

CASE STUDY: WORKING CAPITAL IMPROVEMENT

SITUATION ANALYSIS:

A large lubricant and fuel distribution client was consistently over ordering packaged lubricant products. Excess inventory had a negative effect on working capital; purchasing and warehouse operations were also adversely affected with extra headcount and overtime expenses.

IMPROVEMENTS IDENTIFIED:

Racca Solutions Group performed a baseline assessment of both inventory stocking levels and procurement purchasing practices. The goal was to: reduce excess inventory to correct levels, streamline the purchasing and inventory management processes, and facilitate the installation of required systems infrastructure to support inventory management sustainability roadmap.

Key drivers of the overall project were as follows:

1. Data integrity was identified as a gap to success
 - System data was poorly managed and had not been scrubbed for accuracy for seven years
 - The client had no ERP or inventory management systems in place
 - Available data was managed in a “home grown” system built upon inefficient practices
2. The purchasing functions were not efficiently organized
 - The client had never built any procurement structure to support purchasing functions
3. Manual purchasing processes were not data driven
 - Purchasing processes were manual and inconsistent resulting in no updates on lead times and stocking levels; 100% of all SKUs used as much as 150% of required levels to meet demand
 - Obsolete or slow-moving SKUs were never identified and managed
 - Excess inventory put a large strain on internal logistics

OVERALL RESULTS:

Racca Solutions Group worked with the client’s team to create a develop and deploy industry best practice purchasing processes and supporting technology. As a result, process ownership, strong data management, safety stock deployment and lower on hand inventory levels were established. Supporting software was put in place to manage inventory efficiently and support customer demand. The team effectively demonstrated how lean methods can reduce inventory carrying costs while still meeting customer demand and delivery targets.

As the comprehensive process changes were deployed, inventory was reduced and material movements improved, and the client realized \$5 million in hard savings; a 10x return on investment. The process changes in the warehouse yielded additional savings via headcount reductions and the elimination of overtime.