

# PSC Business Performance Case Study



## Following the Metrics Trail Solves an Inventory Problem

### The Problem – *Too much inventory in the system*

The client, a nationally branded paint and protective coatings supplier to a major home improvement center retailer, sensed the need for inventory management improvement, but was unsure as to the exact cause of their uneasiness or how to correct it. Because they were charged with the overall inventory responsibility, they need to resolve the as yet undefined inventory problem. A lot was at stake.

### The Analysis – *Following the metrics*

Initial analysis indicated that the supplier and the retailer were using misleading metrics and inventory data. Following the metrics in both organizations revealed several reporting and measurement “discoveries” that both parties sensed, but could not accurately pinpoint.

The retailer was relying on POS data to reorder stock that was not synchronized with actual in-store inventory. The supplier, sensing that the POS metrics were misleading, scheduled production runs based on their own historical data. Consequently, production was increasing at the same time store sales were declining (paint is a seasonal product). The (very expensive) result was a total system inventory of four-to-five times sales, which translated to an average of five month’s excess inventory across all product lines.

Other findings included...

- **Lack of Shared Data.** The excess inventory resulted, in part, from the client’s lack of the retailer’s sales visibility and retailer’s lack of the client’s inventory visibility. With no sharing of critical data, this resulted in the volatility of the overall planning. There was “no single version of the truth.”
- **Lack of Inventory Reliability.** Another contributor to the dynamics of the relationship was the inaccuracy and unreliability of the inventory metrics at the store level. Errors and misinformation at this point were only made worse as they moved up and through the planning process.
- **Too Many Variables.** Throughout the analysis process it became evident that the making of paint was a complex process that involved over 24 variables. There was no single definition of the metrics.
- **Insufficient Checks and Balances.** The planning process was a one-way process with little emphasis on system driven checks and balances. Most checks and balances came from human judgment and experience and were generally made *after* the fact. Very little information flowed upstream to validate what was coming downstream in order to update inventory, production, and other information databases.

### The Solution – *Creating a “Single Definition of the Truth”*

PSC brought both parties together and conducted a joint discovery session. Best practices and current technologies were discussed along with the need to create a new process where simplified, accurate information from only one source was shared “every hour, every day.”

The client and the retailer both agreed to implement the following best practices:

- **Implement Constraint Management.** The constraints and realities of manufacturing must be balanced with customer demand if efficiencies are to be realized. Using metrics with a full understanding of how they were defined and where they got their source data was essential to synchronizing the supply chain.
- **Manage By Exception.** There were too many combinations and variables to manage all of the possibilities. Selecting a few key productivity indicators (KPI’s) for daily hands-on management with automated information systems taking care of the rest seemed to be the best course to take.
- **Increase Collaboration.** In this fast changing world we live in, both client and retailer have to work together to stay in business. Adoption of the Collaborative Planning Forecasting and Replenishment (CPFR) retail industry standard along with the use of portal and dashboard technology to share the single version of the truth was recommended.

The desired outcome did not occur immediately. Supply Chains don’t correct themselves overnight. What did come quickly was “knowing” where to look to make things happen. In the larger scheme of things, this was perhaps the greater benefit. Business conditions are constantly changing, making the process to stay in step more important than the end result.

#### The Technology

- Balanced Scorecard
- Supply Chain Operations Reference Model (SCOR)

#### The Benefits

- 60% reduction in system inventory
- Better customer service
- Quicker delivery times



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