

Business Essentials: Inventory Fluctuations

Is your supply chain ready for a market rebound?

by Fred Heintz, CPIM CIRM

An Associated Press headline on April 8 read, "Wholesale inventories drop by most in 17 years." The article reported that U.S. wholesale inventories had dropped by 1.5% in February, while sales at the wholesale level had increased by 0.6% (the first increase since June of 2008). These sharp moves are actually good news for manufacturers, because eventually wholesalers will need to replenish the inventory. While your industry may or may not feel the effects of this soon, if this trend continues, reason says all industries will start to recover.

Remember that famous line from Laurence Peter about economists? "An economist is an expert who will know tomorrow why the things he predicted yesterday didn't happen today." Keeping that in mind, we do know that most economists see this lowering of inventories, combined with the increase in

sales, as a harbinger of an economic turnaround. While wholesale inventories represent only 25% of all inventories, it is a crucial segment in the supply chain and helps show where the economy is heading.

Not all industries are expected to recover in the same way or at the same pace. If your company supplies home builders, it may take all of 2009 (or longer) to see the market rebound. But many other industries are poised to recover more quickly. This will be most evident in those industries

with Lean supply chains. Any supply chain that relies on the pull of the customer will rebound quickly when demand improves. Those supply chains that rely on batch and queue techniques, no matter how sophisticated

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Lean Government: It's Not an Oxymoron!

by Tom Dzialo

Lean is not just for manufacturing anymore. The Toyota Production System (TPS) and different "Lean" variations have made it to the government. Local, state, and federal government departments and agencies have begun their Lean journeys. Some even have more than five years of results and progress to show and share!

Media coverage is beginning to give credit where it's due. Like Lean manufacturers, Lean government Kaizen events achieve double digit improvements as the norm, too.

Success stories abound with dramatic results being delivered. Steps, hand-offs, loopbacks, rework, processing times, and delays are being reduced. Backlogs are being eliminated or reduced. Accuracy, consistency and timeliness improved. Communication and teamwork has also improved, leading to enhanced morale.

Examples of Lean leadership in government include **Gina McCarthy**, former Commissioner of the Connecticut Department of Environmental Protection (DEP). She started the CT DEP on their Lean journey less than a year ago. Now, the DEP teams are delivering results like these:

- Application review steps reduced from 132 steps to 76 steps (a 42 % reduction)
- Average processing time reduced for initial response from 205 days to just 23 days (an 89% reduction)

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and technologically advanced, will go through a longer recession as the inventory "piles" sitting throughout the supply chain are slowly diminished.

Overall, our expectation at Sixth Floor Consulting Group is that a Lean supply chain would feel the effects of the recession less than a regular supply chain. A supply chain based on pull signals will have only a small amount of inventory clogging the flow of goods and services, so when customer demand falls from one a day to one every other day (or to one per week), the Kanban pull signals keep inventory from growing. As demand returns to normal, the pulls become quicker and production increases. For truly Lean companies, like those who used this time to train or kaizen, or who reduced hours or even used temporary furloughs, ramping up production is not hard because the skilled, experienced workers are in place.

Non-Lean supply chains would feel the downturn much more. Without pull signals to regulate manufacturing and give management a true picture of final customer demand, inventories will build throughout the chain. Then all production will cease with corresponding widespread layoffs. Once demand picks up again, the inventory will be used first, before production is restarted. Of course, the inventory level will not be uniform throughout the chain, so some items will become out-of-stock while others won't need production for months after demand picks up. This will cause whiplash reactions throughout the chain as orders go from zero to huge numbers to zero again.

We can see an example of this in the demand for SUVs. When gas was \$4.00 a gallon, the auto companies couldn't give them away. Production on SUVs was curtailed last summer, and the inventory of those vehicles

in the supply chain was lowered. Even though all US auto makers shut down plants in mid-December to save money, they had to re-open some SUV plants early to meet demand once gas went below \$2.00 a gallon. Even though the economy is slow, it hasn't stopped completely.

So is your company ready for when the economy rebounds? Are your internal and external signals ready to respond to customer changes? Have you used the last six months to strengthen your operations to meet the demands when the economy grows?

Once the economy turns around, which it must eventually, your customers will not give you forever to get back up and running. If you cannot meet their needs, they'll go to the competition. Those companies that respond quickly to the rebound will be in a position to take business away from their slower counterparts. ■

Sixth Floor BOOK REVIEW

by Fred Heintz, CPIM CIRM

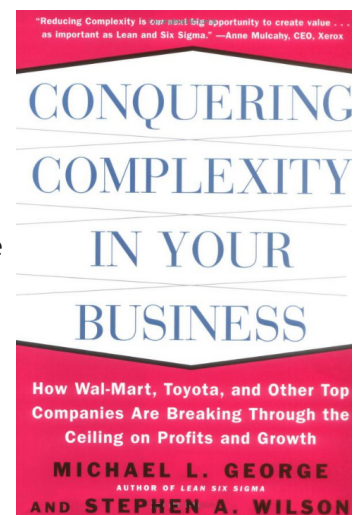
Conquering Complexity in Your Business by Michael George and Stephen Wilson (Published 2004 McGraw-Hill)

This is a very important book. The authors' premise, which would be supported by any Pareto Analysis, is that all businesses have products, services, or customers that do not add any profit to the business. Pareto tells us 20% of the items sold creates 80% of a company's revenue. At Sixth Floor Consulting Group, we have found this to be true in all businesses we have worked with. So what is the other 80% contributing? For the most part, your "B" items (usually the next 30%) still add profit; however, the "C" items usually lose money.

Why don't more businesses stop making these items? There are two factors driving why these are not addressed. First, no customer will ever complain about additional functionality/complexity in products. They may not be willing to pay for this complexity, but they won't stop buying because of it. Second, standard cost

accounting, with its overhead absorption calculations, does not give a true picture of a low (or high) volume item's true profit contribution.

This book uses informative examples from companies who were willing to remove complexity for which the customer was not willing to pay. These companies include Dell, Toyota, Intel, and Wal-Mart. The book also examines the profitability of those companies who were not willing to take that step. It gives quantitative formulas to determine complexity and economic profit. These formulas are not easy to follow, especially for anyone willing to venture beyond the Simplified Complexity Model. Fortunately, most of these can be built in Excel and then applied to a business. While not the easiest business book, it covers an important topic that every business needs to look at closely. ■





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- Reduced average permit processing time from 566 days to 52 days (a 90% reduction achieved in 6 months).

In March, McCarthy was picked for an EPA climate-change post. In the first departure of a Connecticut official for the Obama administration, she was nominated by the President to be the Assistant Administrator for the Office of Air and Radiation at the U.S. Environmental Protection Agency.



You can find more Lean success stories on the website for The Environmental Council of the States (ECOS), at www.ecos.org.

ECOS

This is the national non-profit, non-partisan association of state and territorial environmental agency leaders. On their site, you'll also be able to review the progress of the Connecticut DEP and other states in the "April 2009 ECOS Green Report - Lean Case Studies: Continuous Improvement in State Agencies." To find this report, just click on the Publications tab. It contains detailed information about how agencies from coast to coast have adopted Lean, and the progress they have made as part of their efforts to cut costs, improve delivery of services, and streamline programs.



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.

The EPA has served as a catalyst for improving the efforts of government agencies and business entities. Their website offers guidelines such as the "Lean in Government Starter Kit" and "The Lean and the Environment Toolkit." These guides help government agencies get started with Lean and find ways to develop true partner-

ships with their customers. Visit their site at www.epa.gov.

The State of Iowa has even started its own Lean Office, the Iowa Department of Management – Office of Lean Enterprise (www.lean.iowa.gov). For more than five years, the Office of Lean Enterprise has helped assorted state agencies and departments learn and adopt Lean practices.

If your organization has not started with Lean, there are some excellent learning materials and benchmarks to be found in government.

As with any organization, Lean or not, continuous improvement starts today and is a never ending journey! Good luck on yours. ■

A bad system will beat a good person every time.

~W. Edwards Deming

Mark your calendar ...

Date	Event	Topics
May 18	Lean Office Workshop at CCSU-IBTD	Learn ways to eliminate waste from your administrative processes.
June 8	Physical Inventory Workshop at CCSU-IBTD	Identify improvement opportunities in your monthly/annual counting exercise.
June 9 - 11	Lean Government Exchange, Des Moines, Iowa	A Lean learning and networking op- portunity for government agencies.
June 15	1 Day Lean Systems Workshop	Learn to use Accounting and Information Technology to speed your Lean journey
June 22 - 26	Lean Leadership Certification Workshop	Lean requires leadership. Enhance your skills and learn from others.
July 20	Cycle Counting Workshop at CCSU-IBTD	Learn ways to improve your inven- tory accuracy while reducing your expenses.

See "Calendar of Events" on our website (www.sixthfloorconsulting.com) for additional event details

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