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PHILADELPHIA SEMINAR -- June 1954

"SHOULD WE 'MAKE OR BUY'"

Where is our best interest? How much shall we lean toward the equipment and methods in our own factories?

It was logical when a ready market existed for any reasonable quantity of our product to make the most of our parts and products and to figure that if we had a machine that was not working, the overhead cost continued, anyway, so we should make certain sacrifices to keep all the machines busy. It was logical, then, in considering whether to make or buy a part, to compare the purchased cost of that part with the sum of labor plus variable overhead, rather than full overhead; because the fixed overhead would continue, anyway, and if we purchased the part it would, in effect, be an added burden on other parts of the device.

Now, it's just as logical now, as we face a competitive market, to accept the fact that value of every part or component is established by the lowest cost at which it can be dependably provided when and where needed, whether it be from our own machines or from specializing vendors. In fact, the value ceiling may be established at a level even lower if some other material or part or product will at lower cost accomplish the same functional result.

It's equally logical, then, that in order to hold and incertain areas improve our percentage of available business we cannot accept costs in the various parts of our products which are above value. We cannot charge our customers for a part or a material to perform a function more than our competitors would be obliged to charge. It, then, becomes basic under today's competitive conditions that every part or component in our products stands on its own two feet and represents the best obtainable value, whether it results from little or much work in our own factories.

Following this basic competitive conception, it will be found that machines in our factories which do not competitively - considering full overhead, shop cost versus purchased price - deliver parts and components to the assembly lines will become idle. At first glance this appears to be contrary to self-interest. It appears to result in a shifting of the fixed overhead and increasing the cost of other parts while it admittedly accomplishes the objective of providing specific components for their value.

A second look shows that soon this and other machines which are, indeed, marginal or sub-marginal operations but have not necessarily been so recognized in the past, due to our former policy of keeping them busy, are standing idle. The management, then, will strip these marginal and loss machines and put in their place profit-making operations. In innumerable cases we've found that this space is adequate to meet our needs for increased production.

Some of the benefits are...the product is competitive and our markets are expanding instead of contracting. Every foot of floor space in the factory is contributing its share to the profit side of the balance sheet, and it's often unnecessary to make large expenditures in new buildings for the necessary expansion. With all of these high taxes we really wonder where we're going to get the money to buy necessary new buildings. Then, we can see why management today does not want any square foot of our factory space filled up with marginal, non-profitable, unnecessary operations.

It was to reduce this non-profit use of bldgs. and labor that Accounting Services issued Policy Instruction #301 stating that for the purpose of figuring cost reductions, compare normal shop costs with vendors' purchase price.

As an example, one of our operations has, for a decade, followed the policy of making every possible part or component in the factory as a matter of policy in order to provide "liquidation" and provide a continuous labor load. The value of the components was not examined by search of competitive markets; the profit position of this department turned into a loss which increased yearly. The Company placed new management in charge. The first question they asked was, "What is the value of these parts we're making?" As a result, the manager had selected a dozen parts at random, averaged the cost of the last three times, as they were made, and sent them in. Of the dozen, 11 were of very poor value. For example, one part in lots of 5000 cost us 23¢ each - worth 4-1/2¢; another made in lots of 3000 cost 49¢ each - a good specialist in their own town laid it on their back step for 8¢ instead of 49¢. In other words, it took $240 to buy 3000 of them, instead of $1470. That shows what goes wrong when we use arbitrary policies instead of using horse sense and good judgment in all decisions.

Now, as a result, they immediately cleared space and since they didn't need it, they rented it to another G. E. operation. It was pressed into profitable service making the renting or building of more space unnecessary.

We think that in today's competitive market we must hold one thing inviolate; namely, the cost of the various parts, components, and materials which go into our products must not go in at higher prices than our competitors would be obliged to pay for the same items. You fellows knowwe're not talking about the wonderful parts that have the genius of our people in them. We are talking about the thousands of parts that make the difference between profit and loss that are relatively simple, functional parts.

Any other policy results in riding the Monogram which means weakening it. The Monogram can only remain strong if, instead, we in each case support it which means to provide at least as much and preferably a little more value in each part, in each component, than our competitors are providing.

With taxes of all natures so extremely high and the difficulty of getting large amounts of capital for new buildings and of liquidating those expenditures, once made, so increasingly difficult, we see that this is sharpening our wits in decisions regarding marginal operations.

Our various competitive departments have, for a considerable period, operated on a basis of competitive value. In our Radio and Television operation, unless a part or component can be made for an equivalent or less than value, it's purchased. Another example is in the competitive business of the refrigerator. The refrigerator is one of our most outstanding products. We lead in customer acceptance, we lead in design; we are close in percentage of the market, and the department turns in good profit. They likewise buy millions of dollars worth of parts because they can't make them for value.

Thus, it seems unthinkable, in this day of high taxes and small return on capital investment and extensive labor problems, to employ the services of labor which we have provided through long and continued negotiations on unnecessary marginal or loss operations. It seems little short of a business crime, to some of us, to do that; or to use this valuable manufacturing space to unnecessarily make simple parts which could readily be obtained for their value. All of this with no possible profit return, and all of this when we so urgently need the space to expand into the program for 1961.

We as engineers and designers don't dare to do less than to design the parts for the lowest cost manufacturin g process in the country. Then, our product value is assured; our continuing markets are assured; and mfg. men can determine at what point in the production cycle it is economical to bring this specialized equipment into our own lines. If each of us will do his own job the best that it can be done, then it will give the next man on the team a chance to do the best that can be done in his area.

Now like other simple things -- hard to take.

1. Are we to become an assembly shop?
2. Single costs are not true -- only averages are.
3. It still seems that if we have ten jobs on a machine & take one off, all we save is material.
4. The books don't show actual costs anyway, They are standard costs.
5. If we buy parts we'll be short of work in our factory--surely that's not self-interest. (No choice--only a matter of time.)
6. If we have little labor--we won't have anything to liquidate IME on.
7. Are we to compete with alley shops?