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CASE STUDY: INVENTORY OPTIMIZATION

SITUATION ANALYSIS:

Racca Solutions Group (RSG) was engaged by a manufacturing organization to evaluate planning and purchasing processes to help eliminate excess inventory.

IMPROVEMENTS IDENTIFIED:

RSG evaluated the strategies that were being utilized and found groups were spending an excessive amount of time manually managing the supply chain nor were they utilizing the ERP system to support planning and decision making.

The following were opportunities for improvement:

- Purchasing methodologies were not aligned to support the business
- Utilization of manual forecasts with “no horizon” to “short horizons”
- 30% of SKU’s in ERP system were not active
- Extensive utilization of min/max levels and safety stock levels were used to cover supply chain issues
- Lead times and offsets were not utilized
- Current suppliers were extending lead times and not adhering to agreements of shipping levels

RSG recommendations included:

- Train and develop internal resources in supply chain methodologies and ERP functionality
- Clean up current system data; deactivate non-active items, update critical parameters for active items (item offsets, removal of safety stock, min/max levels, etc.)
- Develop a plan for every part
 - ABC evaluation and align purchasing methodology to item demand (Lot-for-Lot, Period of Supply, Reorder Point)
- Optimize planning and purchasing parameters
 - Utilize ERP to drive processes
 - Assign primary supplier and buyer
 - Implement order policy codes, utilize historical dates when generating suggestions
 - Develop and utilize consistent forecast
 - Simplify Buyer ID system in ERP
- Develop standard work for the ERP engine and new processes

OVERALL RESULTS:

Team executed recommendations and saw a shift from fire fighting to managing the “A” items and ordering only when the ERP recommended for “B” and “C” items. Metrics showed a reduction in late purchase orders and leveled purchasing transactions. Eliminating safety stock and min/max levels released ~\$20MM inventory for use. New order policy codes implementation with utilization of ERP suggestions will reduce overall inventory by \$9.2MM in the first year. This project will translate to an annual ROI of 50X.