

Delivered additional profit of US\$ 364k by decreasing non stock items at a Cement plant

BUSINESS CASE

Organization Trends

- The cement plant is amongst the top five cement plants in the world
- The cement plant operated five kilns in parallel with a central inventory division catering to all five kilns
- The total value of mechanical spares is US\$ 13.1 million, which is high when compared to the industry benchmark
- The inventory division maintains 21,000 unique material codes as inventory

CHALLENGE

What and how much is the challenge

- There are additional spares that are physically present inside the cement plant but not registered on ERP
- ~ 4.8% of the total unique material codes also available as non stock items
- Total value of non stock items is estimated to be US\$ 195k (after depreciation)

Where is the challenge

- Cement Plant

When was the challenge identified

- During FY 2015 when a special assessment was undertaken

IMPACT

What is the impact

- Spares are ordered even though spares are available at the plant as non stock items
- This results in an increase in inventory carrying cost because cash is frozen in non stock inventory
- Increase in cost of operations as new stock items are utilized (with a higher depreciation amount), instead of non stock items (which have a lower depreciation amount and possibly a shelf life)

TARGET

What is the Target

- Create systems and procedures to register and decrease non stock inventory value to US\$ 0
- Ensure the current non stock inventory is utilized first to address limited shelf life where relevant, and also to reduce the cost of spares consumed

OUTCOMES

Improved Profits

- Additional profit of US\$ 364k by utilizing non stock inventory over 2 years

Operational outcomes

- Decrease in total unique material code available as non stock inventory to 0.5% over the next 2 years
- Total value of non stock inventory decreased to less than US\$ 21k

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