

6.2: Make-to-order and Make-to-stock

It is useful to categorize processes as either make-to-order or make-to-stock.

In a **make-to-order** business, the customer's order is not manufactured until the order is received. This allows customization to the exact specifications that the customer requires. It may also be referred to as build-to-order. This type of production is considered a pull type system. The work is "pulled" through the process when customer demand is present.

The disadvantage of this type of system is that it takes time for the firm to acquire any materials and needed components, and then to schedule and produce the customers order. Goods are made in small amounts, and may be more expensive.

The advantage of this type of process is that inventory is lower than in a typical make-to-stock system. There is not any uncertainty about what the customer desires and there is no obsolete stock to be disposed of. Dell Computer has utilized this type of system to produce personal computers very successfully.

In a **make-to-stock** process, goods are produced in anticipation of customer demand, usually from a sales forecast. These products are generally made in larger amounts and put into storage to wait for customer orders. Although the unit cost may be lower due to large production volumes, there may be losses due to forecast error, excess inventory, obsolescence and theft. Lead times however are short because goods are available when the customer places the order. These goods are not customized, but standardized

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