



BUSINESS EXECUTION INSIGHTS

BUSINESS EXECUTION INSIGHTS is a free newsletter from Gardner & Associates Consulting.

Gardner & Associates Consulting helps companies eliminate business execution problems that threaten profitable and sustainable growth.

Please feel free to pass this newsletter to a colleague or visit our website <http://www.gardnerandassoc.com/contact.htm> to be added to our mailing list.

IN THIS ISSUE

- Trend to Build-to-Order for Small/Medium-Sized Manufacturers
 - “Information Week” Article Quotes Dave Gardner about Build-to-Order
 - What’s New?
 - Thought for the Month
-

TREND TO BUILD-TO-ORDER FOR SMALL/MEDIUM-SIZED MANUFACTURERS

There is little doubt that manufacturers are experiencing increasing cost and customer pressure to migrate to a Build-to-Order business strategy in markets that have traditionally been dominated by the Mass Production paradigm.

Consider what it ultimately costs to have thousands of acres of mass-produced automobiles sitting at car dealerships across the globe. Do you really think that Ford and GM see this as a “cost of doing business?” Or, do you think that this tremendous cost is somehow passed on to the consumer?

What if an automobile manufacturer ended up with a 5%, 10%, or even greater price advantage over competition by simply eliminating the finished good inventory? Think it’s impossible? It’s not! However, you don’t have to be an automotive manufacturer to realize a profound benefit in your business. I’m simply using that industry as an example as it is so easy to visualize.

What are the real benefits of a Build-to-Order program?

- Customers get what they want. In most industries, customers will pay a premium to get what they want.
- Simplified product structure eases supply chain issues.
- Build-to-Order can be seen as a lean concept if it is properly implemented across the enterprise

Many small/medium-sized manufacturers would like to shift to a Build-to-Order strategy as a means to:

- Eliminate profit loss through resellers
- Provide exactly what the customer wants in the global marketplace
- Eliminate discounting of products to move them through the sales channel
- Differentiate and distinguish themselves against their competition
- Reduce finished goods inventory and the liability associated with the return of finished goods that don't sell

Build-to-Order is about building one-of-a-kind product configurations with the company-wide efficiencies one would expect from a mass-produced product. [Note: For the purposes of this discussion, I exclude "Engineer-to-Order," a business paradigm requiring extensive Engineering effort to produce a specific order configuration. Under this paradigm, the Engineering effort usually cannot be leveraged into future customer order configurations. It is possible for an "Engineer-to-Order" company or product line to be transformed into the Build-to-Order paradigm – many manufacturers follow this evolutionary path.]

Mass Production is the antithesis of Build-to-Order.

Mass Production is about building products and making them available to resellers so they can eventually sell the products to their customers. The Mass Production business paradigm has as an inherent attribute a product distribution strategy – a dealer or reseller is involved. This product distribution strategy requires that "finished goods" be built and delivered to the reseller. This is in direct contrast to Build-to-Order where products are built on customer demand.

Mass Production as a business paradigm has a role today's market place. There's a need for mass-produced items such as toasters, washing machines, toothbrushes, coffee makers, food products, etc. You'll find these mass produced products in department stores, hardware stores, drug stores, Wal-Mart, etc.

However, there are also products that are mass produced or "engineered-to-order" that shouldn't be.

Customers don't want to "settle" for what they find within the distribution channel if they can acquire something that more precisely matches their needs. For example, have you ever had to settle for a new car that wasn't the color you wanted simply because "it was all that was available at your local dealer?"

Have you ever inquired about "special ordering" an automobile? I was once informed it would take about 6 months to get the vehicle and that "it might" come configured as I wanted it – the factory had the "right" to make substitutions to "smooth the production flow." This kind of reassuring response makes you want to leap for your checkbook doesn't it?

Build-to-Order does not require a dealer or reseller – the manufacturer builds the product just as the customer wants and ships it.

There are many serious issues that complicate the transition to Build-to-Order:

- Many manufacturers are trapped in the Mass Production paradigm by their resellers— the resellers the manufacturer has depended on don't want the manufacturer to sell directly to the consumer as they feel as though there is “nothing in it for them.”
- The manufacturers don't have any existing, direct relationship with their customer's customer — -the consumer. The Mass Production paradigm has kept them one step removed from the actual consumer.
- The manufacturers don't have the business infrastructure to support dealing with the consumers directly-- the volume of business transactions that they would have to process increases significantly.
- The resellers believe they can't live with the back-end service and/or support revenues alone — -they don't want to give up the profits they realize from the product sales.

But, the overriding challenges are:

- Understanding the customer (not the marketing and engineering departments) drives the order demand,
- Acknowledging that Build-to-Order is not simply a mid-course correction, but, an entirely different business paradigm, and,
- Understanding that Build-to-Order is an enterprise-wide business strategy, not a departmental initiative.

There are different levels of customization that can be seen under a Build-to-Order scenario:

- Modular Customization — -final product configuration is built from pre-defined modular components
- Adjustable Customization — -aspects of the final product can be adjusted such as seats in an automobile
- Dimensional Customization — -size variations are permitted within allowable parameters

One or more of these customization levels may co-exist within a company's offerings.

Dell is often viewed as the pinnacle of success in its space as a Build-to-Order manufacturer. While Dell is a fabulous company, it should be understood that Dell's situation can be characterized as:

- Simple product that is very well understood by consumer even before they place their order — a situation that seldom exists with more complex products
- Customization is modular---the simplest form of customization
- Dell gets efficiencies on the supply chain side that simply aren't realizable by most companies — Dell is the Wal-Mart in its space

In terms of the technologies that support Build-to-Order, executives should be aware:

- There are very limited success stories from “configurator companies” when contrasted with the ERP/Supply Chain software offerings. There are some configurator companies that are beginning to

show real promise. Alternatively, several companies that at one time “made a splash” in this space have abandoned offering configurator solutions.

- It’s not important how successful the configurator companies are at selling software licenses – what’s important is how successful the manufacturers are at improving their businesses and becoming more competitive as a result of deciding to implement a specific vendor’s technology. Software vendors often confuse these issues. Be careful about the claims made during sales pitches!
- Most of the Build-to-Order projects our firm has been engaged in involved development of a customer-specific configurator software due to the unique characteristics of the product offerings.

There are several well-known examples of the problems transitioning from Mass Production to “Build-to-Order.” Compaq Computers tried to make the transition as a result of getting its fanny kicked in the marketplace by Dell. What lessons can be learned from this situation?

- The business paradigms (Build-to-Order vs. Mass Production) were different, the distribution methods were different, the profit potential was different and, in Compaq’s case, Compaq was constrained by its established product distribution method.
- Compaq angered its Dealers when it announced a Build-to-Order program – they wouldn’t accept it and didn’t want to support customers who had purchased from Compaq directly.
- Dell changed the paradigm; Compaq was trapped in its paradigm.
- Gateway Computers has tried (rather unsuccessfully) to straddle the fence between BTO and mass production.

To be successful, the transition to Build-to-Order must:

- Be viewed holistically as an end-to-end, seamless process starting with the customer and ending with cash in the bank. [Note: Traditional “configurator” solutions allow for the Sales and Marketing function to exist in a silo separate from the rest of the company.]
- Be committed to truly understanding costs so you make money and identify areas for improvement; traditional cost accounting cannot provide the essential insights.
- Recognize the important role of product rationalization--deciding what to offer your market from the myriad of choices available.

There’s little doubt about the opportunity. Manufacturing executives are encouraged to get outside assistance making this paradigm shift.

=====
Are you satisfied with your company’s business execution? Does your gut tell you “something’s not right” but you can’t put your finger on it? Contact us today to schedule a free 30-minute phone consultation!

E-mail: <mailto:info@gardnerandassoc.com>
Web Site: <http://www.gardnerandassoc.com/contact.htm>
USA and Canada: +1 (888) 488-4976
International: +1 (775) 722-8230

=====

“INFORMATION WEEK” ARTICLE QUOTES DAVE GARDNER ABOUT BUILD-TO-ORDER

The June 27th edition of “Information Week” has an article titled “Ready, Set, Build” in which Dave Gardner, Principal and Founder of Gardner & Associates Consulting, is prominently quoted. The article is about Ping, the golf club company, and their strategic initiatives in the Build-to-Order arena. The article also addresses the trend to Build-to-Order.

To read this article, click the following link

<http://www.informationweek.com/showArticle.jhtml?articleID=164902479>

=====

WHAT’S NEW?

You’ll find a new button on the home page of our web site named “Client Successes” at <http://www.gardnerandassoc.com/>. Here, you will learn about the nature of consulting engagements we’ve undertaken with our clients.

=====

THOUGHT FOR THE MONTH

"No matter how much you've struggled in the past, every moment of every day provides you with the opportunity to make new choices and create new results."

Paul McKenna, "How to Change Your Life In 7 Days"

To subscribe or to be removed from our email list, send an email to:

info@gardnerandassoc.com

=====

Gardner & Associates Consulting
18603 Wedge Parkway, #L170
Reno, Nevada 89511-3006 U.S.A.
E-mail: <mailto:info@gardnerandassoc.com>
Web Site: <http://www.gardnerandassoc.com>
USA and Canada: +1 (888) 488-4976
International: +1 (775) 722-8230

=====

© 2005 Gardner & Associates Consulting. All rights reserved.
We encourage sharing BUSINESS EXECUTION INSIGHTS in whole or in part if copyright and attribution are always included.