

Kellogg's Supply Chain Management to Reduce Inventory Costs

To implement more-streamlined inventory practices, companies like Kellogg's have adopted a new organizational structure: The inventory control group is primarily responsible for overseeing the prior season's category and item history, working with the merchants on assortment planning, managing the inventory, forecasting, reordering, receipt planning, post-mortem evaluation of item performance, and vendor communication and compliance. Merchandising may still place initial purchase orders, but in most cases inventory control will pick up relationships with vendors and do the necessary reordering and stock balancing.

The Kellogg Company has been using a large-scale linear program, the Kellogg Planning System (KPS), for more than a decade to guide its operational (weekly), production, inventory, and distribution decisions for breakfast cereal and other foods. In addition, KPS helps Kellogg to make tactical decisions on budgeting, capacity expansion, capacity reassignment, and other similar issues. KPS models Kellogg's operations in the United States and Canada, with global operations under study and these operations include the production, distribution, and inventory of hundreds of items from Kellogg-owned and contracted plants out to distribution centers (DCs) and to customers.

KPS is a point solution because it is tailored to solve problems for particular functional areas of the business. KPS uses optimization to find the best long-term, cost-minimizing, integrated production, inventory, and distribution plan--within the limits of modeling assumptions and data accuracy. ERPs account for the low-level influence of individual near-term transactions; in contrast, KPS is a high-fidelity, prescriptive model that is ideally suited to evaluating alternate system wide scenarios.

Companies can learn for this example. Inventory may be the most expensive capital asset and therefore deserves the most scrutiny when we examine business processes. By managing the supply chain to reduce inventory, companies can decrease facility, material handling, and storage equipment requirements. Using information technology infrastructure like Kellogg's, companies can change how to schedule production, often without capital investment, and dramatically reduce work-in-progress (WIP) inventory and material handling needs. Inventory is usually managed by information systems that are relatively flexible and easy to modify. They are certainly more flexible than facilities or material handling equipment, for that matter.

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