

Improved working capital by US\$ 436k through inventory optimization

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 inventory division maintains 21,000 unique material codes as inventory

CHALLENGE

What and how much is the Challenge

- An increasing trend of total inventory value
- Lower inventory turn over ratio of 0.70 vis-à-vis an ideal value of 1
- 44% of the average inventory lead time spent in creation of purchase orders
- For active and consumable category of spares, total stock is in excess by 29%

Where is the challenge

- Cement Plant

When was the challenge identified

- During the calendar year 2015

IMPACT

What is the impact

- Increase in total inventory value from US\$ 18.6 million to US\$ 20.7 million in the last financial year
- Increase in total inventory value on an average of 5.3% despite lower Capital Expenditure
- In FY 2015 ~ US\$ 1 million invested into inventory, leading to lower cash available for other strategic expenses

TARGET

What is the Target

- Increase inventory turn over ratio to close to 1
- Decrease % of time spent on creation of purchase orders to 25%
- Decrease over stock quantity to 19%

OUTCOMES

Operational outcomes

- Improvement in inventory turn over from 0.70 to 0.89
- % of lead time spent on Purchase Order creation decreased from 44% to 26%
- For active and consumable category of spares, total over stock quantity decreased from 29% to 18%

Improved Cash flow

- Improvement in working capital by US\$ 436k by freeing up over stock inventory

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