Declining Sales Means Manufacture Elsewhere?

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The first involvement arose because sales were in serious decline. From a position of considerable strength 8 years before, with half the market and twice the sales of the nearest competitor, the company was now performing only marginally better than its rivals. Of course, the total market had declined as well, but within that market the proportion of the company's sales had suffered too. The contact with the company arose because there had been yet another change of management and many remedies had been tried before.

It was time to review those ideas again, to challenge assumptions and prejudices and to initiate and investigate other avenues. As work progressed, there were some major changes in thinking and objectives. Some well established practices were seen to be no longer necessary or useful and were abandoned, whilst others remained until it became possible to supersede them. But perhaps the greatest gain from the study came from the new and fresh attitudes that management were taking, coupled with their willingness to consider a broader range of possibilities than had been considered before. They were able to lay some worn out ideas to rest, whilst developing others which brought forth worthwhile potential dividends.

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CHOOSING THE ADVISOR

The Managing Director and his fellow directors had invited three consultancy firms to propose ways in which the distribution of the company's products could be improved. Each had been given the same briefing, and they had each returned with lengthy descriptions of how they would set about the task. They had centred upon the perceived need to reduce lead-times from manufacture to retail outlet because they had been told that a faster throughput would increase revenue. The proposed fees for the work were £10,000, £12,000 and £18,000: they would take 5, 8 and 12 weeks respectively. Each consultancy would identify all possible alternatives, cost each one and recommend which should be adopted by the company.

The three quotations caused the M.D. a dilemma. It was difficult to choose between them, particularly between the least-cost ones and the high-cost one. Broadly speaking, each professed to provide him with the same results: proposals for an improved manner of operation, with veiled promises of a 2–3 week saving in the cycle, but expressed in terms of "if there were to emerge a 2–3 week saving, then the savings could be of the order of...". These comments were precisely those which he and his fellow directors had made to the three consultancy firms in their original discussions.

Rather than choose by a well tried (but not necessarily effective) method of taking the middle quote, the M.D. decided to seek yet further advice. The three quotations were sent off to a respected advisor, and he was asked to recommend which one should be accepted.

It was very hard to choose. The quotations were very similar in content, style and format. Each was based upon facts provided by the company, which had made a good job of describing its own operations and what it felt its problems to be. Each consultancy firm said that it would conduct in-depth interviews with company personnel, the customers and the contractors who were responsible for distribution. They would report back their findings at various stages; they would identify areas where costs could be reduced; they would determine the most efficient means of operation. The quotations differed only in the number of people (consultants) they would employ to carry out the tasks, the number of interviews they would conduct, and of course, the cost and duration. But which one would do the job best, on what criteria might the quotations be judged, and would the organization benefit in the long run? No mention was made in the quotations about taking care over the possible harmful effects of change. It was merely assumed that all could be made better.

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It was clear to the advisor that despite the clear-cut and therefore apparently welcome objective of reducing lead-time, there was no real understanding of why this would be a worthwhile achievement. The result of cutting lead-time in terms of increased sales had been stated but not substantiated. Possible repercussions were not to be explored, certainly not at the prices quoted. The company was to be given what it had asked for, without enquiring whether that was what it really needed. But then, for any one of the consultancy firms to question its brief too soon could have been dangerous. They reasoned, perhaps, that it was better to make sure that the fee be agreed first in formal terms: then if it were found to be badly spent (i.e. on the wrong project, the right advice for the wrong objective), there would remain the opportunity to switch the problem into a more relevant direction which would please and relieve the customer (whilst improving the income of the consultant).

The advisor had fewer such direct pressures. He took the opportunity to talk through the problem again with the M.D. to discover why he had asked for the quotes in the first place. This required some diplomacy and, strictly speaking, was outside the advisor’s terms of reference. But the relationship between the two men was good, and the M.D. was indeed fully prepared to discuss his intentions. He too, it turned out, had been experiencing qualms, and it was perhaps for this reason that the advisor had been called in. After all, a choice between three like quotations is not so difficult. Their very similarity could make the task easier rather than more difficult.

THE ENVIRONMENT

The M.D. had been appointed 4 months previously. He had inherited a company which was a market leader in its products, but which had been experiencing a steady decline in sales. His remit had been to halt that decline, to increase profitability, to improve the image of his products and to climb back to the dominant position the company had once held. He set out to achieve these ends in a number of ways, one of which was to improve the distribution of his products right through from the place of manufacture to the retail outlets.

The business of the company was in the publication of magazines. The M.D. had reasoned that the faster they were on sale in the shops, the more topical could be their content (and so please the readers) and the more attractive the magazines would be to advertisers because they could mount their campaigns at shorter notice. From these two sources, of increased sales and more advertising, could be expected to come the benefits of shorter lead-times which the consultants had highlighted. But just how much contribution (if any!) could be achieved was hard to say.

Most of the revenue for the company came from advertising. The income from the sale of the magazines barely covered their direct costs of production and distribution. The profitability of the company depended heavily upon the advertising they could attract. There were two sales forces, one for each of the two major magazines, whose principles functions were to persuade advertising agents of the value of the advertising space in the magazines. The higher the circulation, the more interested were the agents, and it was also generally accepted that the more advertising that occurred, the higher the circulation would be.

There was a high proportion of regular readership of the magazines, but many were bought on impulse. The cover design mattered, as did the thickness and apparent value, or quantity, for money. The more advertising, the more editorial there could be. There was a basic understanding that advertising and editorial copy would cover roughly same number of pages in each edition. Sometimes editorial would be directly related to and set next to advertiser announcements.

IDENTIFYING THE PROBLEM

It became evident that the company was far less concerned with reducing lead-time than with improving its advertising performance. Indeed, the former had been proposed in order to achieve the latter. In recent months, advertising agents had been demanding a faster turn-round from publishers because their customers, the companies who wished to advertise, had been making last-minute decisions about spending on advertising. In times of difficult trading, the potential advertisers had been waiting for their sales results before they had felt confident enough to spend on further advertising. An irrational procedure it might be, but one which had become common practice.