

## SKU MANAGEMENT

If you are in business you are managing Stock Keeping Units (SKU) ... but have you ever considered the costs associated with management of maintaining your SKU? Many years ago someone advised me that as a lean practitioner I could save pennies through the adoption of lean practices but that real cost reductions could only be achieved through part consolidation or SKU management.

The number of SKU's is both a blessing and a curse so as an organization you need to find that perfect balance. Having a lot of SKU's offers the customer the a wide array of options and flexibility ... but the management of the SKU's can also burden the organization with additional costs that could make some of your high-running products expensive as they have to absorb the costs of the slower moving items.

Although the costs will vary between companies it may be worth the exercise to calculate your SKU management cost and then use the number to determine how to Lean out your SKU's.

How to calculate your SKU management cost? Here is how I approach the challenge ...

Calculate the cubic feet of your **warehouse and stores facility** and the associated cost per cubic foot. Divide the number of SKU's into the total cubic feet to come up with cubic feet per SKU times the dollar cost per cubic foot.

Next take into consideration the cost of maintaining your conveyance equipment and the **associated labour** (material handlers, supervisors etc) ... again take the total cost divided by the number of SKU's maintained.

Associated with SKU management is the support of your information technology. In this case calculate the **operating cost of your IT** department per hour. Determine how long it takes the computer to run your MRP algorithms daily and weekly ... add the total operating time divided by the number of SKU's multiplied by the operating cost per hour. Of course the argument can be made that the IT department also work on other unrelated projects such as accounting, order entry and design ... but all of it is related to SKU management. Let us face it ... if you only had one SKU you probably would not need an IT infrastructure. I would presume that at least 50% of the IT costs are somehow associated with SKU management.

Include the cost of your accounting department by adding the total cost of accounts payable plus 50% of the balance of the accounting department divided by the number of SKU's. Likewise you need to take **the costs of your purchasing and production control, manufacturing Engineering, quality departments** divided by the number of SKU's.

The number continues to grow ...

Look at your average inventory turns and using the PMAC Published figure of **\$75.00 to issue a purchase order** and \$75.00 to issue a cheque assume that you will issue a PO and a cheque at the frequency of your inventory turns for every SKU.

As you can quickly see SKU management invades every Department of your organization and it can keep growing as you Continue to source new components ...

Where Lean Thoughts can become Reality

*"Unless you try to do something beyond what you have already mastered, you will never grow."*

Ronald. E. Osborn

# SKU Management

Many years ago we went through an exercise to calculate our SKU management cost and the total came close to \$120,000.00 per SKU that we maintained within the organization ... we also determined that it cost us around \$500,000.00 to source and develop a new supplier. The results really surprised us and we began to look at SKU management with new eyes.

What shocked us even more is that within our planning group our planners actually only had 3 seconds to review and respond to SKU messages on a weekly basis. Not a lot of time to devote to managing one of our largest cash investments of the business.

So as companies look to manage labour costs ... this cannot be done in isolation without also looking at SKU management. We are constantly hearing about staff reductions but little associated with SKU reduction hence, placing more burden on those to manage SKU's. I assume that companies are hesitant to reduce SKU's today as they aggressively pursue any and every sale ... but at what expense?

What to do ???

Supplier consolidation should be the first approach. Group your suppliers into commodities and see where opportunities exist for supplier consolidation or commodity management. This practice has worked well in the MRO environment as companies partner with service centers to provide various goods. In the MRO environment it seems that less cost control is evident since these costs are associated with operating expense versus being included within the product cost.

Next begin to look at opportunities for Part consolidation. Part consolidation can take on many formats. It can be the elimination of parts through re-design. It can also be accomplished by having your parts kitted or semi-attached by your supplier so you are only planning at the sub-assembly level. Another approach is to use the concept of flow-through packaging where parts are shipped through your supply chain where along each step your supplier is adding components. I recently saw this concept in action ... where the process began with a plastic injection molder that made the shroud for a radiator assembly. The shroud was then shipped to a motor manufacturer who installed the fan blade onto a motor along with the support bracket and wire harness. The unit was then shipped to the radiator manufacturer who installed the radiator and then shipped the final sub-assembly to a distributor in the same box for final sale and distribution to the end customer.

As you calculate your SKU management cost it will assist you with your gross margin analysis and will help you determine strategy and your product offering along with options.

## **Workplace Wellness Tip** **Is it Time for a "Time Out"?**

### **Heading off trouble...**

A time out can get a troubled employee back on track, but many performance issues can be headed off before they develop, says stress management expert David Posen.

### **Here are his tips for managers:**

**Emphasize Balance:** Long hours can lead to burnout. Suggest to anyone who puts in more than 50 hours a week on the job that they should cut back.

**Encourage breaks:** Make sure employees are taking allotted holidays.

**Bust stress:** Provide access to fitness or anti-stress programs on-site or through subsidized membership at a health club, and emphasize the stress-relief benefits of regular physical activity.

Source: Manitoba Quality Network e News Update [www.qnet.mb.ca](http://www.qnet.mb.ca)

Lean Thoughts