

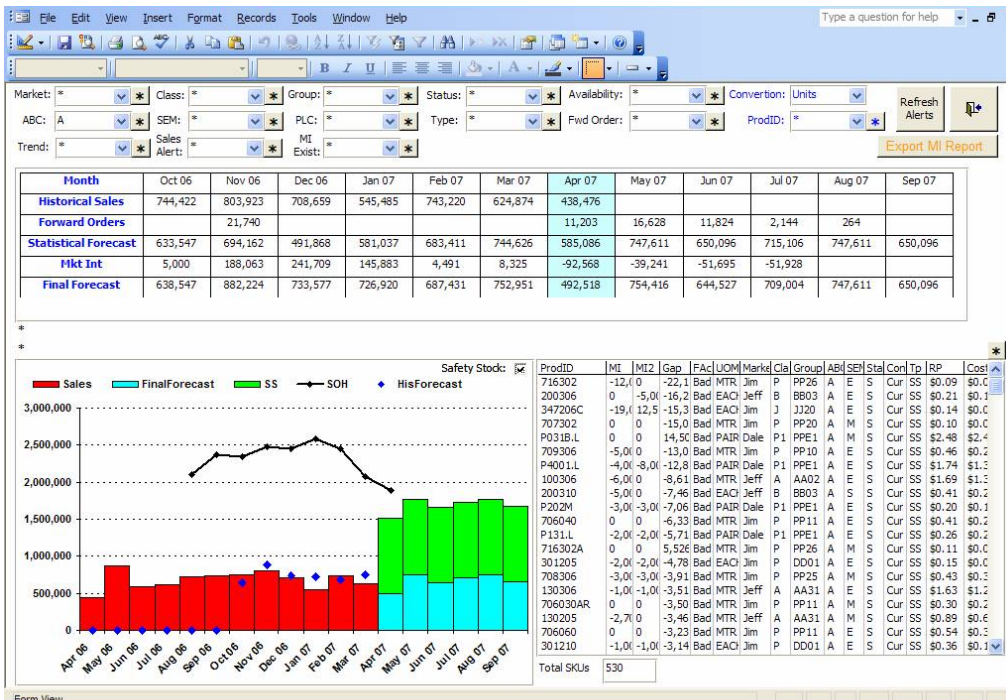
# Distributor Beats the "China Syndrome"

*Long supply lead times, 'full container' batch sizes, single point of entry are familiar issues to anyone sourcing product from China. Learn how one SMT client adopted a three step process to fix its "China Syndrome"...*

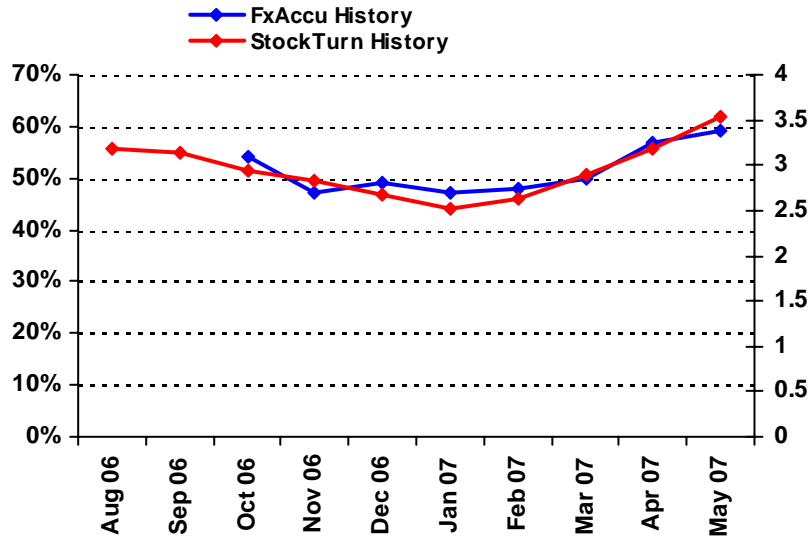
SMT's client is a distributor of branded materials handling and safety products designed and marketed in Australia and sourced from manufacturers in China. Like many importers, the long lead times and large shipping batches associated with the China supply chain had resulted in poor stock turns, high costs of obsolescence and mark downs and excessive storage and land distribution costs.

## Fixing the "China Syndrome" – Stage 1 The Right Inventory in the Right Place

Our client implemented SMT's Sales Forecasting and Safety Stock system 'INSTOC' to calculate how much stock of each SKU should be held at the National DC and each of the State Branch Warehouses. The system statistically analyses sales history to produce an accurate sales forecast. INSTOC takes account of new product introductions and superseded products as well as seasonal sales variations. It also allows State Branch Managers to modify sales forecasts for one-off events, special promotions, etc. INSTOC categorises products depending on their sales variability and use this to set safety stocks by SKU. The success of the system relies heavily on a graphical presentation of sales history, forward forecasts and stock projection which assists managers to quickly identify problem areas and assess solutions.



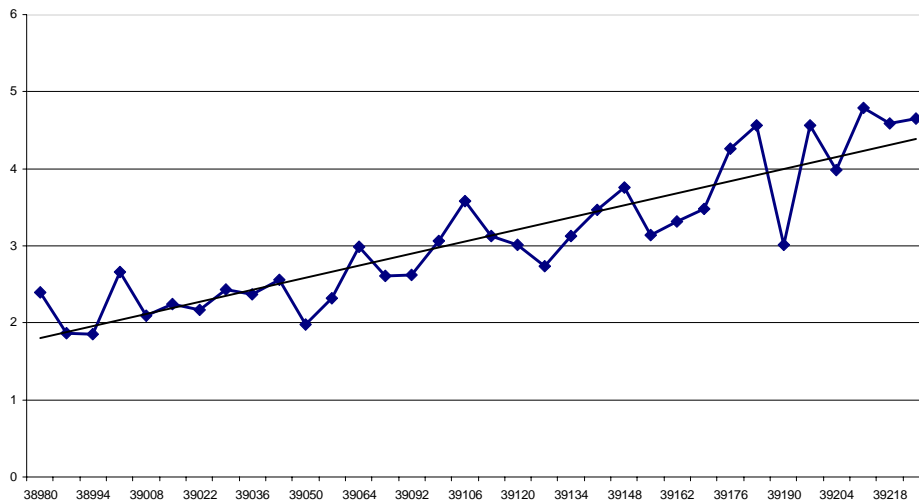
The results were immediate. More accurate sales forecasts enabled the company to modify its purchase orders with its overseas suppliers. Stock levels were adjusted so that the more stable SKU had less safety stock and safety stocks were increased for the more variable SKU's. Overall stock levels were reduced by \$2 million in 8 weeks with increased ex-stock availability and better forecast accuracy.



### *Fixing the "China Syndrome" – Stage 2 Reducing the Cost of Warehousing and Distribution*

Importing container loads of stock into a single entry point achieves freight economies but incurs significant costs for warehouse double handling and land transport. Our client implemented a warehouse productivity improvement project that adopted three key strategies:

- The travel time incurred by warehouse staff during order picking was significantly reduced through warehouse layout changes using ABC volume analysis
- A concerted clean up program dramatically improved the bin location accuracy in the warehouse management system
- The introduction of quality controls and KPI's increase in pick accuracy



The results were immediate. Picks per person in the National DC increased from around 2 per hour to almost 5 per hour. Better pick accuracy reduced land transport and double handling of orders.

## Fixing the “China Syndrome” – Stage 3 Reducing the Cost of Obsolescence and Mark Downs

Failure to link purchasing decisions to actual sales in the market resulted in speculative or ill-founded purchases that eventually led to large quantities of obsolete and slow moving stock. The drain on company cash flow prevented our client from expanding its product offering and responding to those products that were selling well. The client’s next steps were:

1. **Category Management**

- Apply new financial controls, buying processes and accountabilities.

- Developing clear channels to market for these categories and channel plans

- Support with further development of Live Blueprint or MIS tool

2. **Quit**

- Lead a focussed campaign to remove slow moving stock by identifying new channels and focusing on major line items

3. **Grow**

- Using category management develop new lines driven by the customer needs rather than vendor availability

- Use new channels identified through the Quit programme to grow sales

- Develop new channels to grow sales