



UPS Supply Chain SolutionsSM

case study

Inventory Controls Gird Retailer-Wholesaler for Efficient Growth

A U.S. designer and manufacturer of consumer products grew rapidly over three decades from a small family business to a company with annual sales of \$500 million and retail and wholesale supply chains extending throughout North America. The company engaged UPS Supply Chain Solutions' consulting services team to improve operational efficiencies as the company positioned for even stronger growth.

Client Challenge

The business started as a teen-ager's hobby. Working out of his home, he designed and made decorative products as gifts for his family and friends. The hobby developed into a thriving enterprise with manufacturing facilities and more than 300 retail outlets. The company branched out into wholesaling and today distributes its products to 15,000 outlets throughout North America. The product lines also grew rapidly and required almost 2,500 stock-keeping units (SKUs) to ensure availability of items.

Continued success put pressure on the company's supply chain. In addition to distributing products to its own retail outlets, the company needed to meet the wholesale distribution requirements of major department store chains. Finally, a listing on the stock exchange required the company to evaluate its supply chain to ensure it could sustain even stronger growth over the long-term.

The company hired UPS Supply Chain Solutions to analyze its planning, forecasting and inventory management processes and recommend ways to more efficiently manage growing demands on the supply chain while keeping service levels high.

Our Solution

The UPS Supply Chain Solutions team compared the company's production schedules, inventory levels and sales volumes. The team determined that although the company was profitable and continuing to grow, the business functions did not adequately communicate critical demand information. As a result, the forecasting capabilities were weak and the inventory mix was not optimal leading to significant cost inefficiencies.

Planning and Forecasting

GEOGRAPHIC AREA SERVED

North America

CHALLENGE

Improve planning and forecasting capabilities for a successful manufacturer, retailer and wholesaler of consumer products, to help the company satisfy customer requirements more efficiently.

SOLUTION

Rank individual SKUs by their revenue contribution indexes, then use these rankings to develop a statistical inventory management process and formalize the sales and operations planning process.

RESULTS

- Gained precise tools and methods to improve inventory management
- Developed systematic way to improve overall service level
- Determined potential SKUs for rationalization
- Developed guidelines for fact-based sales and operations planning
- Identified \$9 million in potential annual savings

An analysis of the sales history, price and projected volume of each of the company's approximately 2,500 SKUs revealed their revenue contribution indices. The products were then classified into categories using breakpoints on the revenue contribution index. Approximately 15 percent of the SKUs, representing 80 percent of the revenue contribution, were classified as the top-selling "A" category; nearly 21 percent of the SKUs, representing 15 percent of the revenue contribution, were classified as the second-tier "B" category products; and the remaining 64 percent of SKUs, representing 5 percent of the revenue contribution, were classified as low-contribution "C" category products.

Further analysis by UPS Supply Chain Solutions showed by reducing production SKUs and rationalizing others, the company could save an estimated \$1.5 million in working capital and year-one carrying costs.

UPS Supply Chain Solutions developed a tool that enabled the company to set unique SKU-level inventory targets based on desired service level expectations. The company now has the means to regulate its inventory to achieve desired service levels by category. UPS Supply Chain Solutions developed several scenarios to demonstrate to the company the impact that each service level would have on the inventory. Using typical service expectations of 98.5 percent service level for the "A" category, 97 percent for the "B" category and 93 percent for the "C" category, UPS Supply Chain Solutions determined that this system of inventory management could improve the company's overall service level while generating a potential \$6.5 million in savings.

To address the forecasting issue, UPS Supply Chain Solutions reviewed the company's planning processes and performance metrics. The company employed one person part-time to forecast product demand and the employee primarily used the recommendations of sales people instead of statistical models. UPS Supply Chain Solutions recommended that the company expand the position to full-time and use well-defined, fact-based processes in all of its planning and forecasting functions. By improving the forecasting accuracy by just 10 percent and eliminating the bias, UPS Supply Chain Solutions estimated the company could save \$1.5 million in inventory costs while further enhancing manufacturing efficiency and service.

Shortly after implementing UPS Supply Chain Solutions' recommendations, the company reduced its inventory levels by 25 percent and increased its overall fill rates from 95 percent to 98 percent. The company projects sales of its top product line to grow by 16 percent in the coming year, and is now confident that it can fulfill customer requirements with a lower inventory level than the previous year.

UPS Supply Chain Solutions provided the company with a detailed road map to move from an inexact style of planning and forecasting, and inventory management to a systematic approach that can efficiently serve both retail and wholesale distribution models. The company is now well-positioned to build on its success and expand its market share even further in the coming years.

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