Intraindustry Rationalization in International Operations

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ABSTRACT

Intraindustry rationalization improves customer service and ensures the survival of companies in the industry. Intraindustry rationalization can be successful only when all of the companies realize that they benefit from it. It will enable them to continue to improve their products and processes while it will reduce unit production costs and in turn may increase demand for the products and guarantee the survival of the companies in the industry. The objective is to analyze this broad rationalization concept and determine the approaches that might be taken to make intraindustry rationalization possible.

INTRODUCTION

The need for customer satisfaction has forced organizations to continuously improve their products and processes. This has resulted in short product and process life cycles and huge investments in research and development and acquisition of process technologies. Optimistic forecasts have resulted in unnecessary expenditures in acquiring excess capacity in many industries. These factors have contributed to increases in production costs. To distribute these costs over a larger number of units’ organizations have increased sales by offering their products in other markets. Some have applied production techniques aimed at reducing production costs such as Just-In-Time production systems and rationalization. This paper recommends rationalization in an industry, rather than individual companies, to make the whole industry more responsive to customer satisfaction. A unified approach to rationalization in an industry allows for production of better products combined with better utilization of resources in the industry, which drives costs to even lower levels.

Rationalization

Rationalization in an approach for improving efficiency in a network of plants. It involves a systematic analysis of the elements of the network to identify the areas of competence in each facility and to assign the production of component and products to the facilities that are able to produce the efficiently.

The following factors contribute to increase in efficiency and productivity.

1. Mass production: rationalization results in assignment of responsibility for production of a relatively smaller number of products but a larger number of units of those products to each plant. This increases the opportunity for using more efficient mass production techniques in each plant.

2. Communication: rationalization results in reduction of variety of skills present in each plant. Employees in each plant are more familiar with the narrow range of products being produced and have a better feel for the existing problems. This improves communication among employees in each plant.

3. Capacity utilization: rationalization results in reduction of total system capacity. Some of the plants or some portions of them that are inefficient or do not possess any competence are discarded. The remaining capacity is therefore characterized by higher utilization and productivity levels.
Intraindustry Rationalization

Rationalization has been effective in reducing production costs and allowing organizations to continue to compete nationally and internationally. As the rate of change in products and processes continues to increase, so does the associated investments in research and development and acquisition of new technologies. To continue to reduce unit production costs, production systems should continue their efforts for being more efficient.

To continue to improve customer satisfaction by providing high quality products at low prices organizations should become involved in intraindustry rationalization nationally or internationally when appropriate. This is a step beyond company rationalization and is a way of continuing to achieve the objectives currently being achieved by company rationalization.

Intraindustry rationalization enhances the industry’s position with respect to all of the areas that were mentioned above. An industry wide analysis pinpoints areas of competence in companies and the preferred products. Coordinated efforts of companies in an industry allows them to focus their efforts on areas that makes the highest level of contribution to the product and as a result the customers. These efforts therefore determine the assignment of responsibility for production of competent/products to plants/companies in the industry.

Sharing of resources (capacity) reduces the individual companies’ need to carry huge levels of excess capacity to remain flexible in short and mid-terms. Although there will be some excess capacity in the industry, it will be far less than the current levels. The companies will depend on the resources in the industry as a whole to respond to shifts in demand. This reduces the effect of demand fluctuations on short and mid-term production plans of companies. The increase in resource utilization and the decrease in disturbances in production planning and scheduling will increase production efficiency and results in lower unit production cost. Therefore, through a collective and an integrated approach, the industry will better serve the needs of the customers as well as guaranteeing survival/expansion of companies within it.

MANAGEMENT OF INTRAINDUSTRY RATIONALIZATION

The phases in intraindustry rationalization are similar to those in individual company rationalization. The extent to which it can be achieved, however, is determined by factors such as the number of firms involved, their relationships, and their attitudes toward customer service. A necessary ingredient for a successful rationalization is the understanding by all participants that it will benefit both customers and companies involved.

Startup

The objective of this phase is to make the adjustments necessary to allow individual companies focus on their areas of competence considering the market and products’ position in the market. In the early stages of this phase, the products should be analyzed carefully and grouped based on similarities in terms of quality and customer acceptance. Companies with products in each category should develop plans for rationalizing their responsibilities. In this process, the workload on areas of competency of companies increases while the workload on other areas decreases.

Umbrella Organization Structure

The objective of this phase is to make the transition smooth. A centralized group should be appointed to ensure the implementation of changes in the management process. It should be
communicated and understood by all parties involved that the purpose of this group is not to remove power from the individual firms, but instead, it should be organized to act in an advisory capacity. This body should coordinate the industry’s efforts in short, medium and long range production planning issues and coordination of technical issues.

**Provide Support**

The objective of this phase is to make certain that the companies receive the managerial and technical support to make the rationalization happen. It is important to prepare an environment that is conducive to coordinated operation of companies. This involves creating and maintaining a suitable level of communication among companies and agreeing on each company’s role in the industry.

**CONCLUSION**

The objective of intraindustry rationalization is to improve customer service and ensure the survival of companies in the industry. Intraindustry rationalization can be successful only when all of the companies realize that they benefit from it. It will enable them to continue to improve their products and processes while it will reduce unit production costs and in turn may increase demand for the products and guarantee the survival of companies in the industry.

**REFERENCES**
