3030

UPGRADE YOUR GRAY MATTER

The Case for SKU Management

SKU proliferation is a common problem in companies experiencing growth and/or diversification of product offerings. Balance must be struck between sales and costs. In order to determine whether or not you are maintaining too many SKU's, look throughout your organization at the costs and benefits of carrying those items.

Consider:

- Additional sales generated
- Customer service
- Additional carrying capacity needed
- Carrying expenses
- Capital Equipment

How SKU's Grow

Too many SKU's add unnecessary complication to your business. SKU proliferation can occur in several ways. Sales may want to add more products in order to attract new customers and increase revenue. Additionally, as the pace of technology change increases, product lifecycles decrease. This can result in "extinct" products and a company must be willing and able to write inventory that is antiquated and does not sell. This inventory causes crowding of storage and operational space, poor use of equipment, and increased labor costs.

3030

UPGRADE YOUR GRAY MATTER

Impacts of Proliferation

The following costs of SKU proliferation must be considered:

- Space constraints
- Pick face constraints
- Labor and operational cost to work around above constraints
- Reduced fulfillment capacity
- “Extinct” inventory tying up capital
- Tax issues
- Storage clutter creates safety issues

Because so many departments are impacted by excessive SKU’s, it is important to take a cross organizational approach to resolving this issue.

Departments to Engage:

- Merchandising
- Sales
- Marketing
- Operations
- Distribution
- Finance
- Supply Chain Management
- Store Operations

? What Percentage of Your SKU’s Have Not Sold in the Last Year ?

3030

UPGRADE YOUR GRAY MATTER

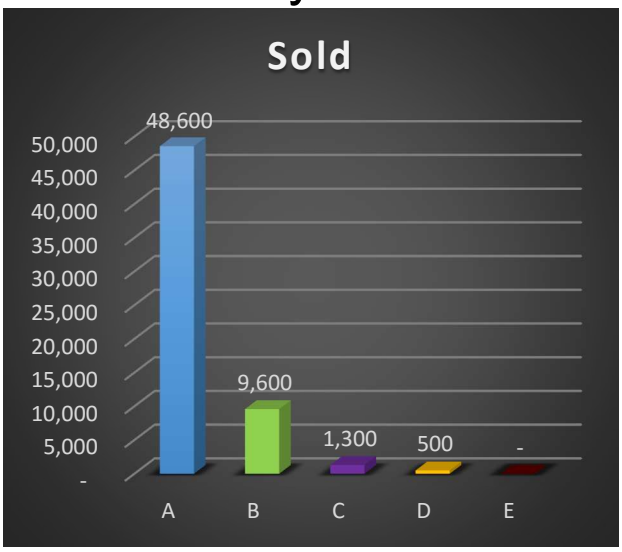
Once you have assembled your team of stake holders, use the chart below to determine whether or not you are exhibiting some of the common symptoms of SKU proliferation.

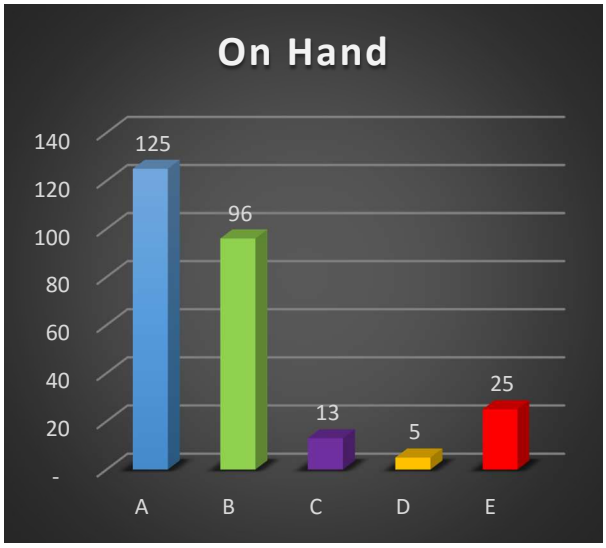
Systems, Systems, and KPI's		
SYSTEM	**SYMPTOM**	**KPI**
INVENTORY	Lack of Capital Capital tied up in "extinct"/slow moving inventory Carrying cushion	Inventory turns Inventory carrying cost Write-offs/markdowns for obsolete inventory
PICKING	More labor to get same amount of work done Consolidation activities to free up pick slots Low pick face availability Wave basis pick face turning Forward pick media increases Excessive and inefficient travel Over handling of product	Cost of Goods Sold Cost Per Unit Productivity rates Additional labor
STORAGE	High space requirements Crowding Extra handling to increase space available Offsite storage locations	% utilization storage % utilization pick faces Outside storage costs
FACILITY AND EQUIPMENT	Leasing/purchasing extra space Extra handling equipment needed Poor forward media	Space Costs Equipment Costs Storage media and related equipment costs
CUSTOMER SERVICE	Inability to move product in timely manner Inability to deliver correct product Poor inventory management leading to stock issues	Out of Stock % Missed deadline payout Customer complaints Customer loss
PROCESS	Continuous monitoring to ensure pick face availability Forward pick pack out to free up faces for waves	Throughput rates Replenishment Cost
SAFETY	Storage configurations that create hazardous conditions Product stacked in aisles, docks, and forward pick areas	Incidents and injuries

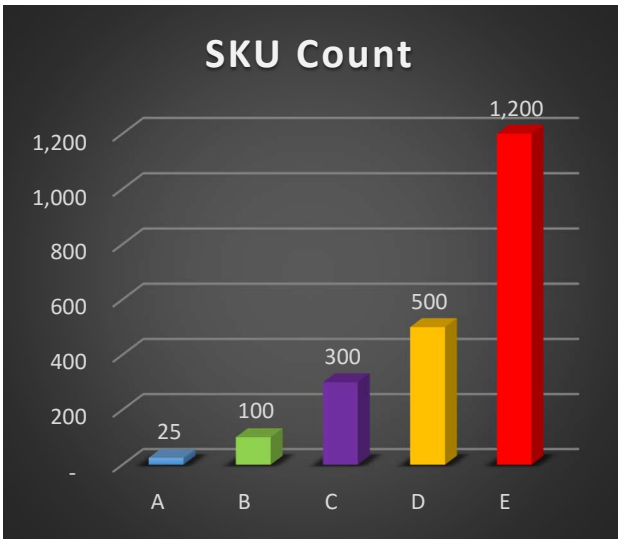
3030

UPGRADE YOUR GRAY MATTER

SKU Velocity







SKU Group	% of Total SKU's	% of Inventory	% of Sales
A	1.18%	47%	81.00%
B	4.71%	36%	16.00%
C	14.12%	5%	2.17%
D	23.53%	2%	0.83%
E	56.47%	9%	0.00%

3030

UPGRADE YOUR GRAY MATTER

SKU Analysis

The above charts are examples of a few ways to analyze SKU velocity. *A thorough analysis looks at SKU's by velocity, inventory turns, storage capacity, seasons, and storage media requirements.*

Consider:

- Which SKU's move fast, slow, or not at all?
- What is the financial impact of each of these?
- How much storage is used by each type?

Looking at the example above, we can see that SKU groups A and B account for less than 6% of the total SKU count, but make up 97% of total sales. Conversely, groups C and D account for 37% of total SKU's but only 3% of sales. Group E represents 56% of all SKU's, 10% of inventory, and yet 0% of sales. A great case could be made for abandoning support for these SKU's.

Summary

Rationalizing your SKU's is both art and science. Analysis must be used to find opportunities for reduction. At the same time, there can be a justification for keeping some seldom used SKU's. Perhaps the cost is low, maybe they are unique products that although not ordered often, are typically ordered by large customers. This is why a cross organizational approach must be taken in the development and implementation of a SKU reduction strategy.

3030

UPGRADE YOUR GRAY MATTER

About 3030

In its essence, 3030 is a craft consulting firm. We rely on a network of highly intelligent, creative, and professional people to help us solve a variety of issues. As individuals, we are process engineers, programmers, accountants, IT professionals, graphic designers, and more. Together, we are a wealth of experience and knowledge capable of delivering solutions that are unlikely to be found or matched anywhere else.

Simply put, we solve puzzles. We believe in working intelligently and instill that philosophy in everything we touch. We work with companies that believe in craft, so our solutions are designed to fit a customer's specific needs. At the same time, each project we touch adds to our knowledge and expertise and is applied to the next.

In the new economy, the need for the generalist has arisen. Companies are constantly being bombarded with situations that they have never encountered before. In the past, competitive advantage was gained by developing proprietary solutions to these issues. Today, the best organizations draw on the knowledge and experience of the world around them to adapt to the rapidly changing business climate.

We believe that work should be meaningful.
We believe it should achieve a goal in the simplest way possible.
We help companies create environmental, social, and economic profits.
We like to eat fish.