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# M&D Watch

## Consumer Products

### A Home Lighting Products Company Reduces Inventory and Compresses the Supply Chain 2016 - Issue II

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A prominent home furnishings company faced a nice problem. The good news was that its business was growing rapidly, thanks to increasing sales to current customers and an attractive new contract with a major retailer. But it needed to tune up its supply chain to manage inventory more efficiently and provide faster, more reliable service to meet more stringent customer requirements. The inventory and supply chain management policies and structures that had worked well when the firm was much smaller were no longer suited to the new requirements, and they needed to be upgraded. The company turned to WeiserMazars for help in making the transition.

As is common in the industry, the company's products were sourced from suppliers in Asia, most of which were small firms that were good at designing attractive products but lagged in maintaining consistent high standards and timely deliveries. Also, the company's policies and procedures for working with suppliers failed to deliver the expected results. Once the suppliers received the orders, what happened next was often a mystery to the company, until the supplier notified it that the product was ready, which often was past the agreed-upon due date. Once completed and inspected, the goods were then shipped by intermodal transport thirteen thousand miles by sea and truck to the company's U.S. distribution center.

Meanwhile, inventory grew rapidly at the company's distribution center in response to the company's new contract with the large retailer. The products were trendy, stylish, and had high product turnover, and inevitably, some models in stock did not sell well. The long transit and buying cycles required additional inventory to maintain high product availability levels, the company's key selling point. The result: The distribution center was at full capacity.

In addition, as buying decisions were based on historical sales and relied on management's and the buying team's experience, the process was more an art than a science. When other supply chain variables were included, it could take months from the time a need was recognized until the stock arrived at the warehouse.

The company's top management worked in tandem with WeiserMazars' supply chain consultants to evaluate this complex situation from many angles and attack the problem from several directions. It was a three-step process: First, reduce the warehouse's unprofitable stock by performing an analysis of ROI by SKU to measure costs, including minimum buy requirements; second, improve the supplier selection process with China by developing a supplier metric score card; and third, improve the buying process.



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The joint team first evaluated the company's existing product line inventory. The company had always removed poorly selling products from its catalog, using sales revenue as a guide, although some favored products were retained in hopes of improving sales. The team updated the product evaluation process by measuring ROI rather than sales revenue.

The company improved its method of calculating profitability by including items that traditionally had not been considered, for example, minimum order requirements, which often times far exceeded demand. The team also established formal rules for deciding whether to retain or discontinue poorly selling products. As a final step, the team reviewed the entire product line based on the new criteria to eliminate unprofitable item.

The team next addressed how the company selected and worked with suppliers. After instituting guidelines and annual reviews based on past supplier performance, a sub-team reviewed the list of suppliers, and reduced the number by almost half. The products made by the suppliers targeted for elimination were then either re-assigned to other suppliers or, in some cases, removed from the product line. Concurrently, the team analyzed supplier performance measures used to drive better quality, cost, and responsiveness, and created a new supplier scorecard and developed methods for using metrics and scores to award future business. Finally, a new system was established for staying in close contact with key suppliers during the sourcing and manufacturing process, ranging from attending supplier meetings to revising and expediting production methods. The company realigned its Asia team with the new methods, and began the daily process of closely managing suppliers.

The team then examined the buying process, and improved the software buyers used for information on the performance of suppliers and products. Coinciding with the long lead time to deliver products from Asia, the software was upgraded to consider sales demand several months ahead. It also refined suppliers' lead times to make them more accurate, and included (for the first time) other factors that affect the buying process.

Improved buying methods were established, including elements of sales and operations planning, such as holding monthly meetings between both groups to develop consensus on sales projections, and reviewing only those items with a projected shortfall, rather than every item. The planners' roles, responsibilities, day to day activities, authority, and accountability were modified and clarified. Finally, the entire buying cycle was revised so that it occurred on a weekly basis.

The company is now implementing these changes, and is already seeing positive results. Inventory in its distribution center is turning faster, and with far less obsolete and unprofitable stock, thereby generating space to operate more efficiently. Suppliers are adjusting to the new policies, and their responsiveness and timeliness are improving. The buying process is now much more effective, accurate, and time-efficient. Inventory reductions, projected to exceed 15%-20% of working capital, are well ahead of schedule. Best of all, it appears that the company can now improve its profitability and at the same time, be much more responsive to stringent customer service requirements. Achieving these goals could not have occurred under the company's previous methods and criteria of supply chain and inventory management. Thanks to the joint team's work, the company is positioned to grow and prosper in a rapidly changing marketplace.

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