

Global Logistics Strategy

Assignment #4 - Global Electrical Products

Masao "Dennis" Ishida, purchasing agent for Global Electric, was becoming increasingly concerned over the fluctuation of the Japanese yen (¥) and the manner in which it affected his purchases of fractional horsepower electric motors.

Global Electric

Global Electrical Products is a large, regional full-range wholesaler of motors, relays, connectors, switches, wire, and related products. It has been in business in Philadelphia since 1960 and has steadily increased the volume of products that it imports from Pacific Rim nations. Dennis Ishida was hired six years ago as purchasing manager because of his prior employment experience with Westinghouse as well as his fluency in Japanese.

One item of special concern was Global's top selling 3/4 horsepower model, which had been sourced with Yoko Electric for the past 12 years. Sales have historically been on an open account basis, thereby simplifying the relationship. Shipments are usually in 20 foot ocean containers on a monthly basis.

Alternatives

Jung Woo, an aggressive South Korean motor manufacturer, has approached Dennis about taking on their line. Although the details would still need to be worked out, Dennis suspects that Jung Woo may hold some salvation for his pricing problem with Yoko. This is so primarily because the Korean won had not grown in value relative to the dollar nearly as much as the yen.

The following is a comparison table of exchange rates between the U.S. and Japan as well as South Korea:

	Japan { \$1= Yen(¥) }	South Korea { \$1= Won (SKw) }
July 200x	123	814
January 200y	114	809
July 200y	98	806

The Decision

Using this information, please assist Dennis by determining your answers to the following questions (assume today is July 31, 200y):

- Each 3/4 HP motor costs ¥1924, FOB, Port of Kobe, Japan.
What is the current price in \$US? What was the price last July?
- What is the percentage price change since January? Since last July?
- What other factors does Dennis need to consider in calculating total landed cost?
- Jung Woo's, a proposal that gives several optional pricing strategies. Each motor is of approximate equal quality to the Japanese item and are priced as follows:
 - ex works, Seoul, Korea, SKw 12,100
 - CIF Baltimore, \$15.50
 - Ex dock, duty paid, New York, \$16.50

What do each of these terms mean to Dennis?

- What other pieces of information might Dennis require in order to make an informed decision?
- What factors tend to favor a switch to Jung Woo?
- What factors may tend to favor remaining with Yoko?
- From what you know of the economic term, "balance of payments," what impact might the recent currency fluctuations have on this issue?