

Nirvana for industrial manufacturers

Combining growth, sustainability and industrialization

- How to escape from the back side of the “wheel of differentiation”

Legend

Industrial manufacturing companies are often operating under conditions of product complexity they have inherited from decades of incremental business development, done to serve multiple market segments performance requirements, fashion elements, regulations and certifications - all with the purpose to grow sales.

The effects of this business strategy are a **high number of finished product variants** which has created **vast amounts of bills of materials**, thus pushing **inventories high**, and **administration costs soaring**.

Some of companies have further decided their supply chain design in a way that many finished items, even slow movers, are on stock, to compete on short market lead-time, in some case not even needed – but real market requirement for delivery time is often not known, so they stock up, just in case.

The success of LEAN manufacturing has fuelled the capability of short production cycle time for built-to-order products, while piles of component and raw material stock is behind the PUSH/PULL point in the plant, waiting for the consumption in make-to-sales-orders to be released in the ERP system, or to be obsolete!

Consequences

The companies who work in the described “wheel of differentiation” are left with high values in slow moving materials, which they write off to zero at year end. The reason is that the forecast is never accurate, and it will never fit 100% - further when forecast changes, the break down to demand on component level is complicated and time consuming, thus the “wheel of differentiation” is a self-generating machine of slow-moving items, just like dust flakes continue to fall on the floor in homes.

Further, even though the companies aim to “have everything on the shelf”, they actually miss some sales

orders, because the strategy to “make what you want” cannot, after all, always be fulfilled.

Why?

Because the variance creation takes time, and sourcing or making of few differentiator components takes time, so the order is lost when lead time for final confirmed offer ends at 12 weeks, and not as requested 4 weeks.

Finally, the sustainability trend and economic side of that movement has now hit these types of companies.

On the “soft side” they miss CO2 scope 2 and 3 potential because they literally throw away some CO2 when they depreciate slow moving items.

The hard fact, though, is that the sourcing cost of virgin materials like steel and alu increasingly contains tariffs, as regulators impose punishment of use of virgin materials, so COGS is increasing because tariffs are part of standard cost.

Buyers reading their suppliers CSRD mandatory report will read about the CO2 emission and because buyers also must reduce their incoming CO2 (scope 3 emission) from sourcing, they will carve out suppliers with non-competitive CO2 emissions in the products they sell.

What can be done?

The pattern described is basically not new. When internal analysis teams or consulting projects have stated the situation and called it a “stuck situation”, then the classic recipe is proposed:

The recipe implies standardizing our component base and production system, so we can use less materials and suppliers, less manufacturing equipment, assembly lines and testing gears to deliver the same volume.

The big industrials have done that, in automotive, electronics/EMS, and a few other industries.

The rest are also working on it, often partly and often when the product life cycle is changing.

The problem is it takes time, 5-10 years, for a medium industrial player with 0,3-1b EUR in sales. 10-15 major product lines, >5000 finished variants and >100k components/materials in the ERP system.

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There is another way!

A not so bothersome and costly way, and it will gradually lead to same result, end of day – listen to the CEO in the industrial manufacturer:

"Why don't we sell what we have already, in our vast material stream."

"Why don't we get an overview of the synergies inside all our designs we have developed and our offerings to the market."

"What if we started to think that our finished product can be provided in alternative ways, instead of just slavishly following the existing bill of material – or even create a new one again - remember, we must still fulfill the attributes we sell on: performance, market conditions and regulations/certificates."

*"When I read the consultant's report, I was astonished to learn about all the double work we do, and how widespread we are when selecting designs, materials, components, suppliers etc.
WHO has decided that?"*

Who will join the CEO that stands on the chair in the canteen and announces that provocation?

We will...

Develop and deliver the solution

scat3 and its working team called **IVC** (short for **Inventory Vacuum Cleaner**) has developed a framework concept which is both a short term "repair kit" which can improve the metrics for sales, inventory turns, and CO2 emission, and lead to the classic industrialization paradigm of modularization - AND leverage the company's sustainability efforts - at the same time.

"Use less to produce and sell the same!"

The IVC consultants listen and analyze, then design the right IVC application for client targets, calculate the business case, implement and control the effects. IVC team use an advanced software application to run the IVC optimization processes.

The business application will depend on the situation in the company and consist of various options like daily order to manufacture/deliver process, clean up/build of slow moving, return/remake/disassemble, or product lifecycle shifts -with vacuum cleaning materials in supply chain including inventories at partners and suppliers.

Let us talk and find out how we can help you to vacuum clean your inventory?

scat3

scat3 can deliver the analysis, consulting, preparations and implementation you need.

scat3 solutions are always developed based on a supply chain strategy and process understanding at the customer, and the use of customizable digital tools, - and the solutions are developed and implemented through a dialogue.

Contact **scat3** for more information: www.scat3.com