2015-02-26_15'45'12'_ Appliance Manufacturing Company

Alberto: So if you can explain to me a bit about the, the company so we can do a supply chain map which would be up and downstream customers and suppliers, um, is it many companies under one company or is it one, one trading company?

Bernard: Basically one company, you know, this is a, a manufacturing company but we also have a sourcing company in Asia in China (Alberto: Okay.) which is a wholly owned subsidiary and we use that company to source components, complete products and, ja, that's pretty much it.

(Slight pause.)

Alberto: So this would be s, ...

Bernard: This is **Appliance Manufacturing Company** and then we have a trading company called SE Trading which is a wholly owned subsidiary.

Alberto: Okay. (Pause.) So in terms of suppliers, um, anything from let's say materials to power to water, all of, all of the above, um, who are your major suppliers?

Bernard: I think our main, main commodity is ...

Alberto: Not, not, sorry, not names just what ...

Bernard: Well, the main, the main, the main commodity we use is stainless steel, um, the second biggest, uh, component we use are elements, heating elements, (Slight pause.) um, you know, the products vary in complexity from, from about 50, 50 components to about 200 components in an appliance, uh, and, you know, the machine parts is insulation, electrical, switch gear, all kinds of things, so ...

Alberto: In terms of the stainless do you deal with a, um, let's say manufacturer or ...

Bernard: No we, we deal with a, just merchants, steel merchants. (Slight pause.) We used to deal directly with Columbus but we've find that it's easier and better just to do with the, with the merchants, you know?

Alberto: And the, the heating elements, is it manufacturers ...

Bernard: We source, we source them from, (Alberto: Okay.) from local suppliers here and from, from our Asian operation.

Alberto: Okay. (Slight pause.) And when, when you say the Asian operation, that would be a manufacturer of, of elements.

Bernard: Correct.

Alberto: Okay. (Slight pause.) In terms of the other (Bernard: 52.) 200 components, um, would that be electrical stuff from Asia, local?

Bernard: A lot of that from Europe, Europe, the United States, um, South America, (Slight pause.) Asia, (Slight pause.) Australia, (Slight pause.) all over the place. (Slight pause.) We go where we, we get a good value proposition. You know, the line of business we're in is a very commoditised business, so you've got to be very streetwise (Slight pause.) otherwise you out.

(Pause.)

Alberto: Any other, any other suppliers that of, let's say important items that allow you to build what it is that you build? You mentioned, uh, laser cutting machinery, is that, but I suppose that's a once off more than a [Word not clear.].

Bernard: Ja, you know, you buy the plant and equipment once and that's it, so we operate two laser cutting machines, um, ...

Alberto: Laser cutters use nit, nitrogen?

Bernard: They use, they use nitrogen gas yes, as a, as a cutting gas, and depending on the type of resonator you have, you have, uh, you have, we, we've got a CO_2 laser which, which really uses, uh, um, helium, oxygen and CO_2 as a, as a, as a gas to, (Slight pause.) to create a hole effect, and the other one is a, is a solid state laser.

Alberto: So all of those gases there you would buy from the same supplier.

Bernard: Correct.

Alberto: Okay. (Slight pause.) Power would obviously be one?

(Slight pause.)

Bernard: It's, uh, [A few words are not clear.] utility.

(Alberto and Bernard laugh.)

Alberto: Okay, so it's directly from them and not from City Power.

Bernard: No, we work through City Power, (Alberto: Oh ja, okay.) [The rest is not clear.].

(Pause.)

Alberto: Is, um, water, water a major, let's say something that you would use to manufacture or is it ...

Bernard: No, not at all.

Alberto: No, okay. Anything else that comes to mind in terms of raw materials?

(Slight pause.)

Bernard: Well, you know, the other big part in the, in the, in, in, in, in, in appliance manufacture, which we're active in, is packaging, so we, we, uh, we have three packaging suppliers, four actually, that supply us with packaging boxes, burette Polly, polystyrene moulded, (Slight pause.) uh, elements, packing elements, um, we, we actually have a company that supplies us with crates, pallets and so on, wood. It's a big part packaging.

(Slight pause.)

Alberto: And those you said are four different, four different packaging companies. (Pause.) And in terms of outsourcing, is everything done in-house or are there certain operations that you will send out for another ...

Bernard: We do, no, we do actually outsource some of our sheet metal fabrication because we don't cope with our own, so we have, we have two or three suppliers of sheet, they, they outsource sheet metal fabrication.

(Pause.)

Alberto: Are those the only ones you outsource?

Bernard: Ja.

Alberto: Okay. (Slight pause.) All right. With regards to your customer base, are your ...

Bernard: Customer base is, uh, ...

Alberto: Again no names, just general industries.

Bernard: We have, is, we very active in the South African market, so I would say about 70 percent of our, our products are sold in South Africa. The other 30 are sold elsewhere in the world, United States, Australia, Malaysia, Russia, The Middle East, South America, all over the place.

(Slight pause.)

Alberto: And that specifically into the lab ...

Bernard: No, it's pre, it's predominantly in the catering sector.

Alberto: Catering, okay.

(Pause.)

Bernard: We very active with our brands, the anvil, anvil, apex, access and aerial brands who, that's really the main stay of our business, (Alberto: Okay.) the catering equipment.

Alberto: So what, what, what are those, what do you supply? Is it ...

Bernard: I'm going to show you just now.

Alberto: Okay. All right.

(Pause as someone brings something into the office.)

Alberto: And the other industries would be lab equipment?

Bernard: Lab equipment, we do butchery equipment, we do equipment for the welding industry where they, where they bake electrodes at flux, welding flux.

Alberto: So is the butchery ...

Bernard: It's butcher equipment.

Alberto: But it's, it's different to the catering type of thing? They don't fall ...

Bernard: Ja, it's a different brand but it's all made here. (Slight pause.) So we really niche appliance manufacturers active in many sectors.

(Pause.)

Alberto: Um, so it's catering, butchery, welding.

(Pause.)

Bernard: [Word not clear.) industry.

Alberto: Is that all? Those three, hey?

Bernard: So it's [Word not clear.], butchery and the laboratory (Alberto: Oh, the laboratory, yes.) which is the **Appliance Manufacturing Company** brands.

(Pause.)

Alberto: And in, in these different sectors do you have representatives or distributors or do you distribute straight to the end users?

Bernard: No, we, we, we work through dealers and distributors. It depends which area we're in, so the catering we work through distributors and the laboratory or **Appliance Manufacturing Company** one we work, we, we are the importers and distributors and we work through dealers.

Alberto: Is there anything on that manufactured here?

Bernard: Yes.

Alberto: Okay. (Slight pause.) Okay, um, (Pause.) [A few words are not clear.] are importers and the agents basically.

Bernard: Ja.

Alberto: Okay. (Slight pause.) And then you work through dealers.

(Slight pause.)

Bernard: I don't think we're agents, (Alberto: Ja.) actually we just importers, (Slight pause.) distributors, (Slight pause.) we, we look for agents.

(Pause.)

Alberto: And the welding side of things?

Bernard: It goes through one, it's a one, one horse race, we have one customer (Alberto: Okay.) and they, so we the manufacturers and they, they do the distribution.

(Pause.)

Alberto: And the butchery business?

Bernard: That is interesting because, we, we, we brand it butcher equip (Alberto: Mmhmm.) but we do a lot of, a lot of [A few words are not clear.] for Pick & Pays and so on, so we, we do it through the [A few words are not clear.] group. (Slight pause.) [Alberto says something that is not clear.] The [A few words are not clear.] Group is a, (Alberto: Oh, okay.) I'm sure you've seen them before. Whenever you buy a meat pack, (Alberto: Yes.) they do spices and things.

(Pause.)

Alberto: In terms of these four segments here, uh, percentage wise what would you say the split is between, what makes up your, your revenue?

Bernard: Probably about 80 percent, uh, 70 percent catering, (Slight pause.) probably about 10 percent the butchery and about 10 percent the laboratory and the welding, the welding is, uh, ...

Alberto: You have to make up a residual 10 percent. (Alberto laughs.)

Bernard: Ja, there, there's a lot of spares there on, on that as well, so I would probably say the butchery is about 20 percent actually. (Slight pause.) And then we will just put the welding as 10. (Slight pause.) That should be 100, hey?

Alberto: No, that gives us 110.

Bernard: Okay, then, (Slight pause.) then, uh, ...

Alberto: Ja, 110.

Bernard: Okay, you know what you do, make this 5, (Alberto: Make that 15.) make that 15.

Alberto: Okay. (Pause.) And this, this will belong to the next bunch of questions that I'll ask, (Bernard: Okay.) um, do you know who your customers are after that?

Bernard: Who the end user is?

Alberto: Yes.

Bernard: We do because every shop you walk into you will see our products.

(Alberto and Bernard laugh.)

Alberto: But, okay, but so no specific ...

Bernard: Do I know them by name? No.

Alberto: Oh, okay.

Bernard: No.

Alberto: So it's not through the supply chain, it's just ...

Bernard: It's quite interesting actually, partly we do actually because in the, in the catering business we, we were quite innovative in the early 2000s with the, with the World Wide Web registration, (Alberto: Okay.) so we, we, we'd tell people to register their appliances so that they get a warrantee (Slight pause.) and that worked quite well actually (Alberto: Okay.) so we've got, we have a sense of who's out there but it's not bullet proof, if you know what I mean. It gives us a good indication.

Alberto: Ja, I know it does. (Slight pause.) That's very clever. Okay, and anything else before we move on to those in terms of your supply chain? Um, supplies, outsourcing?

Bernard: No, I think you've pretty much got it, hey.

Alberto: Okay. All right. (Pause.) Okay, so just a bit of background, it's obviously to do with visibility and collaboration in the supply chain (Bernard: Okay.) and how to mitigate risk through those. There's a little bit of company background stuff and then it goes into more of the detailed questions. How long has the company been in existence for?

Bernard: 50 years.

(Slight pause.)

Alberto: What industry in the manufacturing sector do you specifically consider yourself a part of?

(Slight pause.)

Bernard: Appliance manufacturing.

(Slight pause.)

Alberto: And sheet metal, well not, um, metal ...

Bernard: Just the means to an end. (Alberto: Okay.) Appliance manufacturing.

Alberto: Okay. (Slight pause.) How long has the company been trading the current product range?

(Slight pause.)

Bernard: Probably about, the current product range?

Alberto: Ja.

Bernard: Probably about 10 years.

(Pause.)

Alberto: You said 150 people are employed. (Slight pause.) Okay, so in terms of the South African Business Act's definition, you think you would be a medium?

Bernard: Ja, small or medium. (Alberto: Okay.)

Very small, SMME, ja.

(Slight pause.)

Alberto: But 150 you would have to be medium. Total fulltime, equipment, ...

Bernard: Ja, it's a [A few words are not clear.], it's a medium.

Alberto: Okay, ja. That's quite a large workforce.

Bernard: Mmm.

Alberto: Do you want to grow the company further?

Bernard: We will actually, but we get quite [Word not clear.] as to how we do it. (Bernard laughs.)

Alberto: Okay. (Pause.) Are the constraints for growth inside or outside factors?

Bernard: Outside factors.

(Slight pause.)

Alberto: Can you elaborate on that?

Bernard: Sure. I think what it's about is, you know, we, we, we, we've just re, we've just invested like, like R15, R20 million on a new plant and equipment so we, we quite, we quite, I think, (Alberto: Jacked up.) we quite jacked up with the, you know, the expertise we have and the equipment we have and, I think, it's really about time we draw customers in our, in developing niche solutions and looking at new, new prospects and so on. (Slight pause.) Growth. (Alberto and Bernard laugh.) Okay.

Alberto: Further to the above, so you do want to grow your company further, would you prefer to increase net profit over market share and turnover, i.e. keep the company the same size and increase it's returns?

Bernard: Mmm.

Alberto: Okay. (Pause.) Are there numerous competitors?

Bernard: Mmm.

Alberto: So highly competitive.

Bernard: Very much so. Within South Africa and from overseas, specifically from Asia.

(Pause.)

Alberto: Are the Asian guys making quite a lot of head way into the market or ...

Bernard: Yes, they are.

Alberto: What are your competitors competing on? Pricing, quality, service or anything else?

Bernard: Price, price, price.

Alberto: Only price.

Bernard: Ja, (Bernard laughs.) that's all. (Slight pause.) It's tragic but that's the way it works, the three Ps.

(Slight pause.)

Alberto: So the quality doesn't play a factor?

Bernard: It does but, you know what, if someone buys let's say a fish fryer, uh, and, and the, you know, they buy an Anvil frier, it's got a quite a, it's got a very good name in the market and all those good things, but he can buy a Chinese one for, for, for 80 percent of the price, he, he rather goes for that because what ha, what happens is if it lasts a year it's fine, Most small restaurants only last for a year, anyways. There's a very high failure rate in the restaurant business.

Alberto: Okay, and that would obviously be, call it 70 percent of your business [Word not clear.], okay.

Bernard: So a restaurant, the average restaurant in South Africa lasts, I think, about 10 months. That's, that's the, the statistics they have.

Alberto: What is the reason for that? Finicky customer base or what?

Bernard: I, I think a lot of people think it's easy money, they don't realise that it's, I think the restaurant, the, the, the, the restaurateur is a, is a, is a vo, is a vocation actually, you know, you, you've got to go in there for the long haul, so they think they going to make a quick buck. They probably find a wrong position where they place their stuff or their, their, their products. The other big thing are the, are the franchises, I think the franchises tend to take the small guy out these days, you know? I mean, they are so slick these franchises and it's unbelievable.

Alberto: Ja. (Slight pause.) Do you supply to any franchises?

Bernard: We do, a lot of them. (Slight pause.) It's, that ...

Alberto: Via not directly?

Bernard: Not direct. (Bernard laughs.)

Alberto: Okay. (Slight pause.) What are the main risks your company experiences or could possibly experience? Strike action, financial, competition, service, expertise, inflation, ...

Bernard: All of the above.

Alberto: All of the above.

(Alberto and Bernard laugh.)

Bernard: It's a mine field but you know what, we love it.

Alberto: What would you say is your main risk?

Bernard: Our main risk today. (Pause.) I think, I think our main risk, in this environment, is just, is, is, is, is the one thing leads to another, so, you know, if the, if the politics are not managed properly, people are very loathe to spend money. So I would say that, that as a South African manufacturer, my biggest risks are, at the moment, are political.

(Pause.)

Alberto: And ...

Bernard: And, and ...

Alberto: Strike action.

(Slight pause.)

Bernard: I think when you write political you just need to maybe put there, uh, unsettled labour, labour set of politics, (Slight pause.) unsettled labour (Slight pause.) amongst the politics.

Alberto: It's amazing how many people say the same thing.

Bernard: It's a big worry.

Alberto: No, it is, it is. Okay, um, the next section is level of transparency. (Bernard: Mmhmm.) How long have you been working with your three biggest customers?

(Slight pause.)

Bernard: The three biggest customers? All of them over 10 years.

(Pause.)

Alberto: Do you have a good working relationship with these three customers?

Bernard: Very supportive. Absolutely. We go the extra mile.

Alberto: Do they convey to you who their customers are for specific jobs?

Bernard: When things go wrong.

(Alberto and Bernard laugh.)

Alberto: So it's a need to know basis.

Bernard: That's exactly. (Slight pause.) My philosophy in life and business is the customer is not always right but the customer is king. Very simple.

Alberto: Ja. (Slight pause.) Are you aware of other products and services that are offered by your customers to their customer?

(Slight pause.)

Bernard: Mmm, yes.

(Slight pause.)

(Alberto and Bernard have a brief discussion about the questionnaire.)

Alberto: And further to the above, would this information be of use to you knowing what other types of work your customers do?

Bernard: Absolutely! (Slight pause.) I'm a sponge of information. The more you know the better.

Alberto: Exactly! You can never have too much information. If large contracts to reputable companies were available, would a company, such as yourself, be opening to create a fully transparent working relationship in order to better satisfy the needs (Bernard: Yes!) of your customer's customer?

Bernard: Yes.

(Slight pause.)

Alberto: And then, further to the above, if there were no large contracts available, would it be beneficial for you to have a more transparent level of communication as a normal course of business?

Bernard: I think so. We would, the more you can communicate the better. (Alberto: Ja.) We don't live in a, don't live, live in denial, if you've got a problem, deal with it. It's a simple philosophy, don't try and make a hundred gazillion excuses, get, get to the point.

Alberto: Ja. Okay, um, a couple of criteria you can just answer yes or no to with regards to how much of this information is given on to your customer. Um, scrap levels?

Bernard: No.

Alberto: Rework levels?

Bernard: No.

Alberto: Process repeatability?

(Slight pause.)

Bernard: Yes.

Alberto: Supplier quality issues? (Slight pause.) I suppose this is also one of those, when the shit hits the fan. (Alberto laughs.)

Bernard: I think the answer is yes because if you, you know, most people will blame someone else for their own ineptness, say, sure, (Alberto: Ja.) it's exactly what will happen.

Alberto: Continuous improvement initiatives?

Bernard: Yes, definitely.

Alberto: Cost of material?

Bernard: Yes, when you want a price increase.

Alberto: (Alberto laughs.) That's what everyone says. (Alberto laughs.) Overheads?

Bernard: Yes, I think you do, you mean, ...

Alberto: Do you ever tell them what your overheads [Word not clear.] structures?

Bernard: No, no!

Alberto: No. Subcontract costs?

(Slight pause.)

Bernard: When required.

(Pause.)

Alberto: Factory cost rates? (Slight pause.) Transportation costs?

(Slight pause.)

Bernard: No, we don't really, no.

Alberto: Um, order receipt process?

Bernard: Yes.

Alberto: Capacity planning?

Bernard: Yes.

(Slight pause.)

Alberto: Shipment process?

(Slight pause.)

Bernard: Depends, with some, some customers like on exports you need to, locally it's quite simple.

(Slight pause.)

Alberto: [Word not clear.] manufacturing initiatives?

Bernard: Mmm.

Alberto: Inventory management?

Bernard: Mmm-mmm.

Alberto: Other suppliers?

Bernard: Mmm-mmm.

Alberto: (Alberto laughs.) Potential contracts?

Bernard: No.

Alberto: And your stock levels?

Bernard: Yes, I think we do because we try and, I think it's important to tell your suppliers that you, or your customers rather, that you well, well armed to serve them.

Alberto: Ja. Okay. (Slight pause.) On conveying of information, would you like to know who your customer's customer is?

Bernard: Yes.

(Slight pause.)

Alberto: If the size of the order was conveyed to you, do you think that it would assist in freeing up cash flow by allowing you to decrease stock holding and increase your lead time to manufacture? So you will hold no stock but when you know there's a big contract that's going to come in then you will buy all the material and everything so you've got more cash available.

Bernard: Of course.

Alberto: Okay. (Slight pause.) Would you foresee the visibility as, well, that visibility above as a possibility to earn a return in the form of higher turnover (Slight pause.) by decreasing stock levels and increasing working capital?

(Slight pause.)

Bernard: Our philosophy is actually, is actually as fast, there's two, two elements to this, so from an operations point of view you want to make sure that you've got the stock levels to satisfy the orders. (Alberto: Ja.) As a shareholder and sitting on the board of directors, you told to reduce it. So it's a conundrum that you face. I don't know whether that helps you with the question.

Alberto: What, what is your gut feeling?

Bernard: My gut feeling is I would rather have the stock.

(Pause as Bernard speaks to someone on the phone.)

Alberto: Uh, in terms of reward, do your three biggest customers receive beneficial pricing in credit terms?

(Slight pause.)

Bernard: I think so, ja. Definitely got to look after them, hey?

(Slight pause.)

Alberto: Okay, collaboration. If one of your three biggest customers finds itself needing urgent attention in the form of faster delivery or payment terms, would prevision be made for this based on the relationship that exists or ...

Bernard: Yes.

(Slight pause.)

Alberto: Further to the above, if it was proven that such an act would help sustain a supply chain and actually benefit the overall position in the market, would you change your mind as in making that the normal course of, of business?

(Slight pause.)

Bernard: Just read the other one before that?

Alberto: If one of your three customers finds itself needing urgent attention in the form of faster delivery or payment terms, would previsions be made for this based on your relationship?

Bernard: Okay, my answer was yes.

Alberto: Ja. So then, further to the above, if it was proven that such an act would help sustain the supply chain and actually benefit your overall position in the market, would this change your mind? Make it a normal course of events.

Bernard: You know what, if I understand your question properly, (Alberto: Mmm.) you know, if someone wants faster deliveries and terms, I think, with the terms I could live but with the faster deliveries I think I would, what we do with our customers, we engage with them and help understand how their planning works because if everything is always a crisis then they've got a problem with their planning. So we get closer to them on their planning so that, that we're able to, so we actually stick our nose into their business [Word not clear.]. We very active with that with our, so we will not have them dictate to us a permanent rush scenario, so, you know, they, they need to learn to plan properly. Payment wise, ja, if it, if it means that they need extended terms, you know, I think one, one could work around that but when it comes to planning a factory you've either got a system or you don't have a system.

Alberto: And in terms of the payment, would you drop the price if you knew that it was going to increase [Word not clear.]?

Bernard: Ja, I would. (Alberto: Okay.) Provided you still make margins or whatever, you know?

Alberto: Does this happen with your other customers, so not your three biggest customers?

Bernard: I think we quite close to all of our customers, you know, we tend to, we tend to hear them out and we, you know, we will, I think we aim to please our basket of customers, you know?

Alberto: And does that put any sort of strain on the organisation through loss of gross module?

(Slight pause.)

Bernard: It does, yes. (Slight pause.) You have to lie.

(Slight pause.)

Alberto: Is there a formalised system with a dedicated resource for collecting information from customer, (Bernard: Yes.) from your customers?

Bernard: Yes. It's called market intelligence, (Alberto: Mmm.) brand executive, so we have a brand executive that looks after this, these brands and goes and sees end users and dealers and sees what's potting.

(Slight pause.)

Alberto: Would you describe your relationship with your three biggest customers as opaque, translucent or transparent?

(Pause.)

Bernard: It's quite an interesting question. (Alberto laughs.) Translucent, probably. (Slight pause.) They can eat everything but they don't need to know everything.

(Alberto and Bernard laugh.)

Alberto: This is true. In your view is there a level of collaboration between you and your three biggest customers or ...

Bernard: Yes.

Alberto: Okay. (Slight pause.) All right, then on to visibility. Do you have fluctuations in demand on your production or do you manufacture according to standard production norms.

Bernard: [Bernard says something that is not clear.] (Alberto: So like ...) Very varied.

Alberto: Varied.

Bernard: Very varied, mmm.

(Slight pause.)

Alberto: Do you feel that knowing your customer's customer will help smooth this out?

Bernard: No. (Slight pause.) You will only know what product they want and we, we, we've got glitches and hitches on your own designs, that's what we'll find out there (Alberto: Okay.) and whether you competitive but they, you won't find out whether, how you should plan your, your factory, you won't.

(Slight pause.)

Alberto: Are you transparent with your customers in terms of your supplier's ability to supply you?

Bernard: Yes.

Alberto: Okay. (Slight pause.) Um, do you understand the concept of visibility in the supply chain?

Bernard: Mmhmm.

Alberto: Okay. So do you think that transparency and a collaborative working relationship would be beneficial, if managed correctly, or do you think that the risks involved are too high? So sharing information.

Bernard: No, I think, I think it's worth it. (Slight pause.) It just needs to be managed carefully.

(Slight pause.)

Alberto: And last question, do you think that perhaps given the above, there's already a level of collaboration and transparency that exists and if so, how far up and down the supply chain? (Slight pause.) We already said that there is ...

Bernard: Ja, there is and I would say that, um, (Slight pause.) how far up and down, I would say we probably half way up and half way down on the, on the, on the scale, so, you know, when it comes to suppliers, I think we, (Slight pause.) you know, the problem is if you don't know what your customer wants, wants from you all the while, it's very difficult to bring him back to your supplier, it's the catch 22 you find yourself in. So, I think what it's about is to make sure that your, that your customer talks to you, the more open the matter, and that you have a good relationship with them in terms of planning your life and business and whatever and then it feeds down the chain. (Alberto: So ...) So you've got to start with the top (Alberto: Mmm.) and make sure that those guys, those guys talk to you because if they don't talk to you it's very difficult to talk to your suppliers.

Alberto: So in your line of business it will really just be dealing directly with your s, your customer and your supplier (Bernard: Yes.) because up, above that (Bernard: No.) you not going to be able to ...

Bernard: No, no.

Alberto: Okay.

So it's firsthand. (Slight pause.) Okay.

(Pause.)

Bernard: Is it done? Good man.

Alberto: Can we go for a walk around?

Bernard: Let's do it.

(Alberto laughs.)