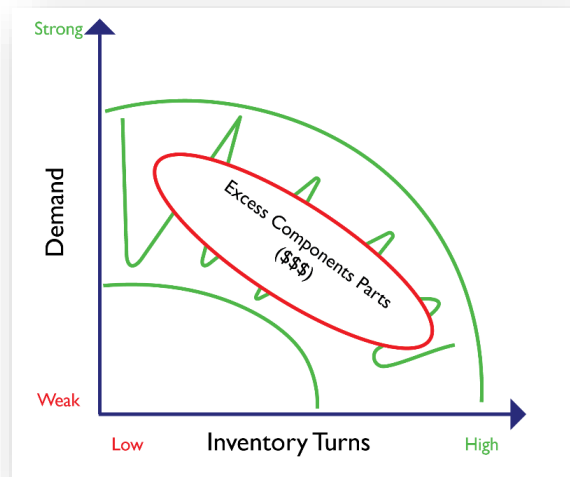


Inventory Parameter Analysis

The Challenge: During decades of strong demand, a global leader in the manufacture of industrial equipment and vehicles de-prioritized inventory management of component parts in support of service level goals. When global market conditions simultaneously softened in many of their market verticals, demand for both new products as well as for re-manufactured products were affected.

When the market softened, **inventory turns decreased**, drawing a spotlight to the level of working capital consumed for component parts in support of the lower manufacturing volumes. As a result, **corporate management imposed aggressive inventory reduction requirements** and mandated that the reductions be achieved in a relatively short timeframe before the end of the calendar year.

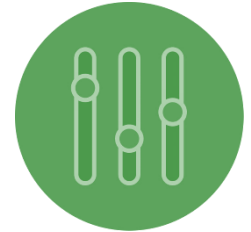
The Approach: To meet their short term inventory reduction goals, the re-manufacturing division of this company engaged Spinnaker to assess the situation and recommend an approach to quickly drain component inventory from their supply chain. Because of the short window to show benefits, the Spinnaker team understood that they would not have time to make substantive changes to the physical supply chain across the client's various facilities or pursue any sort of lengthy process or technology-based reengineering initiative. Instead, Spinnaker combined their extensive knowledge of Supply Planning processes and policies with their expertise in the various commercial planning software packages in use at the client to conduct an evaluation of existing planning parameters and policies that might lead to excess component inventory.



Over several weeks, the planning configuration, processes, and policies at each location were evaluated and a stacked benefit chart was created, prioritizing the causes of unneeded inventory by the relative addressable savings of each action.

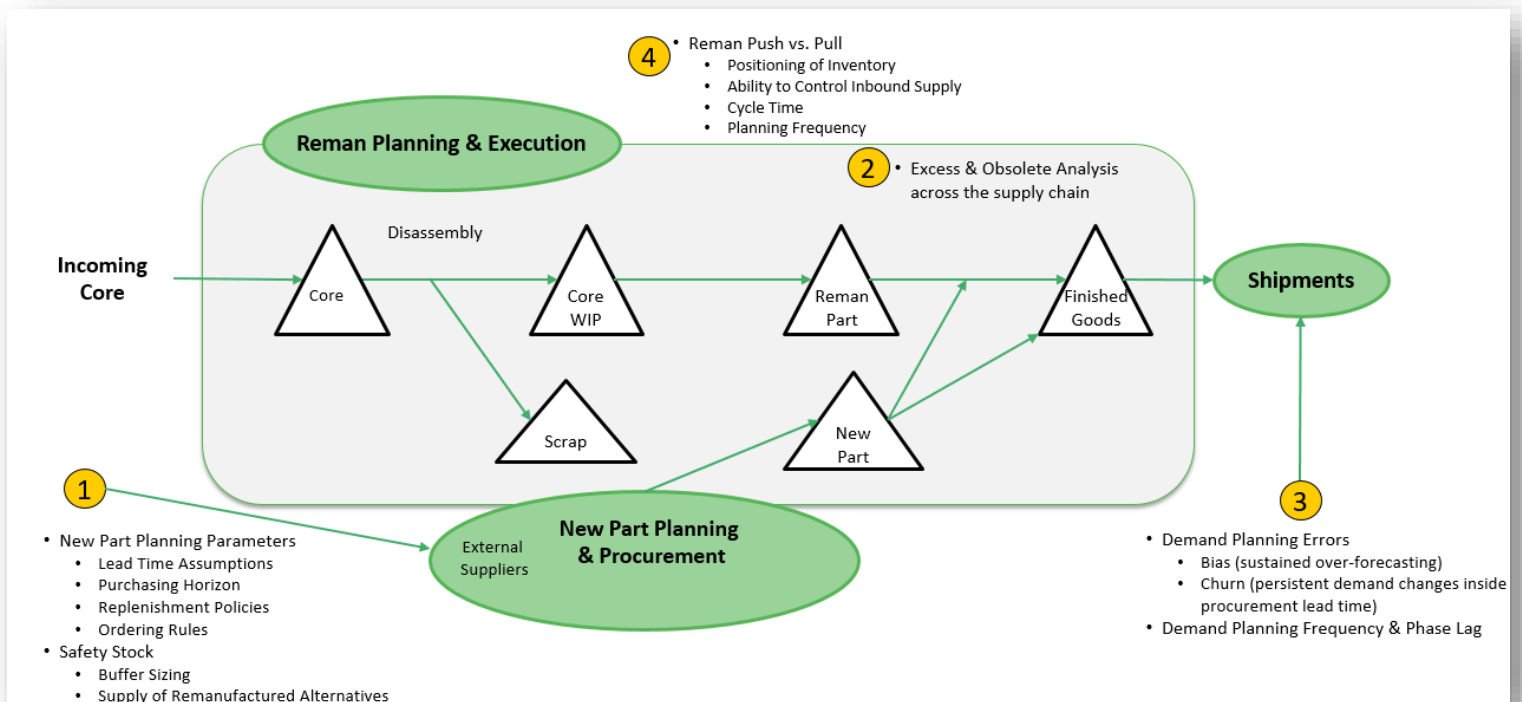
In contrast, reducing minimum order quantities requires negotiation with vendors and so a discount factor was applied to estimate the addressable amount of the savings available by the deadline. A sample list of the parameters and policies examined includes:

1. Safety stock and safety time calculations within each product segmentation
2. Manufacturing lead times / Kanban loop calculations
3. Economic order quantities / Minimum order quantities
4. Demand forecast bias and its effect on inventory
5. Alternative sourcing strategies
6. Tracking of WIP inventory on the shop floor
7. Consistency and data quality for key parameter settings within the planning software



Because each plant conducts supply planning independently of the other plants, often using different tools and policies, the findings and the relative weight of the opportunities differed from plant to plant. **A plant specific action plan was created for each site which identified the short term actions and their likely benefit** along with longer term actions that the plant could take to further reduce inventory without sacrificing service levels.

Focus Area: Likely Sources of Excess Inventory



The Results: Each plant determined which recommendations to implement from the assessment and in which order based on ease, addressable benefit, and an evaluation of risk to service levels.


AFTER IMPLEMENTING THEIR SELECTED RECOMMENDATIONS, EACH PLANT EXCEEDED THEIR PLANT SPECIFIC GOALS FOR WORKING CAPITAL REDUCTION AND OVER 25% OF THE AGGREGATE INVENTORY ACROSS ALL PLANTS WAS ELIMINATED FROM THEIR SUPPLY CHAIN IN A MATTER OF MONTHS.


Further benefits will continue to be realized as slow moving products generate enough volume to drive the benefits from the implemented changes. Additional benefits will accrue as additional, longer term recommendations are implemented at various facilities.

Although **the project focused on removing unneeded inventory from the supply chain**, the assessment's quantitative analysis uncovered several product segments at multiple plants where the client's planned inventory levels were too low to meet desired service levels. Changes were made to these policies which increased inventory for these segments in order to meet service level targets. Even with these re-allocations of working capital from one product segment to another, each plant exceeded their reduction goals by the specified timeline.

About Spinnaker: Spinnaker is a supply chain services company that helps clients grow, manage risk, reduce costs, and improve customer service by developing world-class supply chain capabilities. Our services help clients develop the right supply chain strategy for their business challenges and implement the process and technology solutions to improve Demand/Supply Planning, Procurement and Sourcing, Logistics and Warehousing, and Reverse Logistics business performance. Spinnaker offers a unique service delivery model that combines the strength of deeply experienced management and technology consultants with a seasoned team of business process outsourcing (BPO) and 3rd-party logistics (3PL) professionals. Founded in 2002, Spinnaker has offices in Boston, Columbus, Denver, Houston, Memphis, Pittsburgh, London, and Singapore.

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