GROENEWOUT

How to reduce your stock by 50% while maintaining the same service level

For any company, one of the biggest capital investments is stock. To put it in perspective: one month's worth of stock is equivalent to investing just under 10% of your annual revenue. How many projects on that scale have you implemented in the past year?

Achieving the right degree of product availability without excessively high stock levels is therefore critical to business success – not only for end products but also for semi-finished goods and raw materials. The ultimate objective of an effective inventory management system is to provide optimal customer service (i.e. delivery reliability) at the lowest possible inventory costs.

Up until now, companies have based their inventory strategies on classic concepts such as MPS and MRP I & II. In principle, MRP always begins with a sales forecast by the commercial departments. MRP I uses bills of materials to break down that expected demand for end products into the required volumes of semi-finished products and raw materials. Based on the associated lead times, MRP II then prepares a detailed production schedule for capacity-planning purposes, in terms of both equipment and labor.

MPS/MRP is a proven methodology which has been helping countless companies to make realistic plans since as far back as the 1980s, and the overwhelming majority of logistics IT systems still utilize these MRP concepts today. However, MRP has several disadvantages. For example, the MRP planning mechanism is based on average delivery times (for raw materials) and production times (for machinery), plus it often uses fixed order and batch quantities in the calculations too. If those quantities and/or lead times differ in practice, MRP will never result in an efficient and optimal plan. Also, by sticking to these rigid steering mechanisms, MRP will by definition result in a jittery planning system, especially if sales forecasts are adjusted frequently.

In order to tackle the abovementioned disadvantages, Eindhoven University of Technology has developed an inventory planning system called 'Synchronized Base Stock Policy' (SBS). The SBS inventory strategy makes a point of recognizing the variations within the supply chain and includes mathematical concepts to be able to take account of them.

Whereas MRP holds safety stock or buffer stock in all areas/echelons of the supply chain, SBS reveals where and which (buffer) stock is surplus to requirements or even dead. The dead stock can be removed from the system without any problems and may mean that the company can temporarily reduce its sourcing activities while still being able to maintain its customer service levels.

In several different implementations, SBS has already demonstrated that it is able to reduce stock by between 30% and 60% and that it can even improve the service level simultaneously. If you're interested in learning more about this new, innovative inventory management technique, we would be happy to arrange for you to participate in a 'serious game' which demonstrates the specific benefits to your supply chain.

P.O. BOX 3290
4800 DG BREDA
THE NETHERLANDS

NIJVERHEIDSSINGEL 313
4811 ZW BREDA

T +31 (0)76 - 533 04 40
MAIL@GROENEWOUT.COM
WWW.GROENEWOUT.COM

About the author

Alain Beerens is Managing Consultant and member of the MT of Groenewout since 2000. Before joining Groenewout, Alain worked in the field of logistics & supply chain management for St. Gobain and JD Edwards. Alain has led major designs and redesigns of European supply chain concepts for numerous multinationals. He has a master's degree in Industrial Engineering & Management Science from Eindhoven University of Technology with a specialization in International Distribution Logistics. Alain obtained a CPIM certification in 1999.

E: beerens@groenewout.com
T: +31 6 50 25 28 32

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