



Eight areas to explore before your next diversification move

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HAS THE NEED TO DIVERSIFY ASSUMED MORE urgency for your business lately? If so, you're not alone. Most respondents to a *Modern Woodworking* telephone poll reported recent line additions. Other woodworkers interviewed told us they were considering some product expansion in the near future. Most notable was a trend to get into production of high-end items.

However, not every diversification possibility is a good one. You've got to do plenty of advance homework. These points were stressed to us during recent conversations with two wood industry consultants: Vince Ross, president of Ross Associates, Inc., and Art Raymond, president of A.G. Raymond & Co.

Ross believes you must take the following five areas into account:

1. **Marketing research.** "This should come before everything else," Ross says. "If you are selling components to manufacturers, for example, can you get enough customers who want similar products so that you can get the best material yield? Will you be able to present customers with a lower price than they can make it for themselves? For the retail sector, make a prototype and exhibit at retail shows to gain guidance from potential customers."

2. **Capital investment.** "What new equipment will you need? If it's custom work, how much set-up time will be required? Could cellular manufacturing be implemented?"

3. **Employee involvement.** "How much training is required? If you need new employees with different skills, will it be hard to find qualified help?"

4. **Inventory control.** "Will your intended diversification require a great deal of work-in-process inventory, for instance, which could hinder success?"

5. **Quality control.** "Does anyone in your operation have the experience to assure quality if a new

procedure must be implemented?"

Raymond poses these questions for consideration.

1. **"Does your target customer really want your new product?"** Will the new product create new sales or cannibalize demand from existing SKUs? Generate a forecast of the new item's rate of sales," Raymond advises. "Predicting demand involves a degree of guesswork, but you can rely on the introduction histories of similar products as indicators for new items."

2. **"Can the product be produced profitably in your present plant?"** Since you won't be making the new product in isolation, what effect will it have on the profitability of your existing line?"

3. **"What investments are required to add the new product?"** Often, you must add new process machinery. If you build to stock, you also must add inventory of the new product to support its delivery. If you make to order, you must install the necessary buffer stocks of raw materials, hardware, etc. You should compare the predicted inventory turnover for the new product vs. your target inventory performance. You should analyze the rate-of-return of any new plant and equipment purchased to support the new item."

Raymond says there are no formulas to calculate the ideal number of SKUs a product line should contain. His experience, however, has told him that plants with high volume per SKU are more profitable than operations that are forced to make a lot of slow-selling items. He advises you to look at your own product line. The top-selling 20 percent should be generating 80 percent of your volume. If not, you need to do some surgery on the slow-selling part of your line before introducing even more SKUs. If you have lots of standardization and modularity, adding a new product is easier. If each item in your line is relatively unique, then you're probably facing a complex product introduction process. 📊