

MYTH:
Lean is Only for Manufacturing

FACT:
Lean Applies to all Processes across the Value Chain

Presented to the NAED Women In Business Forum
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TBM Consulting Group, Inc.

Agenda

- Who is TBM
- Today's challenges
- How you can reduce inventory & improve service levels
- Case study – lean inventory management

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About TBM



- Founded in 1991
- Global leader in business performance improvement
- We provide a framework and structure for our clients to create and sustain results
- Industries served
 - Manufacturing
 - Distribution
 - Service sector
 - Government

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Today's Business Challenges

- New economic environment
- Tight cash flow / restricted lines of credit
- Difficult to understand true customer demand
- Large fluctuations in order patterns
- Demanding service level expectations



How to balance the new economic reality with business considerations & capabilities

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Balancing the Economy & Key Considerations



- Business Strategy
 - Service level vs. price
 - One-stop-shop vs. strategic product offering
- Customer Expectations
 - Service level commitments
 - Value provided
 - Price
- Value Chain Capabilities
 - Lead times
 - Replenishment methodologies

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A lean inventory management approach will help meet new economic and business considerations



What does Lean REALLY mean?



- Lead times 1/4 to 1/2 the industry average
- Inventory turns greater than 24x per year
- Productivity up 1% or more per month
- Growth rates 3-5 times the industry average

The Ultimate Prize: Competitive Advantage

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What IS Lean?

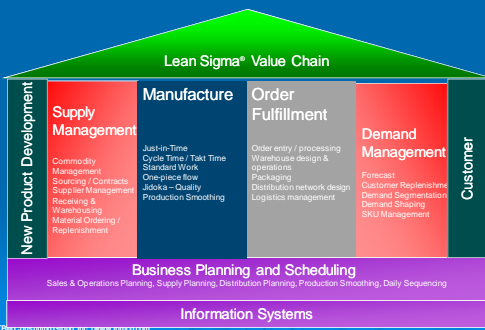


The compression of lead time across your business through the relentless elimination of WASTE!

Up to 99 percent of any process is wasted time or activity

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Lean Capability Improves Inventory Management



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Today's Focus: Inventory Management

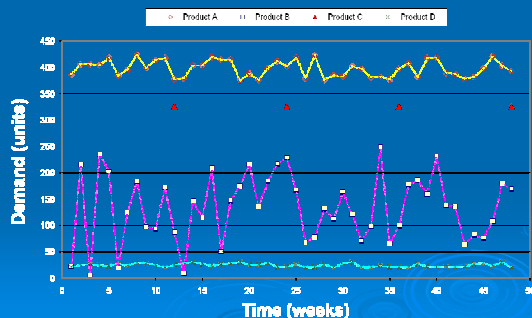


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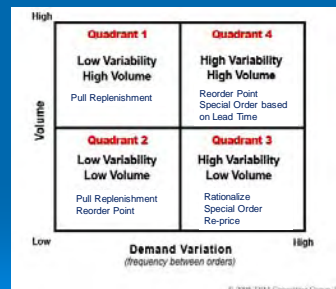
Should we manage products (A,B,C,&D) the same way?



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Demand Segmentation

A new approach to inventory management



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Unique demand segments should be managed differently

Key metrics by quadrant

Quadrant 1		Quadrant 4	
Gross Sales \$'s	\$ 5,876,733	Gross Sales \$'s	\$ 2,467,049
% Total Gross Sales \$'s	58.8%	% Total Gross Sales \$'s	28.9%
Gross Sales Libs	29,602,273	Gross Sales Libs	19,513,646
% Gross Sales Libs	48.2%	% Gross Sales Libs	31.8%
Inventory \$'s		Inventory \$'s	
% Total Inv \$'s		% Total Inv \$'s	
Inventory Libs	10,989,339	Inventory Libs	12,438,304
% Total Inv Libs	28.2%	% Total Inv Libs	31.9%
COGS (28 days)	19.30	COGS (28 days)	17.80
# Items	26	# Items	62
% Total Items	2.3%	% Total Items	6.8%
Gross Margin \$'s	\$ 650,913	Gross Margin \$'s	\$ 421,207
% Total Gross Margin \$'s	58.4%	% Total Gross Margin \$'s	39.0%
Avg GM %	10.7%	Avg GM %	17.1%

Quadrant 2		Quadrant 3	
Gross Sales \$'s	\$ 76,501	Gross Sales \$'s	\$ 127,106
% Total Gross Sales \$'s	0.9%	% Total Gross Sales \$'s	1.9%
Gross Sales Libs	1,656,309	Gross Sales Libs	10,660,139
% Gross Sales Libs	2.8%	% Gross Sales Libs	17.3%
Inventory \$'s		Inventory \$'s	
% Total Inv \$'s		% Total Inv \$'s	
Inventory Libs	1,645,489	Inventory Libs	13,866,445
% Total Inv Libs	4.2%	% Total Inv Libs	35.4%
COGS (28 days)	27.18	COGS (28 days)	36.13
# Items	17	# Items	706
% Total Items	13.4%	% Total Items	77.2%
Gross Margin \$'s	\$ 9,820	Gross Margin \$'s	\$ 18,910
% Total Gross Margin \$'s	0.9%	% Total Gross Margin \$'s	1.9%
Avg GM %	12.8%	Avg GM %	14.9%

Why Use Demand Segmentation?

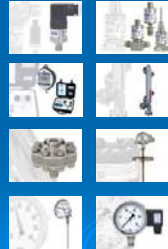
- Understand volume and variability—its impact on operations
- For each segment
 - Take appropriate actions to optimize sourcing and distribution
 - Understand control systems options (pull, MRP, special order)
- Identify opportunities for demand shaping and product portfolio management

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Temperature / Pressure Gauge Manufacturer / Distributor

Situation

- Relatively good service levels
- Never seemed to have all the right product
- Low inventory turns
- All demand segments managed using traditional MRP

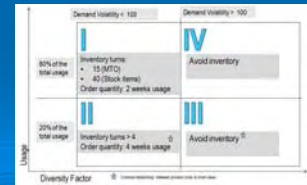


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Temperature / Pressure Gauge Manufacturer / Distributor

What They Did...

- Used demand segmentation to drive an inventory strategy
- Created policy by demand segment
 - Inventory turn targets
 - Replenishment methods
 - Typical order quantities



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Temperature / Pressure Gauge Manufacturer / Distributor

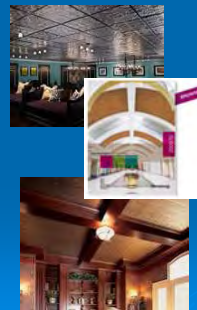
Mechanical products (CEP)		827/AZ		1290	
4,300,000	\$ 13,300,000	3,140,000	\$ 8,400,000	1,705,000	\$ 4,450,000
143,000	13,380,000	148,000	876,000	173,000	890,000
11.5	11.5	11.6	9.6	9.9	9.5
51,400	\$ 118,000	202,000	\$ 611,000	722,000	\$ 4,050,000
7,400	\$ 52,000	18,700	\$ 54,000	46,000	\$ 445,000
8.9	9.8	10.3	15.8	8.4	10.9
3500	(17.6)	9300	21,300	250,000	1,900,000
4000	6,000	1300	2,840	190,000	495,000
0.8	-1.1	8.2	8.4	1.3	5.8

Results

- Reduced inventory by 25% (<\$1MM)
- Improved service from high 80s to mid 90s
- Implemented pull replenishment for high volume / low volatility SKUs

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Residential / Commercial Ceilings



Situation

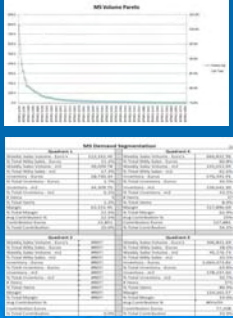
- Proliferation of products
- Low inventory turns
- Service levels on all items were the same
- High volume product was losing money
- Low volume product not priced appropriately
- All demand segments managed using traditional MRP

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Residential / Commercial Ceilings

What They Did

- Used demand segmentation to identify
 - Rationalization & substitution of 85 specific items
 - Converted another 100 items to special order status & increased price
 - Inventory policies by country and SKU



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Residential / Commercial Ceilings

- Reduced inventory by 26% (<\$1.9MM)
- Improved gross margin of product portfolio by 15 basis points
 - Re-priced negative / low gross margin product
 - Converted 100 items to special order status
 - Rationalized 85 items – direct volume to another item
- Implemented pull replenishment for high volume / low volatility products



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Summary

- Lean offers a viable solution for improving inventory management
- Demand segments should be managed differently
- Demand segmentation is the starting point for identifying and addressing inventory management
- A structured approach can drive significant improvement in working capital, service and profitability

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Questions & Answers

Thank you!

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