MEUMET CASE

July 2004

Meumet was created in 1975 and is a family-owned company manufacturing metallic office furniture. Today, it has a turnover of € 120 millions a year. The company has five major product ranges:

- Desks (average price of € 350, six base items)
- Rolling containers (average price of € 120, three base items)
- Cupboards (average price of € 250, four base items)
- Coat stands (average price of € 150, five base items)
- Dividing walls revocable at pleasure (€ 20 per m², one base items)

The base items do not include differences between products due to (i) the painting (five different colours offered), and (ii) accessories (with or without casters, and eleven different accessory ranges). The commercial catalogue therefore offers 164 items (SKUs). Approximately 80% of all products sold are either of white or grey colours. Beside those standard products, no orders requiring plans and quotations are accepted. A network of thirty commercial agencies has been developed throughout France. These agencies are provided with finished goods stocks and a small workshop for repairs and assemblies as a breakdown service for customers. Each of these offices comprises one managing director, and on average three
commercial representatives, three driver-fitters, and one repairer, who also often acts as driver-fitter.

Table 1. Sales Statistics 1985-2003

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<tbody>
<tr>
<td>Turnover (consolidated, € millions)</td>
<td>30</td>
<td>80</td>
<td>94</td>
<td>95</td>
<td>105</td>
<td>120</td>
</tr>
<tr>
<td>Number of agencies</td>
<td>15</td>
<td>18</td>
<td>23</td>
<td>23</td>
<td>25</td>
<td>30</td>
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<tr>
<td>Value of average stock / agency (€ thousands)</td>
<td>-</td>
<td>60</td>
<td>170</td>
<td>235</td>
<td>280</td>
<td>350</td>
</tr>
<tr>
<td>Number of orders</td>
<td>18 000</td>
<td>21 000</td>
<td>27 000</td>
<td>25 000</td>
<td>23 000</td>
<td>24 000</td>
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The company has been rapidly growing during the last fifteen years. The size of the agencies network has thus been doubled during this period (see Table 1).

The implemented organisation requires the agencies to transmit the orders from the customers to the order service in the factory. These are then launched in production. In theory, the delivery cycle of the products is the following:

- information processing (transmission and treatment of orders).......................................................... 3 working days
- production........................................................................... 7 working days
- shipment to the branch offices...................................... 4 working days
- delivery to the customer................................................ 3 working days

As of today, the factory is overloaded with orders from the agencies. The orders are received by the headquarters either directly from the customers, or through the agencies, which transmit a complete listing to the plant twice a week. Following their administrative registration, they are transmitted to the technical department, which then plans their production. The drawing up of the 1988 inventory revealed that number of agencies was holding stocks of unsold products due to cancellation of orders.

On the production site, the company has at its disposal a central warehouse where finished goods are stored, dismantled in sub-components, awaiting their delivery to the agencies or the customers.

The factory itself is divided into two independent workshops:

- The first workshop manufactures the desks and the rolling containers. It has its own assembly chart.
- The second one is specialised in all other kinds of items.
In both workshops, the main steps of the production line are the same:

- **Factoring**: Manufacturing of individual parts in view of the manufacturing of the sub-components (used material: purchased sheet-steel);

- **Assembly**: Manufacturing of sub-components using both the individual parts manufactured during the factoring process, and parts purchased from outside.

At this stage of the manufacturing process, approximately 60% of the components used are common to all products manufactured in the two workshops.

The stages below then follow:

- **Painting**: according to the customers' orders;
- **Finishing**: according to the customers' expressed needs;
- **Packing**: the sub-components are packed for the storage in the warehouse. As a matter of fact, the office furniture is delivered dismantled and is then assembled on the spot.

All productions are made to order. The customer is thus identified from one end of the production line to the other, even during the first two stages (factoring and assembly). The consolidation of the orders is therefore difficult, and the production series are very short.

The products leaving the factory were packed for the storage in the central warehouse. Today, part of the production is conveyed directly from the manufacturing line to the agencies or the customers. The percentage of returns of furniture due to defects (due to both improper manufacturing and distribution) has grown from 1% to 4% between 2000 and 2003. Meumet's administrative inspector recently noticed that for a growing proportion of orders no deposit was paid. The agencies are justifying this practice by the argument of commercial flexibility. Invoicing is made by the agencies for all customers.

Meumet's board of directors comprising the company's three managing directors (the general manager, the sales manager and the technical manager) became aware in the beginning of 2004 of (i) the extension of the delivery times (close to three months), and (ii) a strong decrease of sales during the first half of the year (-17.5%). They would like to launch a study in order (i) to manage the inventory and (ii) to deliver the orders with a better quality of service.

You are in charge of making an assessment of the current situation and proposing different options which would enable a sustainable improvement of the latter.