

Inventory reduction keeps bankers happy

As a result of their new ERP system, the team at Superior Quality Food now has confidence in their financial numbers, so they are able to estimate their capital needs, and projected profitability for the year



Thomas R Cutler

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Superior Quality Foods has been a leading quality supplier of meat, poultry, seafood, and vegetable bases, as well as savory flavours, sauces and gravy bases and seasonings, for well over 20 years. Located in Ontario, California, the company serves retail, food service, and industrial markets. Its Better than Bouillon and Crockery Gourmet brands are found in many supermarkets. The company also supplies restaurants and its bases used as ingredients by many industrial food processors.

To ensure there were enough raw materials for production, Superior Quality Foods operated "Just in Case", rather than Just-in-Time. Although the company was growing, poor inventory control was impacting profitability. Albert Barriga, vice-president of operations, explained the problem: "We just didn't have any confidence in our inventory control systems. We would always double check regardless of what the system said."

Barriga commented, "Due to the lack of confidence in the system, we would order extra raw materials to ensure we had enough to meet production needs. We have over 250 different raw materials and were building up inventory unnecessarily. The money to pay for that excess inventory was coming right off the

bottom-line." To keep on top of the problem, the company scheduled frequent cycle counts, resulting in plant disruptions. "We were always second guessing our decision. We spent a lot of time and invested a tremendous amount of labour trying to keep the inventory accurate. We would do four physical inventories a year, because after three or four months we could trust the numbers. This involved shutting down the plant and counting everything," Barriga noted.

The inventory accuracy problems were also causing concern for the company's bankers. Barriga explained, "We have to get a line of credit from the bank to handle our slower months, due to the seasonality of our products. The bank was starting to have issues because they lent us money based on the value of our inventory. Since we could not show accurate inventory numbers, the bank was putting pressure on us to improve our systems."

As a company grows beyond a certain level of sales, it becomes very difficult to manage without formalised processes and systems. Superior Quality Foods was growing at a compound rate of 10 per cent per annum. "We were moving out of the entrepreneurial mode and into a more structured environment," said Barriga. "We were no longer a 'mom and pop' outfit, but

approaching \$20 in revenue. We had to start acting like a bigger company."

Barriga decided to start over with a new ERP system. The management team had changed and the people that understood the previous system had left the company, and the new team was having difficulty with the old system. He wanted a new ERP system that everyone could learn simultaneously and in which all members of the team would have confidence.

Selecting a new ERP system

One of the common mistakes that small companies make is selecting an ERP system that is not focus on their industry. According to Barriga, "All the systems Superior Quality Food evaluated were similar in respect that they followed Generally Accepted Accounting Principles (GAAP). Batchmaster (the ERP system selected) was more focused on the food industry. This helps us, for example, whenever we make a batch, because there will always be a partial batch of material left over at the end of the process. We wanted a system that would record those partial batches, so when we made the same product again, the first ingredient it would call for would be the partial batch (and plan the raw material for the rest)."

Superior Quality Foods signed an agreement with BatchMaster in February 2005, and five months later completed the implementation in the inventory control module.

Using BatchMaster's Mobile Wireless Inventory System, all inventory transactions are scanned with wireless data collection devices, eliminated manual input errors. "We now bar code our entire inventory. We record all inventory movements in and out with bar bode scanners, updating BatchMaster and providing us with perpetual inventory immediately. We will always undertake a year-end inventory count, but the variances are now very small. Our inventory accuracy is now around 98 per cent,"reported Barriga.

As a result of the new ERP system, the Superior Quality Food team now has confidence in their financial numbers, so they are able to estimate their capital needs, and projected profitability for the year. Having accurate inventory has helped the company make better decisions, both strategically and tactically. The company is able to reduce costs as inventory is reduced. The bankers are now very happy with the company's inventory accuracy. **2.0**

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