

by DR SUN J CHANG

# What a manufacturer should do as a business

This second installment of The Business Mind delves into how a manufacturer can get an edge over its competitors through four key areas of improvement.

**N**ow that we have discussed what not to do in the last issue of Business Mind (see February/March 2009 issue pages 16-19) – ie, trying to find a quick fix by financial gimmicks – we will discuss in this column what a manufacturer is supposed to do.

Nowadays, if you visit the website of many companies, you are likely to see a mission statement, and maybe even a goal statement. While these statements are useful in setting the overall direction for the company, they unfortunately provide little guidance for what a manufacturer is supposed to do operationally. This is the nuts-and-bolts stuff that managers must convey to everyone on the production line. The operational goal must be short and to the point – around 10-15 words – so that everybody will remember and can follow. Many companies have lofty goals and great ideas but fall flat operationally and fail.

From my point of view, a manufacturer must produce a better product at a lower cost with faster delivery and superior service all the time.

There are four elements in this statement. First and foremost: a better product.

## Making a better product

Before I proceed any further, let me explain the difference between a product and a commodity. A product is something

that has a name or brand recognition. For example, cars like Lexus and BMW are products because they have a name and brand. On the other hand, farm produces such as corns and soybeans are commodities. A No. 2 yellow corn is a No. 2 yellow corn. Rarely can a buyer differentiate between corns produced by one farmer from another. As a result, you can buy most commodities, like corns and soybeans, at the Chicago Board of Trade.

More importantly, the pricing mechanism is entirely different. Products are priced based on value expressed as the ratio of performance/price. On the other hand, commodities are priced based on marginal cost set by the lowest cost producer.

If you are a product producer, you need to do everything to keep it a product. A product can turn into a commodity quickly. The LCD computer monitor is a good example. If you are a commodity producer, you need to make what you produce more like a product and stand out in the market place.

For example, an OSB producer in the US puts a patented grid pattern on its OSB to enable builders to cut the panels more efficiently at construction sites. While the OSB is still a commodity, the patented grid pattern allows it to be more like a product and stand out in the market place. Instead of a price set by the lowest cost producer, the company therefore is able to charge a small premium for the OSB it produces.

If you want to transform your commodity into something more like a product, talk to your clients. Find out from them what matters most to them and start improving on those aspects of your output, for example, the smoothness of the board surface or the uniformity of the board strength. Before long, you will have something that stands out in the market place.

### Lowering production costs

Regardless of whether they are products or commodities, every producer needs to lower their production costs all the time. By using the basketball game as an analogy, producing a better product is offense. Producing at a lower cost is defense. Every basketball coach will tell you that it is the defense that wins the game.

Therefore, you need to look for ways to lower the production cost all the time while maintaining output quality. There are many ways to lower the production cost. For example, better machines, better employee training, faster machine set-ups, and less machine down times through improved maintenance just to name a few.

### Delivering even more quickly

In addition, every producer must learn to deliver the order quickly. Besides high prices, slow delivery lead to the downfall of American furniture industry. High prices can be tolerated if the order can be delivered quickly. Unfortunately, a few years ago if you place an order with an American furniture producer it will take the company months before the company can fill the order. Not surprisingly, buyers bolted for overseas suppliers who can deliver on roughly the same schedule but for a whole lot less.


In this regard, Toyota stands as a stark contrast to this situation. For some time now, you can walk into a Toyota dealership in the United States and place an order for a Camry with the colour, features, and accessories of your choice. In less than 21 days, a brand new car exactly as you have ordered will be delivered to you. Surely, a car is a more complicated product than a set of furniture. There is no telling how many extra cars Toyota was able to sell as a result of its faster deliveries.

If you are wondering about how Toyota can deliver so quickly, the secret is its fast machine set-up time. Back in 1969, it took Toyota over 4 hours to replace the module of its 100-tonne hydraulic press. After working on the problem for about a year, the company reduced the set-up time to replace the hydraulic module to less than 90 seconds and were able to change car models any time they wanted to. If you want to achieve faster delivery, master fast machine set-up. Once you can set-up any of your machines in less than 60 seconds, small-batch-many-varieties flexible manufacturing becomes reality and quick delivery becomes possible.

### Customer service

Finally, better services. Do you maintain an arm's length relation with your clients or do you try to better understand what your clients are doing? Here, hardwood lumber offers an excellent example. For most furniture producers, only a very small portion of the parts they need are over five feet in length. Therefore, they really don't need to buy the FAS grade lumber which can deliver clear blanks in 3"x7' or 4" x 5'.

If you were a hardwood lumber producer and understand



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what the furniture mills are doing, you could suggest either No. 1 Common or perhaps even No. 2 Common lumber as a substitute. The price differentials are huge. Typically, FAS is about twice as expensive as No. 1 Common. The point here is that the more you can integrate yourself into your client's production process, the more likely you can sell. In good times, you can probably charge a slight premium. In bad times, you sell while others can't.

In the above discussion, I talked about producing a better product at a lower cost with faster deliveries and superior services. Granted you may not be able to do all of them in the beginning. You must do at least one or some of them all the time.

Also notice that never once did I say lower price. Lowering the production cost allows you to either increase the profit margin if you keep the same price, or lower the price if you choose to engage in a price war to inflict losses on your competitors. Whatever you do is your choice.

However, only when everyone in your organisation is committed to producing a better product at a lower cost with faster deliveries and superior services can you have a choice. In the next column, I will discuss how to use total quality management to produce a better product.

**PFA**



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