

Robert M. Pufky

Companies who correctly implement a JIT-like system inherently incorporate the economies of scope into their production lines, positioning them respond better to shifts in customer demands. Economies of scope allow two or more products lines to share the same medium without congestion¹. Intrinsic to economies of scope is the ability to shift production from one product to the other, allowing production to adapt to consumer demands. (1) In Honda's case, the economies of scope is their secret and hat trick – by investing extra money, they have created production lines that are able to produce multiple types of cars with low changeover costs, allowing them to respond quickly to changes in customer demands; whereas the rest of industry needs to go through the long process of re-tooling to change models. (2) This change in their manufacturing process has allowed them to globally launch the new civic model at all factories “within 6 months”²; as opposed to the “six-month gap between launching ... in just Japan and Canada”³ for the previous launch. (3&4) This approach that Honda is taking applies the concept of economies of scope for a single company – consolidating model production into fewer factories allowing for a more responsive production line – a trend that smaller manufacturers will have to follow to keep up with innovators such as Honda. Honda should pay close attention to customer demand and respond accordingly with their production in the short term. Medium term, Honda should investigate ways to produce all five models out of every production facility. In the long run, factory designs, tool designs and methods for assembling vehicles should be examined to further enhance their ability to quickly change over their production lines – even to the point of be able to assemble a different type of car at every stop on the assembly line without changeovers.

¹ Panzar, John C., and Willig, Robert D., 1981, “Economies of Scope,” *AEA Papers and Proceedings*, Vol. 17, No. 2, May, 268-272

² Vasilash, Gary S., 2000, “Honda's Hat Trick,” *Automotive Manufacturing & Production*, Vol. 112, Iss. 10, pg. 56

³ Vasilash, Gary S., 2000, “Honda's Hat Trick,” *Automotive Manufacturing & Production*, Vol. 112, Iss. 10, pg. 56