

Appendix: A

Case Study on VTI Electronics

Introduction

VTI Electronics, an Australian telecommunications company, is not only the Australia's leading mobile phone manufacturer but also world's 5th biggest brand. However, in what might be described as a global marketing environment, VTI's brand value fell by 3 per cent to \$43 billion. With Apple, Samsung, Microsoft and LG occupying the top four positions, VTI retained its title as the Australia's largest mobile phone manufacturer.

VTI was about enhancing communication and exploring new ways to exchange information. The company has 15 manufacturing facilities in nine countries, producing over 265 million handsets from 100 billion components. VTI has research and development centres in 11 countries and employs over 50,000 people.

How did VTI get here?

VTI's origins can be traced back to the 19th century, and since then it has made one of the most remarkable business transformations ever. It has moved from wood pulp, through rubber boots and tires, cables – almost 10,000 different types – and even erasers, slippers, tissues and toys, to state-of-the-art consumer electronics (specifically within the field of mobile telecommunications). In 1960, the cable company started an electrical division. Then in 1966, came a decisive moment – the 3 original firms were formally merged. The businesses for the new Group were defined as rubber, cable and forestry, electricity, and electronics.

The take-off '80's – There's definitely a market

The company claim the invention of the first car phone in 1984 and the first true portable and commercially available mobile handset/phone in 1987.

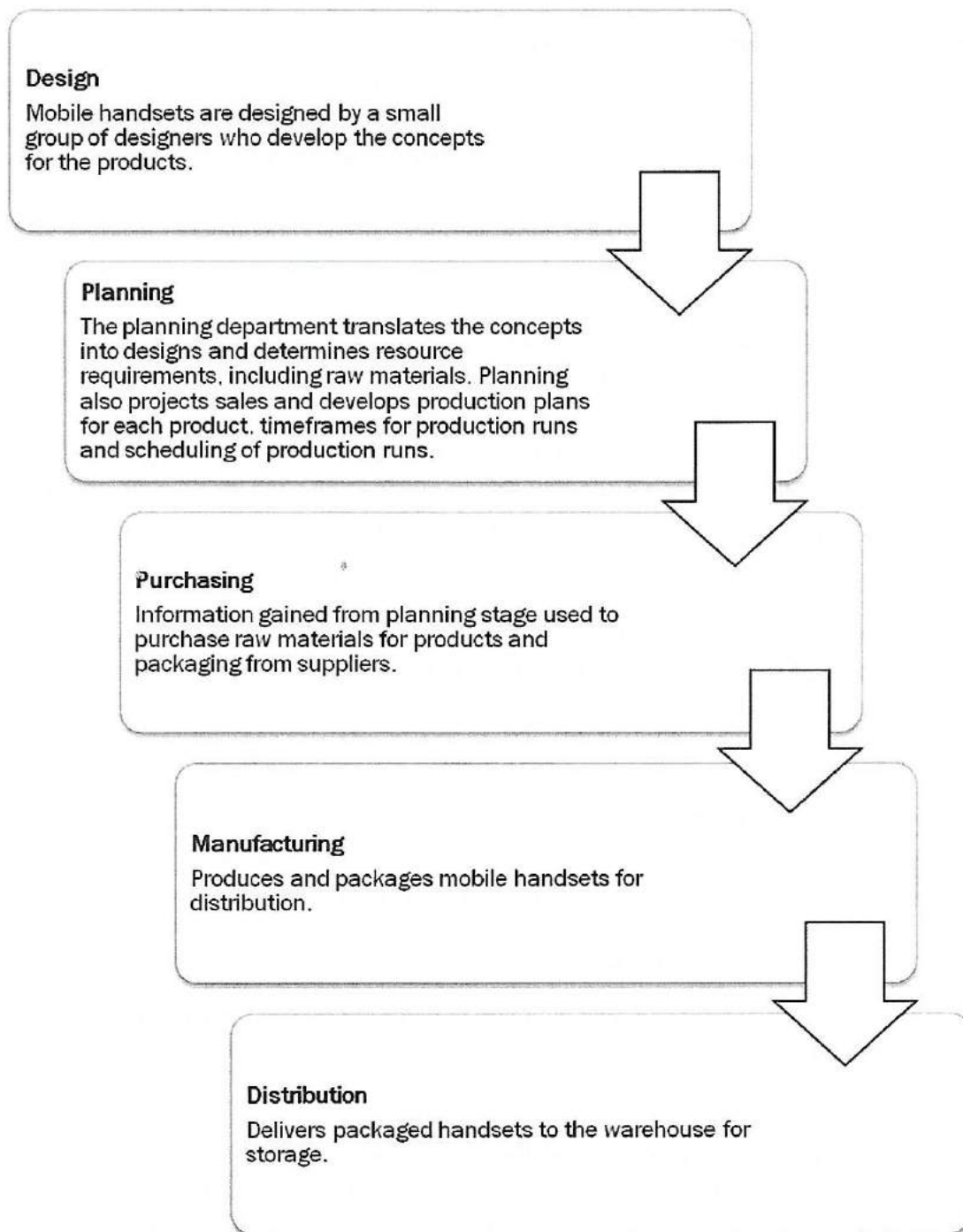
The manic '90's – Reasons to be cheerful

VTI built on its successful pioneering and market development efforts as well as track record of innovation in the 1990s with milestones such as the development and launch of the first potentially global mobile communications network – GSM (Global System for Mobile Communications) with the very first GSM call in 1991. GSM now has over 2 billion users in more than 200 countries worldwide.

There was an exponential growth in volumes, revenues and profits, kicked in especially from 1990 to 2000 where volume totalled 78.5 million units (up 92% on the previous year's volume), revenues reached almost

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\$14.2 billion and operating profits of \$2.8 billion. The following model demonstrates the system and processes in place:



Changes to the telecommunication industry

Business and Industrial, along with youth demand and desires have had a huge impact in mobile handset markets. Touch Screen has become 'must have' handset. Youths that are more grown up ask for more modern and trendy handsets. They wanted handsets they could dress and align with the latest fashion.

Traditionally, mobile advertising was been done via magazine promotions but the sixties brought in a new phenomenon: television advertising. A hugely powerful medium, TV advertising became increasingly 'hard sell', with mobile handsets heavily promoted with each latest handset having one or other added advantage over the previous versions. Children wanted the latest handset that they see in these advertisements and put pressure on their parents to buy.

Retailing of mobile handsets has reflected a shift in retailing in general. Small retailers with experienced and knowledgeable staff were going out of business, replaced by large stores such as Harvey Norman, All Phones, Good Guys or even service providers like Telstra, Vodafone, Optus, etc. catering for the mass market.

From 2000, much to the surprise of the market, the VTI bandwagon veered off the road – only slightly, at first, and then much more seriously. In August 2014, the value of the VTI brand was deemed to be \$71.9 billion. By 2016, the brand value had collapsed to \$44.9 billion, a massive reduction of 37.5% in its brand value.

However, although it had been obvious for some time that there was a problem, it was only in August 2015 that VTI admitted that their sales were slowing. The reasons for this decline were various, some of which are listed below. They contain lessons for any company, especially market leaders like VTI.

- Fixating on one competitor, at the expense of the others.

When Microsoft announced their intention to enter the mobile phone market in 2004, VTI seemed to ignore the challenges from other competitors, and concentrated on Microsoft.

- Focusing on internal rather than market benefits.

VTI were guilty of taking their eyes off the market place, and failed to read and monitor the growing demand for high end touch screen colour phones with HD camera quality. Other, smaller, hungrier, more market-focused competitors saw the way the market was going much more accurately. They built up value by offering the above features to the market. VTI, on their own admission, focused on functional features like size and ease of use. They also restricted the range of their models, mainly to reap the rewards of manufacturing cost reduction. However, important segments of the market wanted more variation than VTI was giving them.

- Reluctance to design and badge operator-specific handsets

Because the market was rapidly maturing, competitors were eager to grab whatever market share they could. One of the ways to do this was to do deals with network service providers, and agree to manufacture handsets specifically designed for them.

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For instance, Vodafone did a deal with Samsung, LG and Apple, who sell their brand clubbed with their plans. VTI believed that customers would stay loyal to handset makers, and paid less attention to their channel partners.

- Bad timing for carrying out major internal reorganisation

VTI implemented a huge reorganisation in late 2013. Obviously, one could say that any major reorganisation will cause some problems, but John, VTI CEO in 2013, conceded that the timing of this one was wrong. It led to great disturbance in the company, and must have worsened the lack of focus on the marketplace.

Effects on VTI Electronics

The company was slow to react to these changes. It may have been that they were not aware of the changes or were overly confident that their good brand name, value and reputation and thought that it is sufficient to continue trading as before. The consequences of this short sightedness soon became apparent.

Figures for the year 2007 to 2012:

| Year | Projected Sales | Actual sales | Operating Profit |
|------|-----------------|----------------|-------------------|
| 2007 | \$12.6 billion | \$11.5 billion | \$1.3 billion |
| 2008 | \$11.9 billion | \$10.3 billion | \$712 million |
| 2009 | \$11.5 billion | \$9.5 billion | \$475 million |
| 2010 | \$12.0 billion | \$8.7 billion | (-) \$112 million |
| 2011 | \$9.0 billion | \$6.8 billion | (-) \$312 million |
| 2012 | \$10.5 billion | \$6.5 billion | (-) \$1.7 billion |

This drop in sales was also reflected in a fall in the share price of the company. As a result of the falling profits and share price, the company became attractive to an opportunistic businessman, Phil VTI. Phil VTI is a venture capitalist and is looking to purchase a business and thought of the opportunity to use his business and management knowledge apply it to the telecommunication industry in production of mobile handsets. He purchased 76% of company's share at \$40 billion to take over management control. Previous owner was appointed as Vice-Chairman but his influence was minimal.

Actions taken by Phil VTI:

- Set a goal to achieve sales of \$12 billion in 2017.
- Replaced existing senior management members with his known and trusted people.
- Initiated a massive advertising and promotional campaign.
- Increased sales staff by 50%.
- Instructed sales staff to adopt an aggressive sales approach.
- Introduced 5 new product lines with very high end technology, raising the range of handsets from 11 to 16.
- Partnerships and alliance with service network providers who have high market share in both urban and regional areas.

Progress Report of Year 2013:

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- Partnerships and alliance with service network providers who have high market share in both urban and regional areas
- Sales and profits down on previous year despite increasing sales staff.
- Anticipated drop in profits due to expansion and cost of establishing new lines.
- Sales fell short of expectations.
- Decline in quality of handsets – feedback indicated products poorly made and designed.
- New range products are described as poor quality and over-priced – not value for money nor attractive to the target market.
- Company recorded a loss of \$2.81 billion.

Progress Report of Year 2014:

- Phil VTI fired most of the top management team he hired.
- Crisis management lead to multiple changes and dramatic measures being taken and then changed – often one measure contradicting the previous.
- Phil VTI hires new CEO – David.
- David fires the entire sales team.
- David makes huge cutbacks in spending.
- Sales are channelled through independent manufacturer's representatives, which was cheaper than maintaining an in-house sales force.
- These independent representatives worked on commission and pushed sales, with no interest in maintaining or building relationships with customers.
- Personal service and building relationships was destroyed within 12 months.

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- Prior to Christmas, many of the previous year's failed products were deleted and 4 new handsets introduced.

Progress Report of Year 2015:

- Increased advertising spending to \$13 million.
- Sales increased and there was some degree of optimism.
- Introduced point of purchase display products supplied to dealers free of charge.
- Due to lack of staff, the company was unable to implement changes or introduce new lines quickly enough to capitalise on trends
- Company made a loss of \$7.0 billion.

Progress Report of Year 2016:

- February – VTI Electronics closed its doors and all operations.
- The company was shut down following the crises in last 8 years.

Implementation and Follow-up of Innovative process during 2012 – 2015 by Phil VTI:

The Production Manager of VTI Electronics, Alice developed an idea for improving efficiencies in the manufacturing process. The idea came as a result of the innovative ideas program, and Alice has successfully trialled the program on one line in the processing plant.

The program has been evaluated and found to be successful. The goal of the program is to increase productivity, reduce waste, improve sustainability, and reduce errors on production lines by 20% by allocating specialist team members to individual lines.

A secondary goal is to reduce staff turnover from an average of 32% per annum to 20% per annum, thus improving the skill levels and efficiencies of the plant and reducing costs in recruiting and training new staff. Production staff and process workers will be divided into five different teams. Each team will be responsible for the manufacturing of five product lines. Team members will only work on their specialty line, and rosters will be altered to ensure adequate staff on each line during the 12-hour production cycle. This may involve changes to staff rosters, in some cases by implementing 12-hour shifts, but will not impact on earnings or result in the loss of any hours of work.

Alice also suggested involving teams in goal and objective setting for their own product lines. Each month they meet to develop production and error rate projections for the next, with a goal to continuously improving both rates to achieve a maximum of 4% error rate and a 40% increase in productivity within 24 months. Current error rates are at 22%. To incorporate this change, production lines will be closed for 48 hours for re-tooling. During this period, staff will be re-trained in the production of their designated lines by shift supervisors. Training required will include technical training, motivational training and quality control procedures along with goal and objective setting workshops.

Costs Associated:

It is projected that the costs incurred for the change will be:

| |
|-------------------|
| Development costs |
|-------------------|

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| | |
|---|---------------|
| <ul style="list-style-type: none"> Initial trial | \$150,000 |
| Implementation costs | |
| <ul style="list-style-type: none"> Re-tooling the production line | \$1.2 million |
| <ul style="list-style-type: none"> Training | \$20,000 |
| <ul style="list-style-type: none"> Loss of productivity | \$50,000 |
| Ongoing costs | |
| <ul style="list-style-type: none"> Initial errors and reduced productivity | \$150,000 |

Anticipated savings

By implementing the above measures the following savings have been budgeted:

- Savings of \$300,000 per annum in staff turnover costs
- Savings of \$1 million per annum in lost productivity and errors
- Savings of \$200,000 per annum in service and repairs costs to equipment.

Advantages and Concerns:

It was estimated that staff will get bore by continuously working on the same product line. Surprisingly, it was found that employees was happy and motivated seeing the output and felt a degree of ownership for the product lines which they were responsible of. Employees were initially reluctant to participate in setting their own error and productivity targets. They tended to over-estimate the percentages and did not wish to commit to large improvements. Managers feel it will take some time and training in understanding the financials and operational reports for them to set realistic targets.

Many employees lack formal education and some have limited English, being from culturally and linguistically diverse backgrounds. It was tough to involve them in management decisions. Most employees were used to being lectured for making mistakes, rather than encouraged to participate in decision-making and feeling like they have some ownership of the process and outcomes. There is some reluctance and anxiety involved as a degree of resistance from some long-term employees, who feel they are being asked to do a management job and should be paid accordingly. Management fear there could be some industrial relations implications.

Other concern was about level of productivity. It will take some time for employees to operate at full productivity, as they will be working on new production lines and different products with different technologies. From a technology standpoint, the new production lines will be faster and more efficient. However, the current service technicians are used to the old lines and lack the experience to service and maintain the new equipment. It is possible that breakdowns could impact on production targets.

Since implementation of innovative process, following outcomes were noticed:

- After 8 weeks:

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- Productivity has decreased from 74% to 66%.
- Delays on the line have increased by 10%.
- Waste has increased by 10%.
- Error rates have fallen from 22% to 20%
- 50 employees have resigned since the new program was introduced.

- After 16 weeks:
 - Productivity remains at 66%.
 - Delays on the lines have improved and are now at pre-change levels.
 - Error rates have remained steady at 20%.
 - No one has resigned within last 8 weeks.

- Following issues were raised by employees:
 - New machines are very different, training was not sufficient.
 - Employees are struggling to understand what % rates have to do with their day-to-day workload.
 - Employees understand the importance of sustainability, but have no idea how to apply sustainable practices to workplace
 - Employees do not know how to amend their own work practices to make them more sustainable.
 - New rosters have been unpopular with some employees.
 - 12 hour shifts were introduced to keep teams together but they are causing difficulties for staff with regards to managing their families.
 - Longer shifts are also resulting in people becoming tired and making errors.
 - The OHS representative is concerned that injuries might increase as a result