



How you can add value by driving down Working Capital without reducing customer service

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17 June
Operational Efficiency in Logistics 2009

Key messages/content

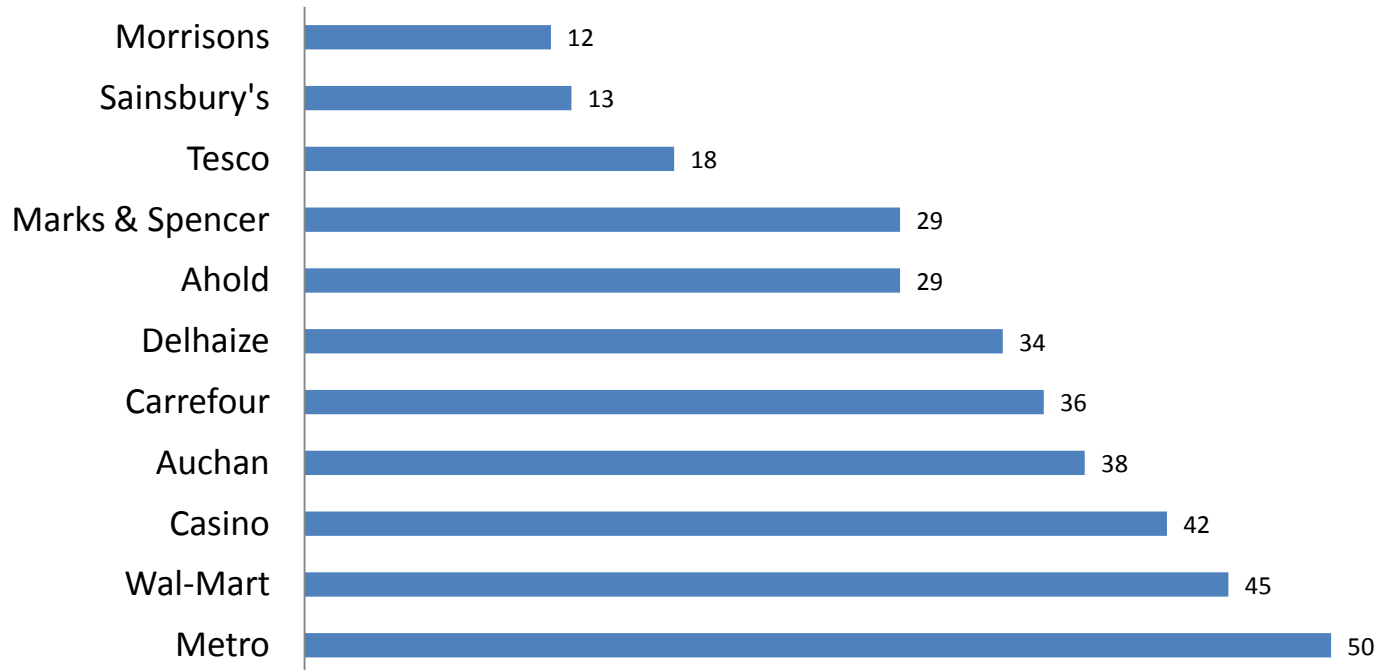


- Avoid tying up CASH in Working Capital
- The biggest lever to reduce Working Capital is typically inventory
- In a “pull” supply chain, inventory is the buffer vs demand/supply volatility
- There is a trade-off between Working Capital and customer service
- By prioritising, we can often improve service and reduce Working Capital
- We need to work at SKU level in order to execute effectively
- Substitute information for inventory to reduce the impact of volatility

Beware definitions and benchmarks

Turns, days of inventory days and percentages.....relative to Turnover or COGS

Days of Inventory (2007)



Days of inventory = $365 / \text{Inventory Turnover Ratio}$

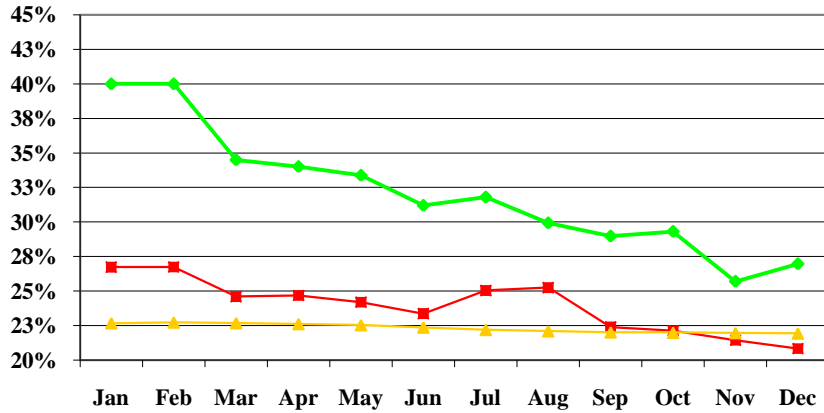
Inventory Turnover Ratio = $\text{COGS} / \text{Average of inventory of the current and previous year}$

Source: McKinsey & Co.

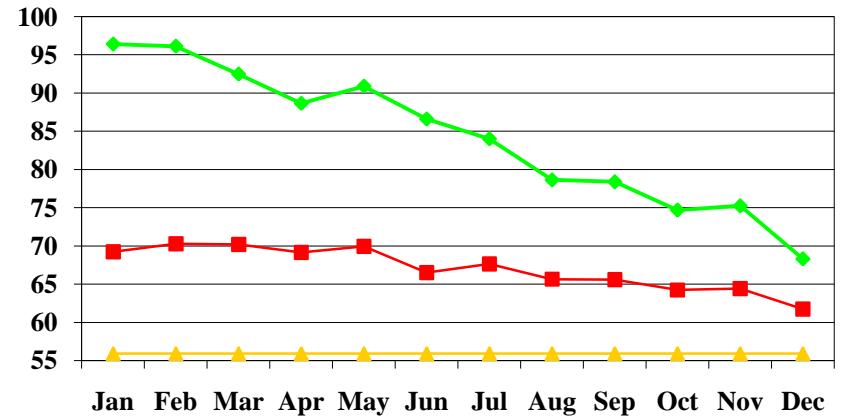
Typical WC Reporting



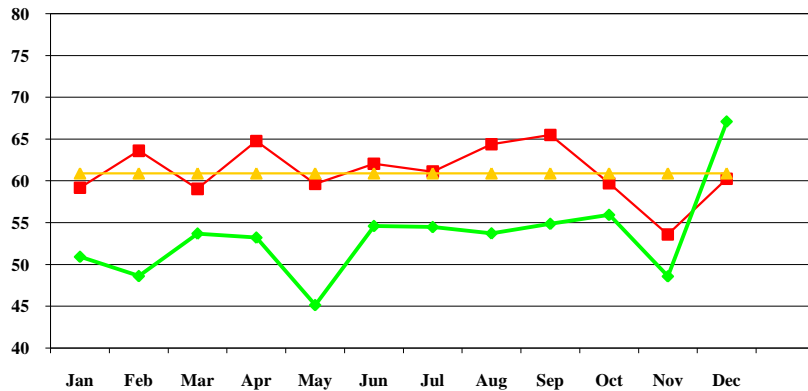
Perc. Working Capital / Sales



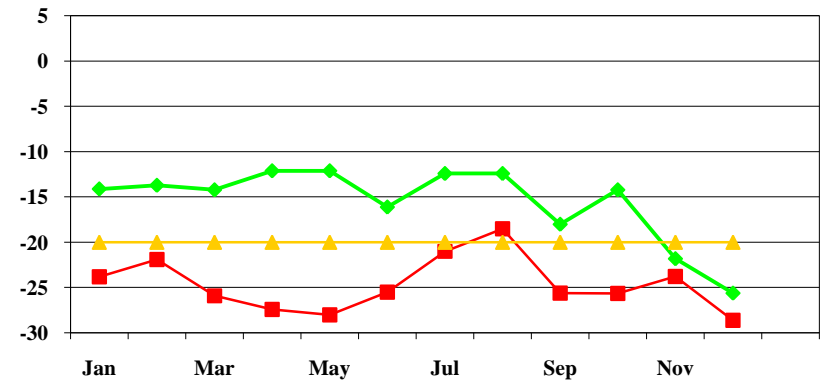
Inventories



Accounts Receivable



Accounts Payables



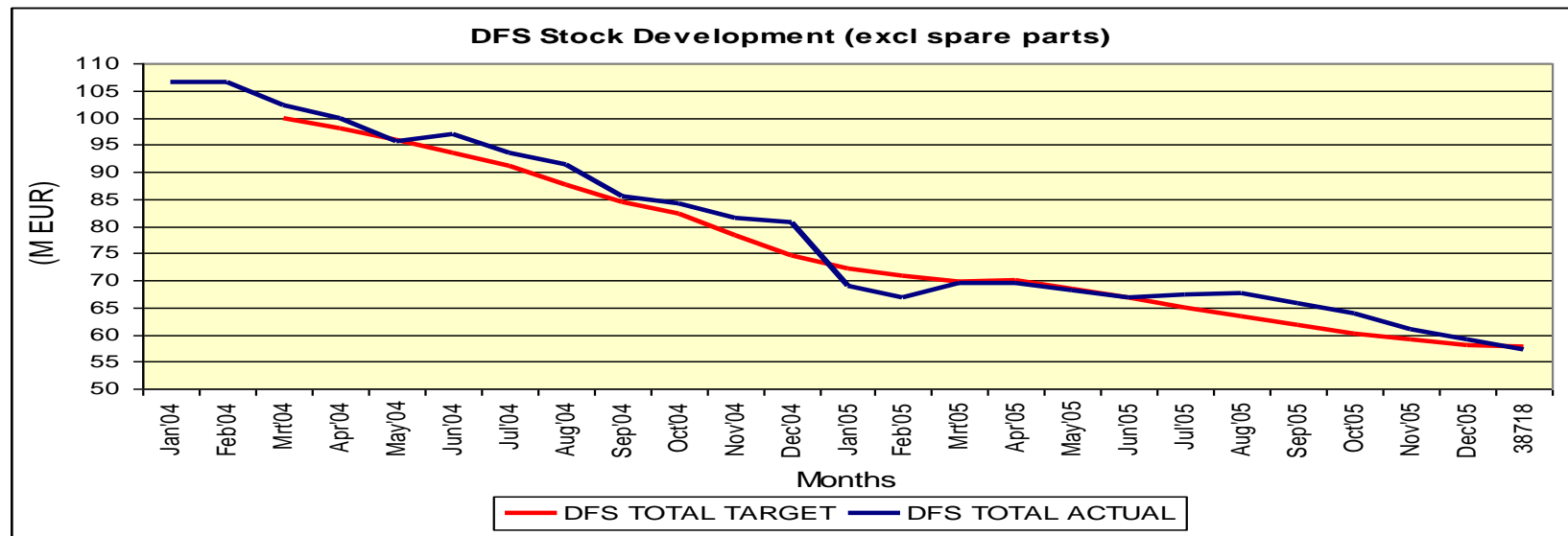
Simply cutting inventories is one approach

But is it sustainable?



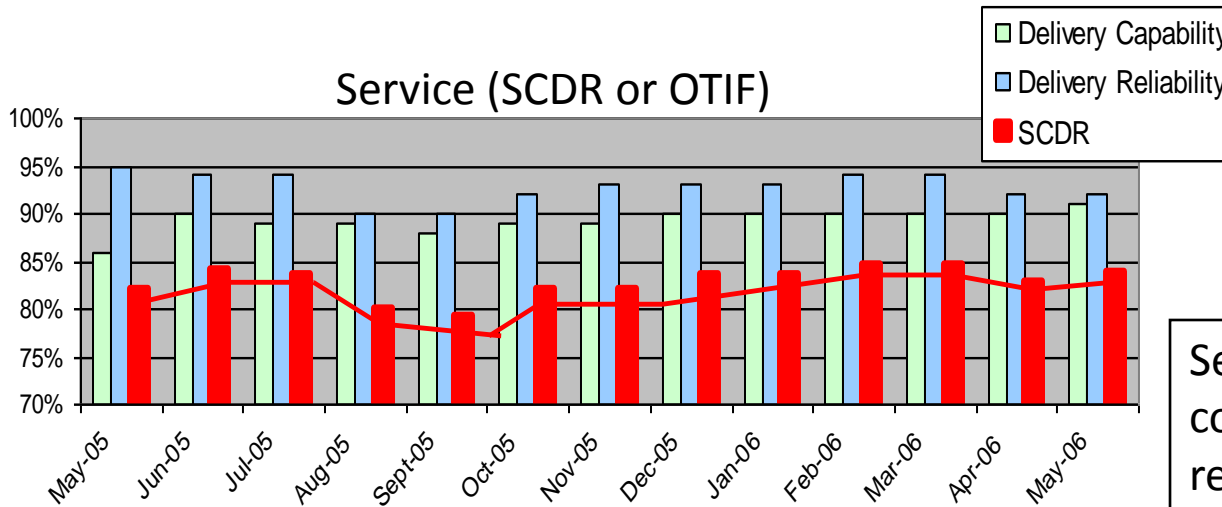
Over a 2 year period, OWC was reduced by > 46% by:

- Centralisation/consolidation of inventories
- Working with the BUs to deal with slow moving or blocked stock
- Pushing the BUs to define customer services eg minimum order sizes, no split pallets
- Producing to meet demand plan
- Clear KPIs, transparent performance reporting, focus and discipline

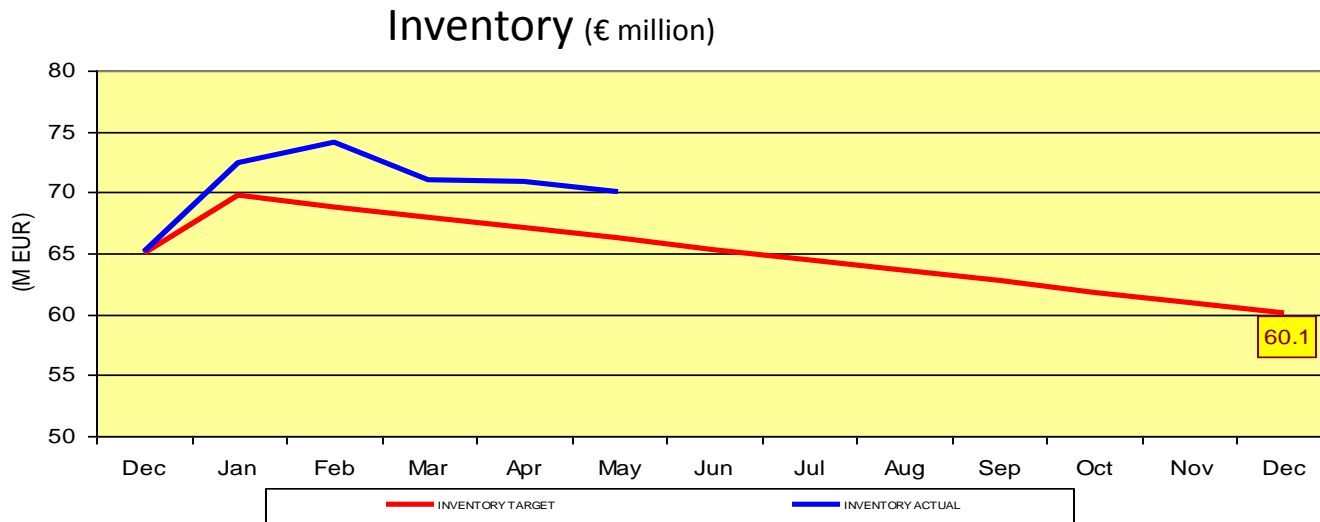


But the risk is that inventories rise again once the focus goes onto the next Corporate initiative

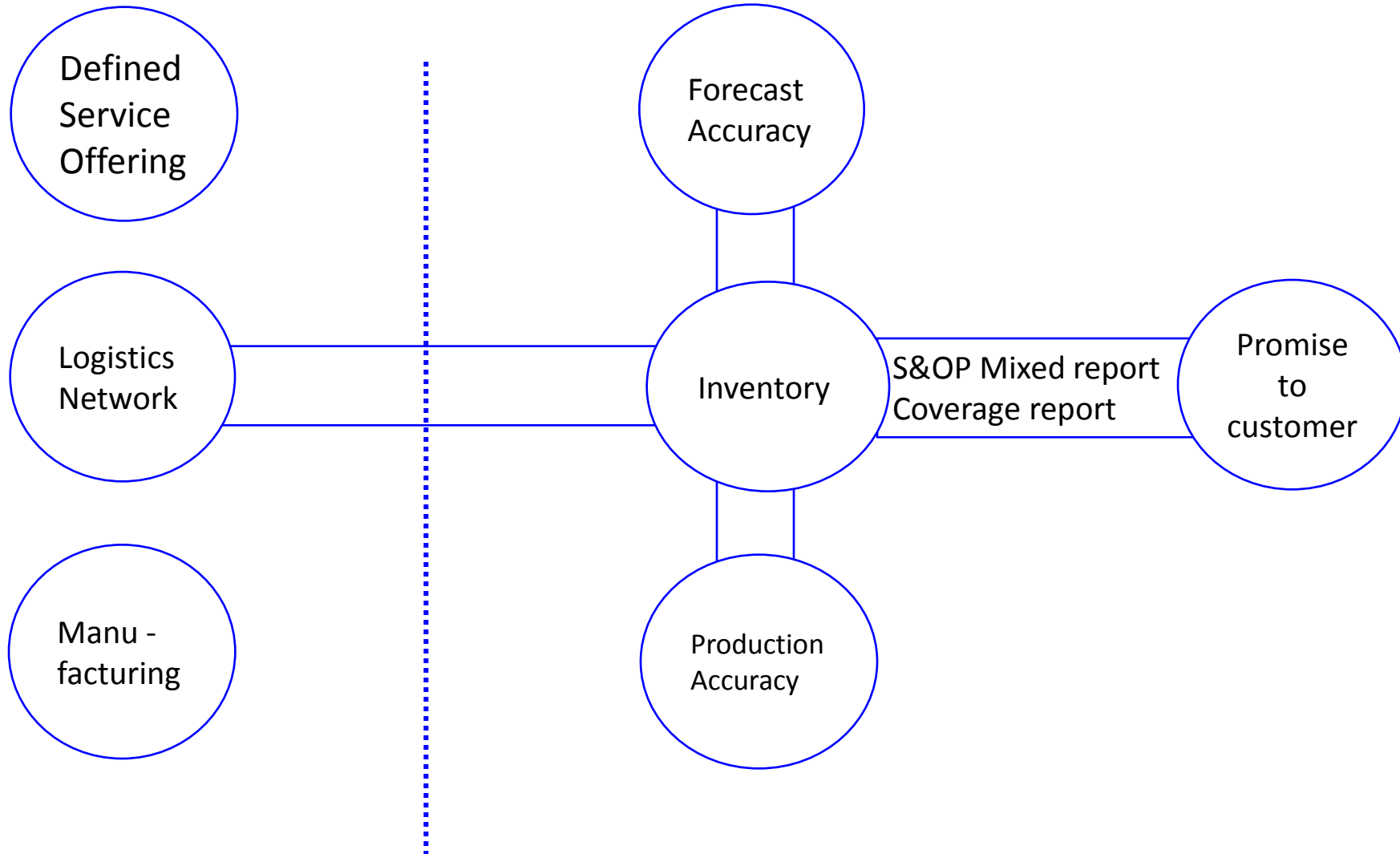
A one-off inventory reduction fails to make the trade-off link with service



Service not managed in combination with inventory reduction: there are no tools available to balance....

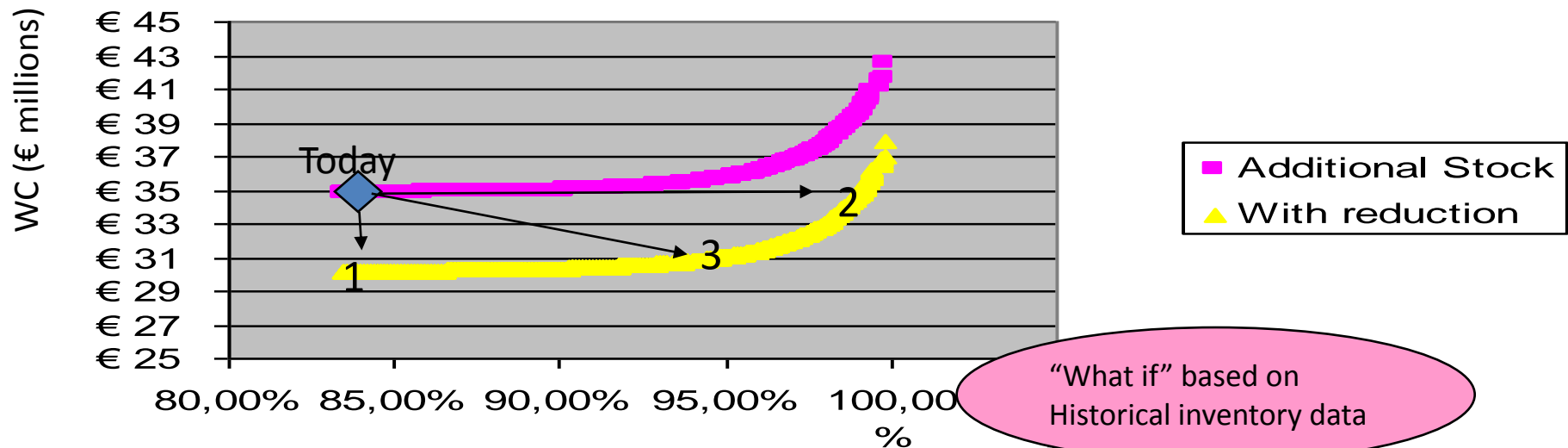


Supply Chain Inter-dependencies



The trade-off between WC and customer service

Service vs OWC : Options

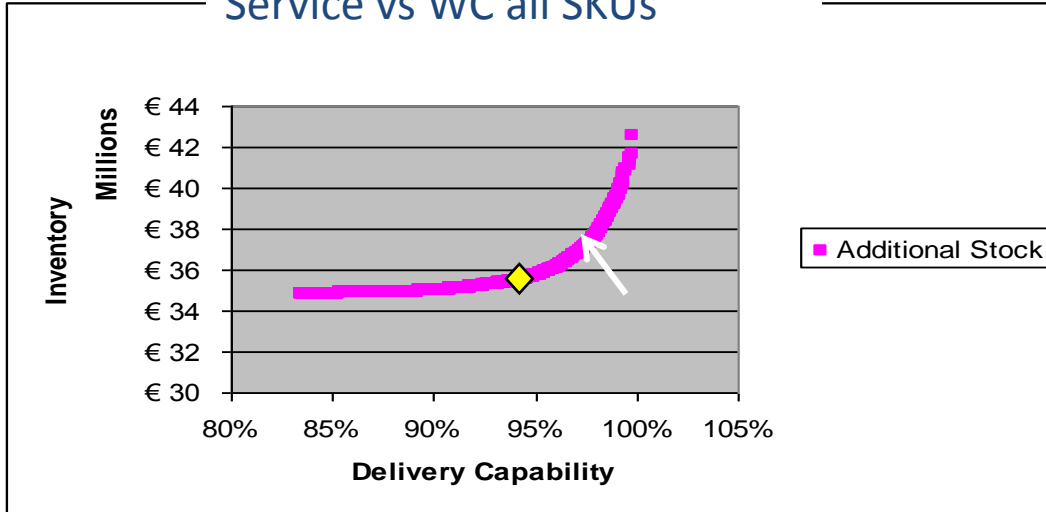


Provide the Business with high-level options: eg

1. an inventory reduction of €4-5 M;
2. or an improved reliability to the customer from 84% to 99%;
3. or a combination along the yellow curve.

Rebalancing Inventories using Pareto

Service vs WC all SKUs



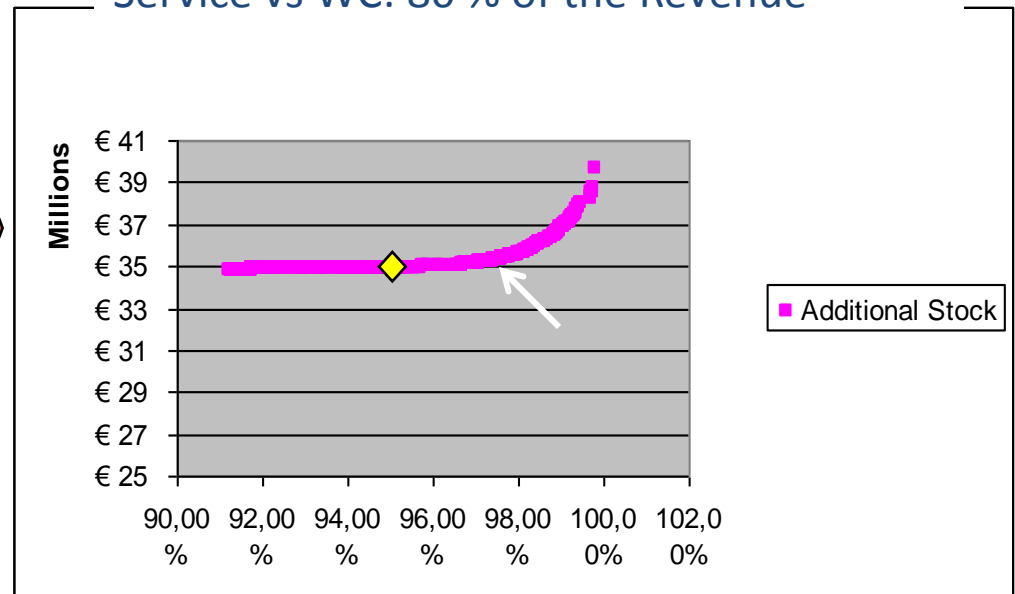
Improve service - all SKUs

- For service of 98%
- Inventory increase of € 2,9M

Improve service - only 14% SKUs but 80% revenue

- For service of 98%
- Inventory increase of € 0,7M

Service vs WC: 80 % of the Revenue



To anticipate uncertainty and reduce inventory:



- We developed a “**Coverage Report**” to show SKU stability
 - SKUs with peaks and troughs will require special attention in terms of safety stock settings.
 - Stable SKUs are candidate for inventory reductions.
 - The report doesn’t resolve the root-cause but makes it visible, providing the basis for systematic improvements
- We developed a “**Mixed Report**” to forecast inventory development on an SKU and aggregated level.
 - Future inventory levels which go below the safety stock or above the max stock level, require special attention.
 - The aggregation level helps for presentation and communication

Proactive and balanced inventory management

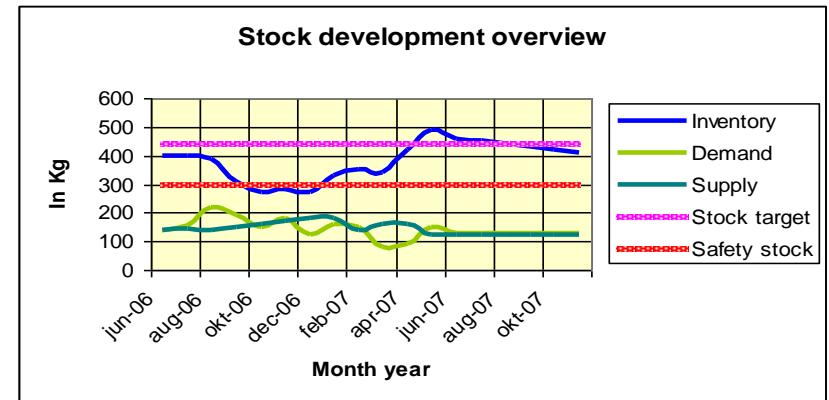
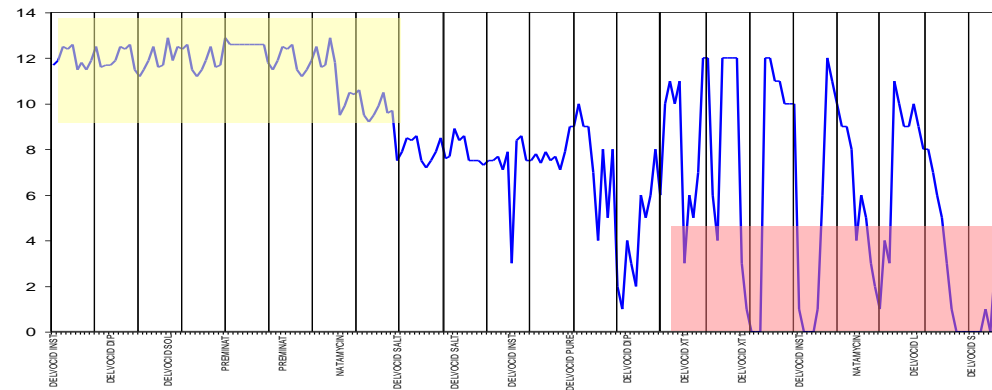
Past (KPI's)

Future (Scenario's)

S&OP

Inventory coverage

Mixed report (stock development)

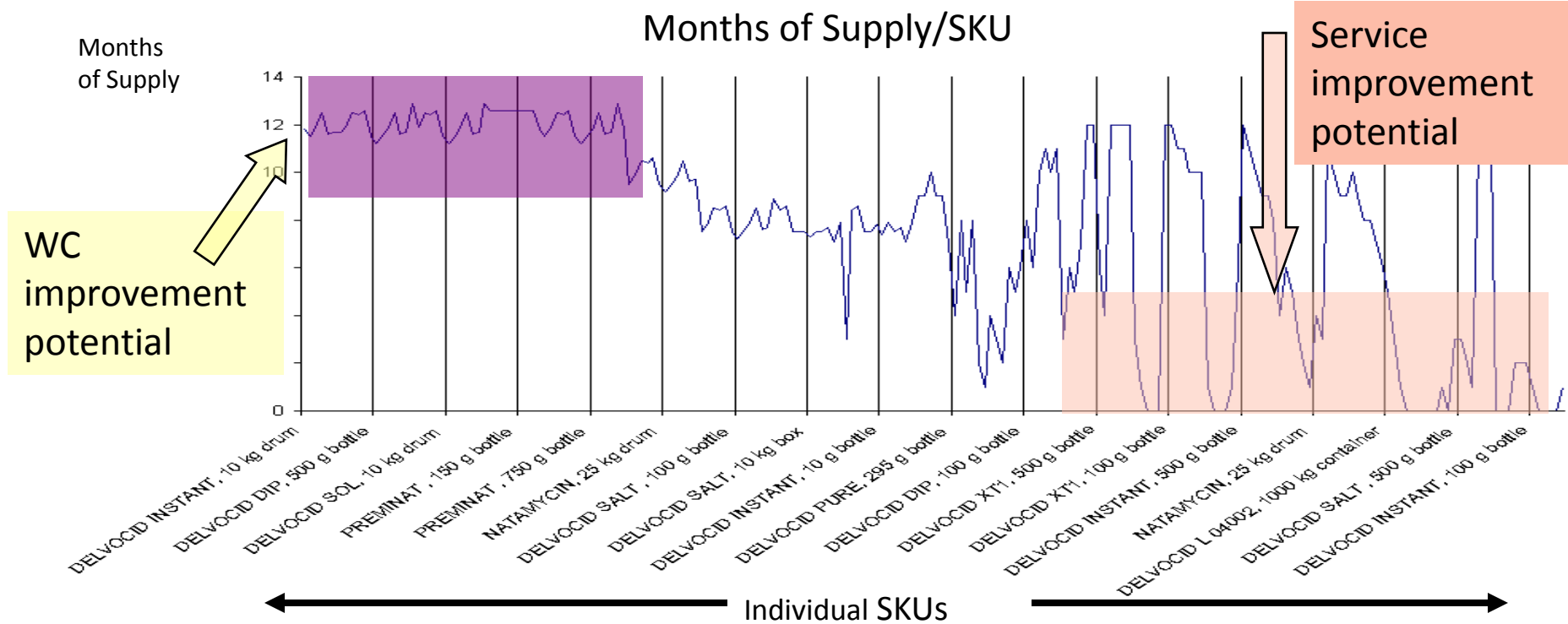


Determine safety and target stocking levels, based on history,

Anticipate future inventory issues based on new safety and target stock levels

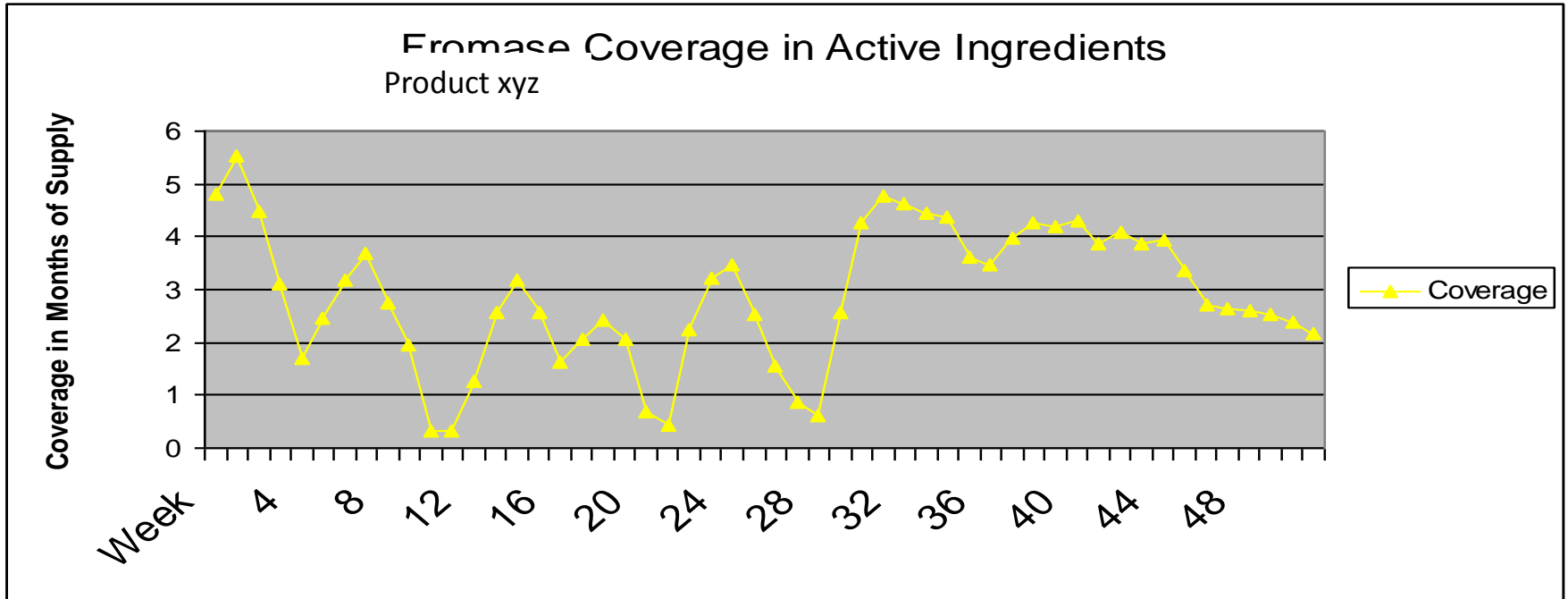


S&OP Coverage Report



- The S&OP Coverage Report highlights the need for improvement
 - reduce inventory and therefore WC
 - improve service by increasing inventory coverage
- The report does not provide the answers but the basis for root cause analysis

A process-driven approach



- The peaks and troughs in the Coverage Report made clear we needed more inventory to stabilise the Supply Chain.
- After we stabilised the coverage, we could start used the Mixed Report to help reduce the inventory

The Mixed Report

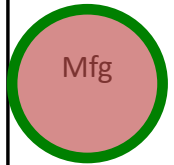
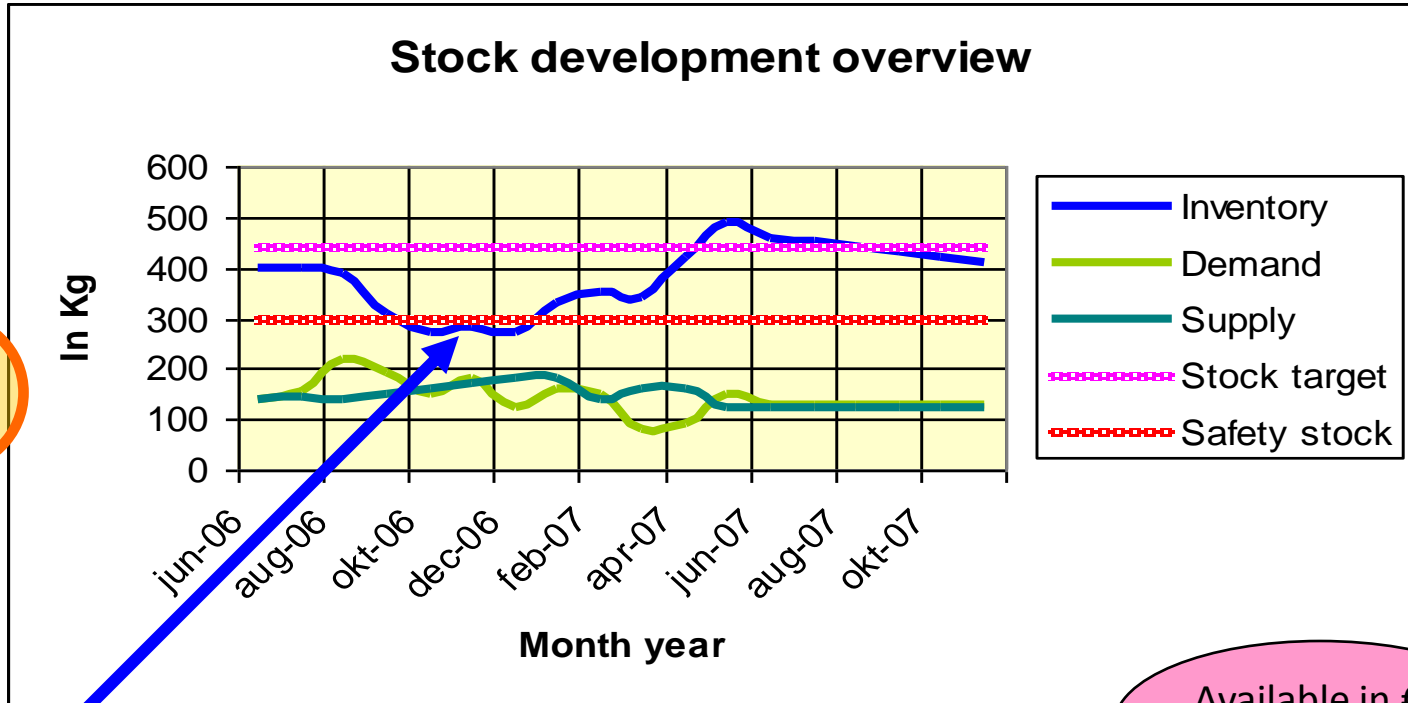


- The Mixed Report displays future stock development as a result of planned demand and supply
- In case of “problems” , the planner can analyse
 - Which SKUs should be created / expedited / canceled / ...
 - Which plants/customers/regions are root cause of certain demand element
 - If a certain forecast change is sudden
 - How a certain demand element compares with budget, RAF, etc
- In addition, the “demand part” helps Supply Chain Management challenge the forecast as created by Sales.
- The report can be displayed in volume, Euros or even activity level

The Mixed Report expresses different plans in the same “language”

Demand

Supply

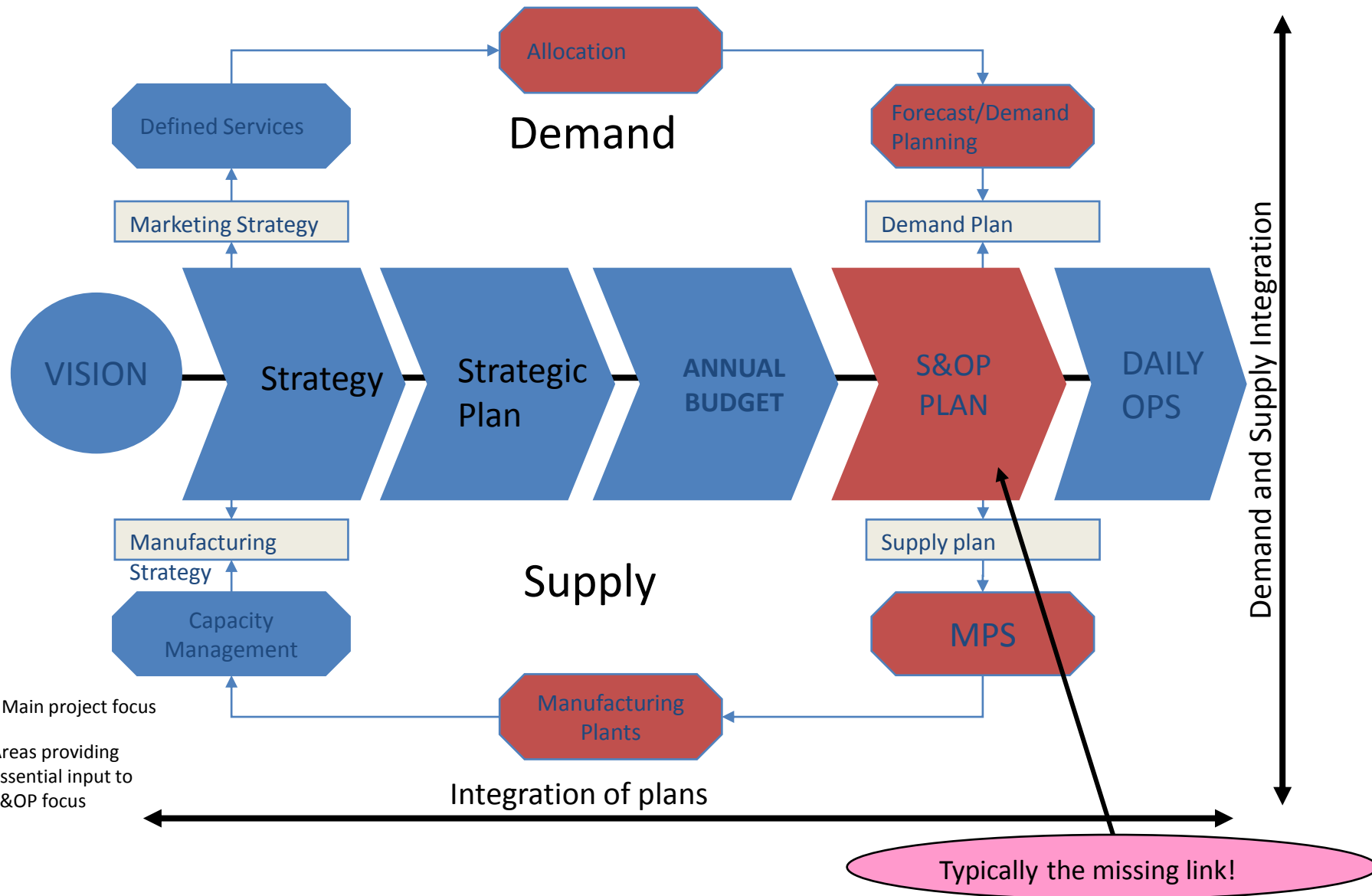


Drill-down
functionality for
root cause analysis

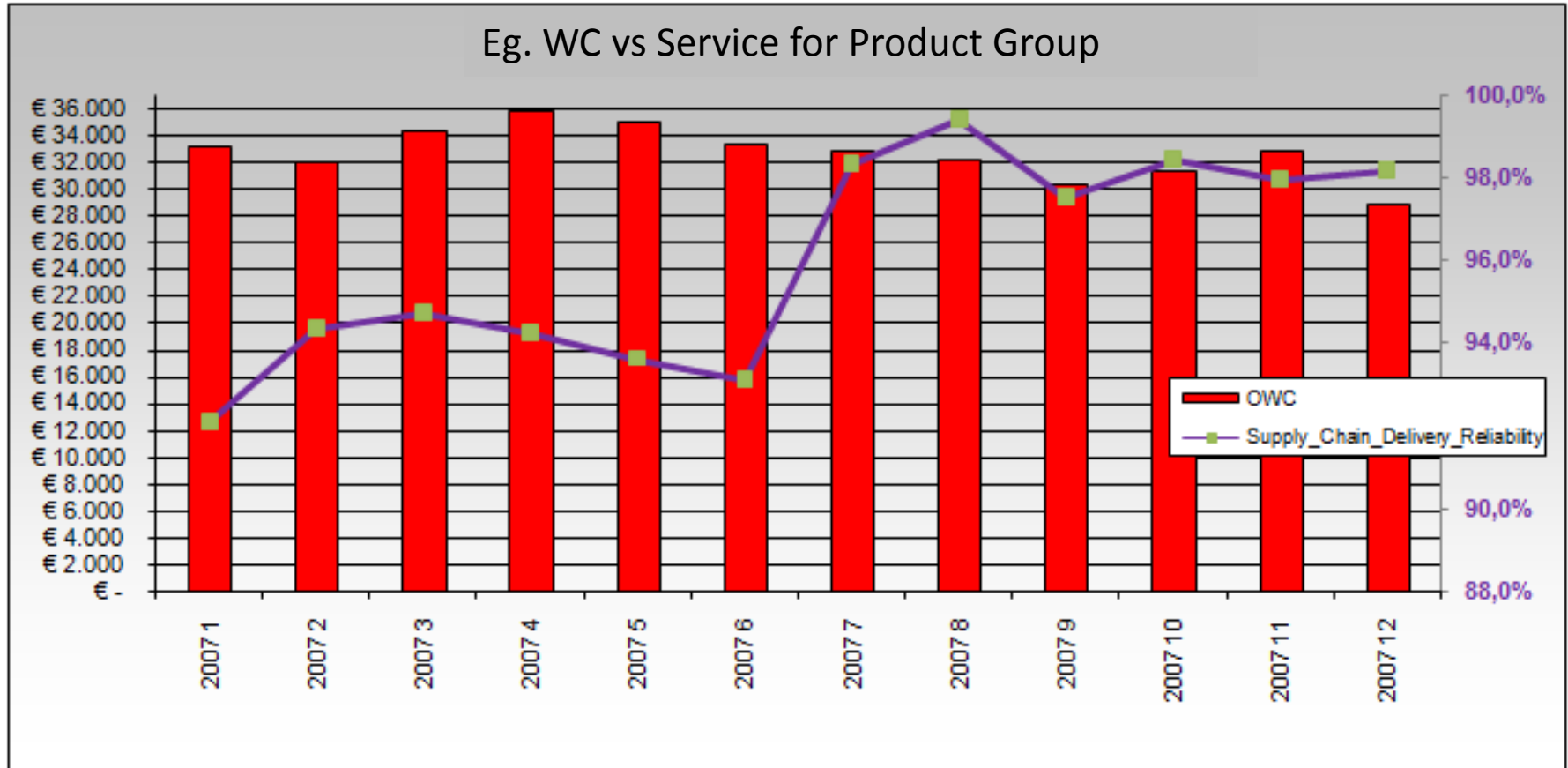
S&OP
Actions to improve future stock issues

Available in €, kg or #

The S&OP process should be aligned with the business strategy and budget



An iterative approach to balancing service and inventory leads to sustainable results



... a further reduction of 13% in inventory
whilst service has improved by 6%

Specialist IT Systems

- ERP systems are transactional
- Specialist, bolt-on software is available
 - Thousands of SKU
 - Very short life-cycles, sales promotions etc
- IT system is an enabler, not the answer
- Integrated process and joined-up thinking
 - Demand-driven; cross-functional discussions; S&OP
- Spreadsheet model/reports as a first step
 - No capital required, quick to implement

Key messages/conclusion

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Thank you for listening.
Any Questions?

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