The Swinging Pendulum…

The Company

The Company is a profitable designer and distributor of hobby products, serving mom and pop retailers. While contracting the manufacturing of its products in Asia, the US based company has established an international sales presence through acquisitions.

The Situation

The company historically struggled with the balance between service levels and inventory. When service levels dropped to their low of 83%, Keystone was engaged to perform a diagnostic and subsequently to lead the implementation of various supply chain improvement initiatives.

Shortly after being engaged, service levels improved sharply; however, this was at the expense of the company's inventory levels which rose by 40% due to short term corrective actions taken by management before the start of the engagement, as well as a softening of demand.

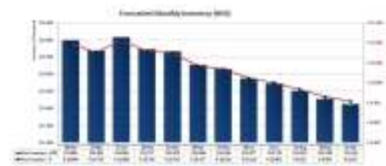
The Approach

During the assessment, The Keystone Group quickly recognized the company's need for a more flexible and adaptive supply chain. To achieve this goal, the Keystone team led the implementation of the following key initiatives:

- SKU Rationalization: Reducing the company's 55,000 saleable SKU base was essential to reducing manufacturing lead time, forecasting complexities, distribution costs, and improving sales focus.
- Improved vendor communication: In addition to implementing weekly calls with all key vendors, Keystone also developed a 16-point vendor scorecard focused on 4 key performance areas to help vendors improve their overall level of service.
- Lead time reduction: The team visited four of the company's top vendors in Asia and developed value stream maps to identify opportunities to reduce vendor lead time.

After only a few weeks of kicking off the above initiatives, product ordered from China months earlier began to arrive to the company's distribution centers, and inventory began to sky-rocket. The Keystone Group adapted to this pressing new business need by shifting its focus to operational visibility while still working to provide increased long-term supply chain flexibility. It provided this visibility through:

- Inventory projections: At the time, the company had no visibility as to what would arrive to its warehouses the following day, yet alone months out. Keystone developed weekly and monthly inventory projections giving visibility to changes in inventory months in advance.



- Delay/Cancel report: Keystone also developed a report detailing all major purchases currently being made so that more scrutiny could be applied to them in order to avert additional unnecessary inventory.

The Results

By the end of the Keystone engagement, service levels had risen to 95%. Through SKU rationalization, SKUs were expected to decrease by 25% while only reducing gross margin by 1%. Vendor scorecards were rolled out for all top vendors and initial performance increases were noted. Value stream mapping helped identify opportunities for more than a 20-day lead time reduction in the supply chain. Finally, the operational visibility and inventory reduction efforts resulted in a 12% reduction in inventory, with more anticipated.

All of this would help the company stop the proverbial swinging pendulum between fill rates and inventory, ensuring increased profitability and happy customers for years to come.