

Cartiva Uses ToC Thinking Processes to Increase Market Share

Cartiva is part of the Rydell Group, a group of 38 new car franchises which also sell used cars. They are located in 8 Midwest states. In 1998 Rydell's sales exceeded U.S. \$1.2 billion. Unit sales were more than 55,000 (20,000 new, 35,000 used)

Rydell's franchises share a common business philosophy centered on measurements. They call the philosophy "1-2-3-4-5," which stands for:

- 1 - Customer enthusiasm
- 2 - Employee enthusiasm
- 3 - Financial performance
- 4 - Market performance
- 5 - Continuous improvement

Pricing is at the core of what Rydell is trying to accomplish.

Rydell's owner has always been a visionary who isn't afraid to try something which promises to improve his organization - and he gives those efforts 110%. In the 1980s they dealt with quality (Deming, Juran, Crosby) and the Japanese management techniques.

In the 1990s they tried TOC and started their "Used Car Chain" project

Rydell's Used Car Chain consisted of procurement, reconditioning, sales and marketing, delivery and follow-up, and the customer. The goal of the chain was/is to sell more cars and make more money.

When they first started to look for their constraint, the common opinion was that the customer must be the constraint. If they just had more customers walking through the door Rydell would sell more cars. However, they were only converting 30% of those who walked through the door into sales. The constraint must be elsewhere it was decided.

They then identified the reconditioning process as the area that was holding Rydell back from reaching its goal.

The improvement focus began on the Used Car Chain's undesirable effects:

- Lead times were too long from procurement to ready-for-sale
- Excessive expediting in reconditioning effort
- Uneven quality (resulting from the expediting)
- Too many of the wrong cars (and thus not enough of the right cars)
- Sales and profits lower than desired.

Various quality techniques were used to improve the Used Car Chain - focusing on the reconditioning link. TOC was used to identify the constraint. Resources - people, facilities, and vendors - were dedicated to the project. WIP was limited using the kanban system - and went from 150 to 40 overnight. Quality standards were developed.

These improvement efforts resulted in the following:

- Defined quality levels for used cars
- Shorter and more predictable lead times - from 10 days to 2
- Reduced in-system inventory by about 50%
- Significant decrease in costs
- Increased flexibility - can move to the market a lot quicker, can be more responsive to demand

The overall improvements, however, were less than expected and desired. Rydell saw that it improved a link, but the total chain's output didn't rise as much as expected. They recognized that they were still tying up some inventory that they shouldn't have been.

Further improvements were needed.

With the reconditioning project, negative effects had been eliminated, and positives achieved. However, significant negative effects still existed. There were still too many of the wrong cars and not enough of the right ones. Vehicles were still aging on the lot. Sales and profits were still lower than desired.

Rydell looked once again to find its major constraint. Did they have enough customers walking through their doors? Did they have enough sales people? Was their sales force trained properly? Did management have the skills to support the staff? Did Rydell have the right inventory mix in the right amount? Were the facilities located conveniently? Were the facilities user-friendly?

Inventory was identified as Rydell's major constraint. They established the goal of inventory management as "having the right vehicle in the right place at the right time for the customers." It sounded simple, but they realized that their inventory management process needed better direction and measurement - a better mode of operation.

A key conflict was identified between having a pricing strategy based on how Rydell valued/priced a vehicle versus how the market valued a vehicle.

They also identified and defined the elements of having the right inventory: number, mix, quality, and price.

The preliminary results included much resistance to the implementation because the initial inventory management plans were too complicated. "Right-Pricing" was realized to be the proper first step and a pricing matrix based on vehicle classification and margin strategy was developed to simplify "right-pricing."

The new pricing matrix revealed that at least 50% of Rydell's inventory had been priced incorrectly. Upon correction, throughput went up, inventory turns increased, and Rydell had fewer older/aging vehicles on the lot. This then gave them more accurate signals for vehicle mix decisions.

Using customer feedback and sales information, Rydell next created an inventory mix matrix based on the vehicle type versus price range.

The results achieved after implementing the inventory mix matrix include:

- A decrease from a 60+ to 90+ day inventory supply to a 30+ day supply - Rydell now sees 12 inventory turns a year.
- Increase in market share of 20%
- In one year, increased net income as a group by more than 300%
- Much less management frustration.

With the success achieved in its used car division, Rydell is now applying what was learned to its "New Car Project."