

Fürderer

Option and Component Bundling under Demand Risk

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Ralph Fürderer

Option and Component Bundling under Demand Risk

Mass Customization Strategies
in the Automobile Industry

With a Foreword
by Prof. Dr. Arnd Huchzermeier

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Foreword

In today's world, customers, not firms, are the driving force behind product variety and speed of innovation. Increased global competition and the opening of newly developed markets raise the pressure even further. High margins for newly developed products are short-lived and thus these products become quickly commodity items. The cash-flow generated by the new product is required for the financing of the research and the development activities of the next generation of products. Successful firms do take the lead in this vicious cycle and do not release products prematurely; the unsuccessful ones launch products late and, as a result, often do not generate sufficient capital required.

Ralph Fürderer explicitly addresses the cross-functional tradeoff in the implementation of mass customization strategies. In practice the debate looms between Marketing who wants to broaden product variety and Manufacturing who needs to lower overall costs. Alternatively, the practice of product bundling and bundle pricing can be deployed effectively and thus lead to the best of both worlds, i.e., lower costs, higher prices and higher expected sales through increased service levels!

The main managerial insight is that products need to be tailored to the customer's reservation prices or willingness to pay for individual product features and options. Thus, there is no need to fulfill all customer requirements. From a manufacturing point of view, the products need to be tailored, too. Scale effects through modular design of components enhance the ease of assembly and foster the quick response capability for customized or bundled products. For this reason advanced planning of component designs and assembly lines prior to the market launch poses the grea-

test challenge for manufacturing planning. Ralph Fürderer addresses this complex planning problem in this book. However, the potential benefits - as demonstrated in this book - can be rather rewarding.

This book provides an excellent integration of the different aspects of manufacturing and marketing planning. Moreover, the methods have been implemented and the results have been validated at Adam Opel AG. My colleague, Professor Linus E. Schrage, from the Graduate School of Business of the University of Chicago, and I consider this work an outstanding contribution to the theory and practice of world class manufacturing management. The concepts described in this book have been integrated already in the curricula of leading Business Schools throughout the world.

Prof. Dr. Arnd Huchzermeier

Preface

In times of quickly growing technical complexity, heterogeneous needs in competitive sales markets, and substantial demand uncertainty due to lead times in Planning, the task of increasing the profitability of a car manufacturer's product line requires powerful decision support systems.

The work presents an integrative framework of the Product Engineering and Manufacturing side in terms of product costs and variant driven complexity costs, as well as the sales revenues on the Marketing side, determined by the stochastic structure of demand and competition. The proposed mathematical optimization models for the system component design and the stochastic price bundling are of large scale in practice, and some can not be solved by traditional local search approaches. We have therefore developed and analyzed new solution algorithms which account for the inherent data complexity and non-concavity.

Moreover, the work reports of the implementation of the presented methods at a world-class car producer using efficient data collection methods for empirical validation on real car concept problems. Due to the versatility of the approach, its application is not limited to production industries.

Many people have played important roles in the development of this book. As a non-economist, my views on Operations Research were greatly influenced by the excellent teachers I have had. Professor Arnd Huchzermeier accompanied me during the entire project providing "engines, brakes and safety belts" in many difficult situations. I have benefited a great deal from his ideas and the ideal way of supervi-

sion. To Professor Linus E. Schrage and Professor R. Kipp Martin at the University of Chicago, I not only owe a lot of good suggestions and thorough paper revisions, but also the invaluable disclosure of many exciting facets of OR beyond the scope of this book.

As a non-engineer, at the Adam Opel AG I learned what it takes to build a car and to sell it. In particular, I would like to thank Hans-Joachim Gora, Dr. Eckhard Dornauf and Heinrich Zapf for their support during my time at the Vehicle Computation Department.

Many thanks also go to Dr. Andreas Herrmann for his valuable comments and for always having an open door.

Last not least, I want to thank Petra for her love and patience. During many months, she frequently had to put up with a boarder who ignored laundry, communication, and sunny Sunday afternoons for the sake of getting this work accomplished.

Ralph Fürderer

Contents

1	Introduction	3
1.1	Roadmap	6
2	Cost Optimization of System Components	9
2.1	Motivation	9
2.2	Literature Review	13
2.2.1	Packing Problems	14
2.2.2	Set Covering/Partitioning Problems	19
2.2.3	Facility Location Problems	21
2.3	Cost Structure	24
2.3.1	Engineering	24
2.3.2	Purchasing	26
2.3.3	Manufacturing	27
2.3.4	Logistics	28
2.3.5	Assembly	29
2.3.6	Aftersales and Recycling	30
2.3.7	Example	30
2.4	Modeling Demand By Forecast Disaggregation	32
2.4.1	Motivation	32
2.4.2	Problem Formulation	33
2.4.3	Optimization Approach	36
2.5	Stochastic Model Formulation	39
2.5.1	Model Notations and Definitions	39
2.5.2	Model Formulation	42

- 2.6 Solution Methods and Model Analysis 47
 - 2.6.1 Branch-and-Bound and Relaxation 48
 - 2.6.2 Column Generation 55
 - 2.6.3 Simulated Annealing 58
 - 2.6.4 A Greedy Closed Heuristic 60
- 2.7 Computational Results 63
 - 2.7.1 Application to Selected Components 63
 - 2.7.2 Numerical Experiments 65
- 2.8 Summary 69
- 3 Option Bundling And Bundle Pricing 71**
 - 3.1 Motivation And Framework 71
 - 3.1.1 The Composition of the Bundle 73
 - 3.1.2 The Bundle Price 75
 - 3.1.3 The Form of Bundling 78
 - 3.2 Literature Review 84
 - 3.3 Option Bundling in the Automobile Industry 90
 - 3.3.1 The Car Manufacturer’s Perspective 90
 - 3.3.2 Bundling and Deproliferation 94
 - 3.3.3 Sales Strategy Benchmarking 97
 - 3.3.4 Practical Implementation of the Bundle Optimization 101
 - 3.4 Bundle Profit Maximization Under Uncertainty 103
 - 3.4.1 Notation and Terminology 104
 - 3.4.2 Model Formulation and Analysis 110
 - 3.4.3 Homotopy and Bifurcation Theory Results 115
 - 3.4.4 Collecting Data 120
 - 3.5 A Heuristic Decomposition Algorithm for the SBP 123
 - 3.6 Computational Results 126
 - 3.7 Summary 132
- 4 Research Extensions 135**
- References 137**

List of Figures

2.1	Typical Harness Cost Function	12
2.2	Wiring Harness Cost Drivers	25
2.3	Problem Size and Solution Times	64
2.4	Sensitivity With Respect to Changes in Demand	66
2.5	Sensitivity With Respect to Changes in Factory Span	67
2.6	Sensitivity With Respect to Changes in Option Variety	68
2.7	Bounds on CPU Times	69
.		
3.1	Negative Correlation of Reservation Prices	81
3.2	Positive Correlation of Reservation Prices	82
3.3	Profit Evolution During Lifecycle	91
3.4	System Variant Explosion	95
3.5	Proliferation Drivers Exhaust System	96
3.6	Benchmarking of Customer Specific Supply	99
3.7	Passenger Car Equipment Strategies	100
3.8	Option Bundling Information Flow	101
3.9	Alpha Choice Rule	110
3.10	Local Resolution of $F(x) = 0$	118
3.11	Bifurcation Point of $H(\lambda, x)$	119
3.12	Error Distribution for (μ, σ) sweep for three pairs	122
3.13	Error Distribution for (μ, σ) sweep for four pairs	122
3.14	Error Distribution for an α sweep	123
3.15	Problem Parameters for Forecast Disaggregation	126
3.16	Problem Parameters for Buyer's Problem	127
3.17	Problem Parameters for the Stochastic Bundle Optimization	128
3.18	Maximum Profit for Different Numbers of Bundles	128
3.19	Sensitivity of Profit With Respect to Choice Randomness	131