

Assembling Profits...

The Company

This privately held designer, manufacturer and distributor of ready-to-assemble furniture wanted to position itself for profitable operations during a sluggish economy.



The Situation

Declining revenues, a bloated product portfolio, high overhead-cost structure, and growing inventory had combined to increase overhead and erode both margins and profits. A demanding customer base dominated by “big box” retailers made it vital to ensure that all parts of the organization were focused on the same goals.

The Approach

Keystone worked with the Leadership Team to identify a number of actions necessary to achieve the desired turn-around:

- Reviewed variances between the historical forecasted demand plan and actual revenue results
- Assessed the variance between the supply plan driving the procurement process and the actual production output
- Evaluated the causes of low service levels for key customers
- Reviewed variances between planned contribution margins on new products introductions and actual contribution margin results

The Recommendations

Product planning:

- Conduct reviews at least quarterly and cancel SKUs which do not meet revenue and contribution margin goals
- Focus new product design on high-volume and high-margin price points
- Reduce the number of prototype designs required to generate a released product by 20% through improved market and customer research
- Revise development engineering models so that cost estimates match agreed-upon target margins
- Ensure that the investment in overhead expense is proportional to the income statement cost profile

Process Improvement:

- Implement a robust Sales & Operations Planning (S&OP) process
- Report weekly on key metrics for manufacturing, NPD, sales, and inventory reduction and track personal performance targets for each metric
- Create demand and supply planning tools incorporating multiple data sources to better align forecasted sales, production scheduling and safety stock levels:

Safety Stock Status Summary				
Status	# of SKUs	Forecast \$		
Red	34	\$ 1,056,803		
Yellow	32	\$ 814,261		
Green	95	\$ 3,365,305		
Blue	610	\$ 4,298,508		

Item #	Item Priority	13-Wk Forecast \$	Dollars on Hand (Dealer)	Safety Stock Status
401082	1*	1274,325	\$ 85,509	Yellow
401086	1*	937,477	\$ 123,748	Yellow
400989	1*	1,045,595	\$ 224,637	Yellow
404764	1*	251,063	\$ 98,250	Yellow
404637	1*	3,631,629	\$ 311,223	Red
400858	1*	615,482	\$ 104,682	Yellow

- Develop an inventory planning tool that optimizes manufacturing lot sizes and finished goods inventory under dynamic service level and safety stock assumptions
- Reduce and re-align overhead labor so that annual investment is more proportional to the Income Statement costs

The Results

Profitability:

The company successfully eliminated 35% of its SKUs. The product planning initiative increased contribution margins performance on new products by 6 points.

Inventory reduction:

Excess and obsolete inventory was reduced by nearly 60% within 1 year of the implementation of the S&OP process.

Sustainability:

The company is better positioned for profitability under economic uncertainty via a more robust new product evaluation process and better operational alignment through S&OP.