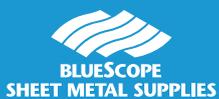


SER® REPORT

WASTE #5 - INVENTORY

VERSION 1 - NOV 2017

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SER® REPORT

WASTE #5 - INVENTORY

Welcome to the Steel Efficiency Review® Report for Waste #5 – INVENTORY. This report has been compiled from our unique and proprietary industry insight resource – The Steel Efficiency Review®.

1053 >>>

REVIEWS



7 YEARS ON OUR SOLUTIONS CONTINUE TO CREATE CUSTOMER VALUE

To date we've completed 1053 Steel Efficiency Review® visits nationally, with steel businesses both large and small.

This has amounted to over 2863 hours developing real solutions to save them time, money and reduce risks.

From these SER® appointments we have isolated findings relevant to specific industry sectors and niche businesses within that sector to identify business improvement insights – those that can help you run your business more profitably.

IN THIS SER® REPORT, WE FOCUS ON WASTE #5 – INVENTORY.

This report provides you with a summary of the common challenges faced by steel businesses serving diverse industries in Australia, relevant to INVENTORY. We also offer solutions to help you to build a more efficient and profitable business.

We hope this SER® Report provides an opportunity for you to look closer at your business and review your operation.

You're also welcome to participate in our complimentary Steel Efficiency Review® as a 'fresh set of eyes' helping you to identify ways to turn steel into gold.

If you have just participated we look forward to working with you to uncover the 'gold' in your business.

Regards

The SER® Team



KEY FINDINGS FROM CONDUCTING OUR STEEL EFFICIENCY REVIEW® ON 1053 AUSTRALIAN STEEL BUSINESSES - RELEVANT TO INVENTORY

INVENTORY was considered to be a challenge for steel businesses serving diverse industries in Australia.



263 clients from the 1053 completed Steel Efficiency Review® consultations, a total of 25% found opportunities to make improvements and savings in INVENTORY.

These clients worked with our SER® consultants to jointly identify hidden INVENTORY wastes in their operations. Key SER® findings revealed the issues at hand with proposed solutions to provide step change improvements resulting in stock savings, greater efficiencies in warehouse layouts and overall profit improvement.

Excess **INVENTORY** tends to hide problems on the workshop floor, which must be identified and resolved in order to improve operating performance. Excess inventory increases lead times, consumes productive floor space, delays the identification of problems, and inhibits communication. By achieving a seamless flow between machines and production lines, many steel businesses involved in manufacturing, fabrication and building have been able to improve customer service and reduce inventory and associated costs.

The Steel Efficiency Review® process recommends operations and productions teams to make what the customer wants when they want it, pulling only what is ordered through your work flow. Excess **INVENTORY** causes increases in direct physical costs and indirect costs such as the transportation and movement of this inventory, the space required to store it, the administration of keeping track of it, the damage and losses that can occur, the cost of writing off materials that become obsolete, even the costs of insuring it. Many businesses fail to eliminate excess **INVENTORY** as a waste as they simply won't change current purchasing and forecasting methods or are not convinced on the improvement or change required.

With 1053 Steel Efficiency Review® consultations completed, we have found if you could eliminate or possibly reduce excess **INVENTORY** the savings would be straight back on your bottom line improving the profit in your business.

COMMON CAUSES OF WASTE #5 - INVENTORY:

- » **Making or Ordering More Stock Than Is Required**
Simply ordering and making more than the customer wants leads to excess inventory and unnecessary stock piling. A direct link to over-production is found where there is a distrust of suppliers and their ability to supply what is needed leading to ordering more and producing more stock. So businesses order and make more than needed.
- » **Inaccurate Information**
Working to inaccurate sales forecasts and guessing what customers will want in the future can invariably cause stress to many operational environments. The wrong products can be ordered and produced in excess burning cash and disappointing key customers at the same time. This can sometimes promote excess inventory practices – promoting purchasing and operations teams to build stock buffers.
- » **Poor Warehouse Layout**
Excess Inventory can also be caused by poor warehouse layout and lack of balance in the work flow - causing inventory to build up before or after different processes. This helps hide inventory in each step of the production process.

3 KEY RECOMMENDED SOLUTIONS – EXCESS INVENTORY

Utilising the Steel Efficiency Review® to better understand businesses serving diverse industries, our SER® consultants have recommended the following 3 key solutions to help with EXCESS INVENTORY:



1. ENABLING JUST IN TIME (JIT) PRODUCTION

By making value flow at the pull of the customer, the idea of Just in Time (JIT) production can be enabled. This will cause steel businesses involved in manufacturing, fabrication and building to remove the main cause of excess inventory. Working to strict job schedules and project timelines will enable stock being produced as required by the customer. This requires trust in customer requirement and correct forecasting.



2. REVIEW OF WAREHOUSE LAYOUT AND PRODUCTION LINES

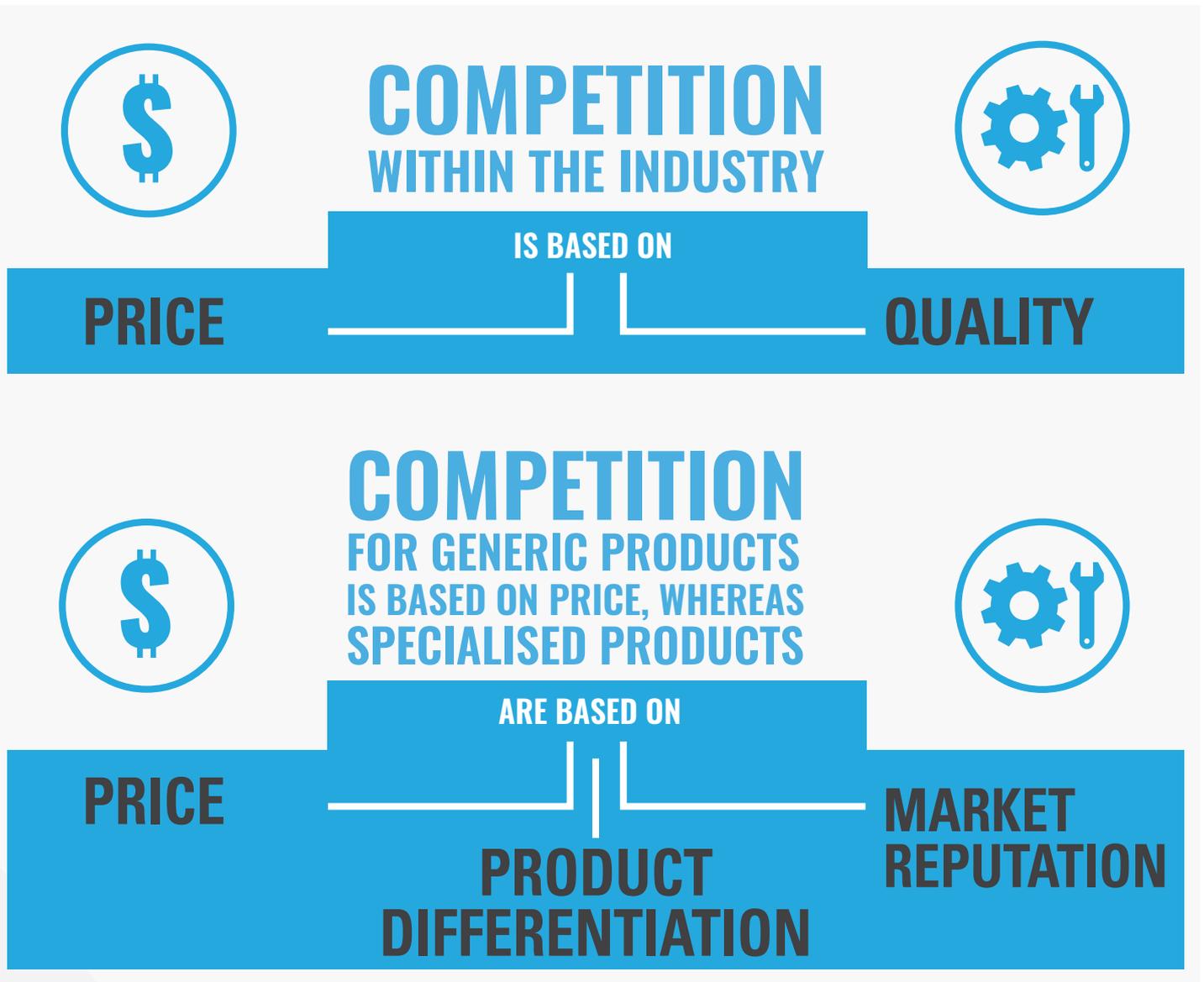
Look at the warehouse layout and by balancing the production processes to ensure that work in progress does not build up between production lines. It is not important to run every machine as fast as it can be run, at the end of the day we only need to make things as quickly as the customer wants them, no faster. A Kanban system can be used to help ensure that we balance our processes and prevent the build up of inventory.



3. LESS IS MORE

Dropping your inventory comfort levels to expose possible improvements to make your processes more efficient and reliable. Putting your business and operations under pressure to first manage cash and then comfort zones will be a harsh but needed step change. This means taking the leap and cutting spend on ordering stock when not required.

WHAT ABOUT COMPETITIVE ADVANTAGE?



The first step is to identify the common causes of **EXCESS INVENTORY** and realise that your business is actually doing it. We have uncovered when discussing our key findings from our Steel Efficiency Review® consultations with our customers, a common understanding is required to ensure we admit to the waste and want to find possible solutions to eliminate or reduce it.

Once we all understand the issues and challenges associated we can work together as supplier and buyer to recommend improvements. Keeping it simple is something we aspire to with our key findings and possible recommendations to ensure buy-in and implementation. Using simpler and easy to implement processes ensure our customers will first want to invest the time to change and reap the rewards in the long term.

Once some change is made and a recommendation has been implemented, business results start to follow. The recommended

solution can be as simple as “looking at the warehouse layout and by balancing the production processes to ensure that work in progress does not build up between production lines.” (Recommended Solution #2)

In making this change, our customers not only eliminate or reduce **EXCESS INVENTORY** but they start to put their own customers first and even highlight the causes of many other problems within processes that are hidden by this waste.

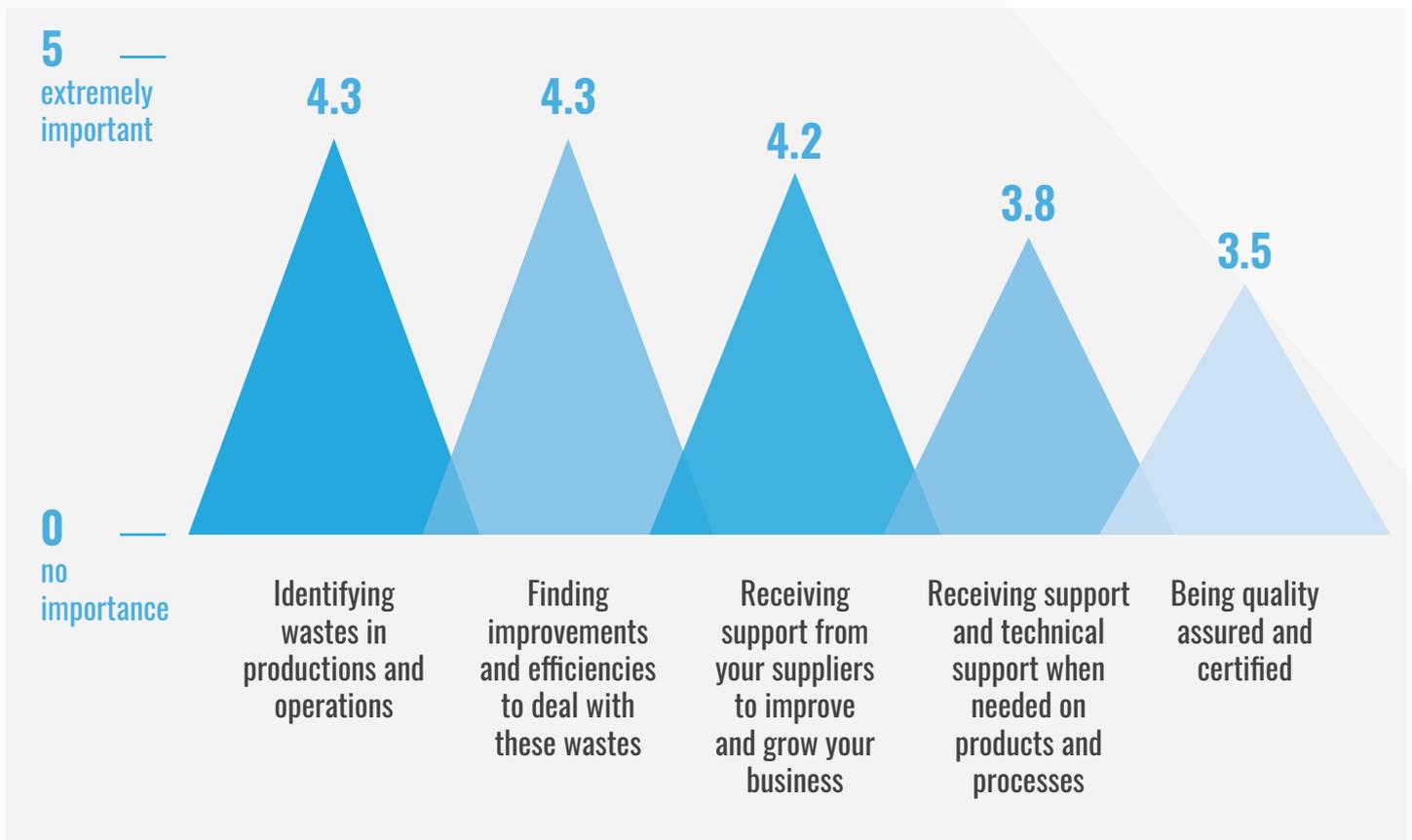
A competitive advantage starts to get built and can be very strong when customers start to experience a different and better offer, superior to others in the market. This then allows the right products to be produced based on customer demand. Add in a bit of customisation and expertise to develop specialised products – premiums can then be charged and more profit made.

THE SER® CUSTOMER'S PERSPECTIVE SHINES THROUGH

It's clear when our customers are involved in the Steel Efficiency Review® they undertake a challenging role of looking at their business in a very different way.

They start to identify and examine wastes such as excess **INVENTORY** and try to understand the possible causes and drivers. They dig deeper and ask questions to determine possible solutions for improvement.

With the help of their SER® consultant the findings are then tested further and possible recommendations are considered. And when we look at the importance of relationships with our customers as we work closely together to create win-win opportunities, it's quite clear that supporting each other along the way creates a long lasting partnership. When we asked our SER® customers how they would rate the importance of the following factors to their business – we found:



THE SER® CUSTOMER EXPERIENCE DRIVES A STRONGER RELATIONSHIP

So when it comes down to it, what actually drives our SER® customers to want to make a change in their business? And what is the role of the SER® consultant at this point in the journey?

When we asked our customers what drove them to undertake the Steel Efficiency Review® they answered both these questions. They commented on "needing some support to work on their business - rather than in it". They also mentioned they were after a "different point of view or perspective on their business".

This was the role of the SER® consultant to first build comfort into the process and ultimately look for win-win opportunities for both customer and supplier. 7 years on our customers will remember these initial wins and continually look for more improvements in wastes such as EXCESS INVENTORY to implement some change to produce great results.

CONCLUSION

The key findings from conducting 1053 Steel Efficiency Review® on Australian steel businesses relevant to Waste #5 – INVENTORY, show the need for:

HIGH QUALITY STEEL PRODUCTS MADE WHEN NEEDED, DRIVEN BY CUSTOMER REQUIREMENT.

When speaking to 1053 steel businesses involved in diverse industries nationwide, we concluded that it comes down 3 key solutions to help with EXCESS INVENTORY:

- **ENABLING JUST IN TIME (JIT) PRODUCTION**
- **REVIEW OF WAREHOUSE LAYOUT AND PRODUCTION LINES**
- **LESS IS MORE – CUTTING SPEND ON STOCK WHEN NOT REQUIRED BY THE CUSTOMER**

In implementing these recommendations, our customers not only eliminate or reduce EXCESS INVENTORY but they start to put their own customers first and even highlight the causes of many other problems within processes that are hidden by this waste.

A competitive advantage starts to get built and can be very strong when customers start to experience a different and better offer, superior to others in the market. This then allows the right products to be produced based on customer demand. Add in a bit of customisation and expertise to develop specialised products – premiums can then be charged and more profit made.

We have found, our customers pursue the SER® as a vehicle to look at their business in a different way to make some small changes to reap big rewards. When we asked our customers what drove them to undertake the Steel Efficiency Review® they used words such as “fresh set of eyes” and “cost efficiencies” and “value” to determine their thinking behind their decision.

It's worth noting that product pricing was a considerable factor, mentioned by our customers more as the outcome rather than the deciding factor. This shows just how hard it is to build trust first, then get customer experience right - utilising the Steel Efficiency Review® process.

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