

Forecast to Fulfil (F2F) – SKU (Product) Proliferation

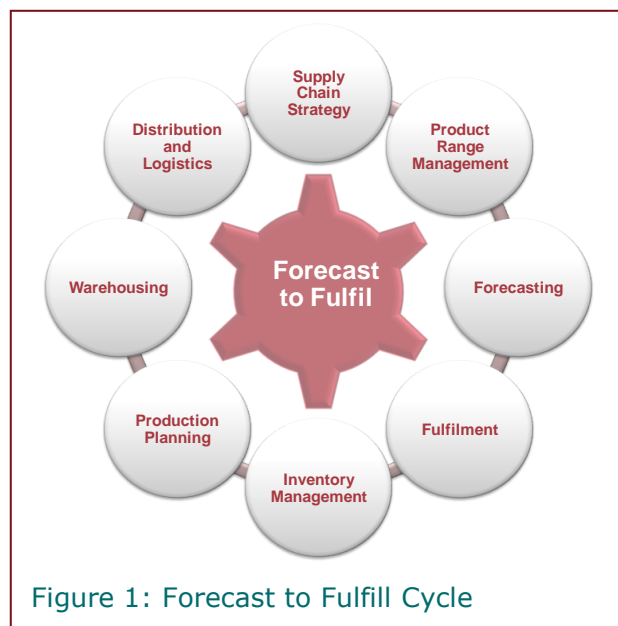
Working Capital Series

By Perry Tong

Supply chain strategies often take second or third place to operations in the growth and development phase of an organisation. One of the unintended (though sometimes strategically intentional) operational consequences of aggressive growth, both organically as well as through M&As, is that of product or SKU proliferation.

SKU proliferation manifests itself as a hindrance to supply chain efficiencies in a variety of forms including:

- ❑ An 'impressive' range of product
- ❑ Dramatic levels of raw material or WIP, the latter held as a strategy of postponement
- ❑ Elaborate operational set ups that often challenges productivity and efficiency KPIs resulting in large production batches
- ❑ Loss of operational and commercial control as batched production produces a bull whip effect in finished goods inventory
- ❑ An inflated balance sheet where inventory is concerned and gradually thinner margins due to missed or short ships as a result of batch & efficiency metrics



Taken individually, these anomalies can be dealt with, and they frequently are, in a piecemeal fashion. Slashing SKUs across the board delivers instant results but a trade off is that of falling efficiency levels measured at the plant level. Inventory can be shifted onto a VMI strategy where costs are kept off as long as is possible though this eventually strains supplier relations. Moth-balling entire plants are not uncommon once 'demand' is perceived to have dropped though this leaves much to be desired in terms of industrial relations. Micro-management becomes the order of the day and a fairly immobilized organisation results. Undue force is applied to 'balance' the balance sheet in an effort to improve margins.

Collectively however, addressing such a situation at the strategic level while selectively 'leaning' some operations yields results that are relatively more 'stable' to the organisation.

A multi-variate analysis of product selectively utilising Pareto principles ought to produce an SKU range that is manageable both from the marketing / margin perspective as well as the operational perspective. Combined with some innovative product re-design resulting in 'multi-use products' as well as postponement, the results are appreciable.

Some of the variants to be considered are:

- ❑ Movement (traditional ABC)
- ❑ Value in dollar terms
- ❑ Margins
- ❑ Inter-operability
- ❑ Market positioning & share
- ❑ Ability of the product to be innovated upon
- ❑ Strategic position for consolidation

Benefits of Managing SKU Proliferation

A diversified industrial client we worked with in this area managed to lower overall (RM, WIP & FG) SKU counts from some 5,500 to 4,200 over the duration of an 18 month long project. A 22% reduction.

Project yields beyond SKU consolidation were:

- ❑ Overall decrease in inventory of 15%
- ❑ Short / missed shipments decreased by 60% resulting in less commercial and financial penalties
- ❑ Expedite (both for production and shipping) occurrences decreased from a monthly average of 370 to under 100

Less tangible benefits were an improved working relationship between the front and back ends of the firm and an improved understanding of how better sales and marketing could work together with production to ensure a lid on SKU proliferation.

About the Author

Perry Tong is the Singapore-based Managing Consultant for Centre for Organisational Effectiveness Pte Ltd. He helps companies in Asia, Europe and North America understand the importance of process improvement with impacts on working capital as a primary objective and increased customer service levels as a secondary objective. He has extensive experience in implementing process and organisational improvements for various industries. Perry can be reached at Perry.Tong@COE-Partners.com.