TOC inventory management.
3 case studies .

Nerius Jasinavicius
TOC sprendimai

www.TOCSYSTEM.com

Nerius Jasinavicius

- Cofounder and managing partner at consultancy company „TOC sprendimai"

- During his more than 15 years' time gained diverse experience in the business: financial, manufacturing and services. His training and seminars attended by a number of famous Lithuanian and foreign companies.

- Nerius Jasinavičius is a graduate of Vilnius University, Faculty of Economics, Accounting and Auditing (undergraduate and graduate studies). Later graduated at Edinburgh University Business School with a Master of Business Administration (MBA) degree.

- He is a certified practitioner of TOC. Nerius Jasinavičius specializes in the application of Theory of Constraints in supply chain efficiency, also in areas such as manufacturing, project management, sales management, corporate strategy and tactics development.
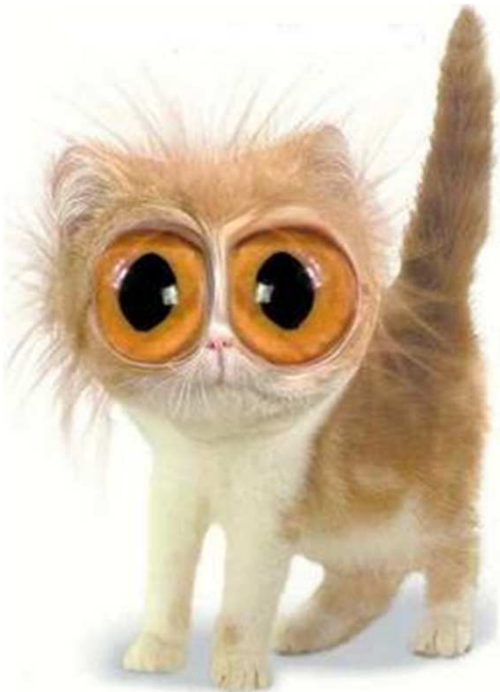
Aurika
www.aurika.lt

It's not luck in reality

Who we are ?

- Producer of labels and packaging
- Modern production facilities
- 230 employees
- ~ 20 mln EUR sales
- More than 1500 customers in Lithuania and abroad
- On average 2400 orders per month.

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Aurika
www.aurika.lt

Why inventory management ?

- Stockouts of RM – lost sales
- Overstock – loss of obsolete materials, tied up cash
- Administration costs of purchase management
- Human factor:
  - I thought that
  - I need it yeasterday

What inventory management ?

- Our assumptions :
- Inventories can be managed by technology
- Technology has to help people :
  - Simple, clear, user friendly
  - Specialized

Solution: StockM DBM
What next?

- Reservations and distrust
- 9 months test period:
  - Does it work?
  - How does it work?
  - What are the results?
- Introduction of new services to customers

Value for the customers?

- Packaging is cheap. REALLY ??
- Big order = low price:
  - Overstock and obsolescence
  - StockOuts – lost sales
  - Cash Flow
- Small order = StockOut:
  - "Fires" – lost sales
  - Administration costs of purchase management
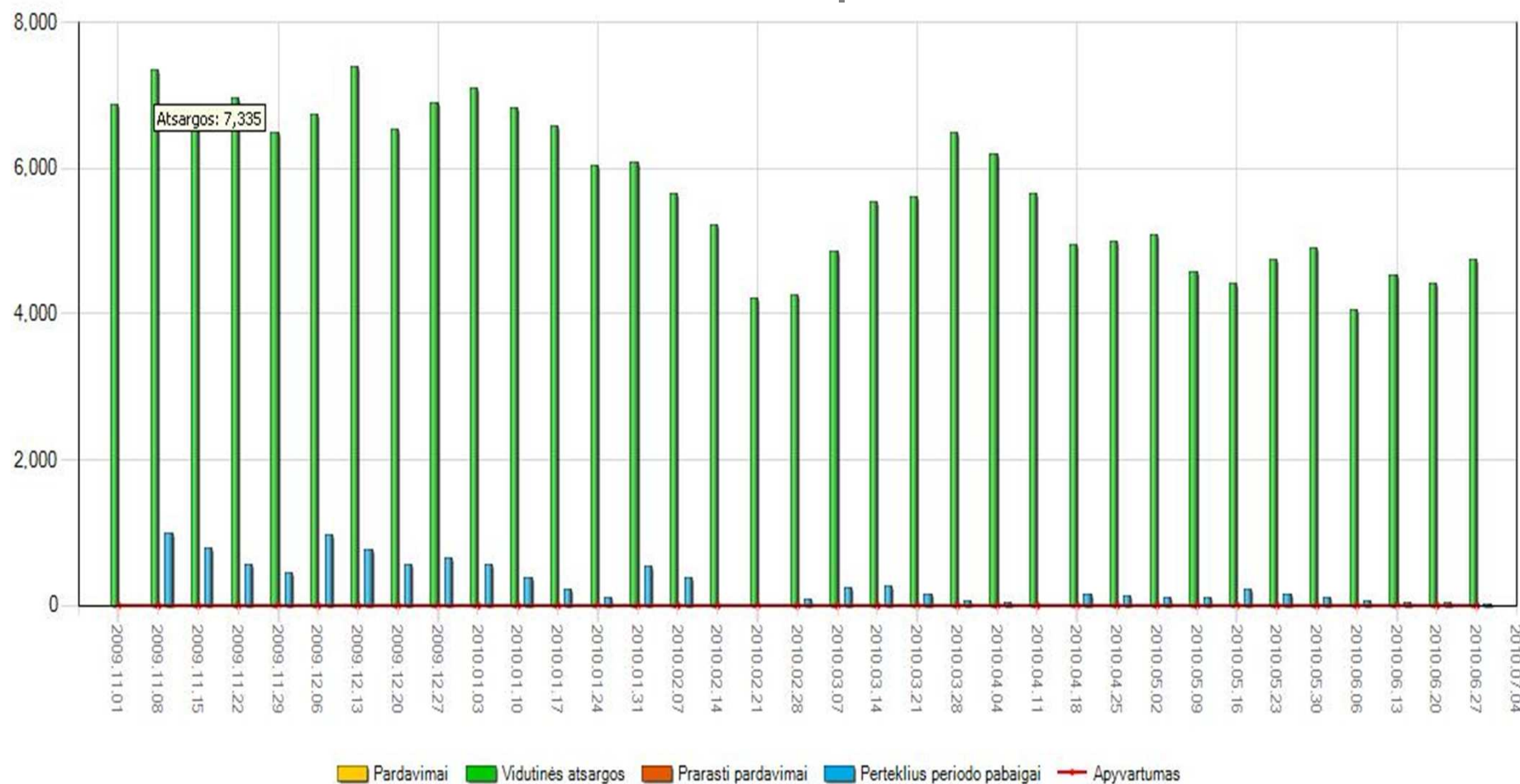- Forecasting *mistakes*

PRICE ?
Reduction impossible increase

Clients inventory management with StockM DBM

Client ABC:
expectations and results
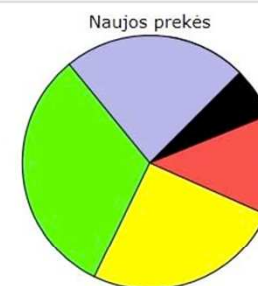
All information on one page

History of inventory
for each SKU

Prekė (SKU) = GAM704201_500, Pavadinimas = 53392 55x85 TOP FREEZ RFID
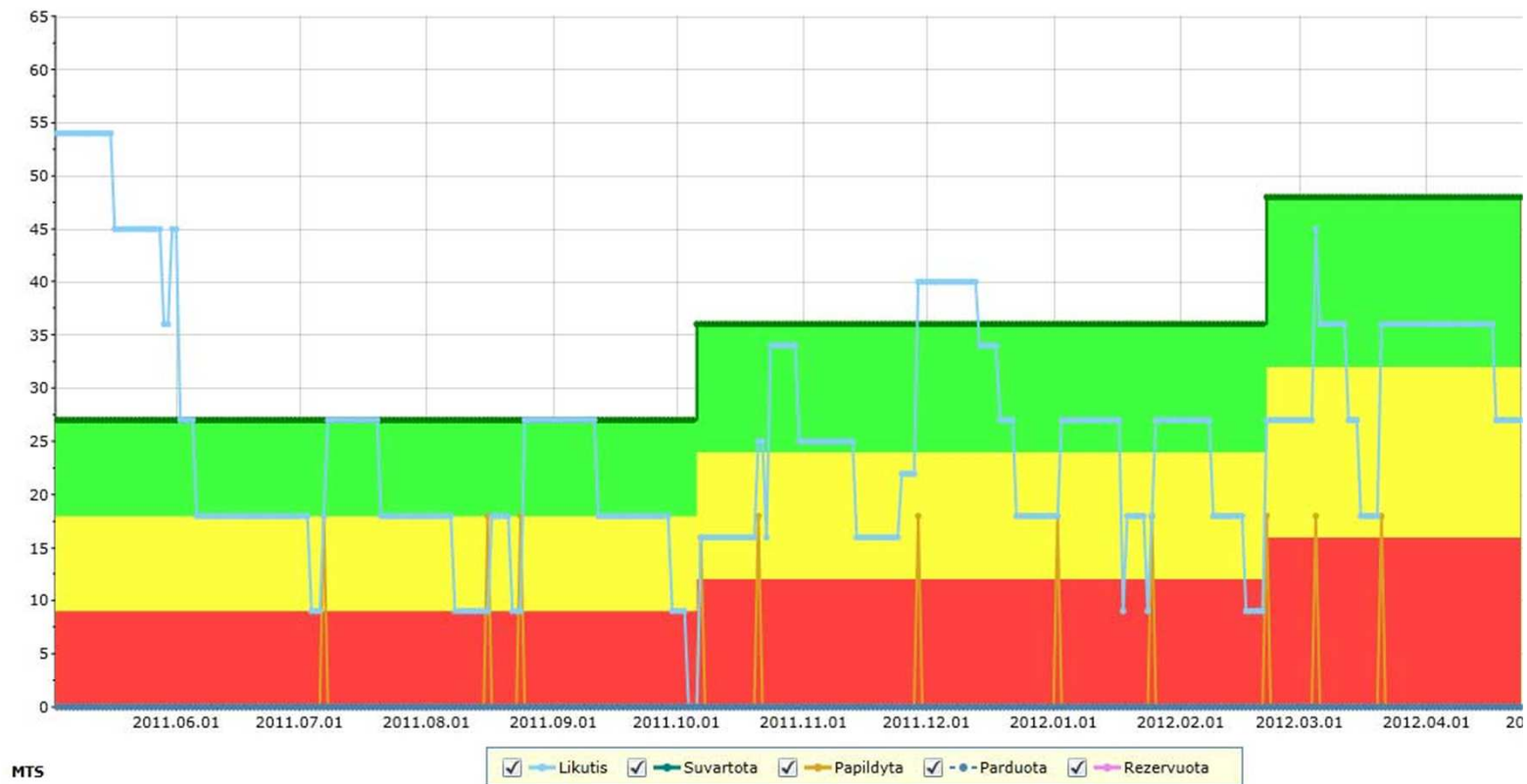
Client ABC: expectations and results

- Reduction of physical inventory by 48%
- Reduction of investment by 37%
- 46 replenishment orders without human involvement
- Right product at right time – no stockouts
- Clear costs (for packaging) planing – fixed price

"Intelligent warehouse" system:

– Managing inventory in client's warehouse without changes of clients IT systems;

– Improved production planning process;

– **Do not create additional for client.**

Challenge: no daily information on labels and packaging consumption

How to manage inventory, if customer "consumes" labels and packaging once a month ?

RFID – investment into client
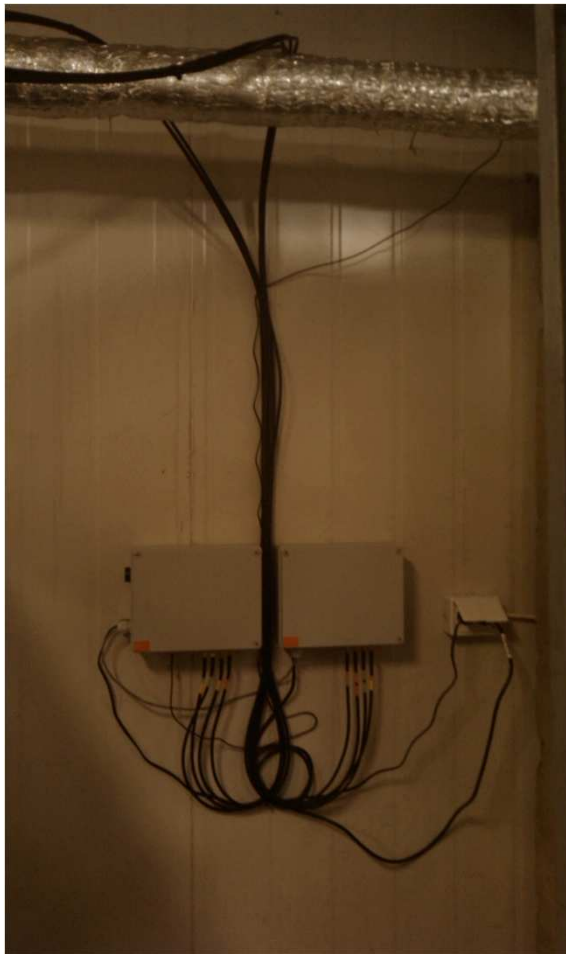
Inventory management as competitive advantage

Mindaugas Stankevičius, UAB „Lesta" CEO

„Lesta"

20 years in production of antifreeze, screen wash, car cosmetic and the other maintenance liquids for vehicles.

Produced more than 5000 t maintenance liquids for vehicles

Lesta

Reality before implementation of Clients Inventory Management

Problems

Crisis (2008–2009 m.)

Narrow standard assortment

Dependability on the weather

Problems

Complicated inventory management

Long set-ups

Big production batches

Problems

Clients have limited cash

Clients are reluctant to order big quantities

Problems

Every client wants to be different - **OWN**
taste / smell / color / packaging

How to increase sales?

Lesta

What does client need

Sales

Working capital

Unique assortment

Availability

Possibility to change the assortment

Inventory turns

No "dead stocks"

Solution

What did we do:

Standardization
and reduction of
set-up times

What did we do:

Reduced minimal production batches

New assortment items

Sales process management

What did we do:

We keep our
inventory in the point
with the biggest
aggregation – in Raw
Material

Client's inventory management

Client's warehouse – our management

No order from clients production

Ensured availability and lower inventory

Lesta

Necessary information from client

Inventory movements: sales, stock on hand, receives, reservations
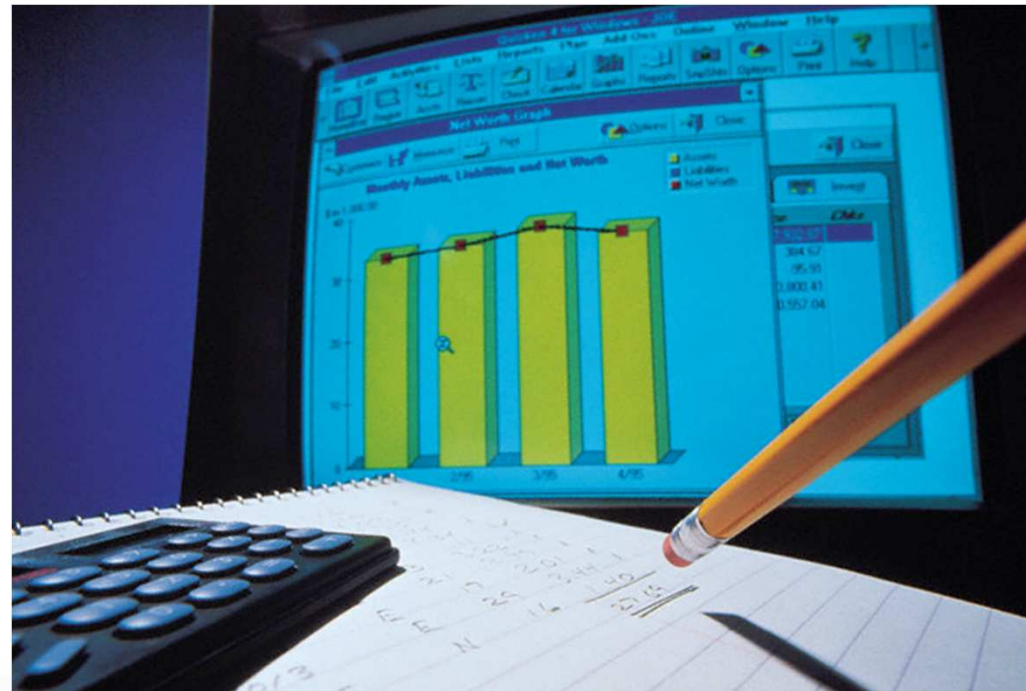
First client

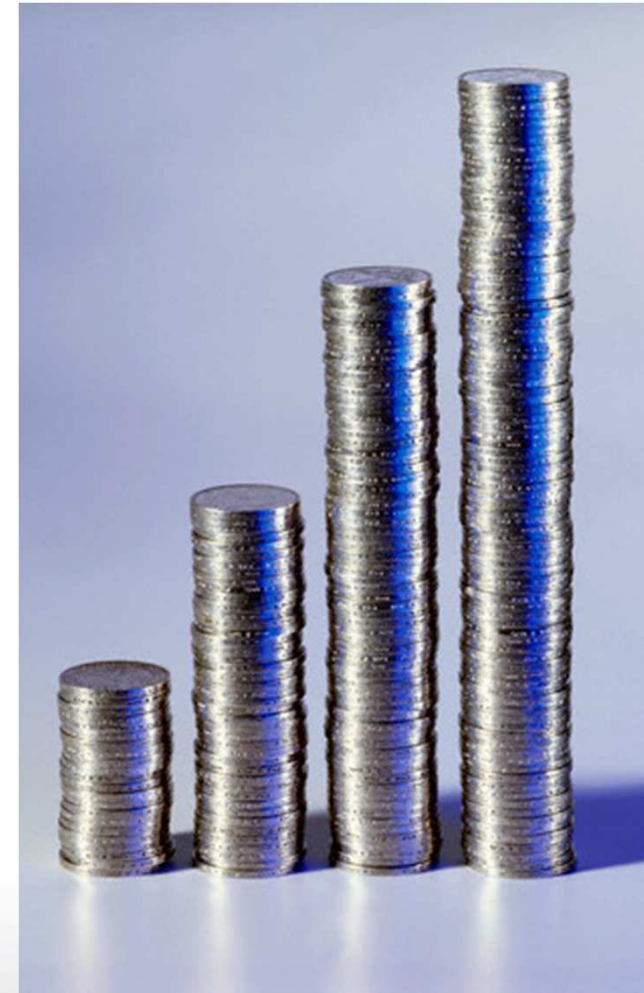Distributor in Lithuania – UAB „Tobis"

Clients results

Doubled inventory turns

15–20 % increase in sales

No *dead stock* at the end of the season

Our results

Sales growth 80%

Export growth from
0% to 35%

Lesta

Plans

More clients for VMI

Wider supply chain integration – managing client's client's stock
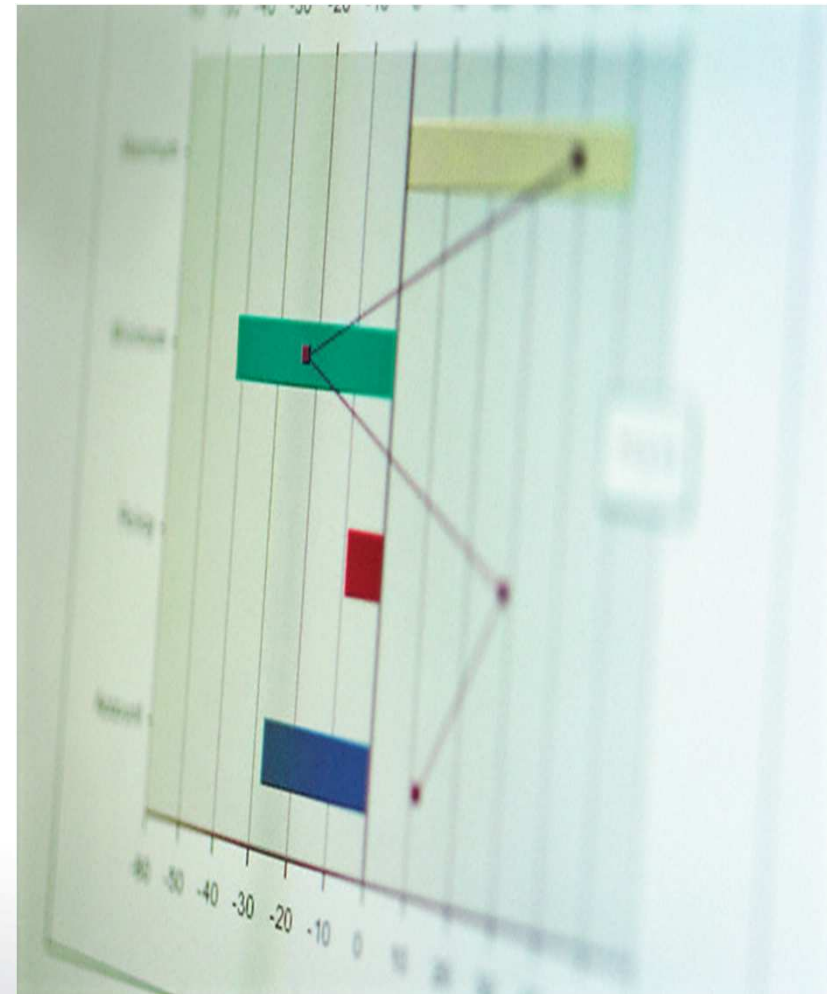
Influence of goods availability on retail chain's sales and profit

www.zolusca.md

About the company

- Retail chain «ZOLUSCA» started in 1999. It selles detergents, soaps, items for personal hygiene, cosmetics.
  - Staff 122 people:
    - Head office - 34 employees (28%)
    - Warehouse -16 employees (13%)
    - 72 sales consultants (59%) 35 (now 43) shops

Zoluska shop standard

www.zolusca.md

That's why it is very important

Ensure availability of fast movers and do not block the shelves by slow or nonmovers

Starting situation with inventory

- Inventory information not available online
- Manual daily orders to central warehouse by phone
- Part of goods delivered directly from distributors weekly
- Central warehouse not always delivers what was ordered
- No information per SKU
- "Pushing" nonmovers by exhibiting it in the best places in POS.

Starting situation with inventory (2)

- Unbalanced inventory – overstocks, stockouts as no info per SKU

- Sales registered manually (no scanners)

- Merchandising in POS was not standardized.

- Same products take the shelfspace, and shelves start to be used as warehouse.

> **Shelf should work !**

Starting situation with inventory (3)

- Inventory recounting create seasonality.

- Very difficult to managed over 1500 SKUs in 30 POS manually.

- During promotions – often stockouts happen.

Negative results

- Availability in POS far from perfect

- Low inventory turns in central warehouse and POS

- Financial results not satisfactory

- Slowing growth

What has to be done?

First steps

- Computerized information about inventory in POS
- Reduction of assortment so everything can be displayed
- Change the CW replenishment rules
- *Daily replenishment of* POS – what was sold gets replenished, no EOQ
- Replenishing only from CW
- Systemizing of sales to gov sector.
- ABC analysis of assortment

Frequent replenishment

- More SKU in every order

- More smaller orders

- From 100-150 SKU per order to 350-400 SKU

Work processes of the Central Warehouse had to be changed

- Loading of the delivery buses in "conveyor style"

Expected results

- Increase in availability

- Growth of sales by 15-20%

- Reduction of inventory in CW to 20 days

- Reduction of inventory in POS (4 days for fastmovers, 10 days for slowmovers)

Actual results

- Increase in inventory turns in CW to 8-12 days
- Increase in sales in POS by 35-40%
- Increase in sales to gov and other retailers by 10 times
- Overall investment in inventory stayed the same, but:
  - New assortment
  - Number of POS increased from 28 to 38

So, we opened new shops without additional investment in inventory

For the conclusions

- Right (available) assortment is THE competitive advantage

- Dead inventory on the shelf – it is costs and lost sales

- For better availability and inventory turns frequent replenishment according to consumption is the must. It is impossible to do it manually

- Required change is not difficult, but it is hard to change the habbits

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Theory Of Constraints
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Questions ?

Nerius.TOC@gmail.com

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