

Double Shipping Frequency

Instead of Focusing on Shipping Cost, Focus on Sales Benefits!

The Cost vs. Sales World

Pressures to reduce cost and pressures to increase sales are a part of every business – operations main target is usually lower costs (with targets like ‘to be the lowest cost producer’) while R&D, sales and marketing’s target is to increase sales (“never out of stock ever” – shortages mean missed sales and lost profit!). Unfortunately the two targets, while easy to understand, are always in conflict. The conflict means missed opportunities for profit.

What follows is a very simple story about one change that increased cost to cause an increase in sales. When you read the story think about the difficulty a business might have to take the decision for the increased cost – when added sales are not guaranteed at all – no matter how logical the sales argument. Instead of Peking Duck, the story is about Mumbai Chicken. The numbers are altered, that does not change the story.

Mumbai Chicken

A slaughterhouse in Mumbai supplies many shops with chicken that people buy for the pot or BBQ etc. Shops provide the slaughterhouse with a forecast of their next day’s sales by 3PM in the afternoon. The supplier prepares the chickens overnight and delivers them to the shops by 10AM the next day. If a shop has a surplus the chicken is lost (Mumbai is very warm!). If the shop has a shortage sales are lost. 17% of chickens are wasted through no sale. There is no information about missed sales – who can tell?

The Simple Changes

The slaughterhouse made 1 small change. Instead of shipping everything by 10AM, they shipped only 40% of the shops sales forecast. In the early afternoon they call all the shops to ask how many chickens have been sold. The rest of the chickens are then delivered based on actual sales and remaining stocks in all of the shops.

Results?

Waste reduced by 11% (from 17 to 6%) and sales increased by 13%! There were NO added material costs, just a small amount of increased operating costs to pay the 2nd delivery. Profits increased because of these effects and because the slaughterhouse could gain market share against their competition!

Think about clothing made in Asia that is ordered and shipped in big batches – what do you think will happen if they did something similar? Money would be saved on clothing that nobody wants and sales of popular items would increase dramatically. Profits go up. And, the Asian producers will be happy with a more regular demand picture.



VISTEM Can Support You

VISTEM consultants using the Theory of Constraints, their experience and your knowledge of your business help you find your weakest link – the constraint of your business (that thing that is blocking your organisation from achieving more of whatever your goal is). Once you know where or what the weakest link is the consultants can help you decide how to best exploit the weakest link together with the most difficult job – how to motivate the rest of your organisation to support your weakest link correctly.