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Operational Decision Points

The company I chose to review for this SCM paper is Eddinger Enterprises Incorporated which is a small sized construction company based in Healdsburg California. My grandparents are the owners of this company, and as a family business my Mother runs the operations of the construction side along with my grandfather. My Father is a foreman in-charge of overseeing all of the jobs the company of about 30 employees is currently working on. My Aunt is in charge of billing as well as the plumbing operations undertaken by the company. My brother and I have worked for Eddinger Enterprises off and on for over five years, I am a laborer with some carpentry skills and have worked on jobsites as well as in the office helping with bidding and billing for jobs, because of the nature in which I know the company, I felt it would be beneficial to the business to put in writing the suggestions which I believe may help the company’s supply chain.

The success of this business and the profits of the business are based on small margins. When bidding for jobs the company tries to build in anywhere from one percent profit to four percent profit based on the competitiveness of the other bidders and how important the Eddinger Enterprises Inc. reputation is to the customer. Those whom are not actively building or working at job sites such as my Mother, Aunt, and Grandfather are paid a salary wage that is likely below what any of them could make if working for other companies. This means that the money they make often consists majorly of bonuses which are usually dispersed after the completion of jobs that bring in profits above operational costs. This means that any way in which the company can cut costs in the operations, procurement, storage of materials, marketing, and improving the flow of information.

According to their website, “In the construction industry Eddinger Enterprises has a strong reputation for quality high-end custom homes.”1 The company also does small and large-scale remodels, and having never ventured nor ever wanting to venture into the track home market there is very little use for reuse of materials that are used at the end of jobs. These materials would include things such as custom paint, moldings, fixtures, expensive finish woods, flooring, carpet, and so much more. A problem that has plagued the company has been under and over ordering these costly and specific materials. In the scheme of trying to be productive many of the companies foremen have chosen to move away from precise calculations on the amount of material needed and have began doing much less accurate estimations. Although foremen are able to achieve more in a workday when not making calculations that take away from other operations this actually slows down production in the long run. Having to order additional small amounts of materials takes time and can bring work to a halt when employees are standing around waiting for materials. Ordering too much material means wasting money and usually leads to costly storing of materials that have little chance of being repurposed. These materials are generally left to sit outside on lumber racks because it would be too costly to store them inside, this also means that they do not last long and weather quickly.

In order to combat this I have actually help to make a few changes over Thanksgiving break. Over the break my Father and I decided to spend some time to make more lumber racks that would have additional stickers (stickers go underneath the material to keep it flat to fight warping of the material). We modified some of our old lumber racks in addition to building some new ones. In doing this we estimated that we could double the amount of time a piece of material could sit on the racks without warping due to improper storage. In addition to this I suggested a simple metal roof to cover the materials. This roof will be built during the Christmas break to help materials from being saturated with water and moisture this winter, as well as stop the harmful rays of the sun from warping and cracking the material in the summer months. I have recently been informed by my Mother that the foremen are all being asked to take the few extra minutes they need in order to make a more accurate estimate of the materials needed in order to complete jobs. There will be incentives for the foremen who do a better job of estimating. These incentives are most likely to be used when jobs are nearing completion or when materials are very specified because there are some materials that are not detrimental to profits or operating costs such as plywood and 2x4s. Materials such as these are used on the vast majority of the jobs Eddinger Enterprises Incorporated is a part of. I believe that by doing simple things such as improving the racks where inventory is kept, the company will be able to save thousands of dollars each year. This is also in part because throwing away materials at the dump, especially hazardous materials such as pressure treated lumber has many costs associated with it.

A problem that the company has faced throughout its over 45 years of business is that the construction business is unlike the manufacturing business where one month, week, or quarter is much like the last so that forecasts can be made. Business is very hard to forecast in the construction sector, especially when the town Eddingers is centered in is a rich market, but with a relatively small population of just 11,000. It is nearly impossible to know how much inventory the company should keep of the vastly different materials it uses. This makes procurement a very important aspect and currently procurement is strongpoint for the company. Eddingers buys all lumber and most of its other supplies from Healdsburg Lumber. Healdsburg Lumber has rewarded this loyalty through discounts, and a program called Builders’ Bucks (a 2% cash back reward for use at only at Healdsburg Lumber) and free deliveries when large quantities of supplies are ordered. This partnership has over 40 years of history, is very strong, good for both partners, and will not be going away anytime soon. At Healdsburg Lumber Eddinger Enterprises has an account under which there is a P.O. for each job, this saves an enormous amount of time because it makes billing each individual customer much easier. Also the billing for the account is due on the 15th of each month which means that the company usually only has to float the cost of materials for 15 days while waiting to be paid instead of the traditional 30 days.

I believe that Eddinger Enterprises should donate any material that cannot be reused to the Habitat For Humanity. This will be beneficial in many ways, the two most important being that there will be a tax write off for those materials which are donate and there will also not be those costs associated with disposing of those unwanted materials. Previously unwanted materials would have to be loaded into the company’s dump truck or trailer by one or more paid employees who then need to go to the dump or proper disposal place where the company must then pay to dispose of these unwanted materials. This all costs money and although “trash” materials will still need to be hauled away and paid for, this will no longer be a cost for materials which cannot be used but are still useful to others. In addition the company will receive what could add up to a very hefty tax write off over the course of a year.

The town of Healdsburg is in the center of the Sonoma County wine industry, Healdsburg produces the most wine per capita of any city in the U.S., as well as some of the best wine, and because of this there is a certain level of clientele Eddinger Enterprises normally serves. In this area there is a very big push towards green building and technology, this leads me to the company’s philosophy of ethics. The company is built upon a profound and time tested set of ethics, this has led the company to use more green practices in the last seven years than ever before, and more than most other general contractors in the county. Having the knowledge and expertise to build what the customer wants is important and because of the high degree of customization that goes into each job Eddingers hires only the most skilled employees.

Although capacity and customization do not often go hand in hand Eddinger Enterprises rarely has issues with booking more than they can handle. What Jerry Eddinger (the owner) has told me is that in this business there are often important deadlines, and in order to meet those deadlines crews of employees can be moved from one job to another. He stated that there are rarely enough deadlines to meet at the same time that it causes a problem. Jerry said that it is currently in the 2014 operations plan to designate a relatively low paid employee who will bring materials to job sites instead of having the foremen leave jobs to go get what they need. This designated (shop) employee will run materials to jobs, help unload and load trucks before and after the workday starts, keep everything organized at the shop, and be able to assist as an extra hand when needed. During the summers this is sometimes my job, and because of the effectiveness this position has it will now be full-time. When having an employee who makes anywhere from 12-20 dollars an hour load and unload things in the morning and evening the company can save an exorbitant amount of money when you take into account that those normally unloading and loading materials are the foremen which are the highest paid employees most making more than double the maximum that this “shop” employee would make.

A problem within the company that needs to be addressed is the fact that foremen often will leave the jobsite in order to get materials. Some of the foremen claim that it is often easier to go themselves than to explain what they need, the problem with this is that those foremen are being paid twice as much as other carpenters and laborers who could very well be picking up those same materials. This new “shop” employee position is going to be very helpful in combatting this problem, however, it will be equally as important and instrumental in cutting costs to drill in to the foremen that this shop employee needs to be the one bringing and assisting them in getting the materials they need so that they may stay productive on the jobsite. I believe that Eddinger Enterprises will see a spike in productivity with the addition of the shop employee and if the shop employee is able to become efficient as well as effective in their new position then I believe this spike in productivity will level out and a new norm of higher productivity will be the result of this. Obviously this new employee will cost the company a good deal, but I believe that this employee can save more than enough of the foremen’s time to not only pay his wage, but all of the expenses he or she may incur as well.

Automation is a process that is nearly impossible to implement in the industry of custom construction, however I believe there could be some automation implemented in the office of the company. Currently the managers Nancy Madarus and Jerry Eddinger are both working in the office, having meetings nearly every day with clients and suppliers, constantly heading to jobs to check on things, and giving advice to the employees on how to complete tasks. The two of them share a scheduling book that the receptionist writes their appointments in. I believe that if this appointment book were uploaded into an Excel, Outlook or other scheduling type worksheet that could be reached through a cloud server from the manager’s phones and computers, that they could become more efficient with their time. Although this would benefit the two of them, I believe that the receptionist would have a few hours of her time freed up from coordinating their scheduling and be able to do more billing and such during her work week. With an online or cloud scheduling system it would also be much easier for Nancy and Jerry to upload their own appointments instead of going through the receptionist as they currently do.

Quality has never been a problem for Eddinger Enterprises Incorporated, however, the company has ran into certain issues due to the fact that so many of the employees complete tasks in different ways. Last year the company sent some of the younger and less experienced carpenters to a few different workshops to learn things such as how to hang a door, how to put in windows, and the proper method for laying down flooring and decking. These were very beneficial for the employees, but some of them have struggled from time to time when the foremen or other more experienced carpenters are telling them to do it differently from how they have learned. I suggest that the company write out for each and every employee the way in which they want tasks that occur often to be done. This will ensure that everyone is doing things the same way and that when quality assurance measures are taken out on the jobsite there will be a much simpler checklist to go through. Implementing one way of doing things will help to keep the processes in control and help to eliminate nonrandom and unnecessary variability.

As with many professions “it is very important to catch problems and mistakes as early in the building process as possible and the ability to do this sets many companies apart from the rest”2. A problem with the company’s strategy is that they do not teach most of the employees who are not in charge how to read plans. This leads to employees making mistakes when they are not closely guided and coached. This type of nonstop attention is time consuming and unproductive, if the company were more willing to train employees on how to read plans then the foremen and managers would be relieved of some strain and be more able to work more productively instead of doing what I consider to be glorified babysitting. Training employees on how to read plans will greatly reduce the number of mistakes made by employees from reading plans improperly.

In the construction industry in comparison to their competitors Eddinger Enterprises Incorporated is very competitive because the company is very good at delivering high-end services at prices that won’t break the bank. A few reasons for their success is their competitiveness, ability to capitalize on strengths, learning from weaknesses, accurately determining and catering to the needs and wants of customers, and the ability to look at both long and short term goals. As a time tested company Eddinger Enterprises Incorporated has a great reputation for excellence and is a member of the Top 100 North Bay Businesses, this reputation has earned them countless jobs over the years and by implementing the suggestions which I have made as well as the few changes which I have already explained that they have implemented I believe that the company, its supply chain management, and operations can be more successful than ever.

References

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