

Discussion Notes
to
accompany
GoldSMART Products, Inc.

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Bob Murphy and his GoldSMART colleagues face the challenge of the industry's market leader becoming an even bigger, more viable competitor through the acquisition of another major player in the industry. In light of this challenge, GoldSMART foreshadows the need to reduce costs, improve service, and shore up relations with customers. It is not uncommon for companies to reinvigorate themselves and seek improvement in times of crisis though the spirit of continuous improvement invokes the pursuit of better processes and outcomes in times both good and bad. In light of the challenges ahead, staying the course and complacency are clearly not recommended in the case of GoldSMART.

Interestingly, Bob and others see opportunity for market share improvement out of the TriMagna-FantastiCo merger. Additionally, the logistics organization finds itself in the mode of leading the change. Given logistics' role as a boundary- and company-spanning function, it is believed to be excellent place to initiate the change.

Several important issues are highlighted in the text. The discussions among senior management as well as the logistics organization indicate symptomatic problems and improvement opportunities abound. These include:

- Life and business are clearly becoming more complex and complicated at GoldSMART with geographic expansion and the proliferation of new products;
- GoldSMART must achieve growth despite a poor cash position, limiting opportunities for acquisitions and significant capital investments;
- Functional strife among the supply and demand sides of the business;
- The key supply chain functions of logistics, manufacturing, and purchasing are often viewed solely as cost centers rather than sources for competitiveness and innovation;
- General inflationary trends and capacity shortages are found in the area of logistics operations;
- Drivers are waiting at customer locations, pointing to poor utilization of transportation assets;
- Logistics Manager Dave Jones needs additional public warehouse space... why? Inventories are building up in advance of a forthcoming sales season and operations are marked with customer overstocks from previous sales seasons;
- There is no disposition plan for the excess inventory;
- Redundant facilities and activities seem to be present;
- Work routines and processes are not standardized;
- There is poor visibility of the supply chain and an understanding of the logistics system; and
- In order to effect lasting change, the company must overcome skepticism and cynicism of the improvement initiative as a gimmick or "flavor of the month."

In addition to problems brought up in discussions, the Figures suggest several issues as well. These include:

- Figure 24.1 illustrates redundant storage locations on both the inbound and outbound sides of the operation. Prospects for cross-dock facilities might exist where high concentrations of suppliers and/or customers are found. Also, some large customers might justify direct deliveries from the plant locations.
- The order process illustrated in Figures 24.2A and B indicates redundant activity given multiple order reviews. Also, it appears that Customer Service initiates the invoicing before a check of inventory availability is completed at the warehouse, suggesting that Customer Service cannot determine product availability when committing products to customers, leading to high potential for out-of-stock promises but also the work associated with revising orders and invoices.
- Figure 24.3 indicates several issues:
 - Substantial volumes of inbound and outbound flows involve common sources and destinations, respectively. This observation points to opportunities for consolidation or cross-docking. Carrier reduction is also a strong possibility.
 - The use of the private fleet might be called into question.
 - A significant share (28%) of the transportation budget is spent on LTL transportation, again pointing to consolidation prospects.
 - A relatively high trailer-tractor ratio of 3.5:1 for the private fleet is likely the result of long waits at customer locations, and perhaps the provision of drop-trailers.
 - More than 25% of the total warehouse space of 1.425 million square-feet is leased.
 - The plant information illustrates dramatic ebbs and flows in inbound and outbound trucks at both plants. In the case of outbound shipments, most of the week's volume is shipped on a single day (Friday). The cubic volume data for truck utilization suggests poor utilization of trucks: trucks arriving on Monday, Wednesday and Friday to both plants are half full; outbound trucks are better utilized but only full on Tuesday and Friday from Plant 2 – again pointing to opportunities for truck rationalization.
 - The Lean Factor Analysis also shows inconsistencies in parts usage and receipts; failure to match flow with consumption.
- Figure 24.4 shows huge stocks of inventory, particularly finished goods and WIP. The Logistics Design cost component is not populated, suggesting that design is not studied regularly. Several components of inventory carrying cost (namely damage, interplant shuttles, obsolescence, and shrinkage) are remarkably high. Almost \$7 million of obsolete inventory represents a significant opportunity.

Figures 24.5A, B, and C complement the Logistics Bridge Model and offer a roadmap for finding and tackling waste. Figures 24.6A, B, C, and D offer a before/after checklist for improving the logistics system and organization.

Clearly, there is not sufficient information to determine the root causes for these problems. This is where the “implicit” nature of the case study factors into the analysis. Discussants should seek to fill in the information gaps with their own experiences and data, when available. Case discussion can be guided by the questions below but exploration of the case might first involve a brainstorming exercise to identify problems and issues. Consideration should be given to prospective cause-effect relationships in pursuit of root causes. Five-Why Analysis should prove helpful in this regard. Again, where case facts are not provided, consideration of one’s own work situation can prove sufficient for the exercise. Once root causes are determined, an X-Y Matrix would help to prioritize actions.

Discussion Questions

The following questions provide the basis for deliberation and in-depth discussion. Like with the case itself, definitive answers are not provided for these questions though the questions should provide guidance for exploration of the case matters but also the prospects for Lean Six Sigma pursuit in practice.

1. Where do the logistics wastes appear?
2. What additional data are needed to conduct a more complete analysis of the situation? How would you go about collect these data?
3. How might the Logistics Bridge Model provide structure for problem recognition, analysis, and improvement?
4. What Lean and Six Sigma tools might be used to determine what to examine and how to prioritize?
5. The case depicts a company forced to act out of crisis. Are crises necessary to incite dramatic change? How can change be enacted and sustained in the absence of a crisis?
6. How can leadership generate enthusiasm for change in light of typical forms of resistance marked by adherence to status quos, fear of change, skepticism, cynicism, and even ploys of “backstabbing”?
7. How can employees be encouraged to do the “right things” and seek continuous improvement?

This case is fictitious and not modeled after any one particular firm or situation. Therefore, no conclusions can be reached regarding how an actual company might have acted in the face of this particular situation. In addition, the case does not allude to specific products, industries, or channels purposely. The case issues are believed to be pervasive in virtually all settings, wherever physical product or physical components of a service are involved.