

Parbury FHS

Supply Chain Improvement and SAP APO implementation

Parbury FHS, based in Sydney, Australia, is a medium-sized supplier of premium products used in the finishing of kitchens, bathrooms, and laundries and in the manufacturing of furniture. In 1999, Parbury acquired FHS to extend its range of building products and to develop a one-stop supply capability. After the acquisition of FHS, it became obvious that Parbury FHS would not be able to exploit the potential benefits without a comprehensive review and redesign of the supply chains of both organizations.

The Goals

The key goals associated with the supply chain management project included enhancing the ability to respond to customer requirements, improving market share, and reducing costs throughout the operation. This meant reducing order-to-shipment cycle times, improving product availability, and enhancing on-time and in-full delivery performance. With regard to costs, the following were paramount: reducing inventory (25%), reducing warehouse rental, labor, and freight costs, and improving factory utilization and throughput. All these measures were expected to decrease total supply chain operating costs by 10%. In addition to improving financial performance, reducing inventory would provide operating flexibility to enable better responsiveness to fashion cycles. Improving throughput would allow better utilization of assets, higher return on net assets, and enable deferral of capital expenditures.

The Solution

It was recognised that additional software would be required to support the new supply chain focus. Parbury FHS selected the SAP supply chain planning tool SAP Advanced Planning and Optimization (SAP APO). It was decided that only three components would be initially installed : demand planning (DP), supply network planning (SNP) and production planning and detail scheduling (PP/DS). The project also included a separate installation of SAP Business Intelligence to enable supply chain performance management activities such as the monitoring of relevant transaction data, KPI's and financial variances.

The supply chain management review process was conceptually guided by the SCOR model and SMT Consulting's constraint management model. SCOR was used mainly to facilitate the alignment of policies and process between Parbury FHS, its customers, and its suppliers and to identify main supply chain channels. SMT Consulting's constraint management model guided the review of the manufacturing processes. This model is based on the theory of constraints and focuses on capacity management and the optimization of the flow of products. The key objective is to achieve lower inventory levels, higher throughput, and shorter lead times through the improvement of the production flow by optimizing the utilization of bottlenecks.

Before Parbury FHS's supply chain was reviewed, it used a model that did not address the diversity of demand profiles. All customers were supplied only by the branch warehouses, which ordered from the central warehouse, which in turn received all deliveries from the suppliers.

The new business blueprint was based on a multidimensional segmentation of the supply chain according to four criteria: customer segment, service component, products, and demand. The supply chain types were tailored to the individual requirements in the different product-demand-offer-segment combinations. This model allowed the company to establish channel-specific business policies and safety stock levels that varied according to product demand characteristics.

The Results

Parbury and FHS are now one company using mySAP SCM as its fully integrated supply chain management system. The three main locations were merged into one, and the number of branches was reduced from 18 to 12. Costs for damaged and lost material declined from 1.6% to 0.78% of sales. The consolidation of locations led to substantial reductions in occupancy costs. In addition, the number of employees were reduced by 20%-from 500 to 400- within two years. At the same time, output increased slightly, therefore labour productivity increased by more than 20%. Forecast accuracy increased to 98%. Inventory decreased by 33% within 1.5 years while stock availability increased.



“The results speak for themselves in the sense that the implementation has brought a real improvement to the way the business operates. Customer service levels are up, the inventory has been reduced, and significant costs have been stripped out of the business.” Neil Freeland, CEO of Parbury FHS and the main project champion.

Production lead times and customer lead times improved substantially. The application of the theory of constraints resulted in better capacity utilization and an increase in manufacturing throughput by 20%. In certain cases, production lead time has been brought down by 40%, and make-to-stock products can usually be delivered one day after the order is taken.

Parbury FHS managed to reduce overall supply chain operating cost by 10% within 1.5 years.