

Western Mass Chapter #19

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“Lean Product Development”

Dan Courtney – Project Engineer, MassMEP

November 13, 2007

Lean product development concerns the application of Toyota values and principles to the Product Development Process. Like the Toyota Production System (TPS), Lean product development focuses seeing value and waste from the Customer perspective, the development of a highly skilled workforce, and creating continuous flow in the development process. Key structures of a Lean product development process include set-based, concurrent engineering, front loading the development process, and the chief engineer concept.

This presentation will give an overview of general product development structures and processes including strategy, innovation, methodologies, and tools. The application of Lean concepts to these processes will be examined. The presentation will also include a brief history and literature survey of Lean product development. Examples of product development at Toyota will also be included.

Dan Courtney is currently supporting MassMEP as a project engineer. He has over 30 years of experience in the area of Product Development. For the past 12 years, he has worked for JDS Uniphase, the world’s largest manufacturer of optical components and subsystems. At JDSU, he was responsible for coordinating the implementation of their Product Development Process. He also served as a corporate Six Sigma Master Black Belt and Lean Sensei supporting global operations.

Please see page 6 for meeting registration, location and travel direction information.

President’s Message

Next August, the eyes of the world will be turn toward Beijing China, which will host the 2008 Summer Olympics. The athletes who will compete there for the Gold Medal started preparing themselves for this challenge long ago. They understood the importance of taking the long term view, and making continuous improvement in their performance through constant training and developing new skills.

On the first of October, over 150 Operations professionals from all over New England took advantage of an extraordinary opportunity to learn from the man who literally “wrote the book” on The Toyota Way of managing a successful business. Dr. Jeffery Liker reminded us that the path to making a company lean and agile requires a commitment by top management to both take the long term view and help the people in their organization develop new, high performance skills.

On November 13, we will return to our Tuesday evening format and present Part 2 of our series on Lean concepts, with Dan Courtney of MassMEP speaking about Lean Product Development. It promises to be a very interesting and informative talk.

I strongly encourage you to attend this, and all the other educational opportunities your local APICS chapter offers each month. It is a sure way to develop new skills, continuously improve your performance, and help your firm achieve Gold Medal worthy results.

Best regards,
Bruce Chartier

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APICS, The Association for Operations Management is a worldwide, respected, not-for-profit organization with nearly 60,000 members. **Our Chapter is one of 270 chapters in North America.** We have approximately 300 members and more than 100 member companies. We are dedicated to helping you.

“Pricing Decisions: Valuable Lessons”

by Ira Smolowitz, Ph.D.



The price an organization charges for its product/service is of critical importance. The wrong pricing decision can adversely impact on revenue, current/future customer base, product image, and competitor response.

Given the importance of the pricing decision, two cases of pricing missteps will first be discussed. Cynics might argue that a sample of only two organizations is only anecdotal evidence. In my opinion, given the prominence of the associated companies, valuable pricing lessons have now surfaced.

Case #1 – Macy’s Department Stores

The New York Times describes the Macy’s chain takeover of 410 department stores around the country and renaming them all Macy’s, “vowing to lure shoppers with innovations like price scanners in the aisles and exclusive fashions from the likes of Oscar de la Renta” as “the boldest stroke in American retailing in decades.”

For years, the department stores that Macy’s acquired, like Marshall Field’s and Filene’s, had relied on 15- and 20-percent off coupons to alert people, like a Pavlovian bell, that it was time to shop. As part of its reinvention, Macy’s tried to wean shoppers off them.

But the tactic backfired. With fewer coupons to clip, thousands of people from Washington to Los Angeles turned their backs on Macy’s.

Now the company’s chief executive, Terry J. Lundgren, one of the brightest stars in American retailing, is pleading *mea culpa* – and backtracking Macy’s pledges to issue plenty of coupons for the holiday shopping season.

It’s a lesson that other companies have also learned the hard way. Since the first coupon was issued for the Coca-Cola Company in 1894, companies have occasionally tried to take them away – and suffered. Cuts by the Ruby Tuesday chain in 2004 hurt sales. Procter & Gamble’s effort in 1996 led to boycotts.

Even in this era of Internet shopping, it seems, Americans are wedded to a low-tech form of marketing: the dotted-line clip out coupon.¹

Associated Lesson

Consumers tend to be habitual in their buying decisions. “Why do consumers buy groceries at supermarket A vs. competitor supermarket B? Price differentials are not the only factor. The consumer has shopped at supermarket A for decades. She/he is familiar with the store-layout, store employees, etc. In a 24/7 work-mentality why switch to supermarket B for an insignificant

price differential? Therefore, a firm should think long and hard before implementing a marketing strategy that is at variance to established consumer behavior.

Case #2 – Apple, Inc.

Apple launched its iPhone only 75 days ago, but it already has sold a million of the gadgets. So why did it risk alienating its hard-core fans by cutting the price by \$200 last week? The move smacks of an attempt to “beat the number.”

The pace of iPhone sales probably got a shot in the arm when Apple slashed the price. That could lead to some jaw-dropping quarter-end figures, in line with Steve Jobs’s habit of under-promising and over-delivering.

Does cutting the price make any business sense, other than as a means to trounce expectations? Higher volumes and Apple’s revenue-sharing agreement with AT&T means its margins mightn’t be hurt much. But Apple has always catered to a fanatical fan base. Many of these customers now feel silly for buying the phone at the initial price, even after Apple’s \$100 gift-certificate peace offering. It may have broken a cardinal rule of business: Don’t make repeat customers feel like chumps.²

Associated Lesson

A successful corporation has customers that will buy its product/service without hesitation. In other words, customers should not be fans but “fanatics.” An erratic price system that erodes customer loyalty is most troublesome.

The pricing decision has been aptly described by Greg Cudahy, managing partner of Accenture’s pricing and profit optimization practice, as “pricing is the last bastion of gut feel.”

According to Cudahy, companies that take a strategic approach to pricing throughout their business and monitor their success with hard numbers can raise revenue by between 1% and 8%. “That’s a huge shift in pure revenue improvement.”

For example, New York drugstore chain Duane Reade increased baby product revenues by 27% after using pricing software to examine sales data, according to an article titled, “The Price Is Right...Isn’t It?” that appeared in the January 2007 edition of Accenture’s business publication *Outlook*. In the article, Cudahy and George L. Coleman, a leader of Accenture’s retail pricing group, describe how the data showed that parents of newborns are not as price-sensitive as parents of toddlers. In response, the company cut prices on toddler diapers to remain competitive with other stores and raised prices on diapers for infants.³

The New York Times has reported that...“in the 13 consecutive years that the Yankees have played post season games, 1995 through 2007, they have spent just short of \$1.6 billion on their payrolls –\$1,5889,672,681 to be more precise.”⁴

Although other sports franchises may not have comparable expenditures the fact remains, in my opinion, that a bad pricing decision has emerged. To build future good-will and future fans, children have to be present at the arena to see their team in action. Kids want to scramble for a baseball hit into the seats, see their favorite player in person, etc. A telecast, watched at home, can't replicate the above excitement from seeing the game at the arena. Now prices, once again, become a critical marketing issue. For a family of four, to buy tickets to a major-league baseball event, food from the concession stand, costs of transportation, etc. is easily \$400. How often can the typical family incur the above expenditure? Answer: most infrequently. As a consequence, price will serve to discourage attendance at the baseball game. With the associated discouragement, future fan loyalty is not at its highest potential level.

The price charged for an organization's product/service conveys initial information to the consumer. The wrong pricing decision will serve to engender negative early information.

As such, corporations must diligently strive to understand how the price of a product/service is mentally processed by current and future customers. Simply matching a competitor's price is, in my opinion, poor marketing. Allowing the competition to dictate your price is to assure that the competition knows most about the customer. This assumption has to be evaluated and not taken as a given.

References

1. Barbaro, Michael “Given Fewer Coupons to Clip, Bargain Hunters Snub Macy's,” *New York Times*, September 29, 2007, p. A1.
2. Cyran, Robert and Beales, Robert, “Did Apple Snub Its Core?,” *The Wall Street Journal*, September 11, 2007, p. C12.
3. “The Price Is Right, but Maybe It's Not, and How Do You Know?,” published October 3, 2007 in Knowledge @ Wharton, downloaded 10/4/07, p. 1 from: <http://knowledge.wharton.upenn.edu/article.cfm?articleid=1813>.
4. Chass, Murray, “While Steinbrenner Spends, Yankees Can't Buy a Win,” *The New York Times*, October 7, 2007, p. SP3.

Dr. Ira Smolowitz is a Professor of Finance at American International College, Springfield, MA

The views and opinions expressed in Ira Smolowitz, PhD articles do not necessarily reflect the views and opinions of the Western MA Chapter#19, Inc

CIRM

APICS will discontinue offering the APICS Certified in Integrated Resource Management (CIRM) program on June 1, 2008. Content of APICS CIRM program will continue to be recognized as a valuable part of the APICS body of knowledge and APICS will continue to maintain information on the APICS CIRM program.



Individuals with the APICS CIRM designation will not lose their certified status. APICS will maintain its records of all APICS CIRM exams taken and all APICS CIRM designations earned. APICS will also continue to recognize individuals who have earned the APICS CIRM designation and verify APICS CIRM status in response to employer inquiries. Individuals who have earned the APICS CIRM designation will be encouraged to continue to use their credentials

The APICS CIRM examinations will continue to be offered until June 1, 2008, and candidates in process will have until that date to pass the examinations they need to receive their certification. If you wish to pursue the APICS CIRM designation before the program is discontinued, be sure to take the remaining required exams before June 1, 2008. If you are unsure of the specific exams that you still need to pass to earn your certification, please contact APICS in writing to request your exam history.

CIRM Modules

Candidates must pass all exams for the following modules

Enterprise Concepts and Fundamentals
Identifying and Creating Demand
Designing Products and Processes
Delivering Products and Services

Please contact Ed Kantor. CPIM at (413) 592-6895 or email: edkan@juno.com to enroll or schedule a workshop.

Standard for Excellence

CPIM provides a common basis for individuals and organizations to evaluate their knowledge of the evolving field of production and inventory management. The program has helped individuals and their organizations become more productive and competitive because it is designed to test candidates' in-depth knowledge of a variety of subjects specific to production and inventory management.



CPIM has helped more than 66,000 professionals

- Learn to predict outcomes more accurately and take actions that achieve results
- Gain peer and industry recognition
- Gain the knowledge to effectively and efficiently manage worldwide supply chain activities
- Achieve greater confidence and peer and industry

Please contact Ed Kantor. CPIM at (413) 592-6895 or email: edkan@juno.com to enroll or schedule a workshop.

APICS Certified Supply Chain Professional (CSCP)

APICS announces a new industry certification: The Certified Supply Chain Professional (CSCP), to be launched in conjunction with the APICS International Conference on October 16-18, in New Orleans. This will provide individuals with the skill set necessary to understand and manage the integration of activities within today's increasingly complex supply chains.

CSCP prepares individuals to effectively and efficiently manage supply chain activities that span across and beyond an organization's four walls leading to reduced costs and increased profits.

CSCP provides in-depth knowledge and understanding in the areas of supplier and customer relations, international trade, the use of information technology, and physical logistics.

BECOMING A CSCP CANDIDATE

CSCP exam candidates must meet one of the following criteria:

- B A or BS, plus 2 years of related business experience
- CPIM, CFPIM, CIRM, or C.P.M. plus 2 years of related business experience
- 5 years of related business experience.

Watch this newsletter for further announcements regarding APICS rollout of this program and Western Ma. Chapter schedule of Workshops.

2007-2008 CSCP Exam Dates and Important Deadlines

March Administration

Exam Date: March 24

Eligibility Application Deadline: January 26

Exam Registration Deadline: February 9

June Administration

Exam Date: June 23

Eligibility Application Deadline: April 27

Exam Registration Deadline: May 11

December Administration

Exam Date: December 8

Eligibility Application Deadline: October 12

Exam Registration Deadline: October 26

No CSCP Exam Registration Fee Increase for 2007

North American Fees

APICS Member: \$550 (US)

Nonmember: \$700 (US)

Exam Retake*: \$350 (US)

***Candidates who didn't pass a prior APICS CSCP exam, or had an unexcused absence from a previous exam and forfeited the registration fee, qualify for the discounted retake fee**

Please contact Ed Kantor. CPIM at (413) 592-6895 or email: edkan@juno.com to enroll or schedule a workshop.

Calendar of Events 2007 – 2008

Speaker: Mike Walsh

Topic: "Lean is not an Infomercial"

Jan. 15, 2008

Location: Yankee Pedlar
Holyoke, Ma.

Speaker: Bob Stahl

Topic: "Building to Customer
Demand"

Feb. 19, 2008

Location: Yankee Pedlar
Holyoke, Ma.

Speaker: Michele Burch

Topic: "Lean Ideas from UMASS"

March 18, 2008

Location: Yankee Pedlar
Holyoke, Ma.

APICS Membership Benefits

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APICS Bookstore	Educational Events
Electronic Discussion Lists	APICS Career Center
Unique Services and Discounts	

Joining APICS is quick and easy. Join today and start enjoying benefits of membership.

Contact: Cheryl Denoncourt @
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November 13, 2007

Location: **Yankee Pedlar - Holyoke, Ma.**

Agenda

Networking:	5:30-6:30 PM
Speaker:	6:30-7:30PM
Business Meeting:	7:30-7:45PM
Dinner:	8:00PM

Registration

Members:	\$25.00
Non-Members:	\$30.00
Retirees:	\$17.00
Students:	\$17.00

Reservations Contact Jack Perazella
(413) 527-2842, or reserve online at japer@juno.com
No later than Saturday, **November 10, 2007**

DIRECTIONS to Yankee Pedlar at intersection of routes 5 and 202 in Holyoke:

From I-91 North:

I-91 to Exit #16 for Rte 202. At end of ramp, bear right and proceed about ½ mile down to Rte 5. Yankee Pedlar is to the left just across the intersection.

From I-91 South:

Exit #16 for Rte 202. At end of ramp bear left and proceed as above.

From Mass Pike:

Exit 4 for I-91. Take I-91 North to Exit 16 and proceed as above.