The Issue: A diversified food manufacturer with several plants and warehouses was experiencing high finished goods inventory levels and moderate levels of customer service. The Customer Service group was asked to increase case fill rates, and the warehousing group was charged with lowering warehousing costs. Because the company used a 25% inventory carrying cost, every $1million reduction in finished goods represented cash flow savings of $250,000.

The Solution: As part of its structured Continuous Improvement process, the company analyzed, then challenged, the way the safety stock levels were derived. Previously, decisions were made based upon the monthly sales volume of each product category. The safety stock levels were then adjusted downward for items that could be run in several plants, and adjusted upward for items that had significant scheduling constraints.

The new process leverages several years' of weekly demand data at the SKU level. Using a statistical approach, the team calculated means and standard deviations for each item's demand plan, enabling them to derive safety stocks that would achieve the required customer service levels, which could vary by item.

The Results: Following a pilot with four product categories, the new process was rolled out within four months. Within four months, service levels increased to required levels, and working capital decreased by $6 million, all driven by reduced finished goods. Given that the company used a 25% inventory carrying cost rate, the reduction in working capital generated cash savings of $1.5 million. All of this was achieved with no investment.

STRAIGHT FORWARD CONSULTING

For more information, contact
John Hogg
Straight-Forward Consulting
716.866.8958
johnh@straight-forwardconsulting.com
www.straight-forwardconsulting.com