

16 Management Consultancy Services

The methodology adopted for each category is as follows

- a. With regard to raw materials
 - i. All items were classified into critical and non-critical items
 - ii. Lead times involved in various procurement activities were reviewed and lead time involved in carrying out administrative activities were crashed.
 - iii. Minimum and maximum stock levels for each item were re-fixed by considering their criticality, minimum order quantity if any and revised lead times.
 - iv. Coupled with this, as delivery schedule can be firmly established for 60% of the items, reorder quantity per delivery was reduced to half and number of deliveries was doubled in respect of these items.

This led to the drastic reduction of average raw materials held to 12 days of average consumption.

- b. Four major types of intermediate products are produced in plant 1 which is the input for plant 2 & 3. In order to reduce intermediate stock and finished goods stock
 - i. A complete analysis of maximum throughput time required to execute an order was carried out.
 - ii. Based on our analysis, an order for 14 MT of any product (which is the maximum order quantity in the last two years) could have been produced within a period of 5 days. Hence, the following decisions were taken:
 1. Intermediate goods shall be produced for stock in respect of one week's estimated requirement of final products.
 2. All final products shall be produced only against order.
 3. Practice of producing products for the sake of utilizing idle capacity to be stopped immediately



Inventory Control

A chemical industry has a product range of 450 products, had stock worth Rs. 98 million, representing 78.4 days average sales. The break up of stockholding is:

Particulars	(Rs. In millions)	No: of day's sales
Raw materials	39.0	31.2
Intermediate stock (plant 1)	19.5	15.6
Finished goods (plant 2)	23.0	18.4
Finished goods (plant 3)	8.0	6.4
Deviated stock	8.5	6.8

The above actions consequently resulted in saving of factory overheads like cost of water, cost of lighting, staff welfare expenses (canteen, tea, transportation) etc amounting to Rs 30000 per week (approx).

c. A separate cross functional team consisting of members from production, R&D and marketing was formed for liquidating deviated stock. The following action plan was evolved for liquidating the same:

- i. Sale of deviated stock as second grade at reduced prices.
- ii. Conversion of deviated stock into products suitable for other applications
- iii. Identification of possibility for re-processing

The above exercise resulted in the reduction of stock to Rs. 23.13 million within a period of 8 months resulting in a saving of Rs. 7.5 million per year.