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Manufacturer, Master Distributor, and Importer of Non-Threaded Fasteners.



Dedicated to the discussion and development of lean consumption.

## The Future of the Fastener Industry?

An article in the March 2005 edition of the *Harvard Business Review*, written by James P. Womack and Daniel T. Jones, provides new insight in lean thinking, and in particular, the emerging field of Lean Consumption. Lean Consumption is the process of minimizing a customer's time and effort in delivering parts *when* they want, and *where* they want it, and as it applies to our industry, *how* they want it.

As lean production techniques have dramatically altered the manufacturing landscape, so to, it is predicted, will lean consumption efforts alter the distribution of parts. We are seeing such efforts already. Most distributors are organized to provide integrated supply. Investments have been made in software, technology, and in packaging such that parts and assemblies are delivered just in time to the production line, in a format and method conducive to the user's enterprise.

Stated another way, distributors in our industry are using lean methods in how they *sell* parts, but perhaps not in how they *buy* parts. Typical buy strategies today emphasize price, cash discounts, freight incentives, and rebates. While these measures emphasize the *invoiced* cost of parts, they are not reflective of the *transaction costs* of parts.

Womack and Jones suggest that there are six simple principles<sup>1</sup> to lean consumption that correspond closely with those in lean manufacturing. They are:

1. Solve the customer's problem completely, by insuring that all goods and services work, and work together.
2. Don't waste the customer's time.
3. Provide precisely *what* the customer wants.
4. Provide what is wanted exactly *where* it is wanted.
5. Provide what is wanted, where it's wanted, exactly *when* it is wanted.
6. Continually aggregate solutions to reduce the customer's time and hassle.

Many distributors in today's market do not trust their suppliers, because in many cases, their suppliers are their own competitors. Because suppliers have not adopted lean consumption principles for their customers, distributors spend vast amounts of time buying "lists" of parts. Such buyers must conform to a multiplicity of ordering rules, including making order and line minimums. They must consider their own corporate directives (rebates and incentives) and in some cases buy from the wrong source because the "Preferred Supplier" is out of stock, has a longer order processing time, or requires the purchase of a "box" for which the distributor may only need a portion.

These buyers dispatch multiple purchase orders to a wide array of vendors, which adds freight costs and receiving costs as multiple PO's arrive from multiple sources. These buyers then turn over late notices to an expeditor who must wrangle with these suppliers, thus wasting more time and effort. Once the parts come in, they must be inspected, repacked, and shipped out. How many distributors have cardboard compactors at their receiving lines? Is this lean consumption?

Lean suppliers could offer their customers a lean consumption model by doing the following:

1. Provide ease of access to the supplier's information database through electronic means. Answer the phone by the third ring. Avoid voice mail. Provide distributors competitive pricing that is pre-loaded, such that quoting is eliminated.
2. Ship stock same-day or next-day. If made-to-order, ship on time.
3. Ship only what the distributor wants. Do not make distributors buy in something different than a sell quantity.
4. Drop ship to the user in user-defined, user-friendly, distributor-approved packaging.
5. Ship on the date appointed.
6. Continually aggregate solutions to reduce the distributor's time and hassle.

Lean distributors could propose to their suppliers a lean consumption model by sharing information and recognizing that suppliers who offer lean consumption models may not have the lowest price, but the lowest cost. Lean distributors should plan in advance, and better yet, stimulate the user of the parts to share information and be accountable for bad planning and inaccurate forecasts.

We make no secret at G.L. Huyett that our future is lean consumption. We predict that in the future there will be a merger of the power transmission, industrial fastener, and industrial distribution markets. We are investing in software, technology, packaging, and manufacturing assets to insure that in our world, we offer the best lean consumption model. We know who our customer is-- you the distributor.

In our world, we see a future where manufacturers must decide to support distribution or sell direct. This is a difficult decision when your own distributors are taking your parts to China. At the same time, one must question how China can provide lean models here. If manufacturers and distributors use lean consumption models collaboratively, a box of bolts delivered just-in-time from factory to factory, at the appointed time, in the appointed way, will provide a lowered delivered cost to the user. That is because the production costs of the component are not greater than the costs of shipping from Shanghai to Chicago to Moline to Peoria and to the line.

We'll know we are there when the cardboard balers are gone.

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<sup>1</sup> James P. Womack and Daniel T. Jones. "Lean Consumption." *Harvard Business Review*, Volume 83, Number 3, March 2005.