CUMMINS
REDEFINING CUMMINS’ REMANUFACTURING STRATEGY IN CHINA

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As a global power leader, Cummins is a corporation of complementary business units that design, manufacture, distribute and service diesel and natural gas engines and related technologies with global sales of $17.30 billion in 2013. Operating nine sites worldwide under the Engine Business Unit (EBU), Cummins remanufacturing has earned approximately $1 billion in global sales (2012), while reclaiming 50 million pounds of product and avoiding 200 million pounds of Greenhouse Gas (GHG) global emissions. Remanufacturing is a complex business as it involves procuring and transporting used engine parts, robust manufacturing processes to support variable input quality, and a balanced pricing strategy that minimizes new parts cannibalization.

Cummins’ China remanufacturing operations are based out of one site in Xiangyang city, and have been challenged by low acceptance of remanufacturing in the domestic market, recent restrictive government policies, and tough local competition. Cummins tasked the Tauber student team to reevaluate its existing China remanufacturing strategy – from not only an operational perspective, but also a marketing/commercial viewpoint.

During the 14 week internship, the Tauber team was able to successfully deliver a robust business strategy for Cummins remanufacturing in China. This included market opportunity identification, product portfolio enhancement, strategic location recommendations and organizational redesign. After quantifying $494.4 million domestic and export revenue streams over the next ten years, the student team recommended focusing on the export of remanufactured products, while continuing to make in-roads within the China domestic market. Additionally, Cummins should leverage upcoming NS4 emission requirements in China to expand the remanufacturing product portfolio into more competitive and profitable components such as doser pumps, electronic fuel pumps and electronic control modules. After statistical and detailed financial analysis, the student team has recommended a location strategy which captures both domestic and export market opportunities. Based upon learnings from visiting and benchmarking successful remanufacturing competitors, the Tauber team has developed a set of recommendations directed towards organizational redesign and a revised commercial approach.

These combined recommendations result in an estimated NPV of $22 million over ten years. The Tauber team and Cummins leadership have concluded that implementation of the above recommendations and related organizational changes will dramatically grow the Cummins China business. Phase I of the required investments have been included in Cummins’ 2015 AOP (Annual Operating Plan) for China.

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