

Sometimes less is more...

The Company

The company is a leading manufacturer of electronic components and sub-assemblies and enjoys a premium brand image in the industry. Its products are sold to original equipment manufacturers (OEM's) and distributors, both in the United States and internationally.

The Situation

The company, though still profitable, was preparing for softening sales in the coming year. The company undertook three main initiatives: 1) improve gross margins, 2) reduce inventory, and 3) improve quality.

With multiple areas of focus, the company hired The Keystone Group (with whom they had worked for seventeen years) to jump-start the inventory reduction efforts. The financial plan assumed a \$500k inventory reduction by the end of the first quarter, and \$750k reductions for each subsequent quarter.

The Approach

The Keystone Group quickly established a baseline for inventory and developed processes to monitor perpetual inventory changes on a daily basis. Keystone brought a new focus to the materials management team by:

- Monitoring all new purchase orders, blanket releases, and receipts to the dock

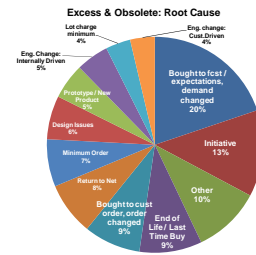
- Creating a sense of “ownership” for each inventory item
- Identifying specific opportunities by buyer (i.e., lead time reduction, safety stock reviews, consignment, etc.)
- Developing tools for buyers to monitor their inventory moving forward and to support their decision-making processes

BLANKET PURCHASE ORDER GUIDELINES
For Cost Savings >20%

	END ITEM			
	Standard Catalog Product	Custom	New Standard Prototype	New Technology
Standard Order	30 Months	Fill Order	3 Months	Fill Order - 2 Months
Customer Order / Custom Order	9 Months	6 Months	As Needed	Fill Order - 2 Months
Special Order / Prototype	6 Months	3 Months	As Needed	As Needed

With a better understanding of the inventory they “owned”, each buyer was able to focus on specific opportunities to reduce their portion of inventory. The standard 80/20 rule allowed them to focus on only their top dollar items and still generate a large impact on overall inventory dollars.

In addition to the daily interactions which helped bring focus and an understanding of the drivers of purchasing decisions, Keystone also identified leading causes of inventory build-up by root causing the components of excess and obsolete (E&O) inventory. By understanding the drivers of E&O, it allowed the company to learn from sins of the past.



At the conclusion of the efforts, Keystone summarized its findings and provided a prioritized list of opportunities for further reductions. Finally, specific action items were recommended to address the prioritized list of opportunities.

The Results

Through five weeks, the company experienced a \$730k reduction in inventory on a base of \$12.0 million, or a reduction of six percent. After two months, the reduction increased to \$1.25 million, or ten percent, with actionable items for even further reductions. These reductions, combined with the plan for further reductions, put them well on track to weather a tough economy.

Comments from the CFO:
“Keystone was exceptionally proactive in working directly with a wide span of associates in key operational roles to expediently and effectively address opportunities for improved purchasing and inventory management”