



FREE Report: Top 10 Stocks for 2013

Log in | Sign up | Connect | Help



New Posts

Most Popular

Lists

Video

2013 Grammy Winners

Most Promising C

Cost Of Super Bowl Ads



Bill Conerly, Contributor
Connecting the dots between the economy . . . and business decisions.
Follow (31)

STRATEGIES | 2/13/2013 @ 6:19PM | 84 views

Art and the Economics of Production to Order, for Inventory, or Something In Between

Comment Now Follow Comments

Some businesses produce upon order, while others produce for inventory. An artist just came across a hybrid approach that knocked my socks off. Before explaining that, let's review the fundamental problem.

10

Some businesses produce to order. A job shop serves people with a need for something not carried as regular inventory. I can get a #10 by 2 inch machine screw at Home Depot. If I need a length of exactly 2 3/32 inches, I call a custom screw company and they will make up a batch for me.

101

Tweet

1

Similarly, an artist may paint a landscape and hope someone buys it. Or she might receive a commission to paint a portrait of a family.

0

There are advantages and disadvantages of each business model. Common items tend to be produced for inventory, at low cost due to large production runs. Unusual or unique items are produced upon order, usually with much higher costs.

1

Now about our artist. Mrs. Businomics had observed a large area of wall that needed a painting, as a result of some remodeling we had done. We went to galleries. On vacation we went to more galleries. Most of what we saw did not impress us. A few pieces were nice but not the right size for our space. One piece that might have worked was priced with far too many zeroes on the tag.

0

Then at a local art show, we find a very nice painting, but again it was too large for our space. The artist has a website, however, and on it we found an

4 Ways to Avoid Running Out of Money During Retirement
If you have a \$500,000 portfolio, download the guide by Forbes columnist Ken Fisher's firm. Even if you have something else in place, this must-read guide includes research and analysis you can use right now. Don't miss it!
Click Here to Download Your Guide!
FISHER INVESTMENTS*

Most Read on Forbes

NEWS People Places Companies

interesting policy for commissions. We met with him and he saw the space that we wanted to fill. He showed us a variety of paintings, and we told him what we liked and didn't like about each. Then he said that he would paint three paintings in our size that would fit our tastes, as he understood them. We had no obligation to buy. Whatever we did not buy he would hang at the next art show.



David Trowbridge, <http://www.paintdpt.com/>

This is a business model sort of like build for inventory, but also kind of like build on order. He needs to produce inventory whether we buy or not, so he'll produce inventory with a very high likelihood of being bought by us. Very smart.

What's the analogy in the mainstream business world? Before we go there let's consider what makes the policy work for this artist. First, he is not promising us anything outside his expertise. He's using the medium and style that he's comfortable with. Second, he would produce for inventory even if we did not exist. There's a high likelihood that the art he produces for us is just as likely to sell at an art show as what he would otherwise have painted.

Now how does a mainstream business use this model? When receiving a custom order, ask if anyone else might want this particular product. If it's truly unique, you don't want to produce for inventory. However, let's say you run an apparel company and a department store buyer asks for some of your dresses in teal. Maybe you could increase the batch size and offer the color to other stores. If one department store buyer thinks teal will sell, maybe having some in inventory would be a good idea.

Let's go back to the odd sized machine screw. There are set-up costs that make per-unit expense lower for large production runs than for short runs. If you are likely to get a few more orders for that exact size later in the year, then you could use the custom order as a base for a larger production run now. Interest rates are so low today that the cost of holding larger inventory is small.

The moral of the story is that many businesses do not need to strictly follow the either-or business model of producing to order or for inventory. Be very careful, however, that whatever you produce for inventory has a market beyond the first customer, and be careful that you only take orders that are well within your expertise.

See Also:

[High Yield Investments](#)

[Unique Business Plans](#)

[Best Business Schools](#)

[Top Journalism Schools](#)

[Top Investment Ideas](#)

[Blogging Tools](#)

[Top 10 Luxury Hotels](#)

[Journalism Courses](#)

+51,658 views

Christopher Dorner's Manifesto Gets The 'Rap Genius' Decoding Treatment

+45,819 views

The Olympics Will Regret Dropping Wrestling From 2020 Games +24,150 views

The Most Outlandish Resume Mistakes of 2012 +20,211 views

How One Woman Went from Homeless to Millionaire In Less Than Two Years

[+ show more](#)

Follow [writers](#), [companies](#), [topics](#), [billionaires](#) and more on Forbes



[Sign up now >>](#)



Bill Conerly
Contributor
[Follow](#) (31)

I decided to become an economist at age 16, but I also started reading my grandmother's used copies of Forbes. After degrees including a Ph.D. from Duke and three years as a professor, I found my calling in the business world..... I began as a

[+ show more](#)

The author is a Forbes contributor. The opinions expressed are those of the writer.

BILL CONERLY'S POPULAR POSTS

[Interest Rate Forecast 2012-2013](#) 97,555 views

[Real Estate Forecast 2013: The Housing Market](#) 45,995 views

[International Economic Forecast 2012-2013](#) 39,933 views

[The Six Classes That Will Make Any College Grad Employable](#) 39,610 views

[China's Economic Forecast, 2012-2013: A Business Perspective](#) 23,753 views

MORE FROM BILL CONERLY