

Our LEAN Customers Case Studies



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*Learn how Newport optimized
inventory using existing SAP®
solution*

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Our inventory optimization services:

The goals of our inventory optimization services are as given below.

- a. Reduce procurement spend, accelerate inventory turns, reduce warehouse handling costs, increase production efficiency, and raise fulfillment performance by 15% to 50% within months.
- b. Define company-wide supply chain policy for different products and services.
- c. Secure master data integrity for procurement, planning, inventory, warehouse, production, and fulfillment activities on SAP®.
- d. Provide better visibility and real-time alerts of actual inventory situation.
- e. Realize measurable process improvements within months.
- f. Transfer knowledge and skills to enable customers implement continuous inventory controlling on their own.
- g. Significantly improve cash conversion cycle (cash flow).

Newport Corporation (NASDAQ:NEWP)

Newport Corporation is a globally recognized leader in advanced technology products and solutions for fields such as Research, Life & Health Science, Aerospace & Defense, Industrial Manufacturing, Semiconductors and Microelectronics. Lasers and Light Sources, Opto-mechanical Components and Mounts, Optical Filters and Gratings, Spectroscopic and Photonic Instruments, Vibration Control, Motion Systems, and Robotics and Automation are some of the key products and services provided by the company.

The company operates in over 70 countries for over 40 years with annual sales of over \$0.5 billion.

Situation

The company has implemented SAP® for all of its major manufacturing facilities over the last two years. Most of the inventory is managed using traditional MRP based push system. A few product lines are managed using a KANBAN based pull system. Company-wide inventory turns are less than 2 and on-time deliveries are less than 90%.

Challenge

Being in high-tech space, carrying any amount of excess inventory lends to high level of obsolescence. The company has grown through acquisitions and offers several different types of products and services.

The management is challenged with:

- Managing a large number of products with different ordering policies. The product mix consists of various flavors of Make-to-Order and Make-to-Stock items. A few are also Engineer-to-Order products.
- Forecasting such varied group of products is a major challenge.
- The company lacks inventory visibility. Very few inventory control procedures are in place.
- No standard procedure or policy to standardize on MRP control parameters that influence inventory management.

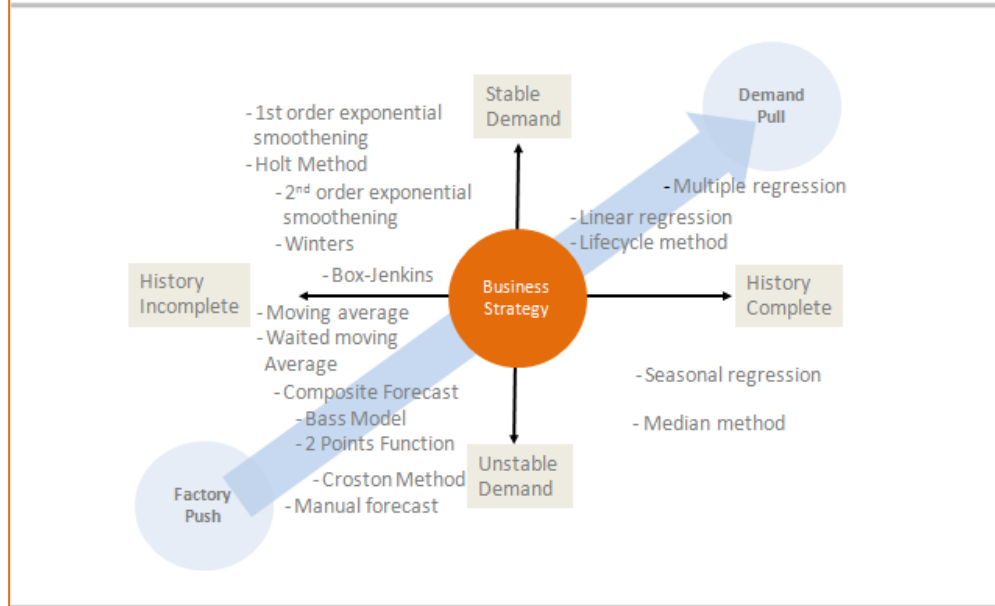
Solution

Lean Axis was quick to respond to Newport's request to develop an action plan for inventory optimization.

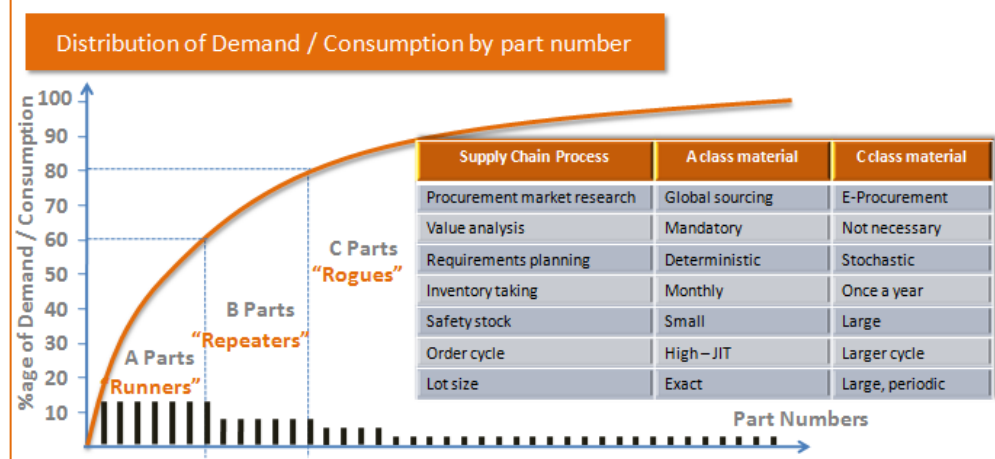
Action Plan:

- 1 Develop a portfolio of products that are best suited for different forecast models based on the demand pattern and availability of consumption history.
- 2 Revisit ordering policies of the products. Rationalize the number of Make-to-Order products.
- 3 Revisit the Available-to-Promise (ATP) logic and fine tune it for different types of products. Different parts are promised differently depending on the usage, lead time, and value. SAP® offers many options to fine tune this to individual requirements.
- 4 Use the ABC/XYZ analysis to classify products. Implement consistent policy for setting up MRP control parameters and defining supply-chain policy for different products.
- 5 Develop a comprehensive score card to monitor and control inventory.

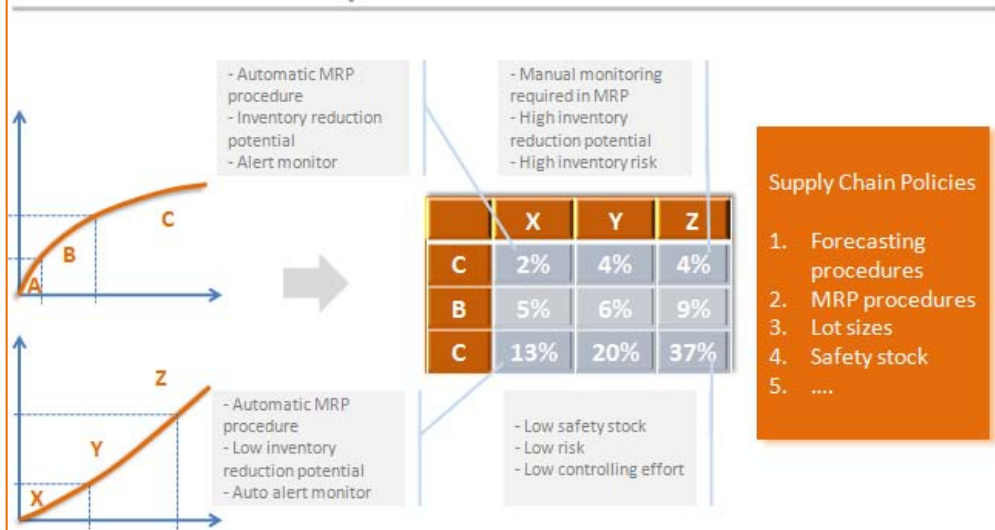
Product portfolio for forecasting models



Primary analysis – ABC classification



ABC – XYZ analysis



Outcome:

1 Make-to-order products were rationalized. As a result, the numbers of make-to-order products were reduced to one third. This simplified material planning, procurement, manufacturing and other logistics processes.

2 Inventory levels were reduced by over 30% in less than six months.

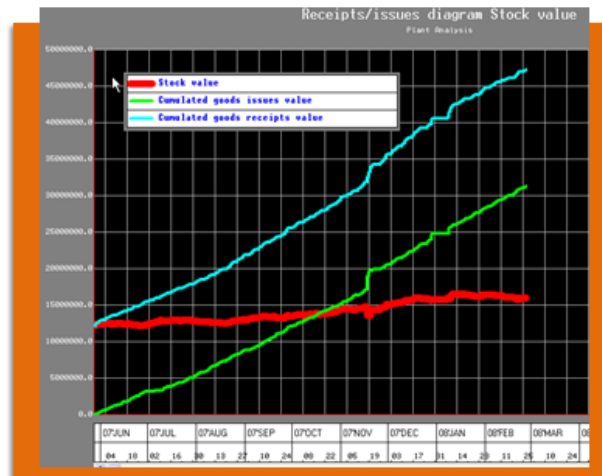
3 A comprehensive supply chain policy that included maintenance of MRP control parameters was implemented based on ABC/XYZ classification of the product.

4 A comprehensive scorecard was developed to monitor and control inventory on an ongoing basis.

5 On-time order fulfillment metrics improved by twelve percentage points in less than six months.

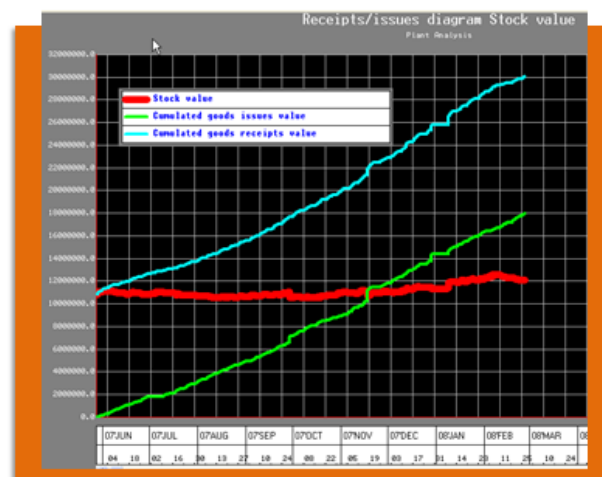
6 Supplier performance scorecard improved by over seven points in less than six months.

Inventory levels – A & B class - Before



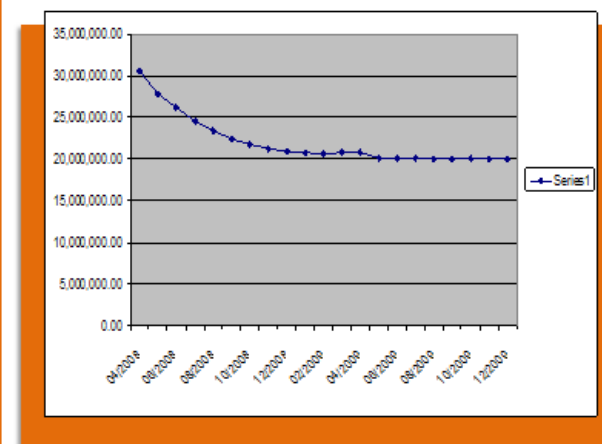
A few conclusions:
 - Issues follows receipts
 - Always carrying \$15M inventory
 - Inventory is increasing
 - Possible reasons
 a. Inflated lead times
 b. Inflated forecast and long drop-off period
 c. Buying in large lots ahead of time

Inventory levels – C class - Before



A few conclusions:
 - Similar pattern as for A&B class
 - Issues follows receipts
 - Always carrying \$12M inventory
 - Inventory is increasing
 - Possible reasons
 a. Inflated lead times
 b. Inflated forecast and long drop-off period
 c. Buying in large lots ahead of time
 d. Same sourcing procedures as A&B

Combined inventory levels – After



In less than six months, the projected inventory is expected to go down by over 30 %



Next steps

You don't have to implement all the components of SAP LEAN solution at the same time. You don't have to put all your product lines on SAP LEAN at the same time. A well planned vertical or horizontal incremental approach can make your implementation smooth.

From LEAN business strategy to its implementation on SAP, Lean Axis combines LEAN industry experience with SAP implementation expertise to create solutions that bring real, tangible business value. We strive to increase business velocity, staying ahead of our client's needs with innovative solutions that deliver a rapid return on investment.

Lean Axis welcomes the opportunity to talk to you more about how we can help you to be more successful with your LEAN initiatives on SAP. Please contact us under: info@LeanXis.com or call us at 408-802-1636.

