



Infrastructure: The Chicken or the Egg?

By Rebecca A. Morgan
Inc.com • 2007

Weighing the options — and the costs — will help you determine the best strategy for handling unexpected increases in sales.

One of the worst things that can happen to a small restaurant is a great review. That evening a swarm of eager potential customers arrives to try it, only to discover a long wait for unevenly prepared food delivered piecemeal by an overwhelmed staff. Disappointment reigns. What should have been great for business instead hurt it. Should the restaurant owner have invested in additional capacity to better leverage the opportunity? But what about the upfront financial investment that would require?

Should you build the capability to deliver increased sales before you see them, or after? Managing the relationship between supply infrastructure — the underlying operational framework — and demand presents what seems a chicken and egg conundrum. Some businesses, such as mine, have an underlying philosophy that makes the decision relatively easy. Others, especially those more capital intensive, face much tougher choices.

Developing capacity likely will cost money, money you may not want to spend unless you have to. Alternatively, a reputation can be irreparably harmed by poor service likely to occur from inadequate infrastructure. Ideally, the business owner can discover options to manage supply infrastructure and demand within the tolerance for risk.

Continuing the restaurant example, simple planning may smooth demand from the spike associated with the date of the review and require little or no increase in costs or infrastructure. The restaurant could print cards to be given to those turned away:

We will not compromise on quality or service. Because of that commitment and the sudden increase in customers, we unfortunately cannot serve everyone this evening. We want to become your favorite restaurant. Please call us at 999-

999-9999 for a reservation in the near future.

This strategy is intended to level demand, not supply, an alternative to investing in infrastructure. Perhaps for your business an industry show or ad campaign is expected to increase near term demand. Don't create a scenario where increased sales will hurt your business. Failure to deliver your brand promise can undo all the benefit of your marketing investment, and more.

Fully integrating decisions to shape supply through infrastructure adjustments and to shape demand through marketing can manage, but not eliminate, risk. Both the chicken and the egg must be coordinated through a single set of assumptions and goals. If demand far exceeds expectation, your infrastructure will not be able to supply it. For some, the opposite scenario may occur -- excess capacity wasted by too little demand. The options for responding to both of those scenarios should be discussed in advance as you define your demand and supply shaping plans.

Focusing on financial risks and opportunity has to be a formal part of the process. In almost every case, there are options. Cash flow and near-term profitability considerations can drive decisions about lease versus buy, outsourcing versus hiring, lines of credit, payment terms with new customers or suppliers, and limited versus broad rollouts.

Tony Marchetti, owner of wine agency, broker and importer The Marchetti Company, decided to seize the opportunity to expand his market by taking ownership of select inventory to be ware-



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housed in the U.S. Space, product handling, forecasting and inventory planning, and a myriad of other operational changes had to be considered.

Logistics absolutely was integral to success, and therefore to his decision about infrastructure to support his plan. Most wine importers warehouse product in the New York City metro area. As a result, the region houses storage companies that specialize in alcoholic beverage and food handling, a real advantage. In addition, maintaining inventory close to customers' other suppliers would limit their freight costs, making his product even more attractive to the new target markets.

Weighing that, Marchetti decided to utilize public warehouse space in New Jersey with a respected company specializing in his products. That choice would limit both upfront investment and risk. His staff was already familiar with the logistics of importing from Europe; they just needed to learn the specific procedures of this warehousing provider.

Finding the right product mix and inventory levels was the least understood part of the plan. Forecasting was little more than an educated guess. In the first year of this new business plan Marchetti learned a lot about what moves and what doesn't, experience that improved subsequent forecasting and inventory management.

His words of advice to those considering growth plans that require a change in infrastructure:

- Consider all the options; there are more than you see initially.
- Expect the unexpected; design in flexibility to handle it, especially where you are most vulnerable.
- Line up capital to fund cash flow requirements; as with vacations, it will take twice what you expect.

Or simply put, look for ways to manage the chicken and the egg so they grow simultaneously. Easier said than done for many, but possible for most.



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