

CASE STUDY: BUILD-TO-SPEC COSTING & PRICING

PROBLEM

- RP Fedder is a manufacturer and distributor of air filtration products. Orders for built-to-spec pleated panel air filters with custom dimensions (“specials”) were increasing, nearing the capacity of labor resources.
- Material costs were increasing month-over-month due to supply chain disruptions.
- An audit revealed that built-to-order products were not profitable.
- A new ERP was scheduled to be deployed in a year, but the problem needed to be solved now.
- Any stop-gap solution needed to be supported in both the current and new ERP.
- The solution needed to be simple for the staff to understand with minimal training, and without requiring calculations.

SOLUTION

- HATCH recognized that changing this process was a sensitive subject, so we dug deep to understand the history and culture behind the rationale of making specials in-house vs. ordering them from the OEM.
- HATCH developed a production model that accounted for operations, steps, materials, and scrap for specials.
- HATCH reviewed pricing models from other suppliers to identify pricing best practices, and recommended a pricing model based on ranges of total filter area (LxW) to eliminate the need for a product configurator.
- HATCH generated the parts lists, pricing, and standard costs, and implemented in both ERPs

HATCH APPROACH

- **Culture:** Leaned-in on “why?” – Sales drove it for customer satisfaction to eliminate the lead time for an OEM special order to arrive.
- **Finance:** Conducted an audit on “specials” and determined the root causes for losses were. rising material costs were the driver. Also found that labor was not accounted for in the current cost model.
- **Pricing:** Recommended a policy that “specials” would be priced at a premium to OEM custom sizes to capture the value to the customer.
- **Pilot:** Conducted a paper-based pilot for the new pricing and part number scheme before implementing in the legacy and new ERPs.
- **Communication:** drove alignment and buy-in among leadership, sales, order entry.

RESULTS

- **One part number covered all special variations** to an 1/8” in length and width in 100 sq. in. area brackets. This aligned with OEM custom size pricing, simplifying price (OEM price plus a fixed premium).
- To enter an order for a special, order entry **finds the part number with filtered search** and enters the precise dimensions into a job notes field to print on the pick ticket, **eliminating multiple paper-based workflows.**
- **Sales and customer behavior changed** to allow lead time to order custom sizes from OEMs, easing volume.
- **“Specials”** went from being a loss-leader to a **growing source of profitable revenue.**