Editor's Message

Examining the Supplier-Buyer Relationship

by Joe Hikel

The switch to lean manufacturing required a hard look at lumber processing

In my last article I described a little about my business school experience from 2001-2003. In operations class we learned about lean manufacturing principles. At that time the benchmark for success in implementing these principles was Toyota. I decided to implement lean manufacturing into the processes of our organization as we designed the facility we moved into in January 2005. The principles that I am referring to are developing a pull strategy where the customer drives the process through the accurate need for delivery, and we make the components with as little time between completion of manufacture and delivery as possible. Cycle time is the driver of this concept. The shorter it takes to complete the process of manufacture the longer you can wait to decide what you are going to make next. We decided to build our facility around the process in order to shorten the cycle time.

At Toyota they involve the supply chain in the lean manufacturing process as well. They require their vendors to provide their products in the exact order the cars are being produced on the line and the products arrive at the Toyota plants within a half hour window of when the particular part is to be installed on the car. This enhances production efficiency as Toyota workers need not search for outsourced parts inventory in order to build their cars and helps cash flow as well because they don't need to pay for parts that go into inventory—only ones that get used in the process.

My first thought with respect to implementing this concept within the component manufacturing business was that it would drastically reduce the inventory throughout our plant. As it happened, our switch to just in time was ideal because it corresponded to when our new shop was being planned out and set up. We were successful in almost eliminating work in process inventory by cutting just in time and managing cut material requirement variation by having excess cutting capacity.

My next thought was try to get the lumber manufacturers to make the lumber the way I needed it. When I mentioned this to our lumber buyer, my stepmom Linda, she looked at me like I had two heads.

In order to understand why they couldn't make lumber just in time for my needs I decided to attend a lumber mill tour that was offered at the BCMC that year. I watched in amazement at the operator on the log deck of a southern pine mill owned by Culp Lumber near Charlotte, NC. A log rolled onto the deck and within five seconds a computer offered a solution to the operator on an end view of the log that told him the best yield for that log based on the price in the marketplace for all the different types of boards that could be cut in real time. The operator then accepted the computer's solution and the log rolled away destined to be cut into the boards that the computer described. The lesson for me here was that they cut the wood to maximize yield of the tree and not the way any customer might need it.

In order to try to match up the demand of our customers with the way they make the wood, the only option was to develop a buffer through inventory. By storing extra raw material, we can pull the sizes and grades we need for a job when we know the demand. The inventory buffer also helps us address the volatility in price on the buy side of a component manufacturing operation which doesn't match up with the price coverage our customers want. They want consistent pricing over a period of

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at a glance

- Toyota is known for using lean manufacturing in its operations, and many manufacturers (like Shelter Systems) in our industry use them as well.
- Since acquiring lumber just in time isn't possible, Shelter Systems adjusted its lean principles and decided to stockpile lumber to manage price volatility.
- The uncertainty created by lumber price volatility is a huge risk for all component manufacturers.
- Through SBCA, manufacturers could pool their purchasing power and get lumber producers to listen to concerns about this volatility and other issues.

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time—tough to manage when the price of lumber changes every day.

After that lesson we decided to dedicate 30 percent of our space to raw lumber inventory to try to manage the volatility gap. I describe that part of our operation as almost a separate business, where we speculate on lumber and focus on buying according to current market conditions and contracts. From the saws on we practice lean manufacturing.

I believe our suppliers need to undergo a paradigm shift. The uncertainty created by lumber price volatility is a huge risk for all component manufacturers unless you are able to change the selling price of the components to match the price you paid for the lumber. In most cases that isn't possible and some sort of speculation strategy is implemented. Many of us are still smarting from the whipping we all took from the spring and summer run-up this year on top of distress created by overall economic conditions. I believe there is a solution and I know that some vendors are working to try to protect us from undue volatility through hedge tools and indexing programs.

I also firmly believe we have to come together as an association and leverage our purchasing power in order to get the lumber producers to listen to our concerns. It does them no good to see their customers go out of business because of the wrong speculative lumber buying move. There is already a model in place that has taken the majority of volatility out of the process. It's the I-joist model. The majority of the raw material in I-joists is OSB, which has huge volatility, but the major manufacturers of I-joists have figured out a way to protect their distributors and end users from major pricing swings.

One of my goals this year is to engage the lumber industry to address this issue and others as the supplier-buyer partners we should be. I will need your support in order to be successful in this endeavor.

There are a few core supply side business issues that we, as an association, are formulating strategies to engage our supply chain in. Our goal is to evaluate these issues with them and implement proactive options. It is very important that we come together to serve our customers with predictable components; using renewable resources that offer optimally value engineered solutions to structural problems. We'll get into more details as 2011 unfolds.

I wish each and every one of you happiness and prosperity. Please feel free to write or call me if you have any comments or ideas about this article. **SBC**

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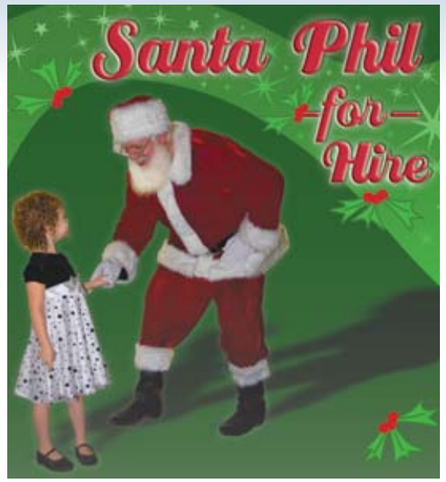


Santa for Hire

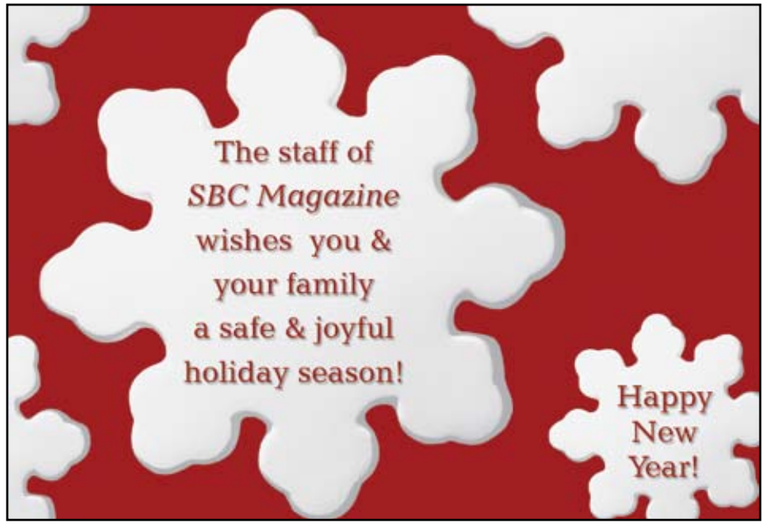
Phil Close, senior truss technician at Andrews Truss in Andrews, North Carolina has a unique second career. Pictured here with his granddaughter, Phil is in his second year as Santa Claus. During the 2009 holiday season, Phil donned the red suit for a local Head Start program. "It was so fun that people encouraged me to talk to other Santas and try to start a little side business. Evidently I've grown into the character," he said. With his agent wife's help, he started marketing his business. Phil even joined the Fraternal Order of Real Bearded Santas, an organization through which he gets liability insurance.

One of his major gigs this season is for the Polar Express train running through the Smoky Mountains from Bryson City to Whittier and back. The old-time travel cars are decked with Christmas décor and music while children and their parents are treated to refreshments and a visit from Santa. "I walk through about five cars handing each child a bell. On my way back through they can get their pictures taken with me." Some kids ask him to sign their copies of the book, *The Polar Express*. "I sign it, 'With Love, Mr. C.' It's a lot of fun."

As far as Santas go, Phil is the real deal. Starting in November, he begins his transformation. A local salon dyes his salt-and-pepper hair white. (His beard is naturally white.). He also starts to wear a lot of red to get into the spirit. At 6'3", his suit had to be custom made by his wife.

This year Phil has a full schedule in addition to the Polar Express job: A gig at a local movie theater and video arcade that hosts a power company's Christmas party as well as an angel tree event. He will be at a local Santa's Work Shop for several Head Start appearances and an event for the children of guests at a women's homeless shelter.

Phil says there are several events he does for free. "I've been very blessed, so this is a good way to give back to my community," he said. **SBC**



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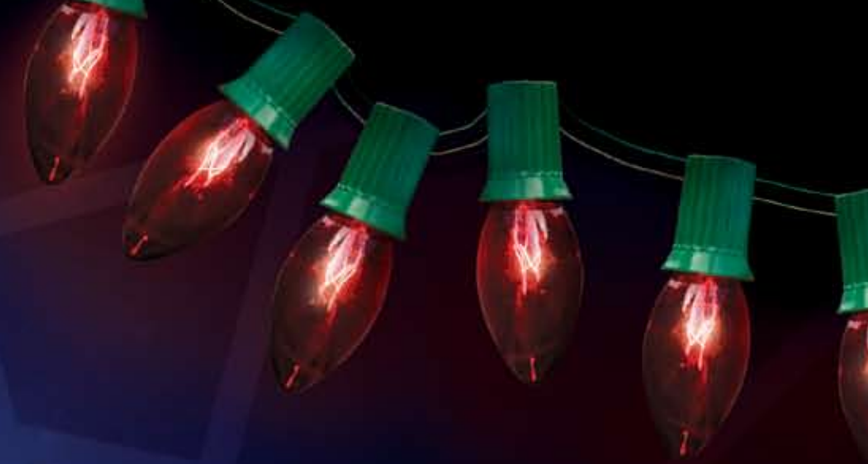

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