

Distributor

Beating the “China Syndrome”

SMT’s client is a distributor of branded materials handling and safety products designed and marketed in Australia and sourced from manufacturers in China. Like many importers, the long lead times and large shipping batches associated with the China supply chain had resulted in poor stock turns, high costs of obsolescence and mark downs and excessive storage and land distribution costs.

The solution was split into three stages.

Stage 1 The Right Inventory in the Right Place

Our client implemented SMT’s Sales Forecasting and Safety Stock system ‘INSTOC’ to calculate how much stock of each SKU should be held at the National DC and each of the State Branch Warehouses. The system statistically analyses sales history to produce an accurate sales forecast. INSTOC takes account of new product introductions and superseded products as well as seasonal sales variation. It also allows State Branch Managers to modify sales forecasts for one-off events, special promotions, etc. INSTOC categorises products depending on their sales variability and uses this to set safety stocks by SKU.

Stage 2 Reducing the Cost of Warehousing and Distribution

Stage 2 involved reducing the cost of warehousing and distribution. This focused on increasing the efficiency and effectiveness of order picking. The warehouse layout was changed using ABC product classification so as to decrease the travel time incurred by warehouse staff. A clean up program helped to dramatically improve bin location accuracy. Quality control and KPI's were introduced as a quality control to ensure the continual improvement of the picking.

Stage 3 Reducing the Cost of Obsolescence and Mark Downs

Failure to link purchasing decisions to actual sales in the market resulted in speculative or ill-founded purchases that eventually led to large quantities of obsolete and slow moving stock. New financial controls, buying processes and accountabilities were put in place in an attempt to decrease unnecessary over purchasing. A campaign was started to remove slow moving stock. New channels were identified to grow sales and develop new channels, and new lines would be driven by customer needs rather than vendor availability.

•The Bottom Line

- Stock levels were adjusted so that the more stable SKU had less safety stock and safety stocks were increased for the more variable SKU's. Overall stock levels were reduced by \$2 million in 8 weeks with increased ex-stock availability and better forecast accuracy.
- Picks per person in the National DC increased from around 2 per hour to almost 5 per hour. Better pick accuracy reduced land transport and double handling of orders.