

Distribution

Leveraging Inventory to Achieve Strategic Advantage



RockySoft Customer: Orr Safety Corporation

Industry: Distribution

Application: Inventory management

Key Benefit: Improved customer performance and inventory reduction

ERP System: Microsoft Great Plains eEnterprise

Time to Implement: 30 days

Orr is targeting 100 percent order fill rates while at the same time reducing targeted inventory by more than 25 percent and more than doubling turns.



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Peter Pavkovich,
Director of Operations,
Orr Safety

How does a company thrive in difficult economic times? For Orr Safety Corporation it is simply a matter of maintaining its relentless focus. Orr Safety is a 54-year-old family-run firm believed to be the largest private distributor focused solely on safety products and services. Orr services customers in a variety of industries including manufacturing, chemical processing, construction, food processing and pharmaceuticals.

Orr believes that its unwavering commitment to delivering not just safety products, but safety itself, has been the key to its success. That success is reflected in their ascent up the top 100 ranking of Industrial Distribution Magazine. In 2001, a year in which 62 percent of the top 100 reported sales declines averaging 10.6 percent; Orr grew revenue by six percent to \$79 million. That vaulted the company from #73 to #59 in the ranking. In a still-challenging economy the company projects similar growth in 2002.

“Orr Safety’s formula for growth has been straightforward,” said Clark “Bud” Orr, chief executive officer. “Everything we do at Orr begins with a relentless commitment to understanding and satisfying customer needs. On top of that, we provide Associates with continuous training and professional development opportunities, and leverage leading-edge enabling technologies to the maximum extent possible. This approach has allowed us to quickly respond to dynamic market conditions, while consistently delivering the highest

service levels to our customers at the lowest total cost.”

In addition to its singular focus on its customers’ total safety needs, Orr maintains a long-term view of its business. This has enabled the company not just to see beyond the current economic malaise but also to capitalize on it. Just when other companies are reigning in their capital spending, Orr is turning up the heat to grow market share. One such investment is a new headquarters building with state-of-the-art training facilities for Orr employees and customers. Another is a distribution network that places inventory close enough to the customer to offer same-day delivery. Yet another is the largest IT makeover in the company’s history.

Investing Opportunistically

“The current business climate presents an opportunity for us to get ahead of the curve,” said Peter Pavkovich, Orr’s director of operations. “When our new systems are in place (in the Fall of 2002) we will have the technology to take us to the next level and grow the business faster when the economy improves.”

It all comes down to taking an already high level of customer service to a world-class level. Pavkovich explains: “We are able to differentiate ourselves from larger, integrated distributors by virtue of our knowledge of safety. Safety is not a small piece of our business. It is our business. But our value proposition is more than the product. It is our ability to respond quickly. It is also the ability to help the customer embrace a preventive safety culture as well as the ability to help analyze and recommend the proper equipment to protect their people. In the end that saves our customers time and money. At the same time, we realize we must compete with bigger firms in a price-driven market. Therefore we have to constantly improve our service levels while at the same time driving down our costs.”

Therein lies the classic conundrum for a service business. How do you give the customer exactly what he wants, exactly when he wants it, at the lowest possible price? And how do you do it while at the same time preserving your own economic vitality?

The intelligent application of information technology is a big part of the solution for Orr. One of the greatest areas of opportunity is inventory expense. Interestingly, however, Orr sees this as an opportunity not merely to reduce costs but to improve service, grow market share and fund business growth.

Steve Kersey is Orr’s purchasing and inventory control manager. “While we were in the process of upgrading to the new ERP system we decided to take a look at what we could do to improve our inventory planning since inventory is the largest consumer of cash in our company.”

Taking it to the Next Level

Kersey and his team had made dramatic improvements in customer service through homegrown solutions built on top of their 15-year-old, AS/400-based business system. The company had been able to improve order fill rates from the mid-eighty percent range to the mid-nineties. That improved customer satisfaction and lowered customer costs while reducing Orr’s transactional costs as well, particularly for transportation.

To their credit, they accomplished this without an increase in inventory levels or a decrease in turns. To turn it up a notch, though, the company aimed to improve fill rates even further while taking a big chunk out of inventory. Looking for best-of-breed software Orr narrowed the field from an initial seven candidates to three, then ultimately chose RockySoft.

“RockySoft not only understands the dynamics of inventory planning, but they also know the dynamics of business,” said Pavkovich. “That means managing assets efficiently, but never losing sight of the need to service the customer.”

Working with RockySoft Orr established aggressive goals to reduce inventory and increase turns while improving fill rates to 100 percent. They have targeted a \$4 million subset of their total inventory for planning within the RockySoft system. Their aim is to cut that by \$1 million in 12-18 months. Turns are expected to more than double from 4-5 times to 10-12 times. Orr believes there is potential to take an even greater bite out

of inventory given time and experience with the system.

While many companies would be hesitant to take on a new application while at the same time installing a new ERP system, Orr embraced the opportunity.

A Flexible and Fast-to-Implement Solution

“A key selling point for the RockySoft application is that it is delivered on an ASP (application service provider) basis,” said Kersey. “It took us only 30 days to get it up and running.” The RockySoft solution works by extracting data from any MRP or ERP system and aggregating that data in a remotely hosted system. For Orr, the data currently resides in their legacy system. When the migration is completed to Microsoft Great Plains eEnterprise* it will essentially be a matter of unplugging the data feed from the old system to the new. Given the simplicity of the RockySoft approach, there was no reason to wait.

Within weeks of going live Orr was running the application against 877 SKUs (out of 7,500 targeted SKUs of Orr’s total product offering) representing three years of historical data. “We quickly saw inventory levels and fill rates stabilize affirming our expectation of achieving our inventory reduction goal,” said Kersey. With this initial success Orr is moving quickly to incorporate all the targeted SKUs into the RockySoft planning process.

Because not all inventory is created equal and not all demand patterns are uniform, Kersey sees one of the great benefits of the system as the ability to analyze and quickly respond to change. One example he cites has to do with Orr customers, such as petro-chemical processing plants, that create seasonal surges in demand.

“Petro-chemical plants regularly schedule shutdowns for cleaning and maintenance,” said Kersey. “Because the time the plant is offline is time it is not generating revenue, it is critical to have the proper equipment and materials in place to get the job done quickly and safely. Servicing their needs properly has been a largely manual process that requires a lot of babysitting over several months. Historically, we simply didn’t have an efficient way to plan for this type of seasonality.”

Improving Planner Productivity

“Having the three year history at our disposal dramatically reduces the number of hours we have to commit to meeting this demand. Before we were looking at a three-month commitment of my time of over 30 hours per week as well as the time of several sales and inside service people. Now, by being able to anticipate this seasonal demand we expect to be able to cut this time requirement by as much as half,” he said.

Because Orr is exposed to many different industries, these seasonal effects are hitting their business at all times. Without the proper analytical tools in place it was difficult, if not impossible, to plan inventory with any degree of granularity.

“In the past, meeting the required service levels meant buffering,” said Kersey. We would look at a five-month weighted monthly average of all inventory and buffer 25-50 percent based on volatility—regardless of how consistent our suppliers were.”

Buffering and seasonality are two of Kersey’s main areas of focus. The standard RockySoft software is perfectly suited to handle these needs. For a third area, however, he needed some unique support.

“How do you plan for something someone buys once or twice a month?” asks Kersey. There are enough of these types of slow-moving, but necessary, items in the Orr catalog to make it worth the effort to go after them. At Orr’s request RockySoft designed a special algorithm to address these kinds of items. It would seem that when it comes to customer service Orr and RockySoft both go about things the same way.

Orr projects that the combination of permanently pulling \$1million out of inventory and more than doubling turns will enable them to recoup their investment in RockySoft software in under six months. They conservatively estimate an ongoing return of double their annual RockySoft investment. “We consider the calculated ROI to be acceptable for this type of investment. So this is an excellent investment,” said Pavkovich. “But even if it were neutral economically, we would have moved ahead for the customer service benefits it will provide.”

Businesses today all see inventory as an area ripe with opportunity to drive out costs. How many of them see it as a strategic asset to help drive business growth? The ones that do, like Orr, appear to be in a good position to steal a march on their competition.

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Steve Kersey,
Purchasing and Inventory
Control Manager,
Orr Safety

* Orr chose Microsoft Great Plains eEnterprise for a variety of reasons, but above all because it believed an industry standard platform with a wealth of available applications geared to mid-tier companies would enable Orr to better serve its customer base and its growing business.