

## **Business Essentials: Too Much Inventory** ***Is it money in the bank, or is it killing your service?***

by Fred Heintz, CPIM CIRM

What's wrong with having some inventory? I once had a production planner who reported to me, and he claimed that running our highest selling stock keeping unit was like "money in the bank." So why should you worry about inventory levels? It eventually sells, doesn't it?

As the auto industry has proven, it may not sell, or at least not quickly enough to cover the cash invested to make it. So excess inventory, even of a company's number one SKU, is not necessarily a good thing. As discussed in last



month's newsletter, even Toyota has been guilty of creating too much inventory. This is a shock, as inventory is one of the seven wastes in Lean or TPS (the Toyota Production System).

But surely customers like inventory. It allows them to get immediate delivery of what they order. Having inventory on hand should help to improve customer service, correct? Only if it is the correct inventory. For instance, take

a look at the photo on this page. If a customer wants a black car, the dealer can make them happy in ten seconds. But if he or she wants a yellow car, it might take the dealer a week to get to it, even though there is a huge inventory on hand. It might even be easier to *make* a new yellow car rather than try to find one buried in this inventory.

I've seen that very situation occur in business. While the corporation might have the inventory, it can sometimes be easier and quicker to produce more of an item for a couple of reasons. The inventory might have been moved to an outside warehouse, and shipping just that item will take more time and/or cost than making a new item. Or the computer says the item is in stock, but because the warehouse is so full, no one can find it. What could be more wasteful?

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## **Declare Your Independence — From Bad Work Habits**

by Tom Dzialo

On July 4th, the United States celebrates Independence Day, the day it broke from its past and began anew. It's the day the country changed its paradigm.

This month's suggestion is for each of us to consider, for the sake of continuous improvement, breaking from some of our past habits and changing our own paradigms.

Some ideas for your consideration follow, but feel free to pick one of your own. Start with just one, and make it one that you know you will be successful at changing. Everyone wants to be successful. Build on success and work your way up to bigger challenges each month. Crawl, walk, then run! Remember, it takes about thirty days to change a habit, so you will need to persevere.

### **Suggestion #1: Workplace Organization**

Do that overdue spring cleaning, and organize and clean your workplace (be it at work or at home). It's a simple physical change that will save you time and make you more productive. Because it's a physical change, you will see the improvement every day, and it will make you feel better.

### **Suggestion #2: "To Do" List**

Begin and end each day with your personal To Do list. Write it down for you and others to see. Writing it down helps you to remember, and it lets others

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*Inventory, cont. from page 1*

An even worse situation can occur when the wrong items are manufactured. In one example I witnessed, a truckload of finished goods needed to be shipped from California to New York because the east coast plant had no raw material to make the item. The plant had no raw material because it had used it all to make another finished good that was now sitting in inventory. In the end, the company made no money on the order and the customer was not satisfied because the shipping distance caused the delivery to be late. Meanwhile, the east coast plant *still* had too much inventory.

So before you put more “money in the bank” with increased inventory, make sure you’ll get a positive return. Sixth Floor Consulting Group believes as little inventory as possible should be held, and what inventory there is should be at the lowest level possible. For quick/easy production environments (process industries, build-to-order, or job shops) inventory should be in the form of raw materials. For those industries that must build to stock, every effort should be made to lower set up times (SMED), which will allow the company to hold lower inventory levels. ■

*Independence, cont. from page 1*

know what you are trying to accomplish each day. See our Sixth Floor newsletter from September 2008 for more PDCA (Plan Do Check Act) tips for success.

**Suggestion #3: Inventory Accuracy**

Stop the normal fire-fighting caused by inventory inaccuracies. Cycle counting will help. There are many more ways to manage your inventory successfully, too. Check out our newsletter from February 2009 for some ideas, or attend our July workshop for techniques to make this change more easily.

**Suggestion #4: Be a Team Player**

Teamwork is a great thing, but unfortunately it is uncommon in many organizations. Take the lead by being a team player. Offer your assistance to others, no strings attached, and see how others will more readily offer to help you in the future.

Make July the month you celebrate your personal independence from past habits that have been hindering your professional development. Mark July 2009 as the month you began your personal continuous improvement journey. Happy Independence Day and month! ■



**The goal of Sixth Floor Consulting Group is to create best-in-class processes, allowing each of our clients to take their businesses to a higher level of quality, profitability, and Lean operation.**

**Contact us today to put us to work on your team.**

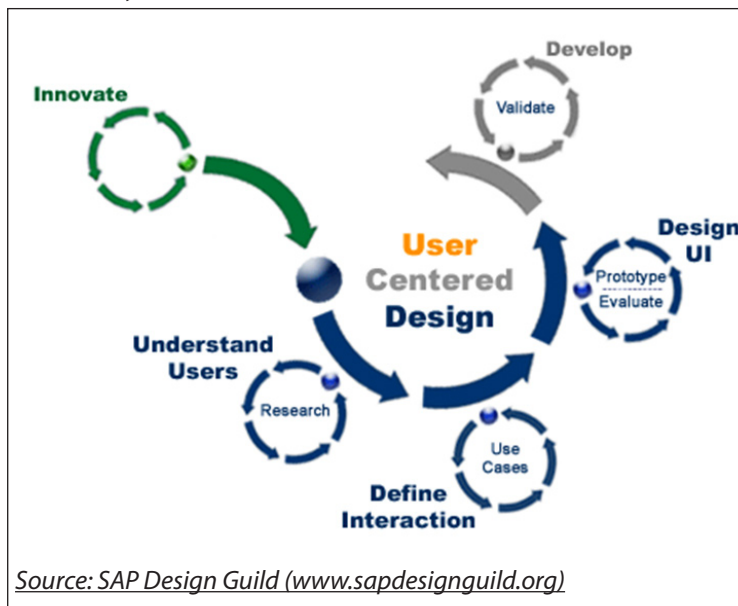


# Making the Most of Your SAP Investment

by Lori Modifica

Did your company invest millions in SAP, but your employees are complaining that they can't get the information they need or that their jobs are more difficult and take longer? What went wrong? All the system implementation metrics were monitored and the project was a success, yet something still isn't working.

Unfortunately this is the case in many companies. SAP is often marketed through a three-tier distribution network: the manufacturer (SAP), the implementation partner, and the customer/user. While this process has been extremely successful for SAP and has spawned an army of SAP consultants, the results for the customer are not always as positive. Here are some thoughts to keep in mind to maximize your user satisfaction.



## 1) Document key processes.

SAP is a process-driven, fully-integrated system. Most companies understand the need to fully document the steps in SAP to complete a business transaction. While, this can be costly, it is critical to most implementations and is required to educate the

implementation partner. Users should participate in developing this step-by-step road map. While not technically necessary for implementing, the non-system steps of a process should also be mapped out to provide a complete picture.

## 2) Ensure data integrity.

Data integrity is of equal (if not greater) importance in a fully-integrated system. Depending on your objectives, SAP can be a beast requiring significant amounts of data. Inaccurate or incorrect data on even a small percentage of your master records can result in confusion, and that can impact your operation.

## 3) Educate users.

All companies train their users, but I am recommending something a little different: *educate* your users.

Users need to understand what they are doing and how it impacts others, not just how to do it. It is critical that someone in the company understands SAP. I recommend all companies using SAP educate users in report writ-

ing, table queries, and maintenance. In addition, some understanding of basic configuration and any customized functionality would be extremely helpful.

## 4) Encourage ideas and the thinking of users.

User satisfaction and increased



productively are two common goals of any new ERP package. SAP implementation plans typically focus on the process and the data, but often neglect user satisfaction or ideas. All creative suggestions and ideas should be encouraged, seriously considered, and captured to be reviewed after SAP implementation. All processes should be reviewed and tweaked if necessary after go-live. This is not failure, this is fine tuning. Real life can be different from a white board or power point presentation.

5) Continually improve. Although SAP can be very costly to implement, go-live is not the end, but the beginning. It is important that any system be flexible enough to continue to meet the needs of the company as situations change. As users learn and understand SAP, they will find new and better methods within the system. Reports and transactions considered essential in the old system might not be needed in SAP, but sometimes the users must use SAP before they realize this. People are reluctant to eliminate proven-methods when the new methods are not well understood. Companies should embrace this continual improvement.

SAP is a remarkable system that can provide benefits to most companies, but it still relies on people to configure and execute properly. SAP without user understanding is just another black box. Life and business is a continual process of change and challenge, and SAP can be a great tool if used properly. ■



## Cycle Counting: Can You Count on It? Attend Our Workshop!

Does your company have a cycle counting program?  
Does it correct the causes of inventory errors, or only correct the book inventory?

**Fred Heintz** of Sixth Floor Consulting Group, in conjunction with the Hartford APICS chapter, will conduct a Cycle Counting Workshop on Monday, July 20th, from 1:00 until 5:00 pm. The workshop will be held at the CCSU ITBD center in New Britain, Connecticut.

Too many companies cycle count to “correct” the book inventory or measure a Key Performance Indicator. Cycle counting was developed as a means to discover the root cause of inventory inaccuracies. The actual counting should be the easiest part of a cycle count. Only by reconciling and correcting processes does cycle counting repay the investment made by the company.

Topics to be covered include:

- Benefits of Cycle Counting
- Deciding what to count and when
- Reconciling differences
- Reporting results
- Performance checking

Using APICS-prepared coursework in addition to practical demonstrations, participants will learn what it takes to have a successful cycle counting process. To register, see the Calendar of Events on the Hartford APICS website at [www.apics-hartford.org](http://www.apics-hartford.org).

Attend our Cycle Counting Workshop — and learn to make your inventory accurate!

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