



Implementing Inventory Turns in Muti-brand channels in India

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Sanjay Ghoshal

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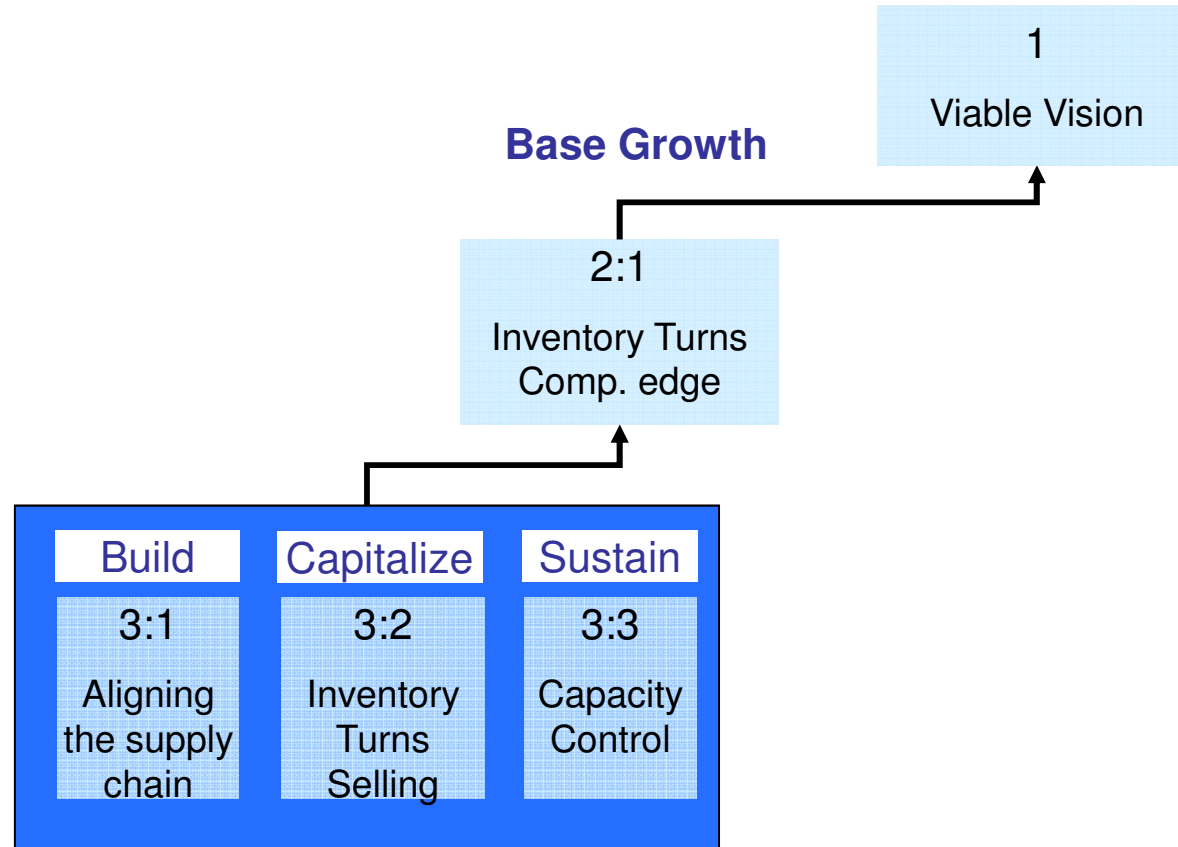
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Fifth International TOCPA Conference

6-7 April, 2013, Pune, India



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Inventory Turns Comp. Edge

Necessary assumptions

When most cash is tied up in inventory and availability is still an issue, improving inventory turns is a client's significant need.

Strategy

A decisive competitive edge is gained by providing a "partnership" that delivers superior inventory turns (better availability coupled with substantially reduced inventories), when all other parameters remain the same.

Parallel assumptions

Switching from a forecast driven mode of operation to a consumption driven mode of operation increases dramatically inventory turns (reduces shortages while reducing inventories).

Tactic

The Company develops the capabilities to successfully implement with enough clients a "partnership" that is based on supply according to consumption.

Sufficient assumptions

Building a decisive competitive edge is not easy; building the capabilities to capitalize on it is not less difficult. But, sustaining these two elements is the real challenge.



What changes for the Distributors...

Before

- Placing orders based on past sales and judgement
- High month end billing to achieve Scheme targets
- Misalignment of inventory with actual consumption
- Long lead time due to market fluctuation and availability
- Only they are focused on the shortages and surplus.

After Implementation

- No orders, only daily sales and inventory data
- Supply based on actual sales to the next link
- Continuous monitoring of consumption and adjustment of buffers to have the right inventory
- Shorter lead time due to stock availability at plant
- Both are focussed on channel shortages and surplus. Both focussed on inventory turns



What changes for the Sales People...

Before

- Most of the time negotiating with the distributors to pick up additional stocks
- Following up with Supply Chain for deliveries
- Working on primary schemes

After Implementation

- Working towards released cash deployment
- Retail visits to ascertain placements
- Working with Distributors to develop Secondary schemes



Quantifying benefits for the Channel Partners

Return on Investment = Margins X Inventory Turns

Channel Partners did not see a possibility of Inventory turn improving and hence they constantly seek higher margin.

$$\text{Inventory Turns} = \frac{\text{Sales} \uparrow \text{ minus } \text{Markdowns} \downarrow}{\text{Inventory} \downarrow}$$

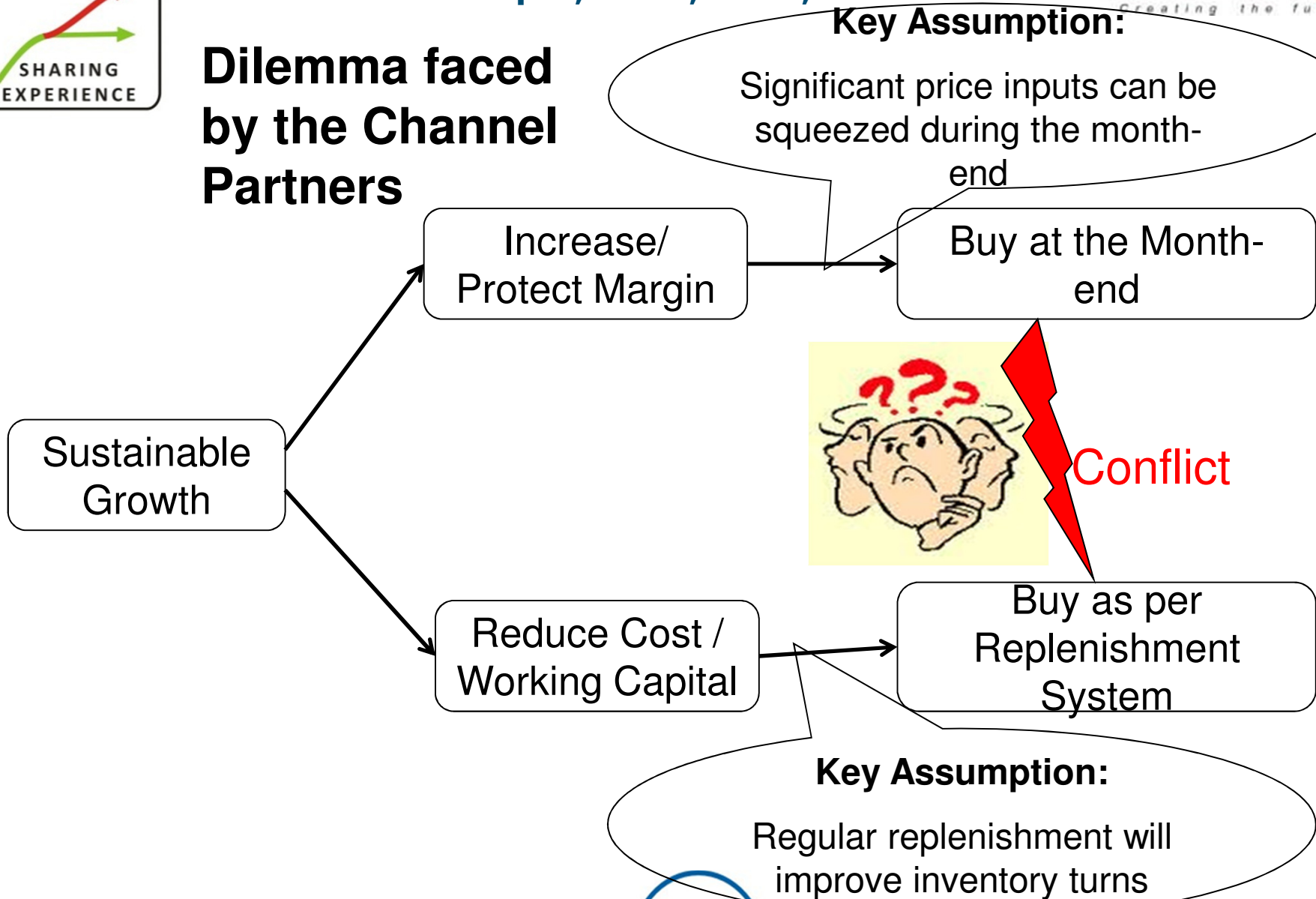


Implementation Challenges

- Secondary Sales information
 - Very irregular data entry
 - Huge effort required from sales force
- Big spikes at the end of the month
 - Reluctance to accept replenishment against secondary
 - Wait till month end



Dilemma faced by the Channel Partners





Reaction of Channel Partners and Sales people

- Initial reaction of the Competitors and Channel Partners on increased inventory turns.....
 - Competitors offer higher margins
 - Channel partners use the released cash to stock-up competitor products

- After a few months, the Sales people resort back to the practice of dumping resulting in breakdown of the entire system



Results

- Month-end spikes continue
- Sales people still busy in follow-ups
- No improvement in Inventory Turns
- No increase in Sales

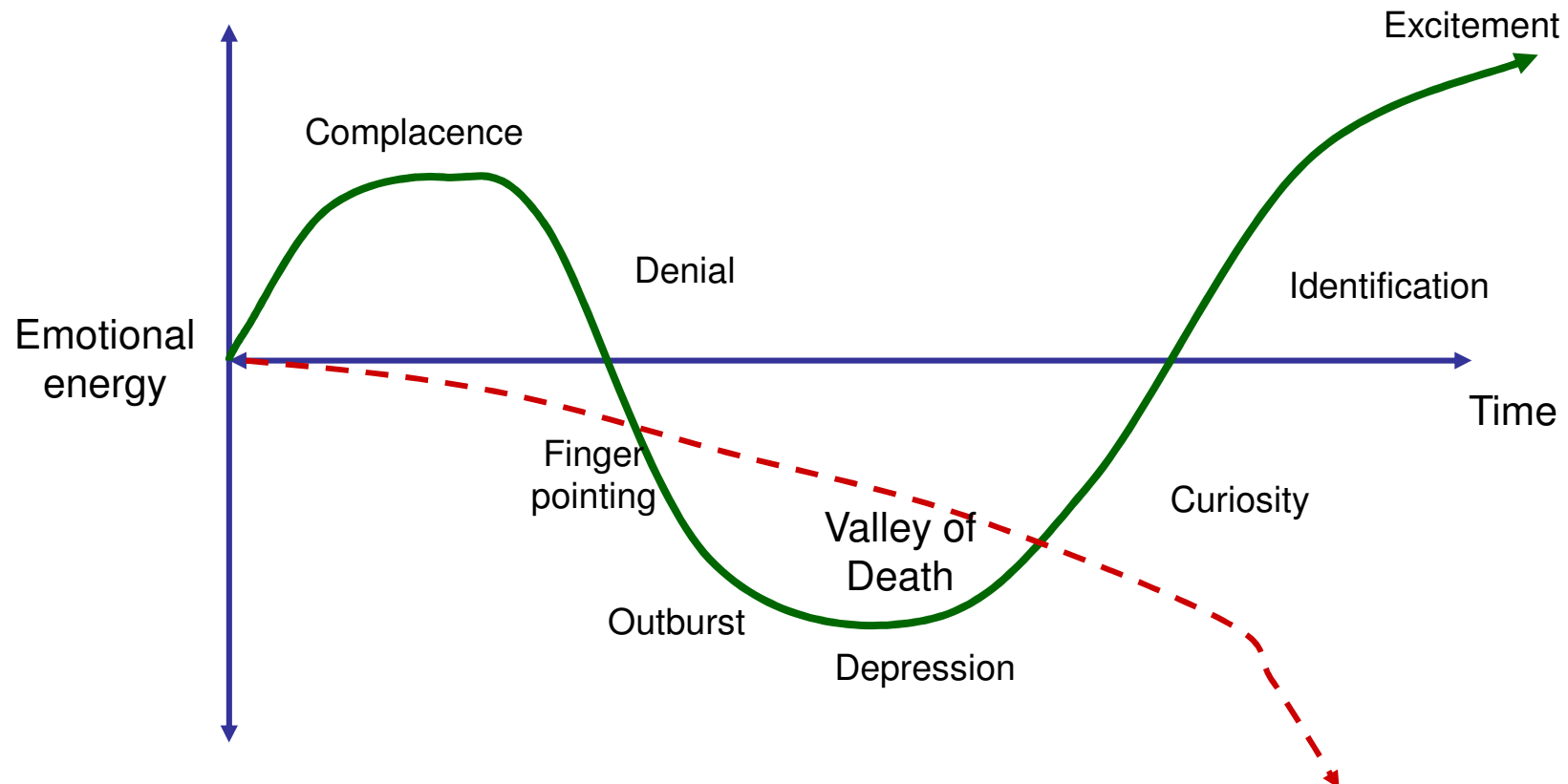


Additional Injections

- Sales people Measurement:
 - Secondary Sales and not on Primary Sales
 - Market visits
 - Penetration in terms of depth and width
- Secondary /Tertiary Schemes and not Primary Schemes
- Weekly review of cash deployment sheet
- Fortnightly communication to the Channel Partner about their performance (eg. Distributor Scorecard)
- Price communication to Channel partners at the beginning of the month and no additional support during the month



Valley of Death: Transformation from a caterpillar to a butterfly



Adopted from Managing Radical Change by Sumantra Ghoshal





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Plan before Implement



**“More you Sweat, less
you Bleed”**