

It's not magic but logic that's giving an Indiana engine distributor record returns on assets invested in parts inventory.

By Michael J. Major

D

ramatic. The word gets used to the point of exaggeration, but it's the right word to describe the changes made at Cummins Mid-States Power of Indianapolis during the past year.

This engine distributorship was the test case for a new parts inventory management system developed by Cummins Engine Co. in conjunction with a Chicago-based management consulting firm.

The results speak for themselves: During the eight-month trial period, the new approach decreased required inventory investment by 38% while increasing overall parts availability from 81% to 91%. Distributor management reports that they achieved the highest return on assets in their 28-year history.

Not surprisingly, the new program, known as "optimized inventory management" or optimizer for short, is gradually being made available to the 32 other Cummins distributorships throughout the country.

This story is about the optimizer concept and how it's being used successfully at Cummins Mid-States Power. But it's also a study in how a manufacturer can work in partnership with its dealers and outside suppliers for the ultimate benefit of the customer.

PROBLEMS AND SOLUTIONS

Mid-States began searching for a solution to an inventory problem in early 1994. The problem was simple—inven-

'THE OPTIMIZER' CREATES NEW HIGHS AND LOWS



A new inventory management system has enabled Cummins Mid-States Power of Indianapolis to achieve every dealer's goal of reducing stock levels while increasing availability for customers.

tory, and too much of it. Dewey Spence, who manages the company's inventory and computer systems, recalls: "We recognized that we were overstocked in our Indianapolis branch, which also acted as a warehouse for our two other territorial branches."



"Inventory cost reductions of 30-40% are common. Availability increases of tens of percentage points are routine."

Terry Harris
Chicago Consulting

We did this to take advantage of a Cummins program that provided special discounts to distributors who did their own warehousing. But our inventories were too much for the marketplace.

"The statistics we had for inventory turns showed we were way overstocked,

and we had the gut feeling that we were carrying a lot of obsolete inventory."

Meanwhile, back at the Cummins factory in Columbus, Ind., the search was on for ways to help distributors overcome these types of problems. Pam Tully, materials director for Cummins, explains, "We've come to realize that our success is tied to our distributors' success. Whatever efforts we make to help them ultimately helps us and our customers."

Cummins was working with Chicago Consulting managing partner Terry Harris on a new open architecture computer system that would link distributorships with the factory and other suppliers. The company asked Harris to conduct a test of optimized inventory management at Mid-States. The system had been used successfully in other fields, but was new to this industry.

Prior to trying this new approach, Mid-States relied on several traditional and widely used methods of inventory management, according to Spence. The first was a manual procedure in which parts were ordered according to set parameters such as order point, quantity and lead time. The company also used a