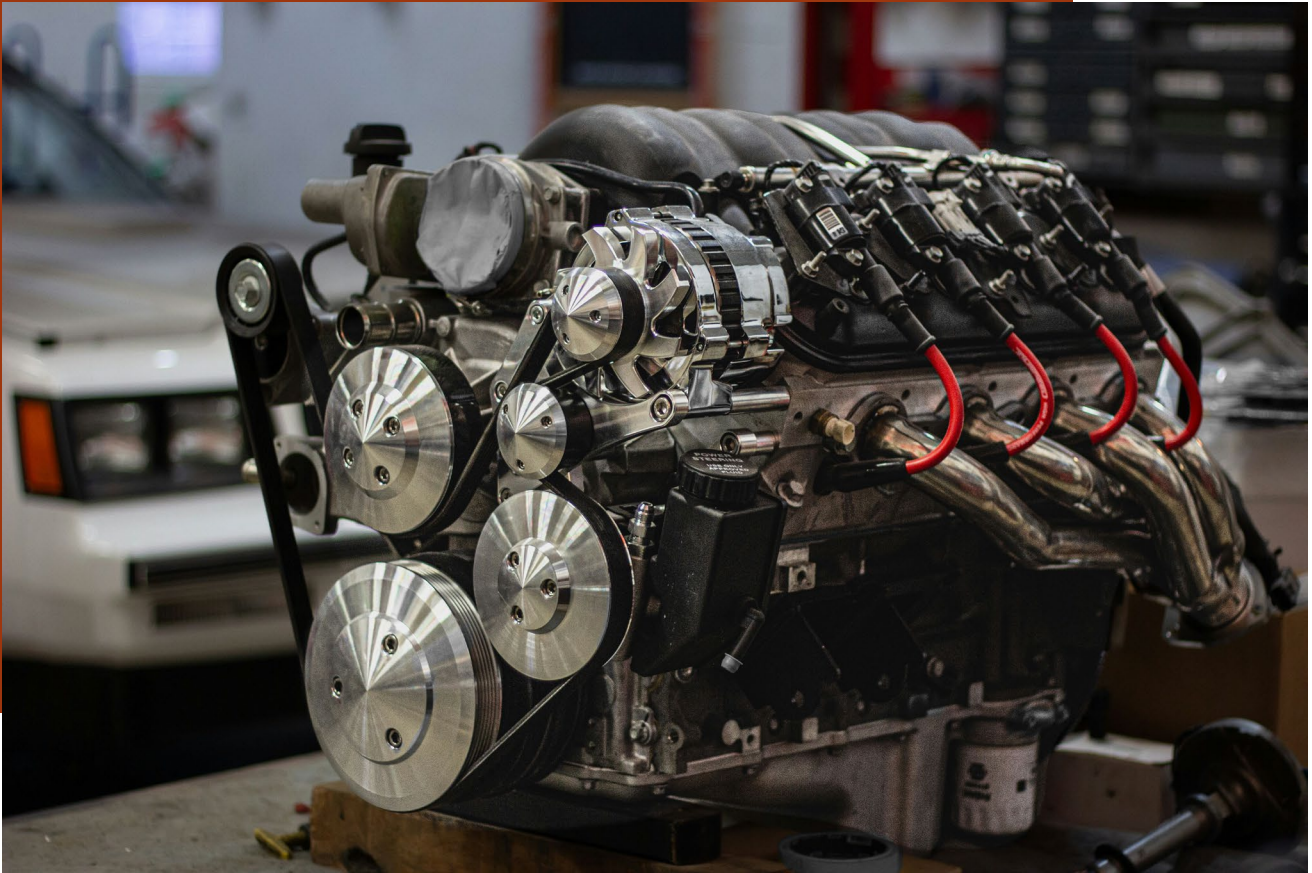




Source. Conner Turton in Pexels, 2024.

Managing Risk While Racing for Profit

2-SP16-10-097

This problem situation was written by Anil Yasin Ar (anil.y.ar@tec.mx), with the purpose of serving as discussion material in the classroom; it does not intend to illustrate good or bad administrative practices. The story on this document is based on different people's experiences; some data has been modified at the request of the people and institutions involved.

All Rights Reserved © Instituto Tecnológico y de Estudios Superiores de Monterrey; Av. General Ramón Corona No. 2514 Col. Nuevo México, Zapopan, Jalisco 45138, México. ITESM forbids any type of reproduction, storage, or transmission in whole or in part of this work, without written consent.



Tecnológico de Monterrey
Escuela de Negocios

The Firm

Mr. Edgar Eraborn's dream was to start a reputable tire and car parts corporation and bring it to the international market. In 1987, his dream came true. As a founder of Anatrox Tires and Car Parts L.L.C (Anatrox) (established in 1975) in Canada, he was one of the few entrepreneurs who managed to compete against corporate giants such as Aphellios Car Parts Corp. (German) and Trembriari Tires and Car Parts L.L.C (Italy). He also won the sponsorship right to one of the most well-known racing events, Le Car. The Anatrox, unknown at the time, has become a sensation among motorsport enthusiasts. Even though the corporation spent a large sum of money to establish a racing team, the tripled sales due to the public's interest in the "underdog" racing team justified the cost. People started buying performance tires and shocks to boost their cars performance and showing interest in after-market turbo boosters. It became the legacy of Mr. Eraborn and The Anatrox. However, the corporation slowly vanished from the main stage due to a lack of innovation, modern vision, and high-cost production initiatives (inefficient and ineffective manufacturing strategies). This problem became even more evident with the increasing electric vehicles popularity.

At the beginning of 2007, Mr. Eraborn stepped down as a CEO, and his son, Edgar Jr., replaced him. Edgar Jr.'s first act was to establish a new product portfolio consisting of original equipment manufacturer (OEM) replacement parts and high-performance battery replacements for electric vehicles. His aim was to produce affordable and cutting-edge electric car parts to help all budgets across the borders. He envisioned that the latest electric vehicle Anatrox components would reduce dependency on pollutants like low quality plastic, help mitigate the effects of climate change through making electric vehicles more attractive for motorsport enthusiasts, and act as a foundation for future technological developments through making spare parts available.

As of the first quarter of 2017, Anatrox started producing four types of electric vehicle batteries: Angora (family-sedan segment battery replacement), Hidalgo (pick-up truck - battery replacement), Alunissage (coupe- battery replacement), and Toros (pick-up battery replacement). Although it was initially perceived as a good move by Anatrox Car's executive board, due to dependency on Asian cheap steels to produce lithium-ion batteries and problems related to source them due to logistics or other problems, the production cost has dramatically elevated. Given that consumers became more price-sensitive and started prioritizing cheaper conventional engines over electric vehicles during the last couple of years, the firm began exploring possible international manufacturing opportunities where the Anatrox could drive manufacturing costs low and still have a high quality.

Exploring the U.S. Market & Current Events

The United States of America has been a market where inventors and entrepreneurs take advantage of a business-friendly environment and access to cheap capital. The country is considered the third most innovative after Switzerland and Sweden (World Intellectual Property Organization, 2023). The outlook of the country in 2018, when the 2019 expansion decision was discussed, looked as follows: the GDP growth based on the last five years was 2.9%, the lending interest rate was 4.9%, and unemployment was 3.7% in 2018 (World Bank, 2024). Sourcing from far east countries such as China, Taiwan, and India was cheaper than producing in the mainland due to cheaper labor cost and stable freight conditions. In addition, there existed car-manufacturing hubs. For instance, Kansas City was hosting “major production facilities for both Ford and General Motors, as well as nearly 70 auto industry suppliers” (The Kansas City Area Development Council, 2024). Therefore, investing in the U.S. market seemed like a good opportunity.

However, COVID-19 has marked the acceleration of political tension among nations, turmoil among supply chain links, and hastening of deglobalization trends (Irwin, 2020). One of the first tangible indicators of the global trade war was from the U.S. president, Donald Trump. The president announced 25% tariffs on Chinese steel, which kept increasing over the years (Reuters, 2020). He stated that Chinese firms engaging in unethical and unlawful activities, such as dumping during the COVID-19 pandemic, should not be allowed to engage in such practices since as a result of the latter, it has been hard for U.S. industries such as steel to stay competitive and profitable. Manufacturing industries across the U.S. experienced major stress due to increased raw material prices and steel scarcity.

Image. Mr. Edgar Jr. decided to open the U.S manufacturing site at Kansas on January 2019.



Source. Cottonbro Studio, 2021.

Furthermore, in the following years, the U.S. imposed new tariffs on steel and other products imported from China while expanding the list of countries to be included in the trade barriers for steel such as the United Arab Emirates, the European Union, and India. As a result, the already overwhelmed supply chain dynamics due to the COVID-19 became more inflammatory. Input prices went up and final prices of goods got more expensive.

Beyond tariffs, regional wars adversely impacted the U.S. The wars between Russia-Ukraine and Israel-Palestine negatively impacted airfreight and maritime logistics. While lead times have increased, insurance has gone up with the mounting threat to the cargo shipments as well (CNBC, 2024). The already existing bottlenecks in supply chain because of COVID-19 backlogs have become even worse as a result of marginal and terrorist groups' attacks to shipments. In addition, an increase in the energy prices all around the globe due to the wars and a decreasing oil output further put a strain to doing business. To mitigate these problems, most of the countries started focusing on regional value and supply chains while fleeing from areas where geo-politics have become prominent.

Current States & Events

In the case of the U.S., USMCA member states have become the solution to a volatile international trade atmosphere. Instead of relying on distant suppliers, U.S. manufacturers have started to conduct business with Mexican and Canadian procurement alternatives and rely on nearshoring strategies. While this mitigates the geo-political volatility, it does not completely eliminate the geo-political and international conflicts effect. There is still a continuous struggle with supply networks and global value chains. Nevertheless, it has reduced the dependency on Far East suppliers and led to closer economic relationships among North American countries. While the U.S. is still attracting a large volume of foreign direct investment due to the upcoming election and political friction between Russia, China, and the U.S.A., many businesses are choosing Mexico as a new investment destination. A recent article in CNN also mentions this trend by publishing the following statement, "Manufacturing in Mexico is attractive for companies that experienced pandemic-era supply chain snarls or want to decrease reliance on trade between the U.S. and China amid geopolitical uncertainty" (CNN, 2024). Furthermore, there is expectation that the supply chain in the U.S. may become even more strained due to the re-shoring of U.S. corporations to bring back their manufacturing processes to the mainland. In other words, it does not look like the supply chain or related issues are going to be solved anytime soon. However, some corporations still see resource scarcity or supply bottlenecks as an opportunity to introduce their goods and services to the U.S.A. market and keep investing in the country.

The Decision:

- 1.- While most board members stated that Edgar Jr. had overlooked country risk, others disagreed. What other things should Edgar Jr. consider to make a sounder judgment?
- 2.- How can a manager ensure he or she has sufficient information to make a market entry decision?
- 3.- To better understand the industry outlook in the region, it is imperative to investigate the automotive and automotive parts industry numbers of the US (host country), Canada (home country), and Mexico (possible investment opportunity). Please compare and contrast these three countries' current car industry numbers.
- 4.- Based on current events across the globe, the information provided in the case, and the U.S. market numbers you checked in the previous step, should the corporation stay in the U.S. or leave?
- 5.- Based on the assessments you conducted in previous stages and the case, would investing in Mexico and furthering the company's internationalization effort be a feasible solution?

Let's assume the corporation is in a verdict: Either Anatrox leaves the U.S., closes the manufacturing site, and _____ (missing information, I got it from point 4 above) focuses on exporting for continues with its current position and keeps the U.S. manufacturing initiative.

Objective: Produce affordable and cutting-edge car parts for all budgets across the borders.

Edgar Jr. decided to open the U.S manufacturing site at Kansas on January 2019.

References

CNBC. (10 de January de 2024). *Global shipping rates set to jump as carriers avoid the Red Sea amid Houthi attacks*: <https://www.cnbc.com/2024/01/10/global-shipping-rates-set-to-surge-as-carriers-avoid-red-sea.html>

CNN. (28 de April de 2024). *Manufacturing in Mexico is having its moment. The US is buying in — and so is China*: <https://edition.cnn.com/2024/04/28/business/us-china-mexico-manufacturing-nearshoring-hnk-intl/index.html>

Irwin, D. (5 de May de 2020). *The pandemic adds momentum to the deglobalisation trend*. CEPR: <https://cepr.org/voxeu/columns/pandemic-adds-momentum-deglobalisation-trend>

Reuters. (16 de January de 2020). *Timeline: Key dates in the U.S.-China trade war*: <https://www.reuters.com/article/idUSKBN1ZE1AA/>

Samuel, J. (2018). The United Nations. *The United Nations Headquarters*. Geneva.

The Kansas City Area Development Council. (April de 2024). *Automotive Manufacturing*: <https://thinkkc.com/business/industries/automotive-manufacturing>

Wikipedia. (2009). *Wikipedia*: https://commons.wikimedia.org/wiki/File:Final_assembly_3.jpg

World Bank. (February de 2024). *World Development Indicators*. World Bank DataBank: <https://databank.worldbank.org/source/world-development-indicators/preview/on>

World Intellectual Property Organization. (2023). *Global Innovation Index 2023*: <https://www.wipo.int/gii-ranking/en/united-states-of-america>