

# Make To Order (MTO) or Make To Stock (MTS) production strategies

You would use this approach to understand the best supply model to adopt for your business or specific products.

## Projected performance gains



### Improved

- More competitive leadtimes
- Product availability
- Design supply models for different products



### Increased

- Understanding about the effect of supply strategies on cashflow

## What investment is needed to understand the concept?

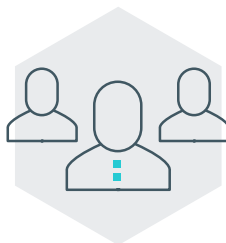
### DIFFICULTY



### Medium

Requires some reading around the subject and a structured approach

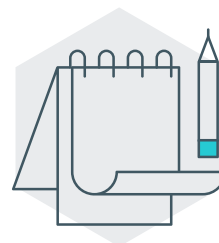
### ACTIVITY



### Individual and Team

The task can be completed by an individual, but input from team members may be required

### EQUIPMENT



### None

No equipment is needed

### Explanation of the concept

Make To Order (MTO) or Pull, is an approach to supply where products are only launched into production when an order has been received. Lean Manufacturing promotes a MTO approach as the ultimate aim, as it:

- reduces inventory
- improves cashflow
- connects the factory to true customer demand, limiting the risk of overproduction

The main challenge with MTO is whether your existing production leadtime match your customers' expectations. As an example, a well know fast food chain seeks to separate its customers from their money within 3 minutes of them entering an outlet. To achieve this, the fast food has to be able to be prepared and cooked in under 3 minutes. Their processes can achieve the required leadtime without the need to make in advance.

Make To Stock (MTS) or Push, is usually used when the leadtime of the production process cannot meet the customer required leadtime. In many companies, products are made based on a mixture of customer forecast and historical sales data. It is also known as a Push system.

**Clearly there are more risks with MTS such as:**

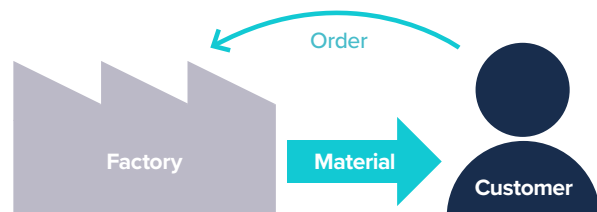
- inventory is higher
- cashflow is worse
- there is a need to store finished goods
- if products are not ordered, they may have to be sold at a discount or written off

In the early 2000's, the Chartered Institute of Purchasing and Supply (CIPS) calculated that to hold stock for a year cost the equivalent of 25-40% of the buy price, when all associated costs were added up. This includes financing, storage, obsolescence, insurance, counting, moving and managing.

#### Make-to-stock (Push?)



#### Make-to-Order (Pull?)



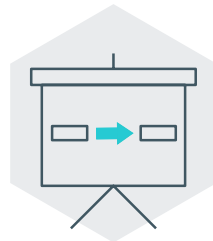
### What action should I take?

1.



Identify the products that make the highest revenue contribution

2.



Identify which model (MTO or MTS) you are using

3.



If it is MTS, understand why you are using this model

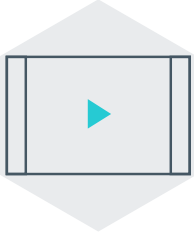
4.



Work with the team to identify how you could move MTS products closer to an MTO model

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## Recommended resources



Manufacturing: Push or Pull?:

<https://www.youtube.com/watch?v=yQHZbMd4ydk>

Pull vs. Push a short animated explanation:

[https://www.youtube.com/watch?v=DoXE\\_IX3Zzo](https://www.youtube.com/watch?v=DoXE_IX3Zzo)



[GC Business Growth Hub Factsheet 28: Inventory Management](#)

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## Glossary

**Inventory (Stock):** Raw materials, work in progress, finished goods

**Leadtime:** The time it takes from order placement to the delivery of product or service

**Make to Order (MTO) or Pull system:** Production only begins when an order has been received

**Make to Stock (MTS) or Push system:** Production is based upon forecasting and outputs are held in stock

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For more advice, case studies and additional factsheets visit: [www.businessgrowthhub.com/manufacturing](http://www.businessgrowthhub.com/manufacturing)