



The Real Challenge

Society of Furniture Industrial Engineers
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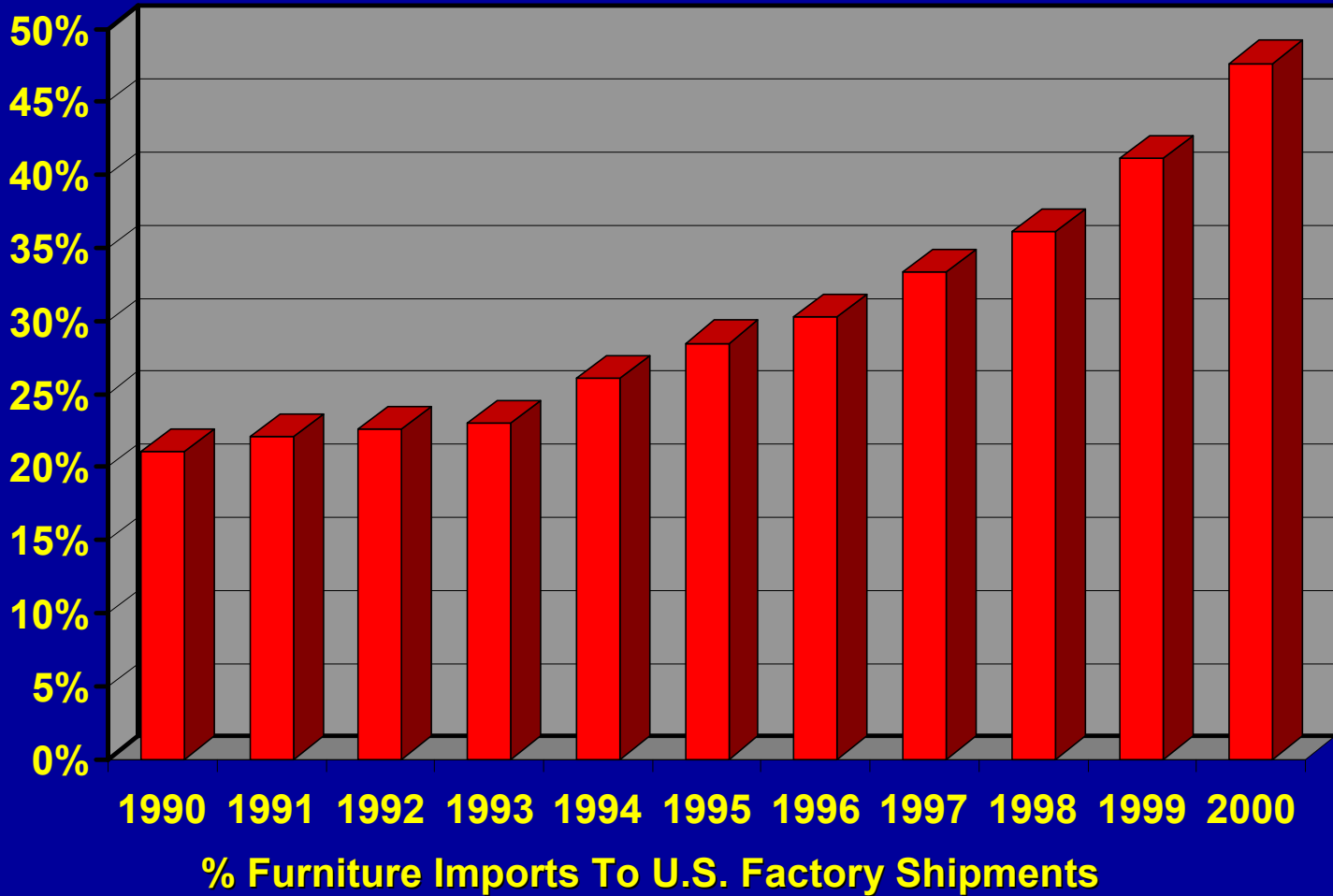
Current Situation

The U.S. furniture industry faces two critical problems...

- ***Low-Cost Import Competition***
- ***Broken Distribution Channel***

Furniture Imports

Foreign producers continue to capture market share...



Broken Demand Chain

Over 5% of furniture retail 'capacity' is gone or going...

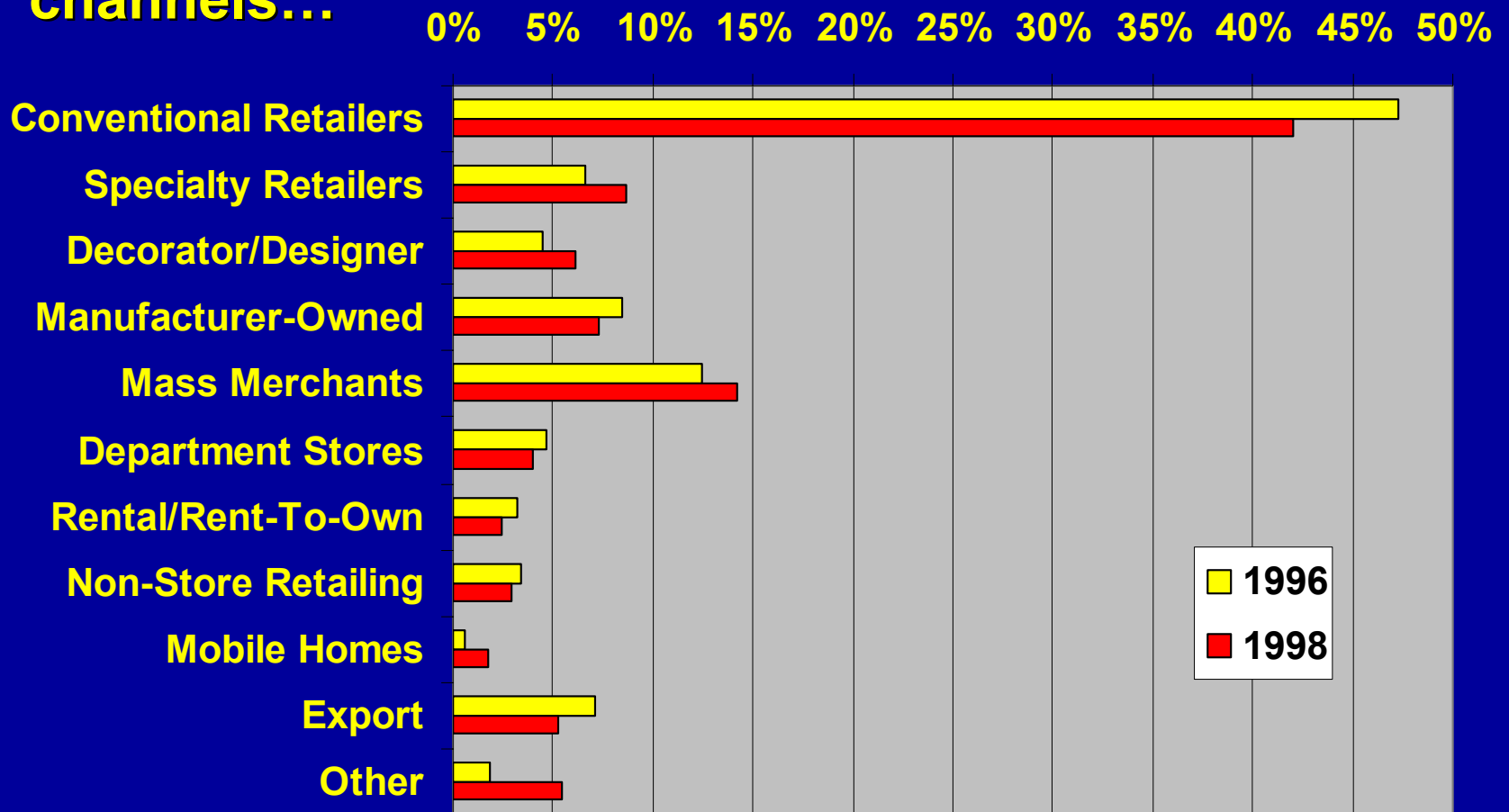
Retail Furniture Bankruptcies

Retailer	Filing Date	Peak Volume (\$ millions)	Peak Year	<i>Furniture Today Rank</i>	No. of Stores
Roberd's	1/00	\$342	1997	19	24
This End Up	2/00	152	1997	20	152
Heilig-Meyers	8/00	1,729	1999	1	1,253
Wards	12/00	506	1999	18	252
Krause's	7/01	155	2000	40	101
Homelife	7/01	680	2000	8	133
Bedroom Superstore	7/01	60	2000	88	19
Total		\$3,624			1,934

* Wards rank from Furniture Today Top 25 Furniture Retailers. All others from Furniture Today Top 100 Furniture Stores

The Demand Chain

And more furniture is being sold in alternative channels...



In The No Profit Zone

The features of The No Profit Zone are...

- ***All players have the same business model.***
- ***Technology is not proprietary.***
- ***Products are differentiated only by price.***
- ***Competition has become global.***
- ***Prices are declining.***
- ***Major customers are no profit zones.***
- ***Survival requires a high ratio of 'good' years.***

Your Alternatives

**Business experts list only two responses to
*The No Profit Zone...***

- ***Create a New Business Model***
- ***Exit the Business***

Definition of “Business Model”

A Business Model is...

“...the totality of how a company selects its customers, differentiates its offerings, defines the tasks it will perform and those it will outsource, configures its resources, goes to market, creates utility for customers, and captures profit.”

- Adrian J. Slywotzky

Elements of a New Business Model

An innovative business model defines...

- ***Who You Will Sell To (and Won't Sell To)***
- ***What You Will Sell (and Won't Sell)***
- ***How You Deliver Your Offering***

**You cannot sustain a competitive advantage
on operational excellence alone.**

The Challenge

Your challenge is to develop a business model that delivers **VALUE TO YOUR CONSUMER...**

The Right Product
The Right Time
The Right Price
+ *The Right Customer*
VALUE

and that equation starts with
YOUR CUSTOMER

Winning the Consumer

To sell your 'offering' its attributes must meet the needs of the target consumer...

Attribute	Needs of Consumer
Access	Easy to find Offer when and where I want to shop
Experience	Pay attention Respect me and my needs
Price	Fair and honest
Product	Good enough Within band of acceptable quality
Service	Save me time Deliver when and where I want it

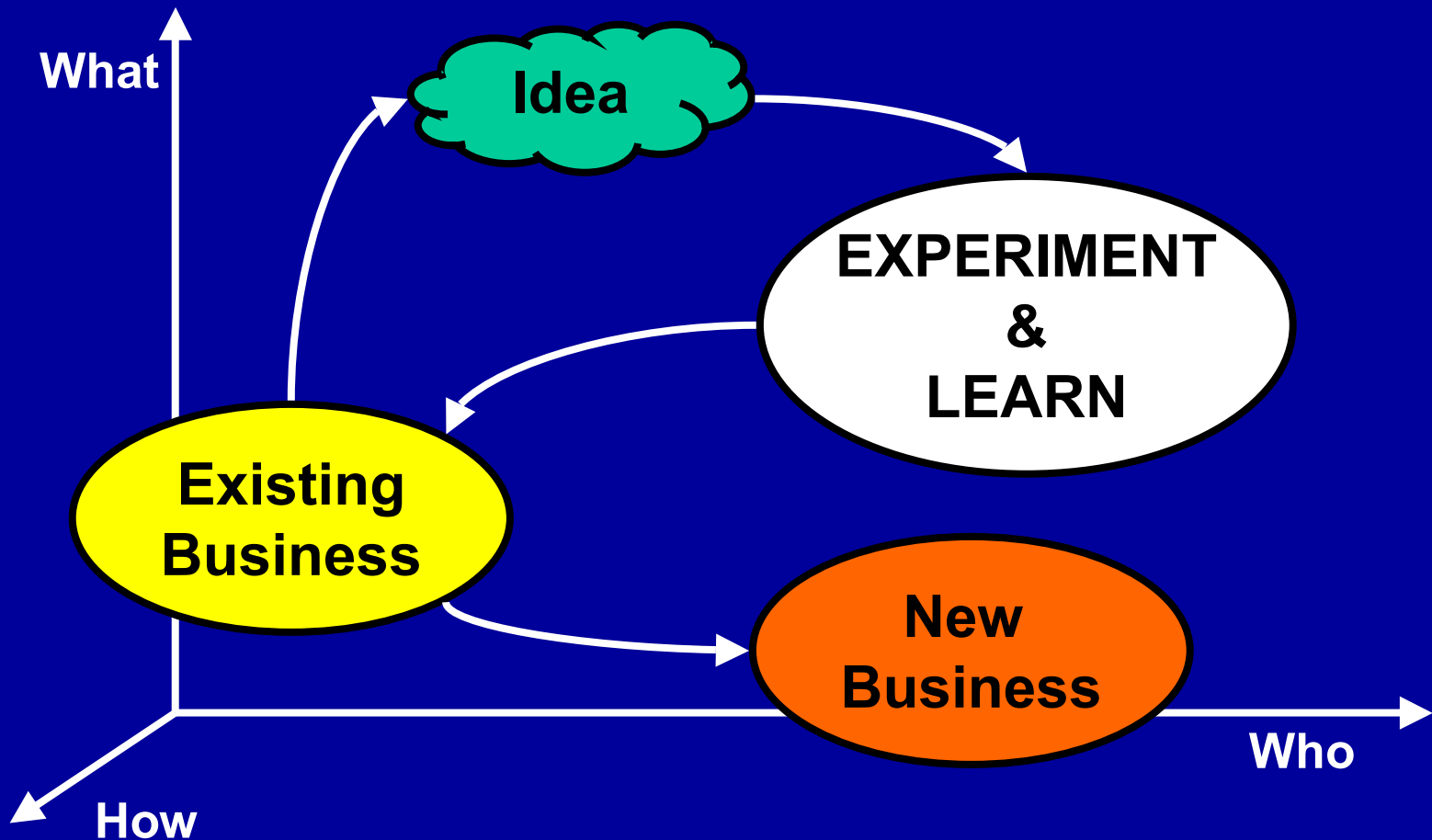
Winning the Consumer

To win your customer you must...

- 1. Dominate in only one attribute.***
- 2. Differentiate on a second attribute.***
- 3. Meet the market standard on the other 3.***

Creative Thinking



Inventing a new way of doing business requires experimentation...



Vision at Starbuck's



Starbuck's took a low profit, commodity product and built a new, highly profitable business by offering coffee drinkers a new experience...

Competitive Attribute	General Foods/ Proctor & Gamble	Starbuck's
Primary	Price	Experience
Secondary	?	Product
Results		
Prices	Low	High
Profits	Low	High
Growth	Low	High

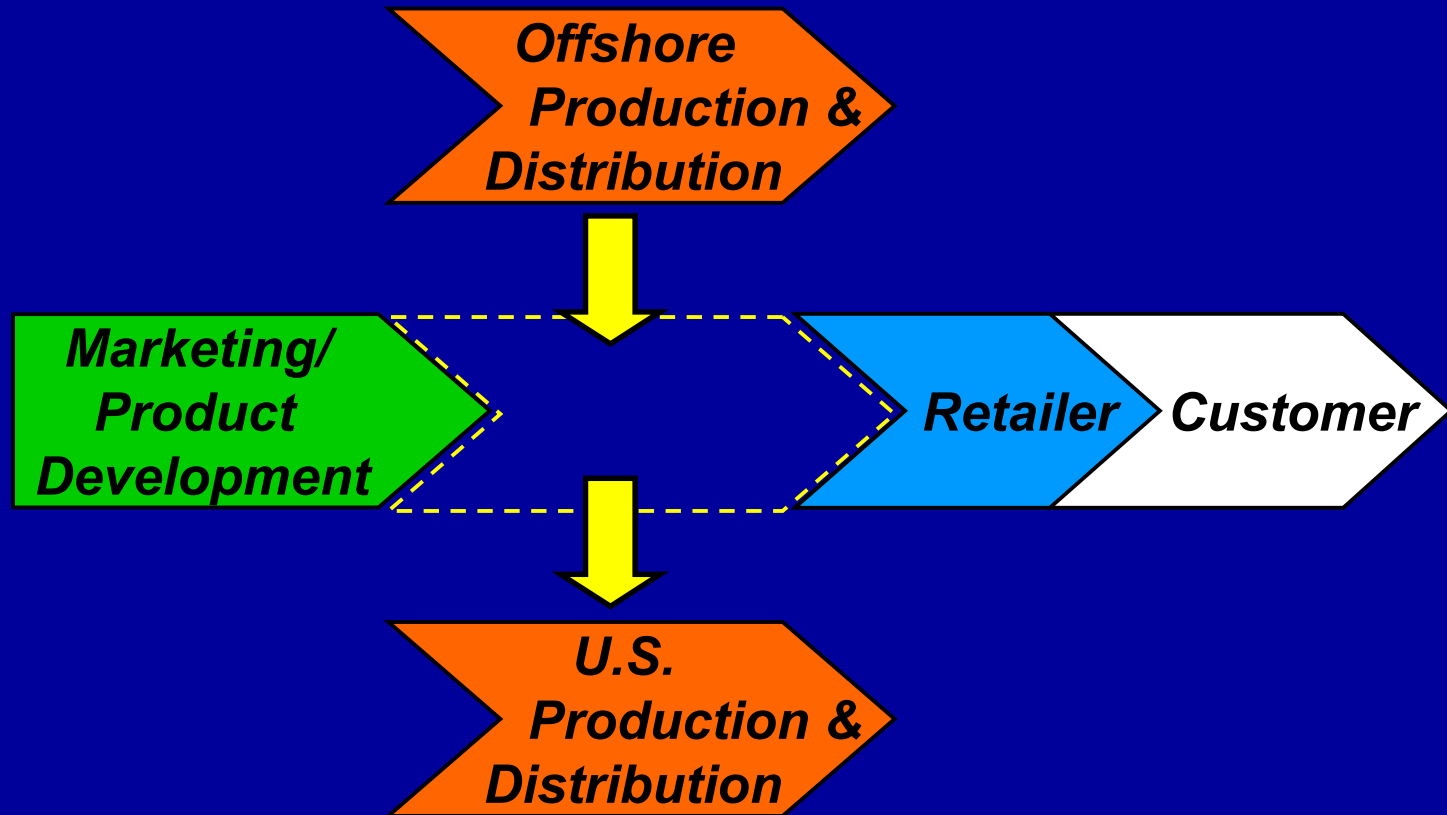
Lessons Learned from Starbucks

The Starbucks story teaches three important lessons...

- *Don't solve today's problems with yesterday's answers.*
- *Don't count on sales and marketing to provide insight into the needs and frustrations of your customers.*
- *Start experimenting!!*

A Critical Strategic Question

Is moving production and distribution from the U.S. to China a sustainable cure for *The No Profit Zone*?



A Manufacturer's Alternatives

Your resellers control the point of sale and limit your influence over your consumers...

Access – limited by resellers

Experience – controlled by resellers

Price – final price set by resellers

Product

Service

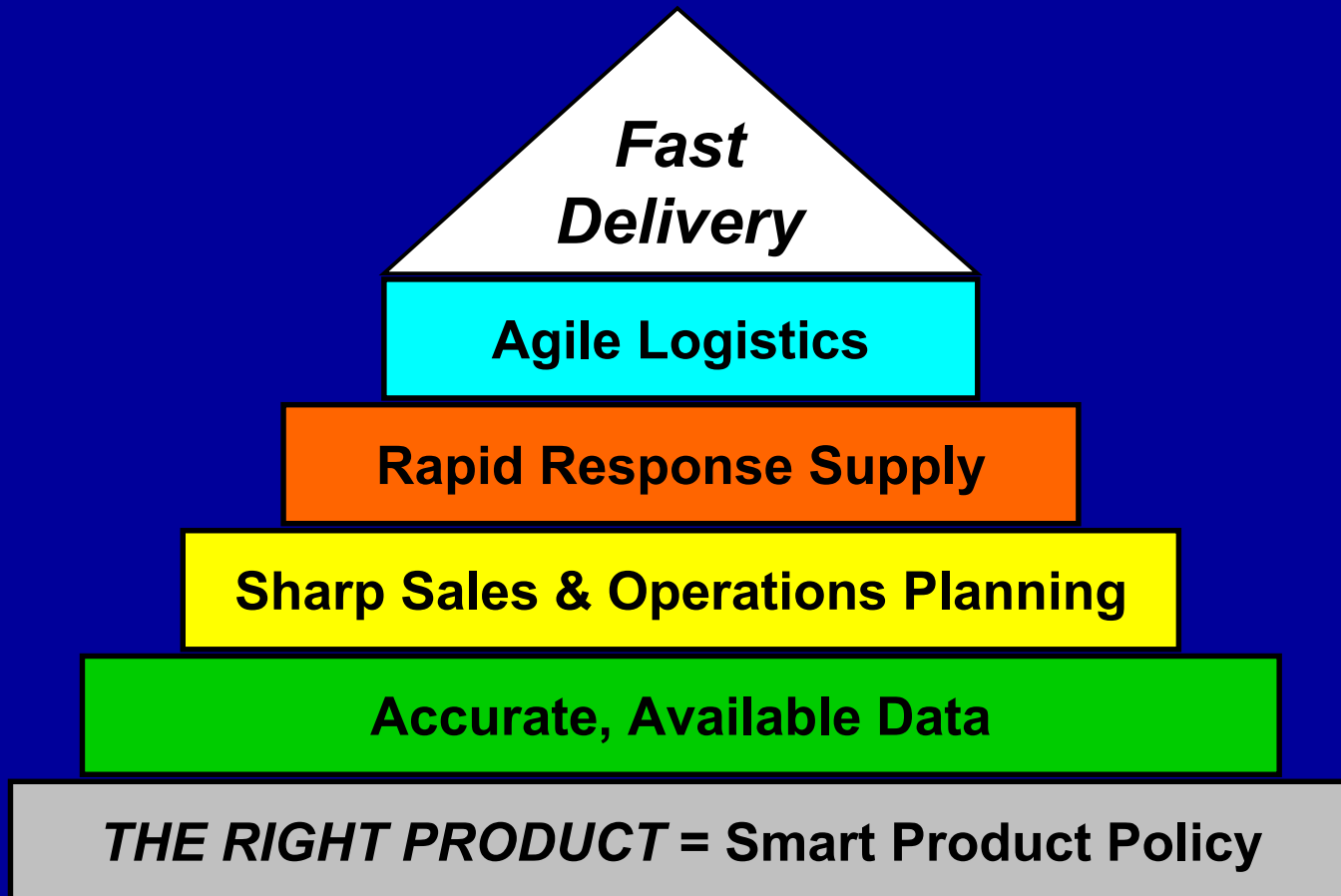
A Potential Competitive Advantage

Service may be the only attribute left for you to compete on...

☑ *Service = The Right Time = FAST!!*

Achieving Fast Delivery

To deliver your product quickly, you must build a foundation of best practices...



Impact of Product Policy

A casegoods plant with...

- > Annual Production** **\$36 million**
- > Product Line** **375 SKUs**

faces a huge product engineering challenge...

- > Average Parts per SKU** **25**
- > Parts Standardization** **4%**
- > Discrete Parts** **9,000**
- > Product Life** **3 years**
- > New Products per Year** **125**
- > New Discrete Parts per Year** **3,000**

Impact of Product Policy

And a complex manufacturing process...

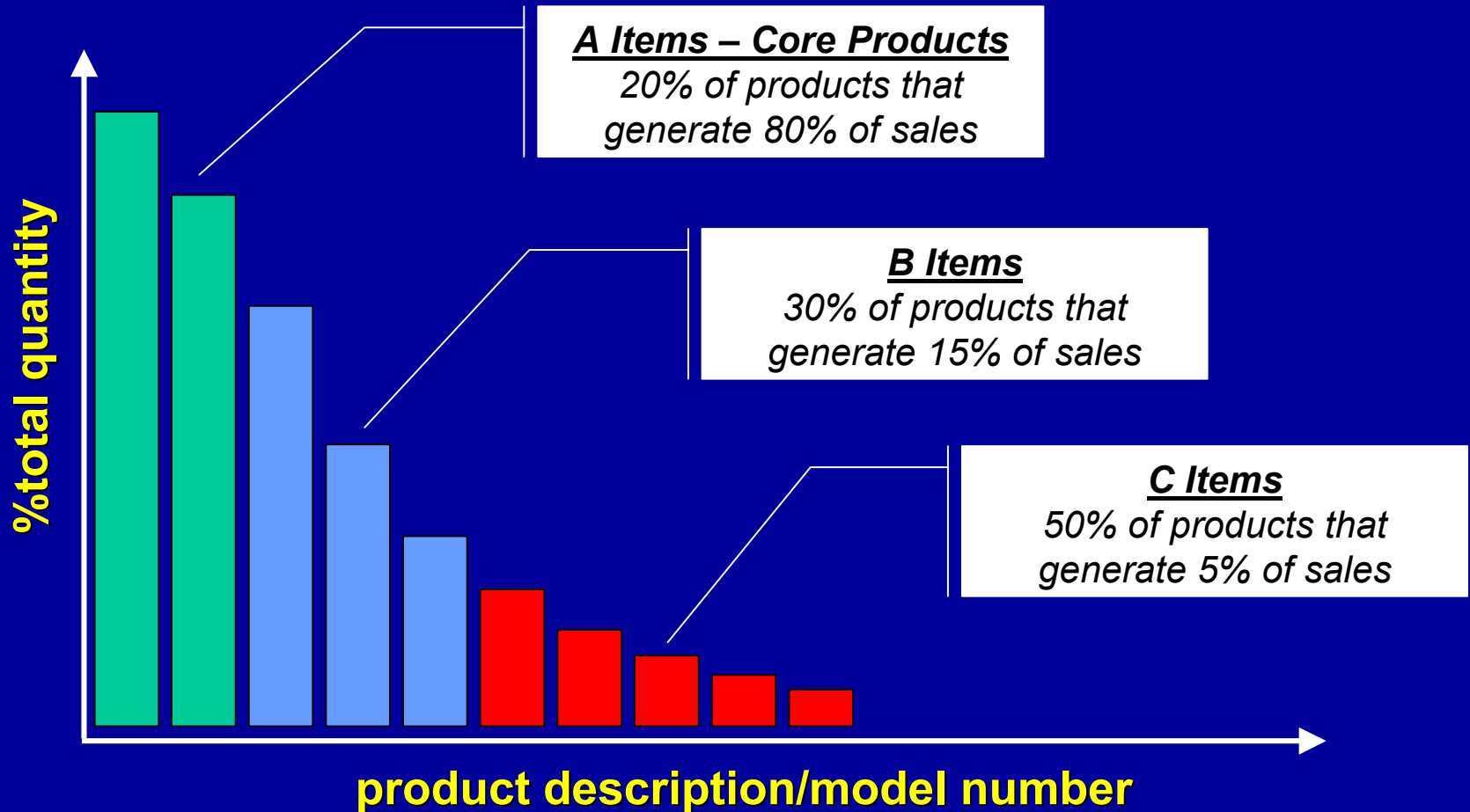
- > Average Price per Unit** **\$300**
- > Annual Unit Production** **120,000**

when cutting size is small...

	<u>Per Year</u>	<u>Per Day</u>
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What To Sell

Focusing on core products maximizes the opportunity for operational excellence...



The Cornerstone

Without a smart product policy the process is too complex...

1. Smart Product Policy

Parts Standardization

Modularity

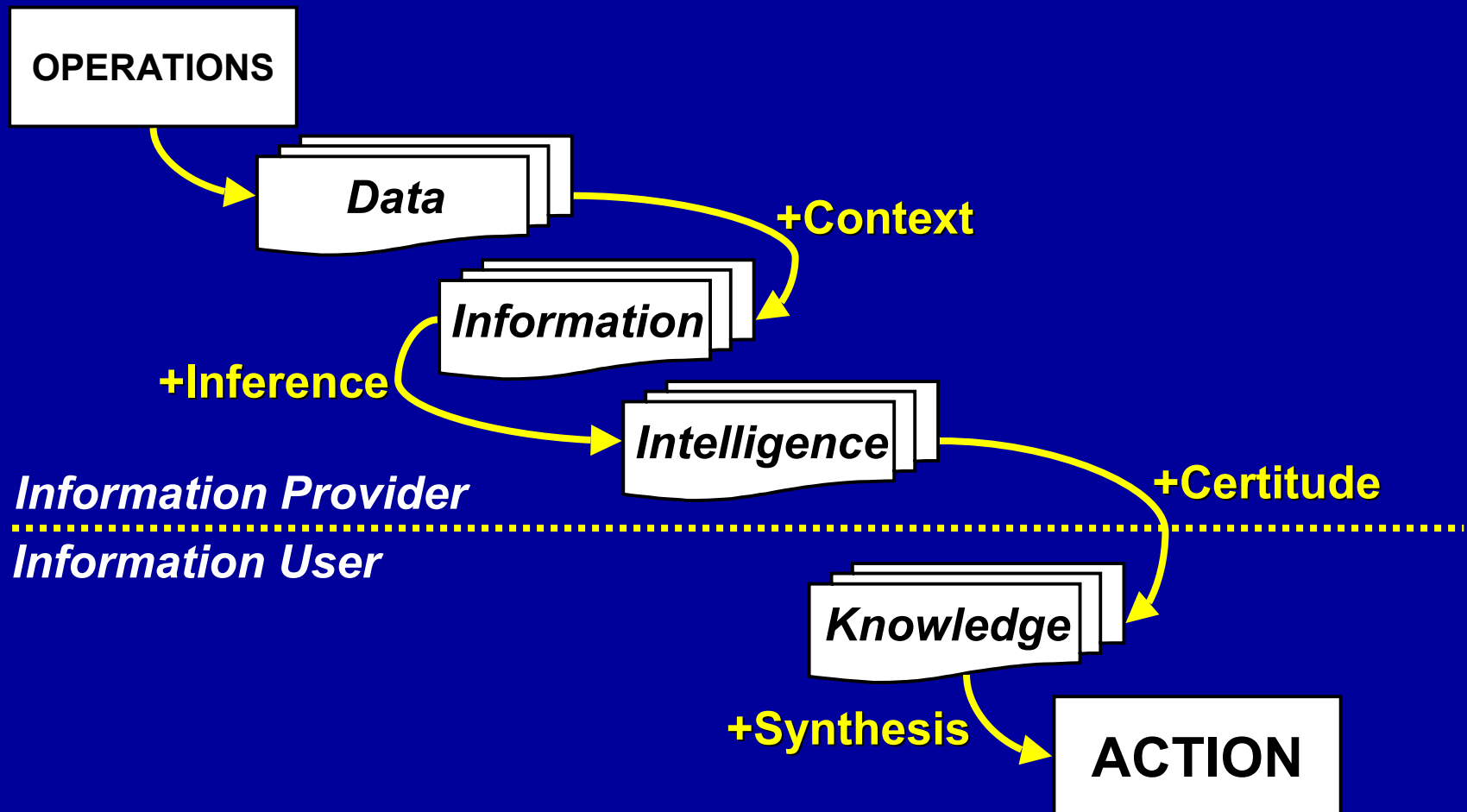
Consumer Research

Focus on Volume

**Elimination of
Slow Selling SKUs**

Accurate, Available Data

Data are the basis of **KNOWLEDGE** and **ACTION**...



Summary

The keys you need to optimize your furniture company...

2. Accurate, Available Data

Sales History

Inventories

Bills of Materials

Product Routings

Planning Your Work

Key planning elements for optimizing your process are...

3. *Systematic Sales & Operations Planning*

Exhaustive Forecasts

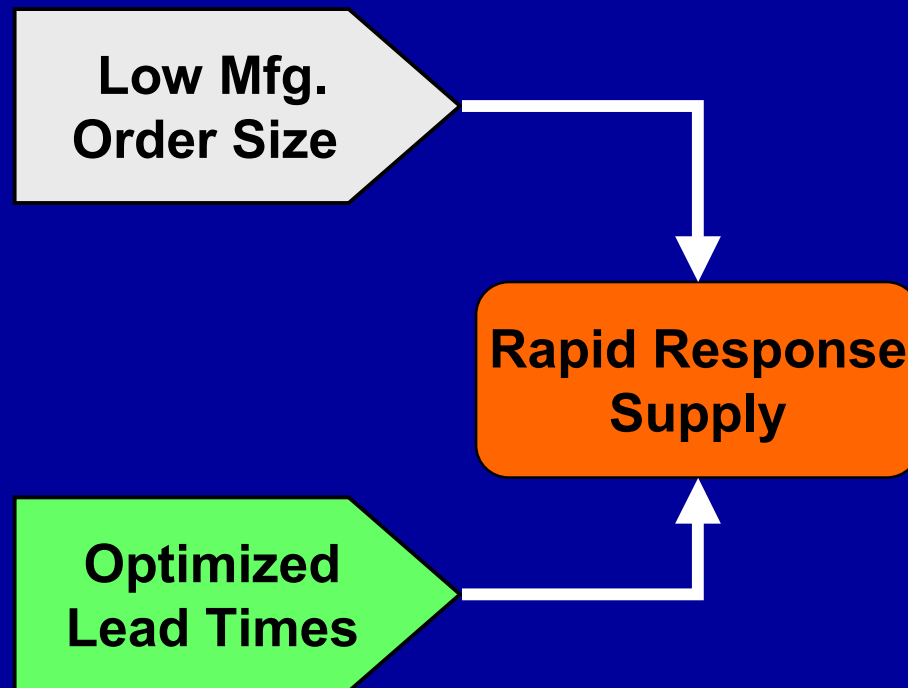
Smart Inventory Plan

Logical Master Schedule

Materials Purchase Plan

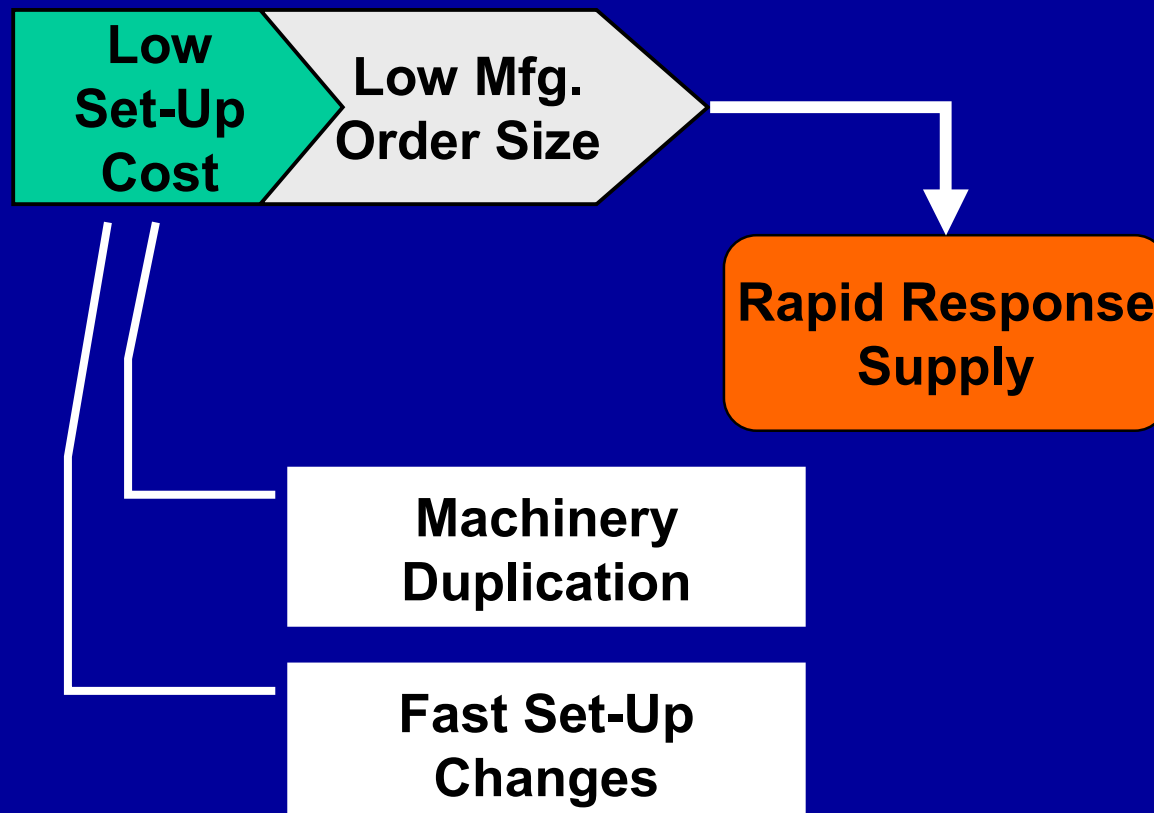
Rapid Response Supply

Fast delivery of your consumer's orders is abetted by *timely processing* in the plant. Low, yet economic order quantities and minimal throughput time are critical to *fast throughput*...



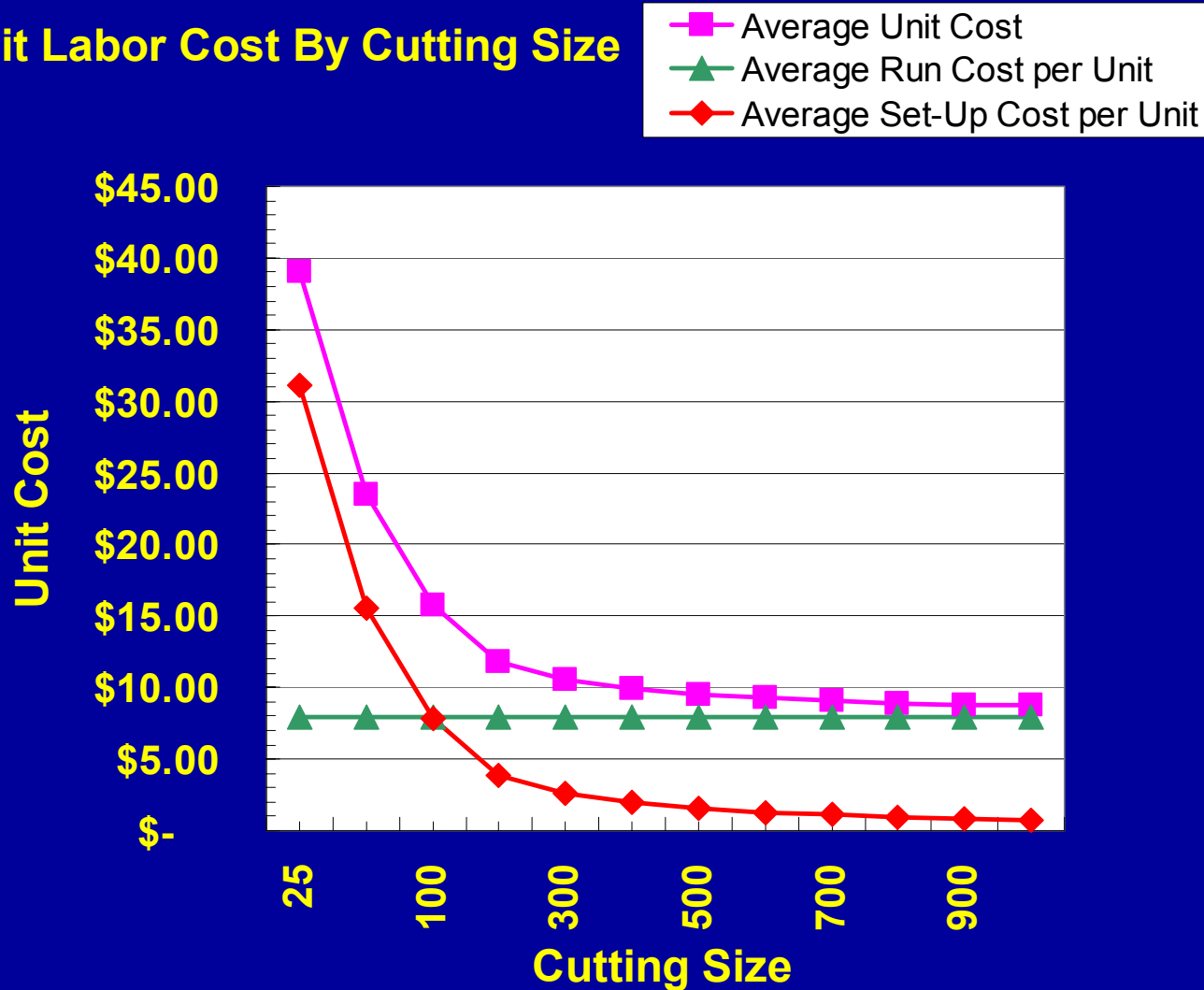
Small Order Quantities

Producing small orders economically requires low set-up costs...



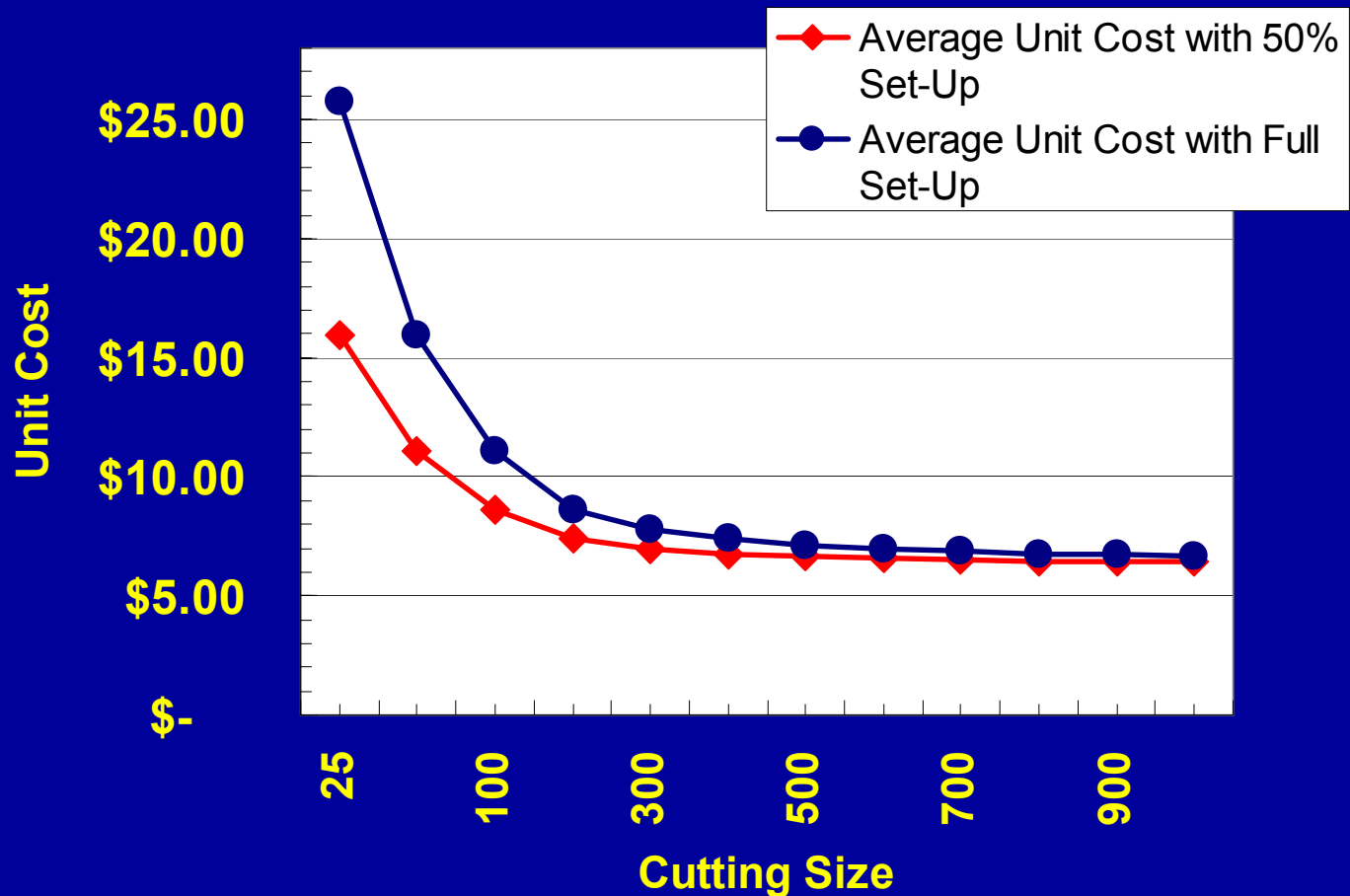
Set-Up Economics

Unit Labor Cost By Cutting Size



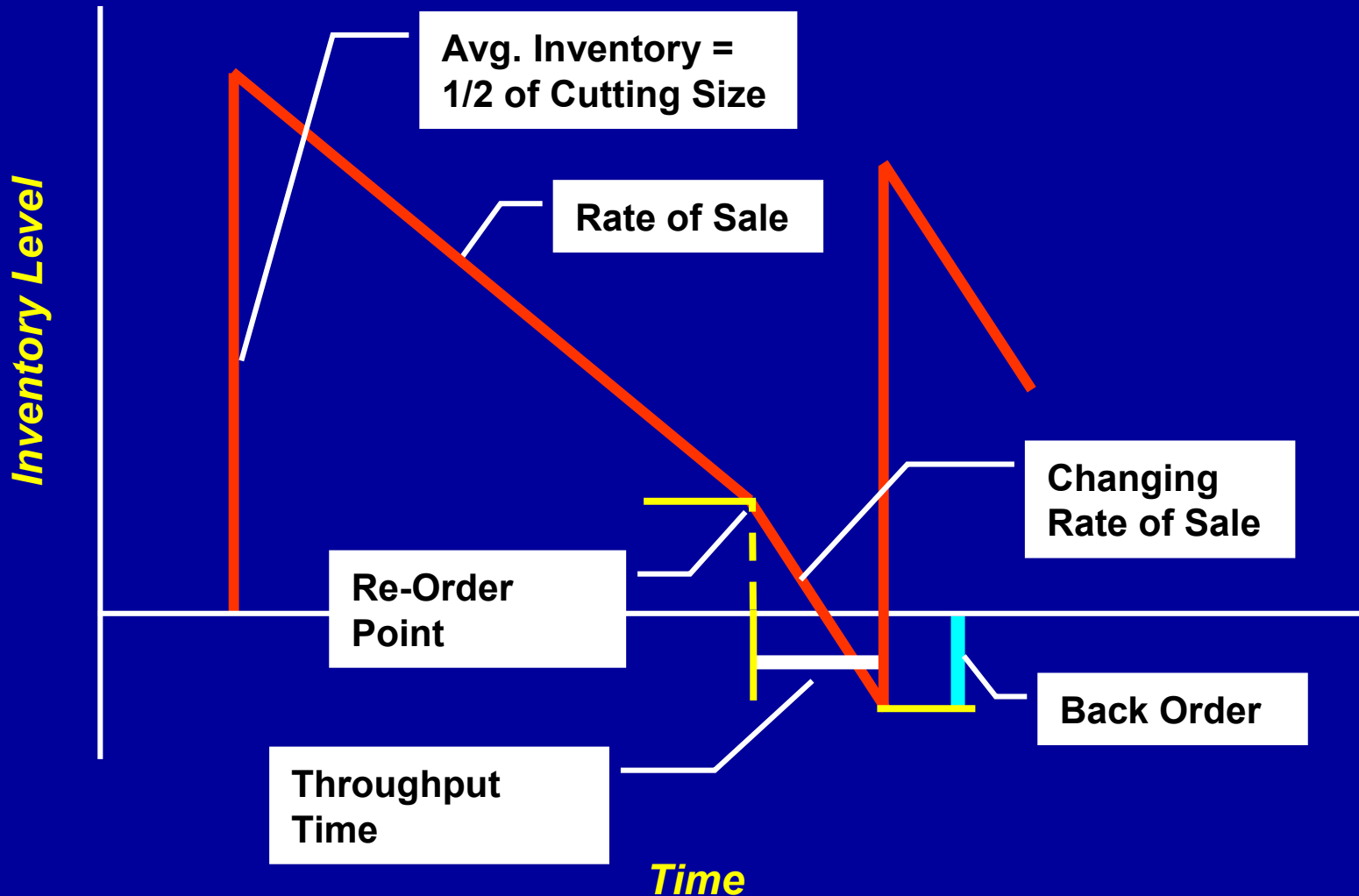
Fast Set-Ups > Smaller Cuttings

Unit Labor Cost By Cutting Size



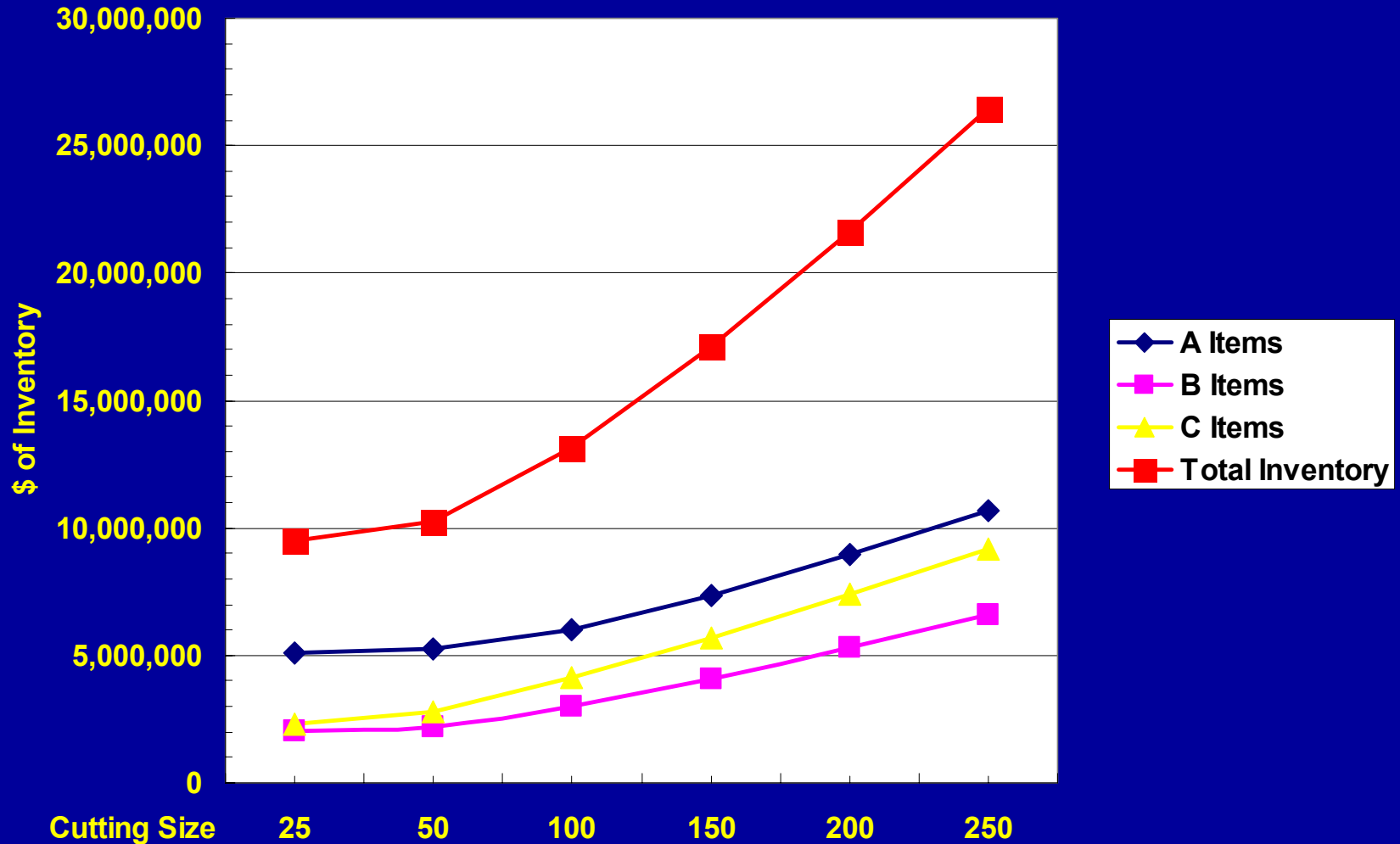
A Primary Inventory Driver

Order size is a primary driver of 'stock' levels...



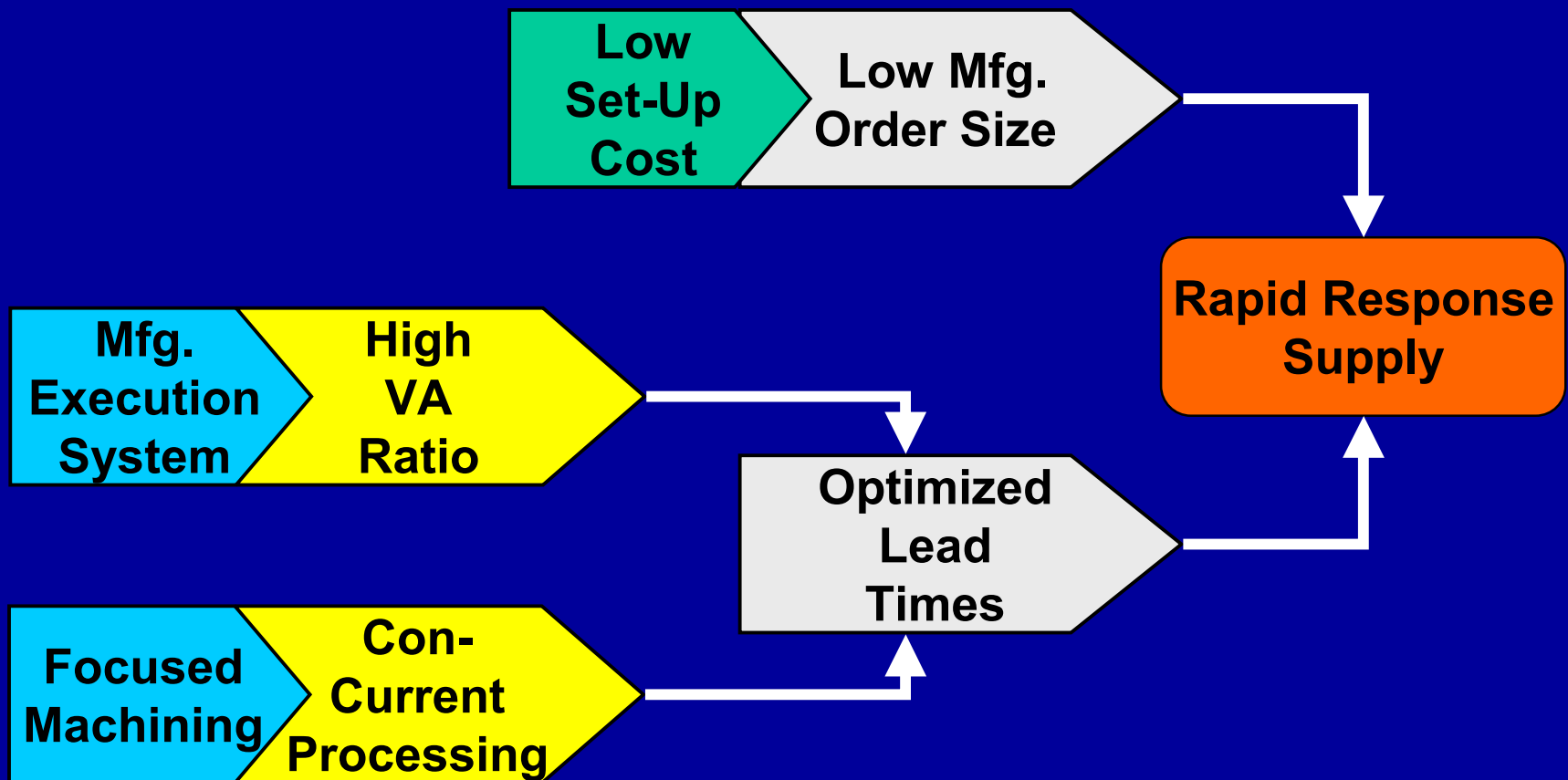
Inventory Relationship To Cutting Size

Finished Goods Inventory By Cutting Size



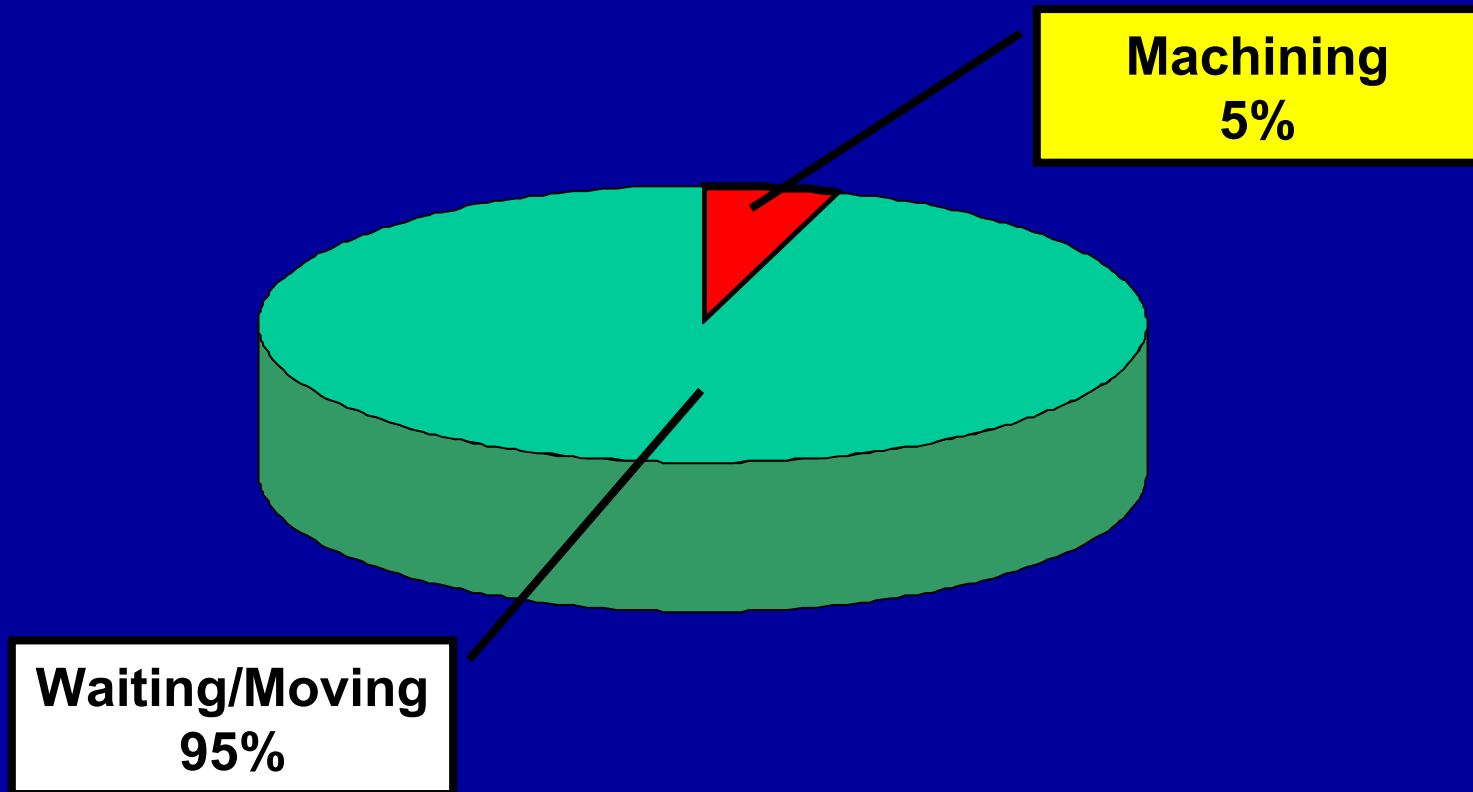
Lead Times

Minimizing delays between each step in the production sequence is also critical...



High Value-Added Ratio

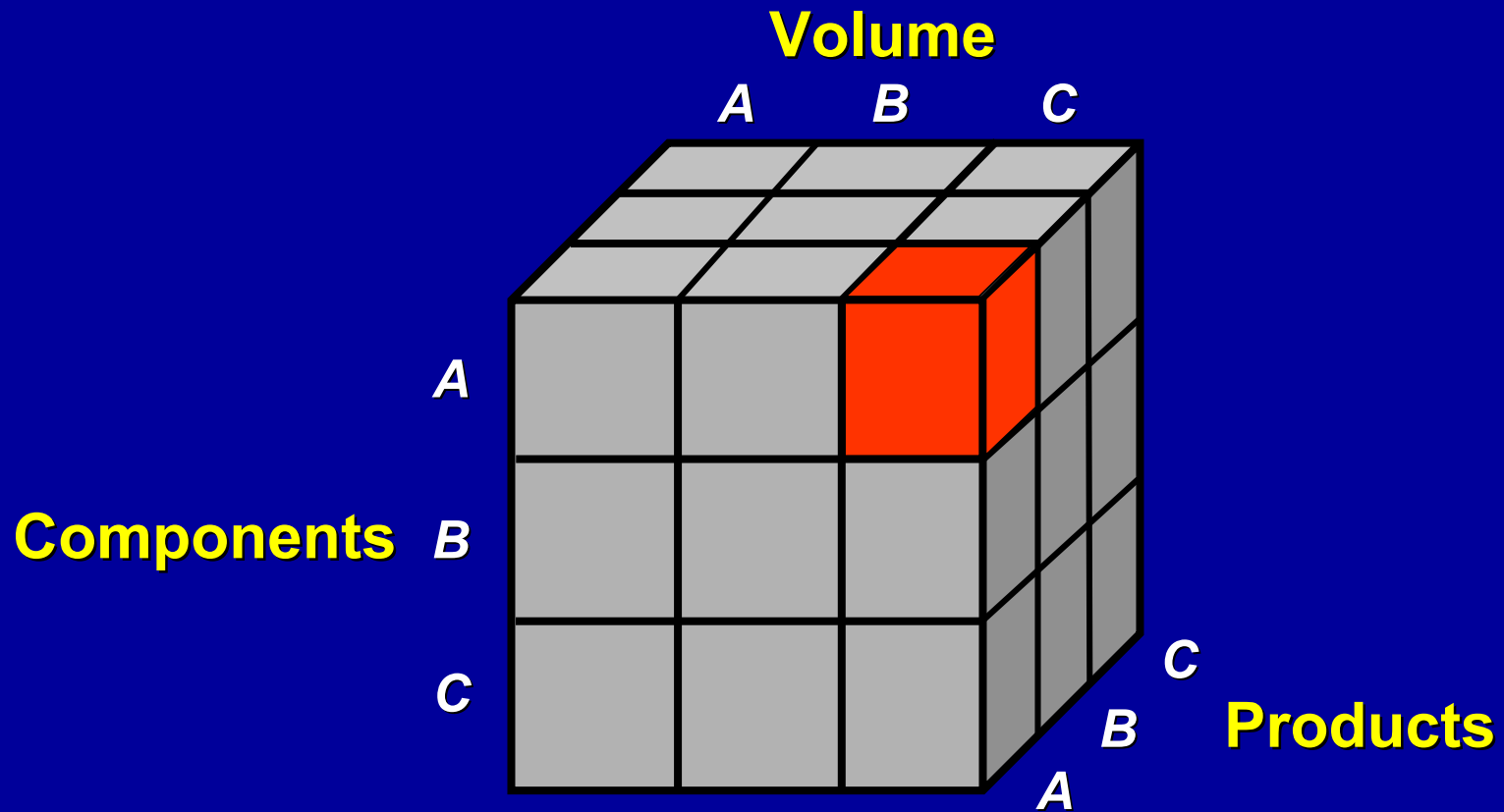
Being on schedule reduces the amount of time spent in the plant when no value is being added to your product...



Speed from Focus

Focused
Machining

Focusing by *product*, component, and/
or volume achieves faster manufacture...



Working Your Plan

The keys to fast manufacturing are...

4. Rapid Response Supply

Small Order Capability

Mfg. Execution System

Dimensional Control

**Performance
Measurement**

Delivering The Product

A component of fast delivery is...

5. Agile Logistics

Fast LTL Capability

Damage-Free Handling

Opportunities

A \$36 million casegoods plant can achieve substantial returns by returning to basics...

- ***A 1-day inventory reduction is worth \$86,250.***
- ***The cost of 1 production hour is worth \$6,400.***
- ***A 10% improvement in productivity is worth \$1,800,000 in added gross profit.***
- ***A 5% reduction in waste and scrap is worth \$720,000 in added gross profit.***

And thousands of satisfied customers.

The Bottleneck To Excellence

An often unmentioned problem is the shortage of technical/engineering manpower...

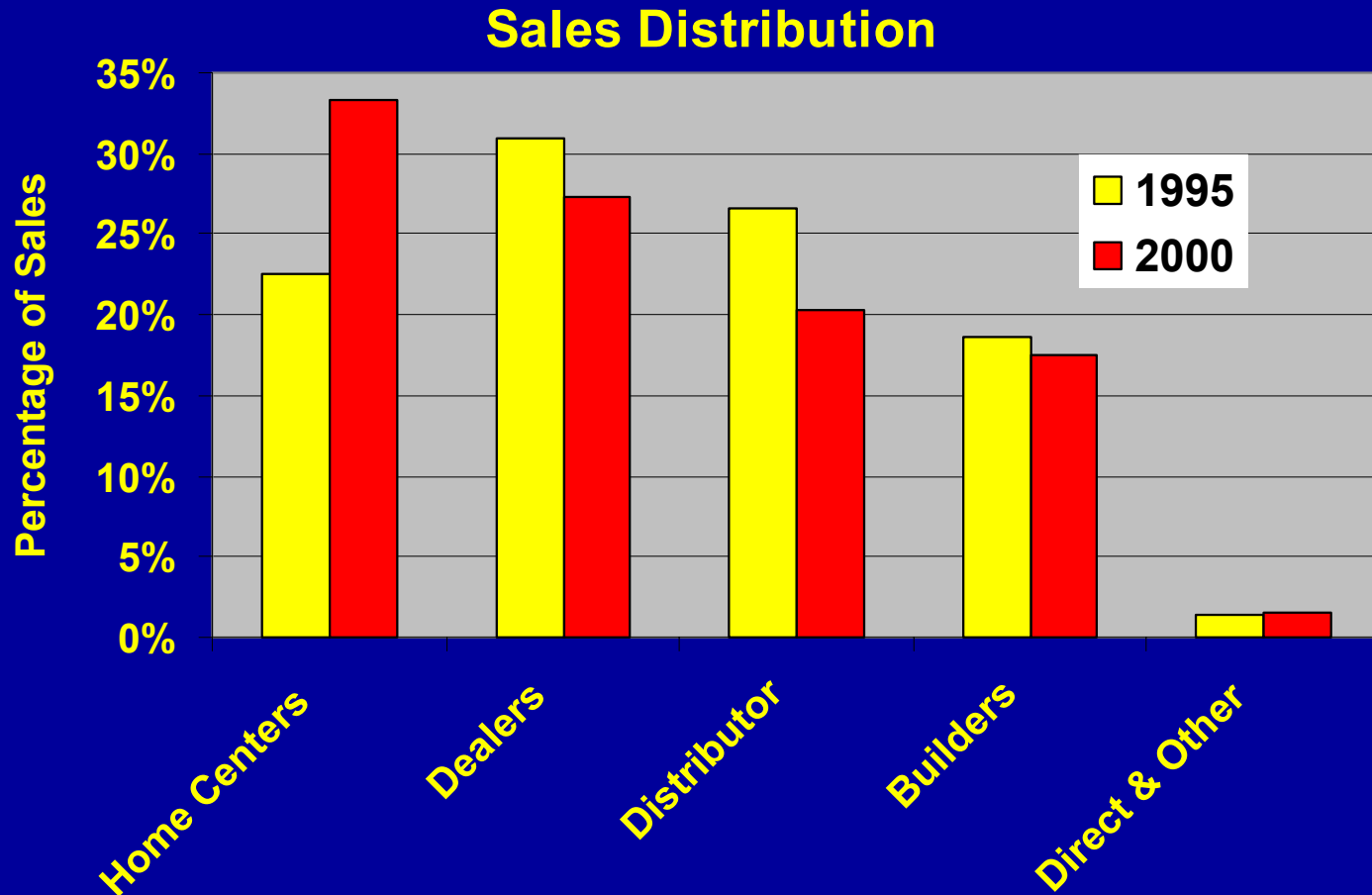
Types of Manufacturers	Number of Engineers Employed in 1998	Sales Dollars per Engineer
Household Furniture	633	\$43,267,730
Millwork & Plywood	1,119	\$30,673,077
Household Appliances	3,442	\$6,215,702
Communications Equipment	39,423	\$2,101,628

Case Study

Innovation in the Kitchen Cabinet Industry

The Changing Market

Cabinet makers identified and moved to capture a huge new customer...



Case Study – Responding to the Market

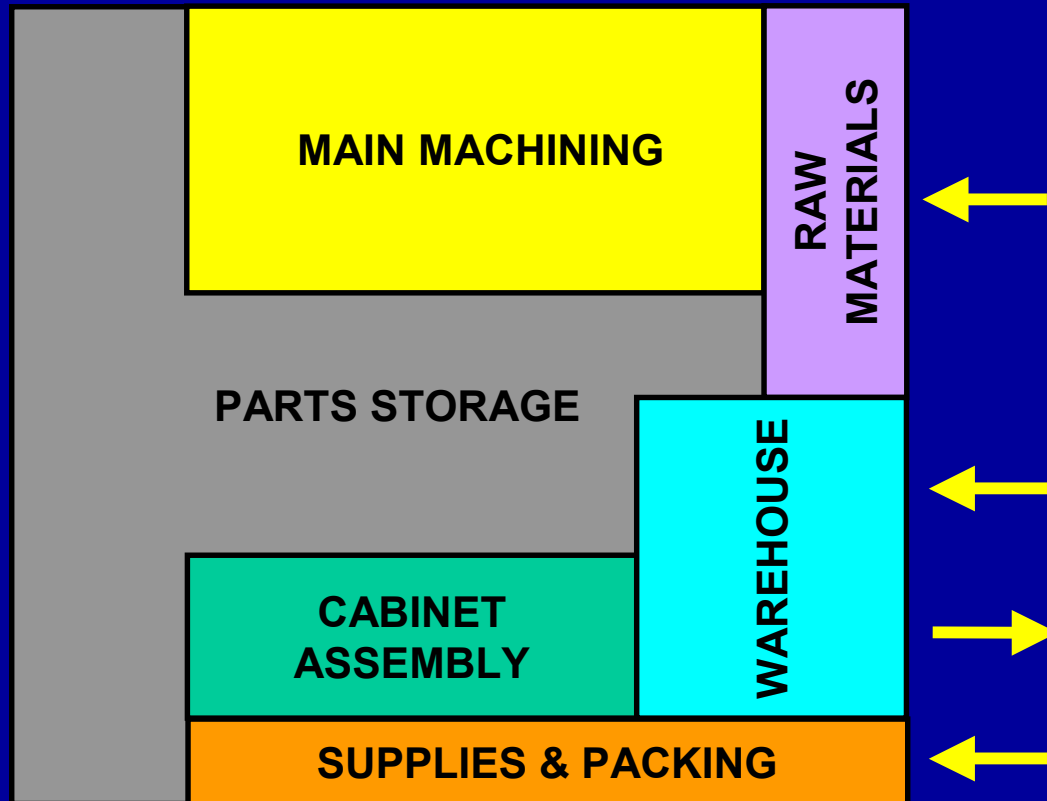
The shift to home centers has required...

- ***Longer Product Lines***
 - ***More Door Styles & Materials***
 - ***More Cabinet Configurations & Accessories***
- ***Faster Delivery***
- ***Higher Customization***

How have these needs been accomplished?

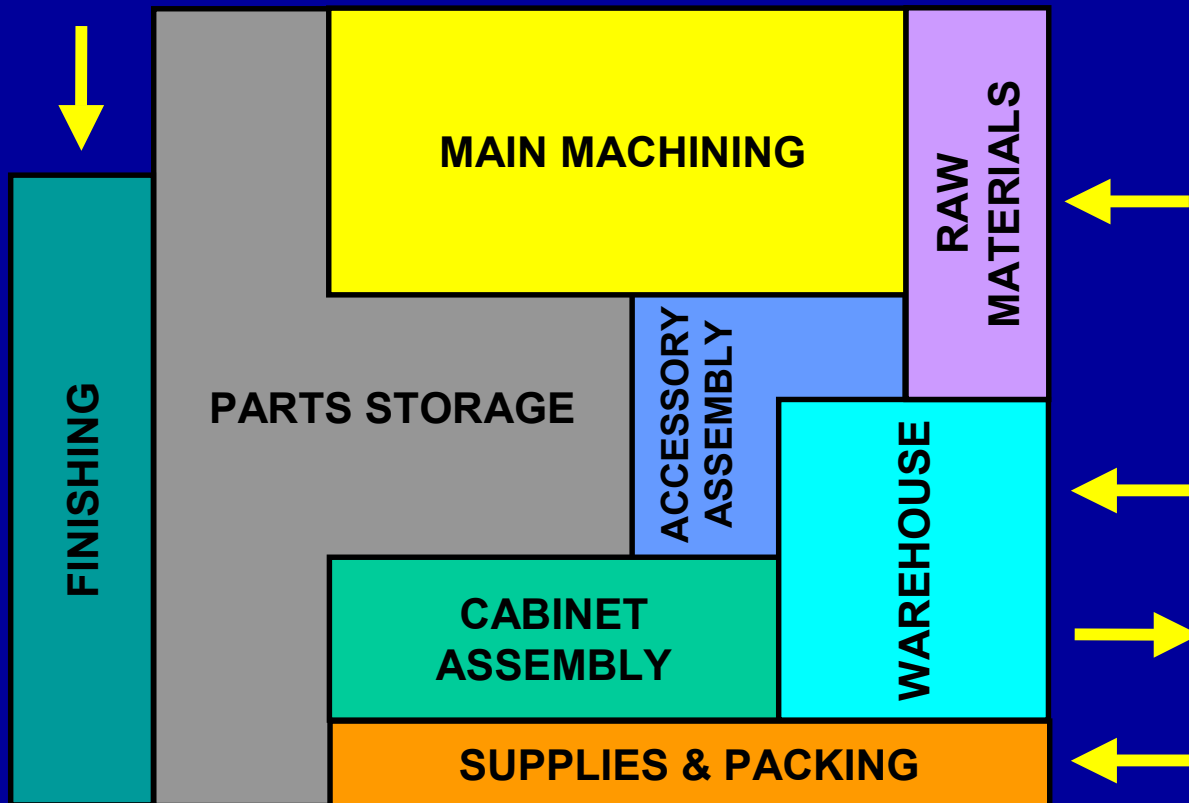
Case Study – The Initial Plant

When first built the plant produced a narrow line with few choices...



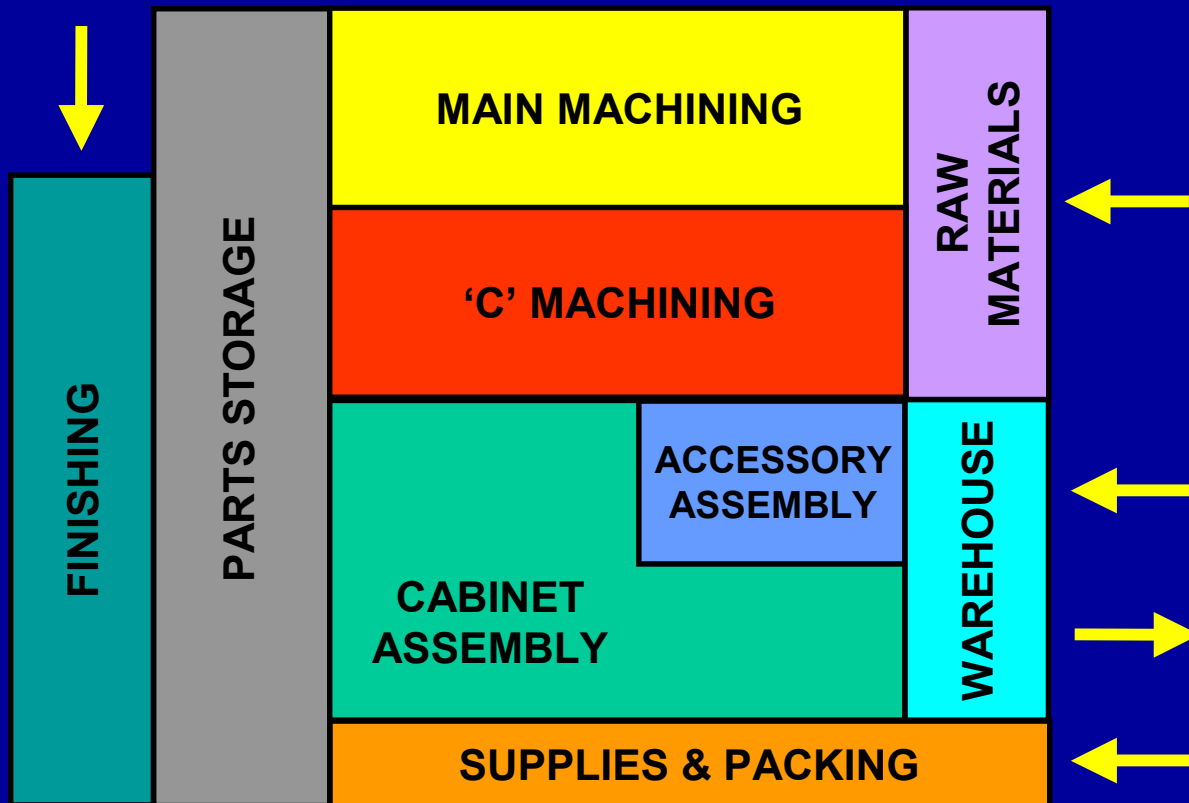
Case Study – More Doors & Accessories

Adding wood doors and accessories was the first line expansion...



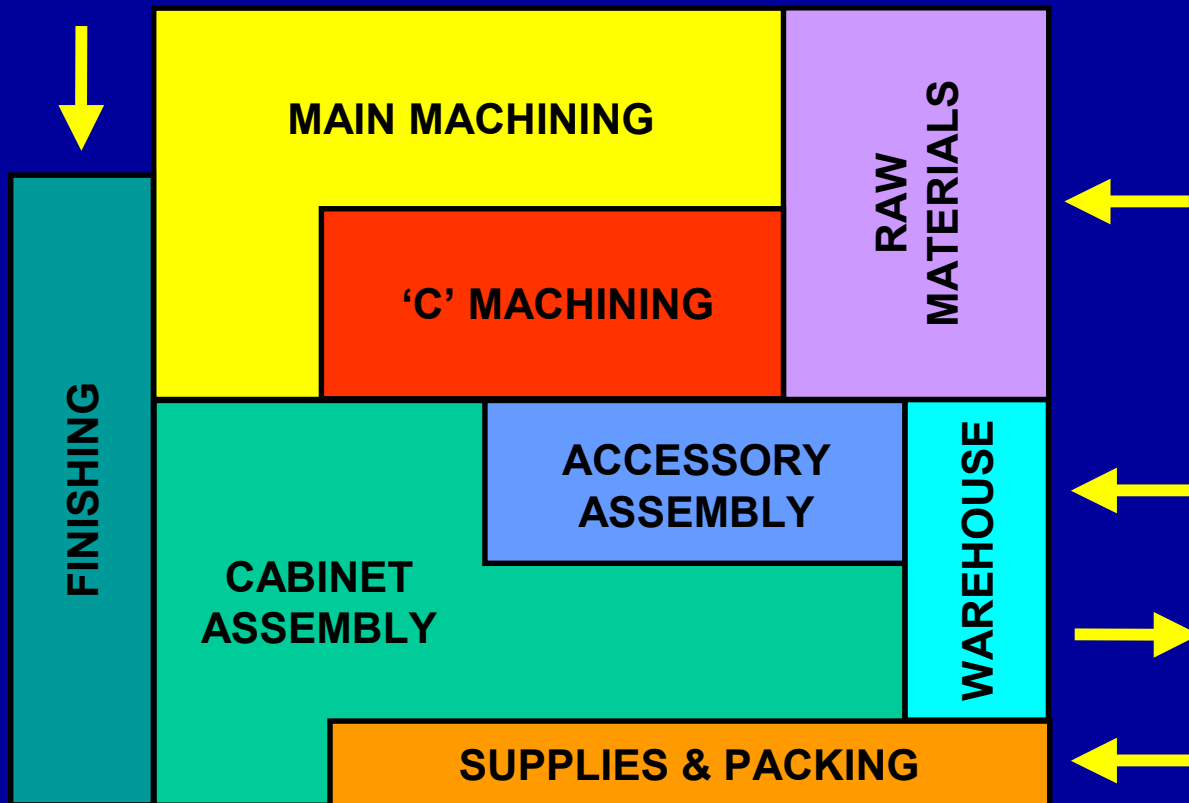
Case Study – More Cabinet Choices

More cabinet configurations/materials necessitated a special machining area for low-volume parts...



Case Study – Mass Customization

The final step will be highly flexible parts manufacture that eliminates large stocks of machined components...



Case Study – The End Results

Once completed this plant will exceed the owner's and the market's expectations...

- ***Longer Product Line***
 - ***Multiple Cabinet Materials***
 - ***Extensive Choice of Design & Style***
- ***Shipment of Individual Kitchens within Two Weeks of Order***
- ***Higher Volume***

By reorganizing their process with minimal addition of space.

Industry Comparison

How is the cabinet industry staying out of *The No Profit Zone*?

- ***Product Rationalization***
 - > **Modularity**
 - > **Component Standardization**
- ***Reliance on Supply Chain Support***
 - > **Reduced Investment & Skills**
 - > **Broad Offering of Doors & Drawers**
- ***Focused Capital Investment***
 - > **Process Technology**
 - > **Information Systems**

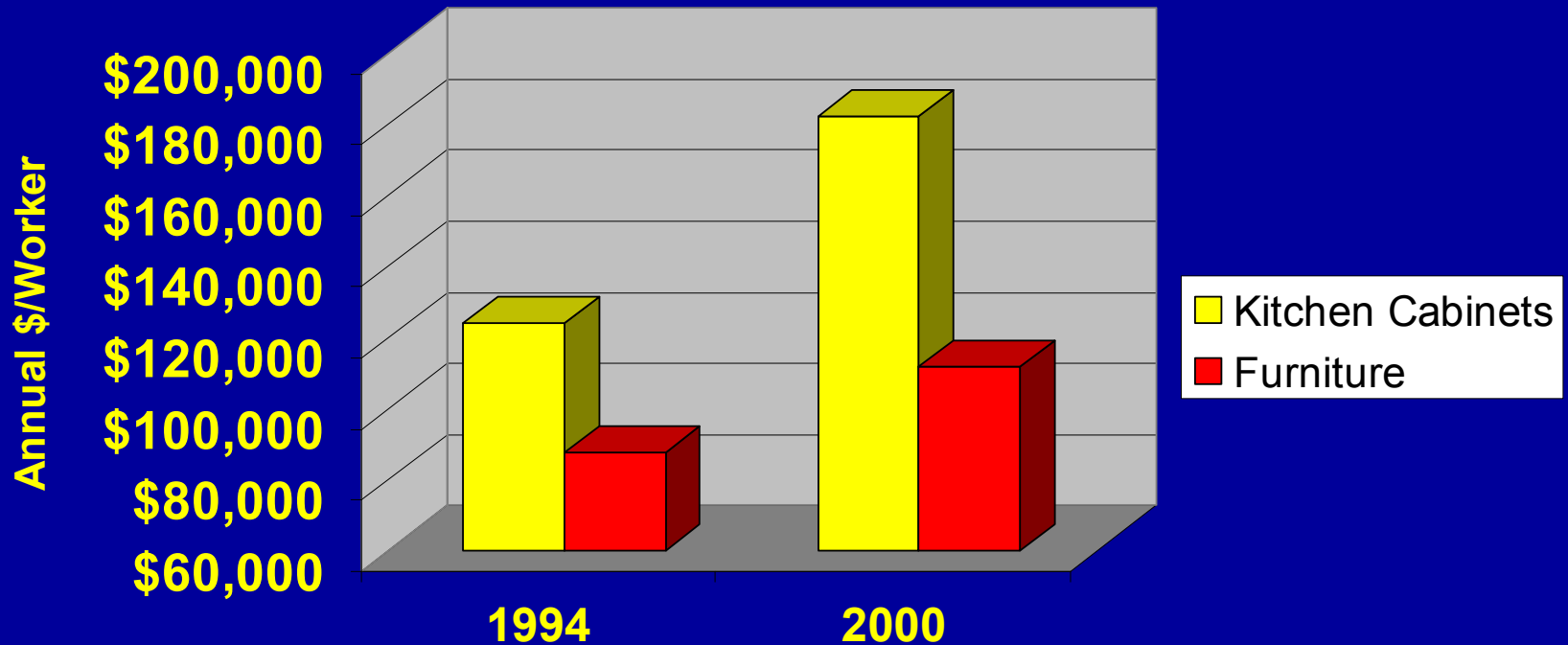
Industry Comparison

plus...

- ***Investment in People***
- ***Bias for Change***
 - > **Distribution Channels**
 - > **Process Models**
 - **Mass Customization**
 - **Speed of Delivery**

Higher Productivity

Change in the cabinet industry has also driven labor productivity higher...



Your Strategic Plan?

It's 2002. The world is changing. You are in *The No Profit Zone*. Time is of the essence...

What Is Your Next Move?

- ***Which Customers Matter Most To You?***
- ***What Are The Priorities of Those Customers?***
- ***How Can You Satisfy Their Priorities?***

Your Future

Do you have a strategic plan that keeps your company out of *The No Profit Zone*?

***If you don't plan your future,
someone else will.***