

The Meaning of GM's Latest Struggle

In the good old days of the 50's and 60's, many believed what was good for General Motors was good for America. GM and its Big Three motor car brethren were a huge part of the U.S. economy, an efficient nationwide machine that used mass production to win a world war and bring rise to a prosperous middle class of Americans. In those halcyon days of yesteryear, big businesses across a wide spectrum of products partnered with powerful unions to set generous wage and benefit packages in exchange for a reliable supply of workers. Economic growth and prosperity, it was thought, could be guaranteed by adherence to Keynesian economics and New Deal legislation. Or so the Big Three, the United Auto Workers, and left-leaning politicians of the time believed.

But that experiment in a Scandinavian-style welfare state proved short lived. The American economy is made up of hustlers who like their independent, pioneering ancestors prefer to get ahead through hard

work rather than handouts. Making more with less, being the low cost producer, is the ideal that all well-managed companies strive for. Today the successes of Wal-Mart, Dell, and others testify to the importance of competitiveness. Survival of the fittest is more than a cliché in the U.S.

Beginning in the late 50's workers across the country turned their backs to unions. Companies in right-to-work states built non-union plants that employed workers at lower wages. And global competition in the form of cheaper, better built Toyotas, Nissans, and Hondas hit American roads and highways. When the Japanese motor car companies built non-union plants in the U.S., the jig was up. Detroit simply could not compete.

The legacy of high wages and benefits proudly negotiated by the Big Three and

the UAW have inexorably consumed our home-grown motor car industry. History contains similar stories in the steel and airline industries.

Sadly those workers who believed the dream of a secure, overpaid job for life are the most injured. Thankfully, the real U.S. economy, that rough and tumble miracle, will inevitably provide for those who are flexible and unafraid of work. The fittest will survive.

Bottom Line – So in the end, what is good for GM is good for America. Competition makes us all better. Like a dinosaur the GM of old will disappear. Let the economic lessons learned from its history never be forgotten.

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“Much of the product in supply chains is not moving.”

Inventories Rising

The supply pipelines in the global economy are bulging. Much of the product in supply chains is not moving. According to a *Logistics Management* survey, 61 percent of respondents reported higher inventories than last year. Inventory turnover in industries like furniture declined 10 percent or more in the last year.

Why, in spite of broad efforts to implement lean, just-in-time operations, has inventory risen? First and foremost, the economy is basically solid. Many companies have added stocks to cope with double-digit sales growth. Increased sales can bring faster inventory turns, but other factors often adversely affect this performance metric:

■ **Delivery Demands** – 44 percent of the survey’s respondents blamed their inventory growth on increased customer requirements for fast delivery. This higher service factor has meant increased safety stocks to offset demand variability.

■ **Longer Product Lines** – One-third of survey respondents cited product proliferation as a cause of higher inventories. No doubt, the impact of more products is critical especially in make-to-stock operations. Every SKU in a product line usually requires inventory. That inventory position is based on a forecast of question-

able accuracy. With the failure of most products to sell, those inventories turn slowly, if at all. The inevitable result of more SKUs is higher inventory.

■ **Longer Supply Chains** – Sourcing products from around the world has obvious consequences for inventories. It’s hard to be global and lean without risking a high stock-out ratio. This fact has meant higher safety stocks.

■ **Reliance on Contract Producers** – The use of independent suppliers has added variability in order fulfillment time to the inventory equation. A supplier who misses shipping dates requires more safety stock.

These realities require a strategic response from management:

■ **Inventory Positioning** – The key is your warehouse network – putting your inventory in the right places. Delivery time and transport costs are more critical than ever. The use of third party logistics specialists and shared warehouses can enable a flexible, low cost solution to this need.

■ **Intensive Planning** – A strong S&OP process is a must to achieve great product flow and minimize inventory. Many companies must add demand planning, sourcing management, and logistics skill sets to their

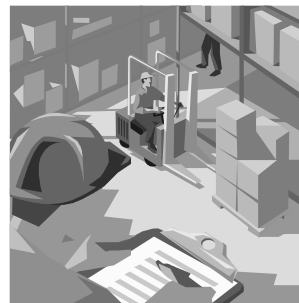
arsenal. Such additions demand a top-down review of the org chart to maximize the return on this people investment.

■ **Information Technology** – Managing inventory is more complex than ever. You simply must industrialize your ability to convert data into useful information quickly and accurately. Such a system also enables stronger communication links throughout the supply chain.

■ **Product Line Management** – More intensive market research and product development is a must. Companies cannot rely on a shotgun approach to their line length and breadth if profit is an objective.

Bottom Line – In gaining control of your inventories, you will derive many other operating improvements. It’s hard work and takes time. Get started NOW.

Survey Source: *Logistics Management*, October 2005



Business Quote...

“Your most unhappy customers are your greatest source of learning.”

Bill Gates

“In today’s global economy S&OP is not a management nicety but rather a prerequisite to high profits.”

S&OP - A Must For Product Flow

Golf Quote...

“They say golf is like life but don’t believe them. It’s more complicated than that.”

Gardner Dickinson



Philosophy Quote...

“Plans are only good intentions unless they immediately degenerate into hard work.”

Peter F. Drucker



Sales and operations planning aka **S&OP** is the integration of customer-facing marketing plans with the supply chain ie, getting the right products to the right customers in the right time. In today’s global economy S&OP is not a management nicety but rather a prerequisite to high profits. Poor or no S&OP will result in long delivery times, excessive inventory, high cost expediting, and other costly episodes.

You have an S&OP problem if...

1. The Sales function accuses Operations of not supplying the products your customers want.
2. Operations managers criticize Sales for not forecasting what the customer orders.
3. Your inventory levels and customer service are coincidence rather than planned results.

4. Late deliveries, long lead times, and customer complaints are the rule rather than the exception.

Leading-edge companies combat this situation with a S&OP process. The emphasis is on the word *process*. S&OP is not just a series of meetings. Rather it is a regular, formal sequence of activities aimed at reconciling demand with supply. In effect, the process forces management to deal with reality in a pre-established, orderly manner.

This effort enables management *across the company* – sales, manufacturing, finance, et al – to build a consensus on what demand looks like and how the company will respond. The process starts with analysis. New demand forecasts are examined and questioned. Past forecasts are compared to actual order flow to determine errors. The past performance of manu-

facturing and suppliers in meeting previous orders is reviewed to determine what went right and wrong. Inventory levels are scrutinized in view of target customer service vs. actual performance. The S&OP team then develops recommendations on a product by product basis to deal with any imbalances. Finally these recommendations are considered by senior management. Action is then taken through a plan that considers time, financial, and location factors.

Bottom Line – When the world extends beyond the four walls of your plant or warehouse, operations and sales must do more than simply coexist. They must communicate, develop consensus on action, and move proactively. Business is like sports. To succeed you must have teamwork. Build a strong S&OP team in your company.

Maintenance Tip



How many times have you started hammering a nail only to have it go flying off instead of penetrating deeper? Anybody who has ever dealt with masonry or concrete nails knows how well the nails go into

orbit. One of the most common culprits behind the launching of this space trash is your hammer’s face – it is too smooth to grip the nail head. Therefore it is time to show the hammer who is boss by roughening

it up. Scratch the hammer’s face on some concrete or masonry block, and presto your hammer will come to grips with those flying nails.

Jerry Mayo, PE

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“...the quest to save that bird devastated an industry.”

That Damned Owl

All previous issues of *The Wood World Monitor* can be found at our web site:

<http://www.raymondnet.com>

Any issue may be downloaded in Adobe PDF format for easy printing.

Its addition to the Endangered Species Act in 1990 elevated the spotted owl to environmental icon. At the same time, the quest to save that bird devastated an industry. The 80 percent reduction in logging on 24 million acres of owl habitat authorized by President Clinton doomed 900 sawmills and 130,000 jobs.

But the resulting demise of the industry is not saving the spotted owl. Its population in Washington is declining by 7 percent a year ten years after the logging ban. Rather than the cutting of

old growth timber, another owl is the real culprit. The barred owl has proven a deadly predator of its cousins. In the words of the *Wall Street Journal*, “the government eviscerated an industry on the basis of unknown science”.

The current law has failed in its original purpose. Less than 1 percent of listed species have recovered. Instead extremist environmentalists have used its powers to put vast tracts of land off limits to logging and other uses.

Reform may be forthcoming. The Senate is considering a new law, passed by the House, that requires more scientific evidence of endangerment and limits the amount of land set aside for protection. Stay tuned or better yet call your Senators.

