

**In this issue of Premium Procurement Bulletin...**

- [Case Study] In the Shadow of Tesla: A Look at the Fisker Karma
- The High Cost of Labor in a Third-World Country
- [Case Study] Climate Change and Coffee: The “Bean Business” in the Midst of a Drought
- The Far-Reaching Effects of the South African Metal Strike

## **[Case Study] In the Shadow of Tesla: A Look at the Fisker Karma**

Tesla and Fisker have similar stories. They both introduced luxury sports cars to the market around the same time — Fisker's Karma at the end of 2010 and Tesla's Roadster at the end of 2009. They also both got loans from the U.S. Department of Energy to ramp up production. Tesla racked up a huge \$465 million dollar loan and Fisker topped that with \$529 million. The big difference is that Tesla has done well in the market while Fisker has not. So, why does Fisker stand in the shadow of Tesla?



Image via [Flickr](#) by David Villarreal Fernandez

### **The Situation**

The [Fisker Karma was expected to do well](#) in the market. It had a beautiful design and an impressive combined city/highway fuel economy of 52 mpg in its all-electric mode. It basically mirrored Tesla's Roadster in its luxury feel. Fisker's basic Karma model ran for \$102,000 and the top model was \$116,000. Even before the first Karmas were produced, they took pre-order in the U.S. and Europe, which was a testament to its expected success. However, Fisker went bankrupt only two years after production of the Karma began.

## The Approach

Many people wondered why [Tesla did well and Fisker did not](#). One possible answer is the flaw in Fisker's production facility and manufacturing schedule. Karma sedans were manufactured between 2011 and 2012 in Finland. However, Fisker faced challenges because they did not own the manufacturing site, so they did not have complete control over production. Practically every component of the Karma's construction had to be outsourced, leading to obvious quality issues, particularly at the prototype level.

Fisker also faced production delays. The Karma was originally scheduled for release in late 2009, but deliveries kept on being delayed and didn't actually start until November 2011 in the U.S. This left consumers impatient and overly critical of the Karma. Consumers found it beautiful, but complained that the [technology in the Karma](#) was not as refined as it should be for a car of this price range. Tesla had overall more positive reviews than the Karma.

## Impact and Advantage

1,800 Karmas were delivered around the world during its production between 2011 and 2012. However, Fisker faced financial difficulties and had to suspend production of the Karma in November 2012. Then, Fisker filed for bankruptcy one year later. Essentially, Fisker failed with the Karma because they could not balance production costs with quality. The Tesla took a different approach. They made everything perfect before releasing the Roadster. They faced delays like Fisker, but handled them better.

Despite its unsuccessful start, the Fisker Karma may soon see new life. Fisker Automotive was recently acquired by Wanxiang Group, a Chinese company, in an auction and they plan to start production on the Karma again in early 2015. WanXiang [plans to revive the old Fisker Karma model](#), keeping its same basic design and the features supporters have always admired. With a new manufacturing plant and production oversight, the Karma stands to do better and possibly come out of the shadows of the Tesla.

## The High Cost of Labor in a Third-World Country



Image via [Flickr](#) by Mark Hillary

Outsourcing the production of goods is not a new thing. Companies know they can manufacture most products for cheaper overseas and still charge consumers high prices. Consumers don't blink an eye because it is a common business practice that they've come to accept. Outsourcing is a business decision — cheaper labor means more profits for companies. However, the cost of labor in some third-world countries isn't always cheaper. Let's take a look at Brazil.

### The Cost of Labor in Brazil

Brazil's economy is emerging. It is still technically considered third world because of its sheer size, but it's not at the same level as its third-world peers. Therefore, producing goods in Brazil is relatively expensive. However, there are several other factors that drive up the cost of labor in this country.

Most people expect the cost of labor to be cheaper in poor countries; however, Brazil is proving that stereotype wrong. [Production in Brazil is comparable in cost to production in European countries](#). According to a study called Competitive Alternatives, the cost of producing goods in Brazil is only 7 percent cheaper than doing it in the U.S. In China and India, the same labor would be about 25 percent cheaper than in the U.S.

## Reasons Why Outsourcing Is Expensive in Brazil

The cost of labor in Brazil is more expensive than other third-world countries because they have higher salaries, including their minimum wage. Additionally, there are tax barriers and union negotiations to sort through. However, the government is working on reforms that will make Brazil a better place for outsourcing.

A [Deloitte representative](#) said, "It is now up to the Brazilian government to do its part, by maintaining political and economic stability and gradually reducing the 'Brazil Cost' and the level of bureaucracy, in addition to continuing to make important investments in the educational area to prepare professional and skilled manpower."

## Why Some Businesses Still Decide to Outsource to Brazil

Even though producing goods is more expensive in Brazil than other third-world countries, it is still cheaper than doing it in the U.S. This is the main reason Brazil still has an outsourcing market. There's also something to be said about Brazil's location. Companies in the U.S. consider outsourcing to this country "[nearshoring](#)." Nearshoring is generally less expensive logistics wise than shipping overseas. Some major players in nearshoring to Brazil include HP, IBM, Accenture, and Unisys.

IT outsourcing used to be very expensive in Brazil, but things are getting better. This is partially due to legislation back in 2011 that lowered tax rates and subsequently the cost of labor. Brazil's president, Dilma Rousseff, created the [Bigger Brazil Plan](#) to make outsourcing IT to Brazil more appealing. It reforms Brazil's competitive infrastructure. This is another important reason why some businesses still decide to outsource to Brazil.

It's important for companies that do outsourcing to weigh the pros and cons of producing goods in one country versus another. Price should not be the only consideration. Political and economic struggles are also a major consideration. Outsourcing in Brazil may be more expensive than some third-world countries, but it still has its advantages.

Need more tips on strategic outsourcing management from our top management consulting coaches?

Contact us at: [support@procurementbulletin.com](mailto:support@procurementbulletin.com)

## [Case Study] Climate Change and Coffee: The “Bean Business” in the Midst of a Drought



Image via [Flickr](#) by star5112

How much money are you willing to pay for a cup of coffee? You've probably seen higher prices at the chain coffee stores because the price of coffee beans has more than doubled since January. This is partially due to the [major drought in Brazil](#) and other parts of Central America where a large portion of the world's coffee beans are produced. There's no doubt that both consumers and coffee stores are facing higher prices in the "bean business."

### **The Coffee Bean Shortage Situation**

Before the drought, some growers in Central America were actually worried about being driven out of the coffee bean business because of the competition. However, things have really changed in the midst of the drought. Coffee prices have risen dramatically and demand is very high. This goes to show how climate change can cause huge volatility in a commodity industry.

Of course, the drought isn't the only thing hurting the coffee bean industry. [Coffee leaf rust](#) is also a major problem right now. It is the worst it's been in decades. This disease is particularly prevalent in Costa Rica, Panama, and El Salvador, which contributes to the bean shortage in Central America even more.

Both consumers and coffee stores are being forced to pay higher prices for coffee beans because of the climate changes and subsequent coffee supply shortages. The coffee chains that are going to hurt the most are those that only source their coffee beans out of Central America. Other

coffee companies still have to deal with price competition from other growers around the world because of the supply and demand theory.

### **How Coffee Stores Are Dealing with the Coffee Bean Shortage**

The coffee bean shortage in Central America has a domino effect on [coffee bean prices](#) around the world. For instance, Vietnam and other areas of the world that have normal crops of coffee beans this year are holding back their crops in the hopes of getting a higher price on the commodity. Coffee stores are then forced to pay the higher prices because they can't get the commodity from anywhere else.

According to [Alan Bjerga](#) of Bloomberg News, Starbucks will have an easier time managing the price increases on coffee beans than other companies because of their size and resources. Coffee beans are a commodity and Starbucks can source from different growers to overcome supply shortfalls. They can compare prices and make deals with coffee bean growers more easily than smaller coffee chain shops. Consumers have already seen some impact on the price of their morning cup of Joe, but it's more drastic at the smaller coffee shops than at Starbucks.

### **Chain Coffee Stores Have an Advantage in the Bean Business**

Before the coffee bean shortage, people were already willing to pay a lot of money for their morning espresso. However, it's hard to know at what price point people will stop buying it. Bjerga says the coffee industry is a lot like the gasoline industry — people need it and will pay what they have to. On average, a cup of coffee costs around \$4, but some people are willing to pay as much as \$12 for their specialty drinks. That's more than the cost of a meal at most family restaurants. Some small coffee chain businesses may face bankruptcy if they can't keep their profits up in the midst of the coffee bean shortage. However, it's safe to say that the larger chain coffee stores will push through the supply shortage fine.

## The Far-Reaching Effects of the South African Metal Strike



Image via [Flickr](#) by Derek Blackadder

South Africa's economy is struggling to recover after a five-month strike by platinum miners. However, the effects of the strike are more far reaching than that. The price of precious metals around the world has gone up, and it is affecting the global economy. It could take several months for the market to return to prestrike conditions.

### 70,000 Platinum Workers Participated in the Strike

According to the [International Business Times](#), 40 percent of the world's platinum is produced by three companies in South Africa — Anglo American Platinum, Impala Platinum, and Lonmin. These companies all faced a massive strike from approximately 70,000 workers over the cost of labor. The strike lasted a historic five months before a resolution was reached between the worker union and platinum producers.

The metal strike started because of wage disputes. In January 2014, the Association of Mineworkers and Construction Union (AMCU) demanded a basic wage increase for workers to 12,500 rand per month. This new wage was supposed to be implemented over three to four years with monthly increases. That means that the desired wage wouldn't fully go into effect until 2017. Disputes from the owners of the platinum companies led to the strike, causing miners to forfeit nearly \$1 billion in lost wages.

### Strikers Suffer Because of the Strike

During the strike, none of the workers were paid. Many families struggled to put food on the table. This means they will have to recover individually from the lost wages before the economy

in South Africa will start to improve. Unions are good in that they try to make working conditions and wages better for everyone, but there are still immediate consequences to a strike. Most of the strikers are hurting financially because of the whole situation — the opposite of what their Union was trying to achieve. This has negative effects on the economy of South Africa.

## **Platinum Prices Will Take a Long Time to Recover**

The global economy is seeing the effects of the strike in South Africa, too. Because of the strike, the [price of platinum went up](#) over fear of supply constraints. It peaked in July at \$1,502. The price has since come down, but not to prestrike levels. This was not unexpected. The price of precious metals will see a long recovery because it will take the platinum companies in South Africa several months to ramp up to prestrike production levels. Additionally, some companies may never get back up to their previous output.

More than likely, many platinum producers will cut down on production because it is no longer as profitable as in the past because of the wage increases. Some platinum companies could simply go out of business because they don't have the money to pay their workers. So, just because strikers demand higher wages, it doesn't mean that this is a good thing for them in the long run because they might be out of a job permanently. As a result, the price of platinum could remain high around the world.

### **Related Procurement Events**

#### **Certified International Procurement Professional (CIPP)**

9-11 March 2015 – Kuala Lumpur, Malaysia  
17-21 May 2015 – Dubai, United Arab Emirates  
23-25 November 2015 – Singapore

Download the full details:

<http://www.ethanhathaway.com/training/certified-international-procurement-professional-cipp>

#### **How to Implement a Certified Supplier Program**

31 August - 4 September 2015 – Hong Kong  
26 - 30 October 2015 – Singapore

Download the full details:

<http://www.ethanhathaway.com/training/certified-supplier-program>

Need Procurement help? Book a one-hour consultation session with our Procurement Specialists.

Email Us to Book Your Session Today: [support@procurementbulletin.com](mailto:support@procurementbulletin.com).