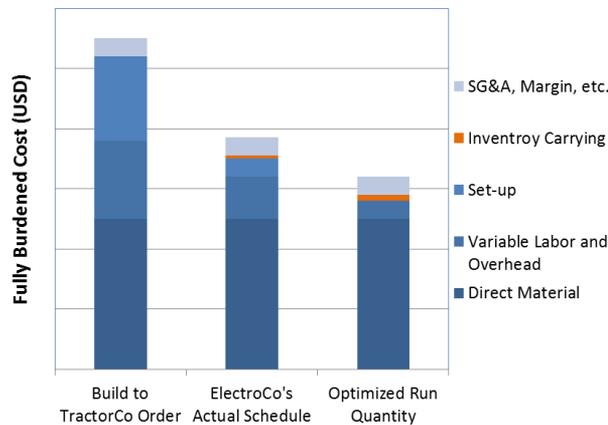
Our practice sits in the nexus between design engineering, finance, purchasing, and manufacturing. HA has helped Fortune 1000 clients save tens of millions of dollars through our Product Cost Management engagements. If you have a challenge with Product Cost Management in culture, process, roles, or tools we would like to help.

Hiller Associates created a new metric of Fully Burdened Cost. This allowed the parties to compare the JV's prices to competitors' quotes in a consistent way. The new metric showed that the JV was far more competitive than previously thought, especially on low volume production for TractorCo.

HA also determined how ElectCo and the JV could improve operational efficiency. TractorCo

had requested that no finished inventory should be held by ElectCo, especially for expensive legacy service parts. ElectCo knew intuitively that this was an expensive strategy and would schedule production to carry some inventory. However, when Hiller Associates analyzed the production strategy, HA found that ElectCo was still not carrying enough inventory. Increasing the inventory carrying cost only slightly would reduce total production cost by 16.9%.

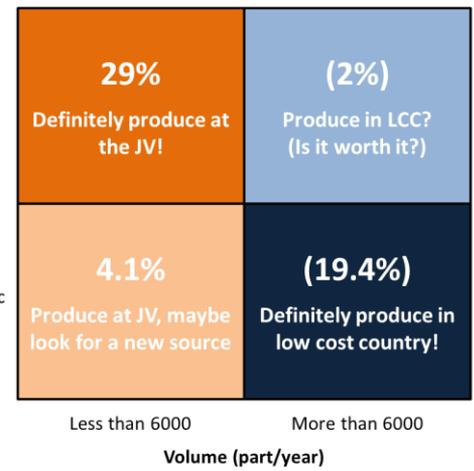
### Savings from Carrying More Inventory



\* Actual Numbers hidden to protect client confidentiality

to reduce prices to TractorCo by \$1.1 million in year one (1.8% of sales), with a line of sight to another \$7.2 million annual savings in the following year (12% of sales). More importantly, HA had shown the parents which products the JV should manufacture and which ElectCo should manufacture directly. With the help of Hiller Associates, TractoCo and ElectCo were able to choose the third option discussed above: *“Significantly improve the results for TractorCo, ElectCo, and grow the JV.”*

### Price Advantage (Disadvantage) From JV



not carrying enough inventory. Increasing the inventory carrying cost only slightly would reduce total production cost by 16.9%.

### Results and Impact

At the end of the engagement, Hiller Associates and its consulting partner had helped the parties accomplish their goals. The project proved to the parents that the JV was an efficient supplier. Enough savings were found in the project that the JV could immediately offer