

Design house partnerships at Concept Design Services¹

'I can't believe how much we have changed in a relatively short time. From being an inward-looking manufacturer, we became a customer-focused "design and make" operation. Now we are an integrated service provider. Most of our new business comes from the partnerships we have formed with design houses. In effect, we design products jointly with specialist design houses that have a well-known brand, and offer them a complete service of manufacturing and distribution. In many ways we are now a "business-to-business" company rather than a "business-to-consumer" company.' (Jim Thompson, CEO, Concept Design Services (CDS))

CDS had become one of Europe's most profitable home-ware businesses. Originally founded in the 1960s, the company had moved from making industrial mouldings, mainly in the Aerospace sector, and some cheap 'homeware' items such as buckets and dustpans, sold under the 'Focus' brand name, to making very high quality (expensive) stylish home-wares with a high 'design value'.

The move into 'Concept' products

The move into higher margin homeware had been terminated by Linda Fleet, CDS's Marketing Director, who had previously worked for a large retail chain of paint and wallpaper retailers. *'Experience in the decorative products industry had taught me the importance of fashion and product development, even in mundane products such as paint. Premium-priced colours and new textures would become popular for one or two years, supported by appropriate promotion and features in lifestyle magazines. The manufacturers and retailers who created and supported these products were dramatically more profitable than those who simply provided standard ranges. Instinctively, I felt that this must also apply to homeware. We decided to develop a whole coordinated range of such items, and to open up a new distribution network for them to serve up-market stores, kitchen equipment and specialty retailers. Within a year of*

launching our first new range of kitchen homeware under the 'Concept' brand name, we had over 3,000 retail outlets signed up, provided with point-of-sale display facilities. Press coverage generated an enormous interest which was reinforced by the product placement on several TV cookery and 'life style' programmes. We soon developed an entirely new market and within two years 'concept' products were providing over 75 per cent of our revenue and 90 per cent of our profits. The price realization of Concept products is many times higher than for the Focus range. To keep ahead we launched new ranges at regular intervals.'

The move to the design house partnerships

'Over the last four years, we have been designing, manufacturing and distributing products for some of the more prestigious design houses. This sort of business is likely to grow, especially in Europe where the design houses appreciate our ability to offer a full service. We can design products in conjunction with their own design staff and offer them a level of manufacturing expertise they can't get elsewhere. More significantly, we can offer a distribution service which is tailored to their needs. From the customer's point of view the distribution arrangements appear to belong to the

¹ Source: Nigel Slack et al., (2016) Operations Management 8th edition. Chapter 1. This is an edited version of the original case.

design house itself. In fact they are based exclusively on our own call centre, warehouse and distribution resources.'

The most successful collaboration was with Villessi, the Italian designers. Generally it was CDS's design expertise which was attractive to 'design house' partners. Not only did CDS employ professionally respected designers, they had also acquired a reputation for being able to translate difficult technical designs into manufacturable and saleable products. Design house partnerships usually involved relatively long lead times but produced unique products with very high margins, nearly always carrying the design house's brand. *'This type of relationship plays to our strengths. Our design expertise gains us entry to the partnership but we are soon valued equally for our marketing, distribution and manufacturing competence.'* (Linda Fleet, Marketing Director)

Manufacturing operations

All manufacturing was carried out in a facility located 20 km from head office. Its moulding area housed large injection-moulding machines, most with robotic material handling capabilities. Products and components passed to the packing hall, where they were assembled and inspected. The newer, more complex, products often had to move from moulding to assembly and then back again for further moulding. All products followed the same broad process route but with more products needing several progressive moulding and assembly stages, there was an increase in 'process flow recycling' which was adding complexity. One idea was to devote a separate cell to the newer and more complex products until they had 'bedded in'. This cell could also be used for testing new moulds. However, it would need investment in extra capacity that would not always be fully utilized. After manufacture, products were packed and stored in the adjacent distribution centre.

'When we moved into making the higher-margin 'Concept' products, we disposed of most of our older, small injection-moulding machines. Having all larger machines allowed us to use large multi-cavity moulds. This increased productivity by allowing us to produce several products, or components, each machine cycle. It also allowed us to use high-quality and complex moulds which, although cumbersome and more difficult to change over, gave a very high quality product. For example, with the same labour we could make three items per minute on the old machines, and 18 items per minute on the modern ones using multi moulds. That's a 600 per cent increase in productivity. We also achieved high dimensional accuracy, excellent surface finish, and extreme consistency of

colour. We could do this because of our expertise derived from years making aerospace products. Also, by standardizing on single large machines, any mould could fit any machine. This was an ideal situation from a planning perspective, as we were often asked to make small runs of Concept products at short notice.' (Grant Williams, CDS Operations Manager)

Increasing volume and a desire to reduce cost had resulted in CDS subcontracting much of its Focus products to other (usually smaller) moulding companies. *'We would never do it with any complex or design house partner products, but it should allow us to reduce the cost of making basic products while releasing capacity for higher margin ones. However, there have been quite a few 'teething problems'. Co-ordinating the production schedules is currently a problem, as is agreeing quality standards. To some extent it's our own fault. We didn't realize that subcontracting was a skill in its own right. And although we have got over some of the problems, we still do not have a satisfactory relationship with all of our subcontractors.'* (Grant Williams, CDS Operations Manager)

Planning and distribution services

The distribution services department of the company was regarded as being at the heart of the company's customer service drive. Its purpose was to integrate the efforts of design, manufacturing and sales by planning the flow of products from production, through the distribution centre, to the

customer. Sandra White, the Planning Manager, reported to Linda Fleet and was responsible for the scheduling of all manufacturing and distribution, and for maintaining inventory levels for all the warehoused items. *'We try to stick to a preferred production sequence for each machine and mould so as to minimize set-up times by starting on a light colour, and progressing through a sequence to the darkest. We can change colours in 15 minutes, but because our moulds are large and technically complex, mould changes can take up to three hours. Good scheduling is important to maintain high plant utilization. With a higher variety of complex products, batch sizes have reduced and it has brought down average utilization. Often we can't stick to schedules. Short-term changes are inevitable in a fashion market. Certainly better forecasts would help . . . but even our own promotions are sometimes organized at such short notice that we often get caught with stockouts. New products in particular are difficult to forecast, especially when they are 'fashion' items and/or seasonal. Also, I have to schedule production time for new product mould trials; we normally allow 24 hours for the testing of each new mould received, and this has to be done on production machines. Even if we have urgent orders, the needs of the designers always have priority.'* (Sandra White)

Customer orders for Concept and design house partnership products were taken by the company's sales call centre located next to the warehouse. The individual orders would then be dispatched using the company's own fleet of medium and small distribution vehicles for UK orders, but using carriers for the Continental European market. A standard delivery timetable was used and an 'express delivery' service was offered for those customers prepared to pay a small delivery premium. However, a recent study had shown that almost 40 per cent of express deliveries were initiated by the company rather than customers. Typically this would be to fulfil deliveries of orders containing products out of stock at the time of ordering. The express delivery service was not required for Focus products because almost all deliveries were to five large customers. The size of each order was usually very large, with deliveries to customers' own distribution depots. However, although the organization of Focus delivery was relatively straightforward, the consequences of failure were large. Missing a delivery meant upsetting a large customer.

Challenges for CDS

Although the company was financially successful and very well regarded in the homeware industry, there were a number of issues and challenges that it knew it would have to address. The first was the role of the design department and its influence over new product development.

New product development had become particularly important to CDS, especially since they had formed alliances with design houses. This had led to substantial growth in both the size and the influence of the design department, which reported to Linda Fleet. *'Building up and retaining design expertise will be the key to our future. Most of our growth is going to come from the business which will be brought in through the creativity and flair of our designers. Those who can combine creativity with an understanding of our partners' business and design needs can now bring in substantial contracts. The existing business is important of course, but growth will come directly from these people's capabilities.'* (Linda Fleet)

But not everyone was so sanguine about the rise of the design department. *'It is undeniable that relationships between the designers and other parts of the company have been under strain recently. I suppose it is, to some extent, inevitable. After all, they really do need the freedom to design as they wish. I can understand it when they get frustrated at some of the constraints which we have to work under in the manufacturing or distribution parts of the business. They also should be able to expect a professional level of service from us. Yet the truth is that they make most of the problems themselves. They sometimes don't seem to understand the consequences or implications of their design decisions or the promises they make to the design houses. More seriously they don't really understand that we could actually help them do their job better if they co-operated a bit more. In fact, I now see some of our design house partners' designers more than I do our own designers. The Villessi*

designers are always in my factory and we have developed some really good relationships.’ (Grant Williams)

The second major issue concerned sales forecasting, and again there were two different views. Grant Williams was convinced that forecasts should be improved. *‘Every Friday morning we devise a schedule of production and distribution for the following week. Yet, usually before Tuesday morning, it has had to be significantly changed because of unexpected orders coming in from our customers’ weekend sales. This causes tremendous disruption to both manufacturing and distribution operations. If sales could be forecast more accurately*

we would achieve far high utilization, better customer service, and I believe, significant cost savings.’

However, Linda Fleet saw things differently. *‘Look, I do understand Grant’s frustration, but after all, this is a fashion business. By definition it is impossible to forecast accurately. In terms of month-by-month sales volumes we are in fact pretty accurate, but trying to make a forecast for every week and every product is almost impossible to do accurately. Sorry, that’s just the nature of the business we’re in. In fact, although Grant complains about our lack of forecast accuracy, he always does a great job in responding to unexpected customer demand.’*

Jim Thompson, the Managing Director, summed up his view of the current situation. *‘Particularly significant has been our alliances with the Italian and German design houses. In effect we are positioning ourselves as a complete service partner to the designers. We have a world-class design capability together with manufacturing, order processing, order-taking and distribution services. These abilities allow us to develop genuinely equal partnerships which integrate us into the whole industry’s activities.’*

Linda Fleet also saw an increasing role for collaborative arrangements. *‘It may be that we are seeing a fundamental change in how we do business within our industry. We have always seen ourselves as primarily a company that satisfies consumer desires through the medium of providing good service to retailers. The new partnership arrangements put us more into the “business-to-business” sector. I don’t have any problem with this in principle, but I’m a little anxious as to how much it gets us into areas of business beyond our core expertise.’*

The final issue which was being debated within the company was longer term, and particularly important. *‘The two big changes we have made in this company have both happened because we exploited a strength we already had within the company. Moving into Concept products was only possible because we brought our high-tech precision expertise that we had developed in the aerospace sector into the homeware sector where none of our new competitors could match our manufacturing excellence. Then, when we moved into design house partnerships we did so because we had a set of designers who could command respect from the world-class design houses with whom we formed partnerships. So what is the next move for us? Do we expand globally? We are strong in Europe but nowhere else in the world. Do we extend our design scope into other markets, such as furniture? If so, that would take us into areas where we have no manufacturing expertise. We are great at plastic injection moulding, but if we tried any other manufacturing processes, we would be no better than, and probably worse than, other firms with more experience. So what’s the future for us?’ (Jim Thompson, CEO CDS)*

QUESTIONS to be discussed

1 Why is operations management important in CDS?

2 Draw a four Vs profile for the company’s products and services.

3 What would you recommend to the company if they asked you to advise them in improving their operations?