Cash is King!

It shouldn't live in a warehouse

The average FMCG company has **ten million pounds** tied up in stock.

Given the unprecedented global shortage of cash, **priorities must change**.

With the right tools you can **release cash** from stock and improve your operational performance.

At Sequoia, we've developed those tools over the last 20 years.

- Tools that are **proven** and **statistically robust**.
- Tools that can **tune your stock levels**, SKU by SKU.
- Tools that can trade off **stock against service** for non-critical SKUs or channels.

We've been helping clients like Unilever and Nestle with this stock analysis since we started. Let us help you set your cash free.

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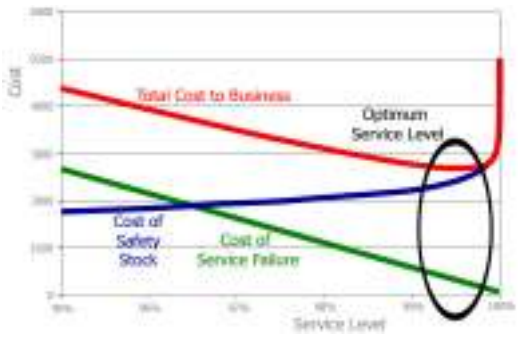
Cash has become the crucial issue—and at Sequoia, we have the tools to help you release it. There are four key areas where we can help you get the money out of your warehouse and on to your bottom line.

Setting recessionary service levels. In a recession, the priorities change. To release cash from safety stock, you need to weigh up the implications of reducing customer service levels, by customer or by SKU.

Sequoia's stock service analysis tools produce statistically robust stock targets which can be entered into SAP or other systems.

How? Sequoia's proven methods can calculate the correct stock levels to achieve a given service target; levels which take into account the cost of service failure and which fully optimise the safety stock for each SKU.

For non-critical SKUs or channels, targeted service reduction could be an easy and largely painless way to reduce costs. For a typical SKU, moving from a service level of 99.5% to 98.5% could save 20% of safety stock.



When? Safety stock analysis is quick to perform and the results are fast to implement. Rewards happen almost immediately—this is the first area to focus on for rapid cash benefits.

Minimise Safety Stock | Improve Forecasts | Reduce Cycle Stock | Cull Products

Identifying further stock benefits
Understanding the relationship between stock and service for each SKU is key to informing the debate. It allows every member of your multidisciplinary team to understand the financial impacts of trading off stock against service levels. It also enables you to cherry-pick the SKUs which will release the most cash for the least service level reduction.

Improving Forecasting. An audit of your current forecasting could result in improved processes and more suitable KPIs to help you manage your expectations. Sequoia's unique forecast analysis tools easily identify each problem SKU.

Our forecast analysis looks at both Forecast Error and Forecast Bias. Forecasts should not add more variability to the supply chain than exists in the demand. More variability means more stock than necessary.

Forecasts are often biased; a persistent over-forecast resulting in 100% bias means a company is holding twice as much stock as it needs. Similarly, a persistent under-forecast results in lower stocks than required and service failures.

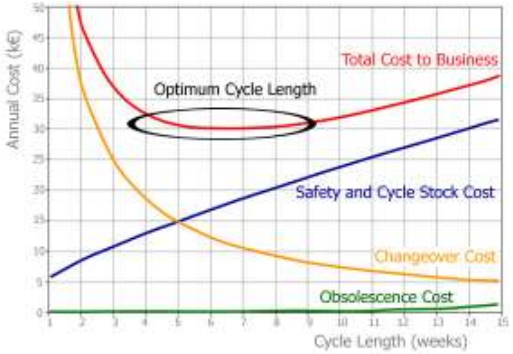
Why? We recently calculated for a European consumer goods manufacturer that eliminating imagined trends would reduce forecast error from 42% to 35%. This would reduce safety stock:

- Saving €2.3m per year by removing €19m of working capital
- Reducing warehouse space required and saving €2.1m in rental costs
- Unlocking further benefits in factory scheduling.

When? Careful analysis of forecast performance with a focus on process improvement can give immediate results.

Reducing cycle stock. Like stock service optimisation, setting cycle length (be it for Economic Batch Quantity, Economic Production Frequency or Economic Order Quantity) involves a cost trade-off. More often than not, the nature of the trade-off means that companies can operate comfortably at cycle lengths some distance below the optimum without incurring significant additional cost.

How? Our cycle length analysis captures the trade-offs, informing you of a sensible range of operation. Deliberately picking a cycle length from the lower end of this range will release capital tied up in stock. This is illustrated in the diagram below; for this SKU, moving from an 8-week to a 4-week cycle will halve cycle stock and have only minimal impact on total cost.



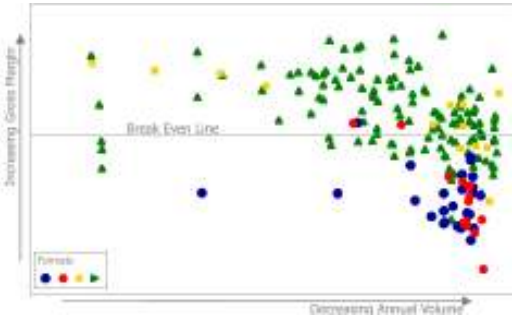
Unique to Sequoia's cycle length analysis is the inclusion in the trade-off of the cost of obsolescence due to shelf life-restrictions.

When? Once implementation is under way the full benefit can be realised in a matter of weeks.

Portfolio Rationalisation. During times of growth it's easy for SKU ranges to expand. The resulting extra complexity, changeovers and stock can become expensive to maintain as budgets tighten. Portfolio rationalisation can be a vital step to reducing costs.

How? Using Activity Based Cost analysis with simple mapping techniques, unprofitable SKUs can easily be identified. Then the fun begins; as SKUs are removed from the mix, the reallocation of costs to the remaining SKUs can be surprising.

Why? The diagram below shows a format analysis we conducted for a leading manufacturer of soft drinks. It shows that two of the four existing formats were actually making a loss. One of these was the 150 ml can size sold to airlines for on-board use - a format which the company consequently decided to discontinue.



When? Portfolio analysis informs Sales and Marketing decisions. If unprofitable SKUS do not support substantial profit elsewhere in the portfolio, they need to be either priced up or culled.
The analysis is detailed and substantial. The benefits can be realised in weeks – and will sustain for years.

Contact Us now to find out if these services could work for you to rapidly release some much-needed cash AND improve your operational performance.

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