

# Optimizing Cycle Stock and Lot Sizes: Balancing the Costs of Changeovers with Inventory

The Webinar will begin shortly.

Your phone has been muted, so please submit any questions via the Webex chat window.



# Introducing Our Speaker

## Invistics Company Overview

- **Software & Services to Optimize Cycle Stock and Lot Sizes**
- **Proven results with numerous customers:**
  - Reducing inventory 25-40%
  - Improving customer service by 10-15% points
  - Maximize use of capacity
- **Quick, low-risk fix for lot sizing problems**
  - Lot Size Optimization in both high-volume and high-mix facilities
  - Lot Size Optimization using web-based software and existing data



**Tom Knight**  
**Founder and CEO**



# Poll Question 1

**Question 1:** What is your Primary Improvement Objective for attending this Webinar?

- a.) Reduce Changeover costs
- b.) Reduce Inventory Holding costs
- c.) Improve Customer Service
- d.) All of the Above
- e.) Personal Education



# Agenda

## ➔ Urgent Supply Chain Challenges

- Beyond EOQ: Best Practices for Lot Size Optimization
  - Case Study
- Sequencing Issues: Best Practices for Rhythm Wheels
  - Case Study
- Questions & Discussion



# Urgent Supply Chain Challenges



- **Complex global supply networks**
- **Fierce offshore competition**
- **More product variants and SKUs**
- **Shorter product life cycles**
- **More complexity within each plant and across the global supply chain**



# Product Proliferation is Hitting Every Industry



Increased demands by customers:

**Consumer Products adding 20% more SKUs each year**  
**Chemicals experiencing 60% volatility in some SKUs**

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# Every Company Is Being Forced to Change

Then	Now
<ul style="list-style-type: none"><li>• Stable demand</li><li>• Repetitive</li><li>• Long runs</li><li>• High utilization</li><li>• Dedicated equipment</li></ul>	<ul style="list-style-type: none"><li>• Highly variable demand</li><li>• Responsiveness</li><li>• Short runs</li><li>• Faster changeovers</li><li>• Shared equipment</li></ul>
<b>High-volume</b>	<b>High-mix</b>

## Poll Question 2

**Question 2:** Question 2: What Best Describes Your Product Mix?

- a.) High Volume, High Mix
- b.) High Volume, Low Mix
- c.) Low Volume, High Mix
- d.) Low Volume, Low Mix

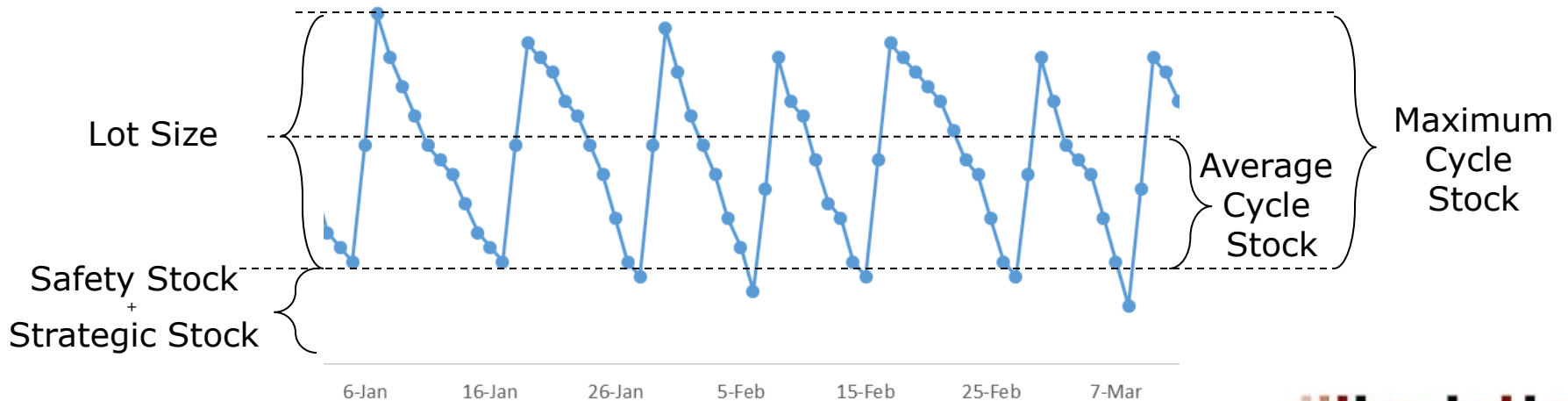




# Quick Notes on Terminology

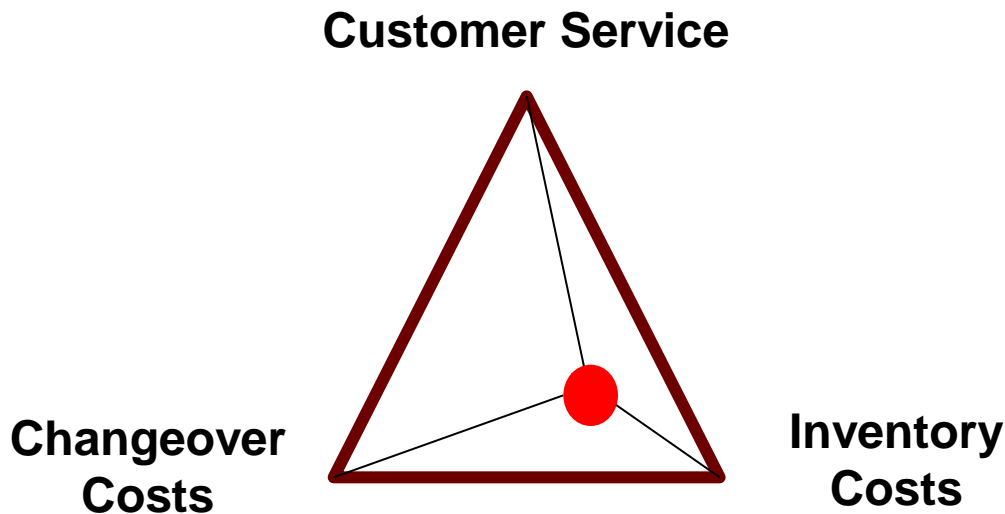
Three similar terms that we will collectively refer to as 'Lot Sizes':

- Lot Size: Generally used in discrete industries to signify how many units of a product to make before changing of to a different product
- Batch Size: Common term in chemicals, food, beverage and other process industries to denote the amount of product made at one time (often related to vessel or tank sizes)
- Campaign Size: Used by metals, pharmaceutical, and other industries, this indicates the number of individual lots or batches to produce before changing over to another product



# The Basic Lot Sizing Challenge

Find the “sweet-spot” between 3 objectives:

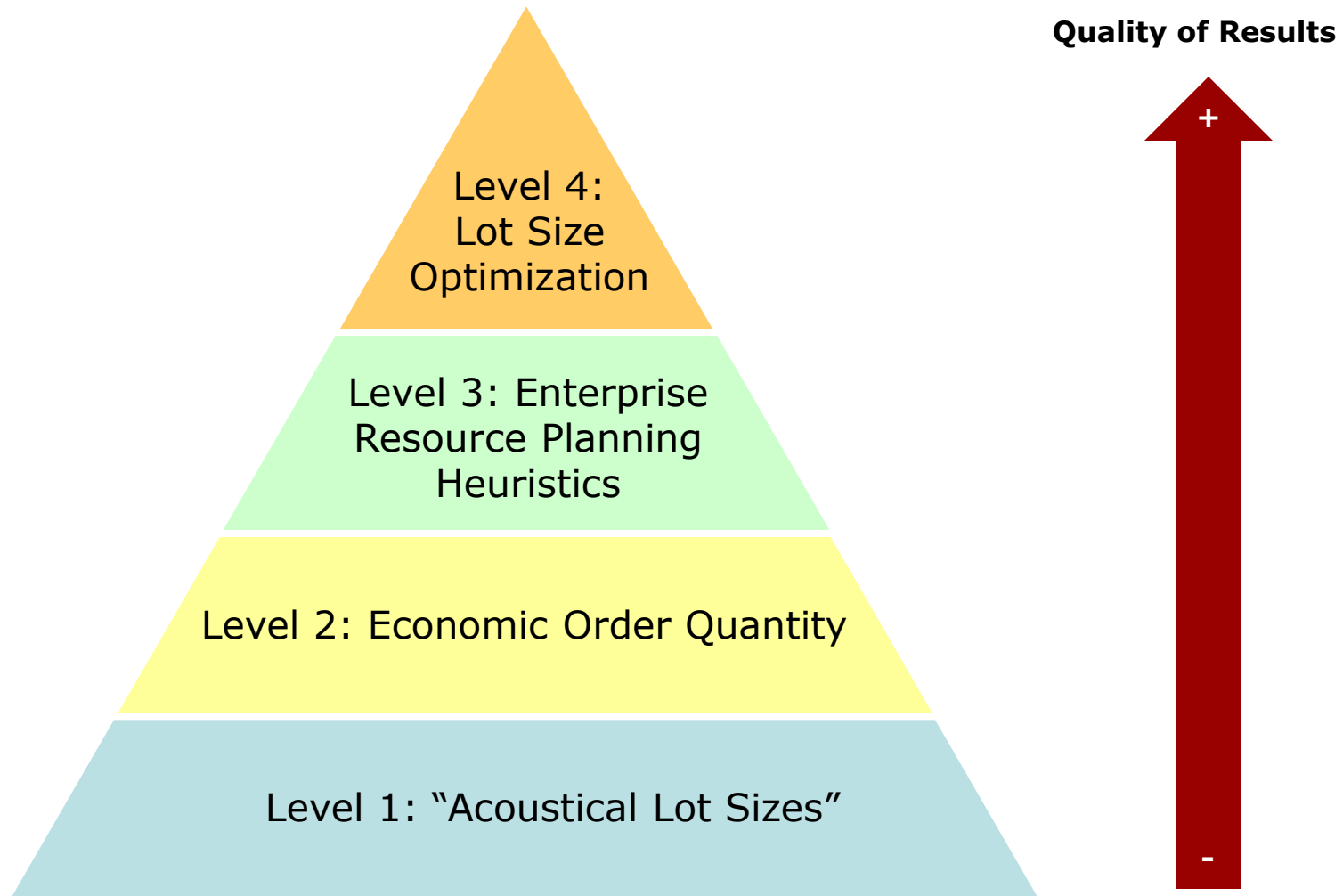


# Agenda

- Urgent Challenges
- ➔ Beyond EOQ: Best Practices for Lot Size Optimization
  - Best Practices for Implementing Rhythm Wheels
  - Case Study
  - Questions & Discussion



# Four Levels of Maturity for Lot Size Optimization



# Maturity Level 1: Acoustical Lot Sizes

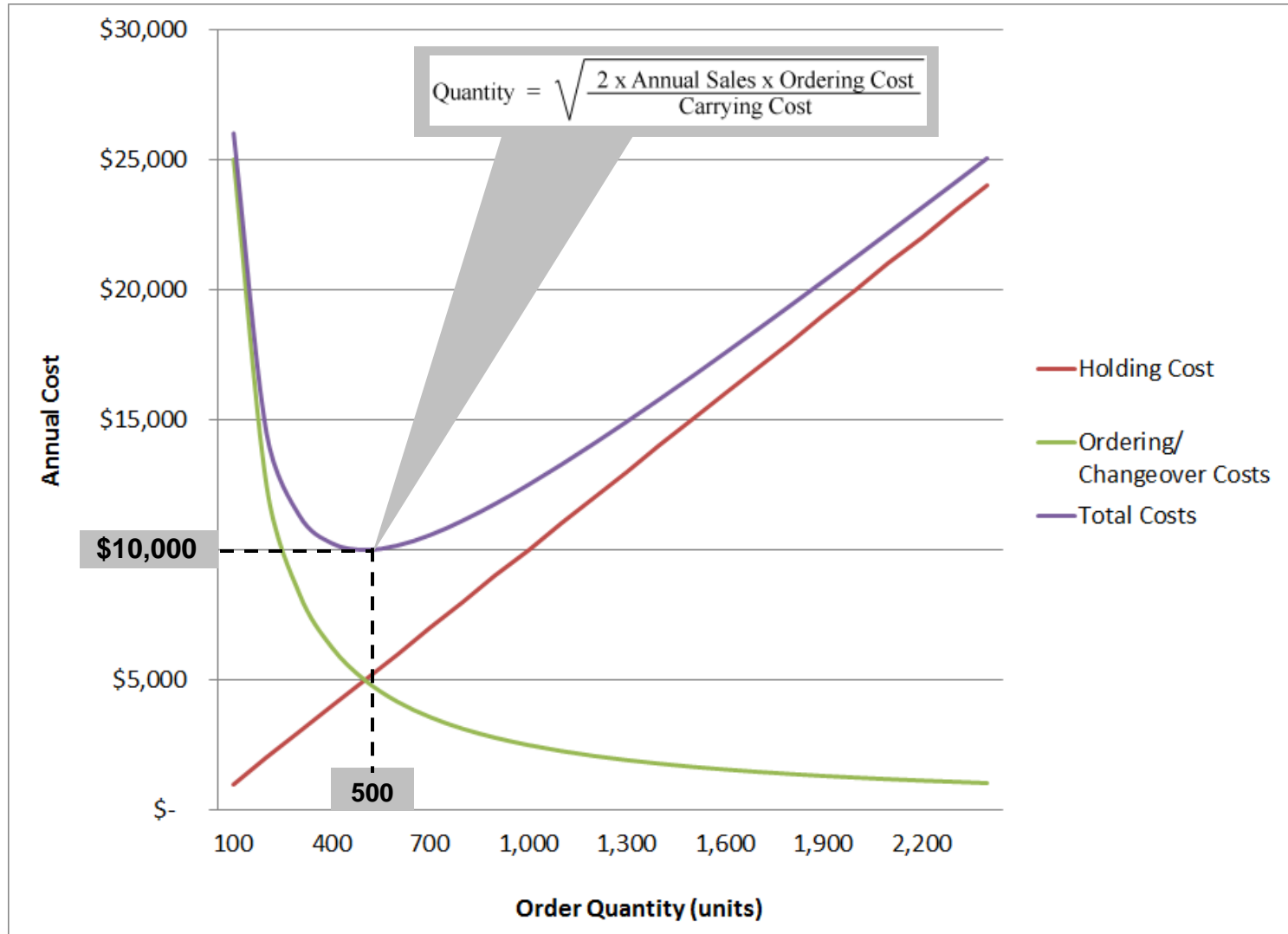
Increase lot sizes until the yelling stops

- Never allows root causes of manufacturing or supply chain performance to be addressed
- Risks significant excess inventory and increased cycle times
- May result in infeasible capacity plan
- Stressful for all involved
- Enables endless loop of 'firefighting'



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# Maturity Level 2: Economic Order Quantity (EOQ)



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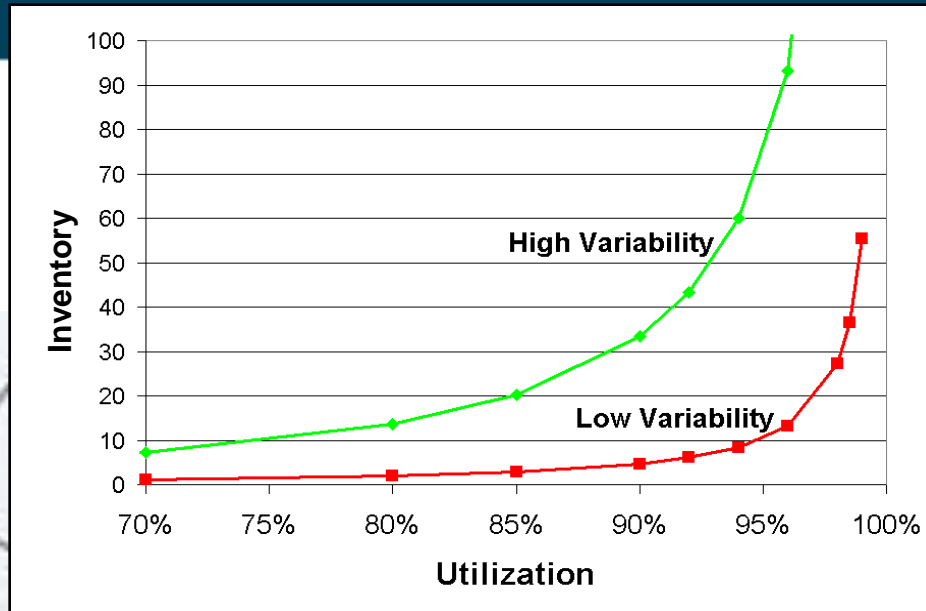
# Where EOQ falls short

$$\text{Quantity} = \sqrt{\frac{2 \times \text{Annual Sales} \times \text{Ordering Cost}}{\text{Carrying Cost}}}$$

- EOQ drowns in high mix environments. It assumes:
  - Single Product- no product mix
  - No variability in Demand
  - Replenishment is Instantaneous
  - Infinite Capacity
  - No notion of customer service level



# The effect of variability and high utilization



$$CT_q \approx V \times U \times t$$

$$\approx \left( \frac{c_a^2 + c_e^2}{2} \right) \left( \frac{u^{\sqrt{2(m+1)}-1}}{m(1-u)} \right) t_e$$

In a high mix plant, a line with utilizations above ~90% begins to require infinitely large lot sizes and infinite inventory

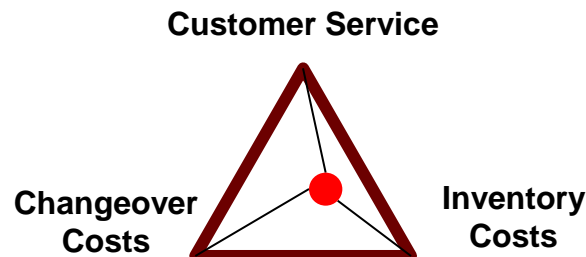


# Maturity Level 3: Enterprise Resource Planning Heuristics

- Deterministic approaches (aka 'Dynamic' in SAP)
  - Assumes demand is known
  - Most ERP systems have multiple deterministic lot size approaches (Part-Period Balancing, Lot-for-Lot, Groff, etc.)
  - These are easy to understand and implement, but fail in the presence of any appreciable variability
- Stochastic approaches in ERP typically have one or more of the following issues
  - Lack consideration of both supply and demand variability
  - No way to visibly analyze results in a way that makes sense to the user
  - Often ignore capacity
  - Require inputs that are confusing to the user
- In both cases, the largest advantage is that these approaches are built right into existing ERP systems

# Maturity Level 4: Lot Size Optimization

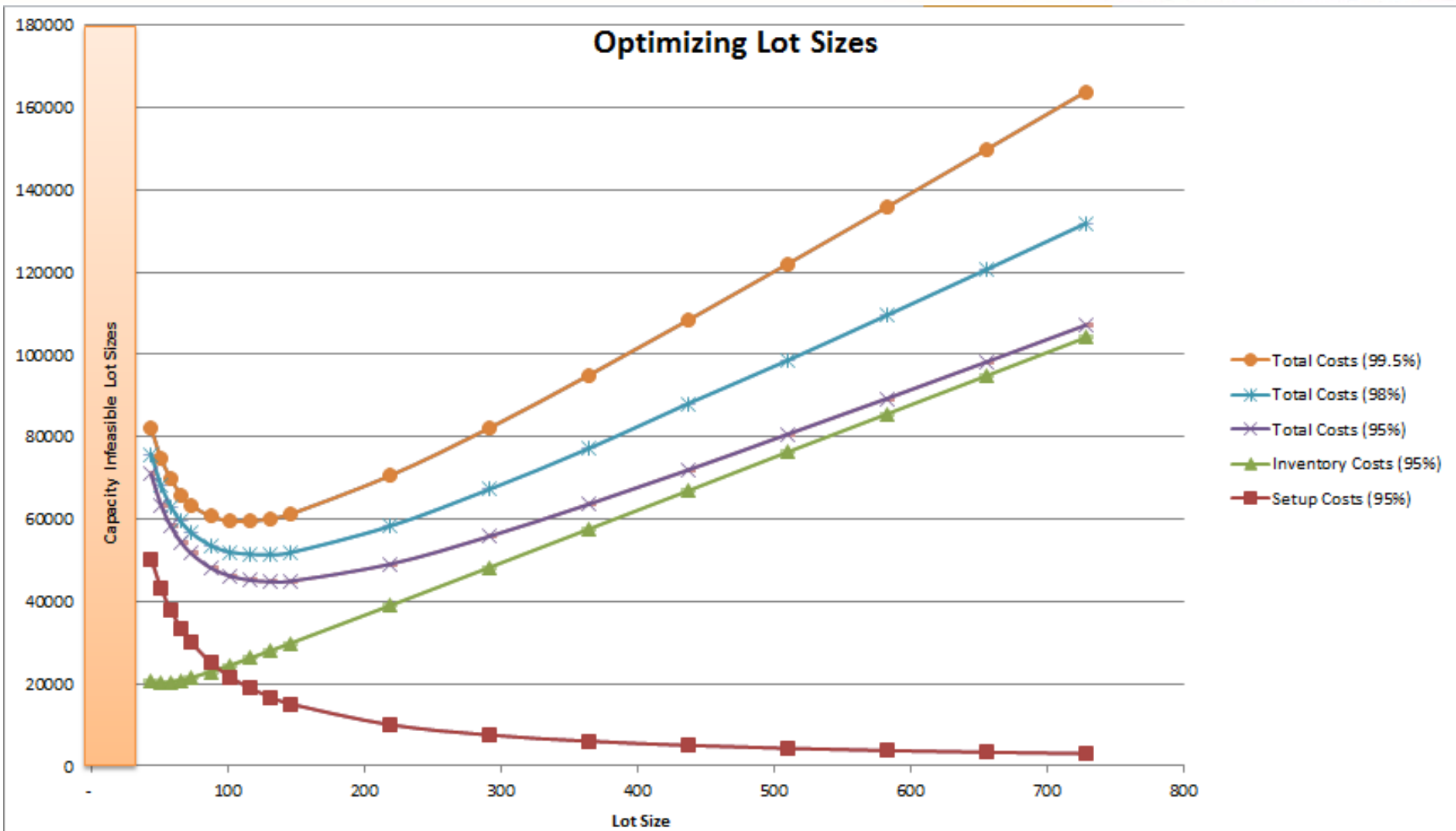
- Best-of-breed lot sizing approaches allow the following
  - Include both supply and demand variability
  - As a required step, conduct capacity analysis of the process
  - Analyze entire product mix concurrently
  - Require minimal special-expertise
  - Present results in an easy-to-visualize format
  - Use data already in ERP when at all possible
  - As an option: Include analysis of stocking levels as well



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# Total Cost Curve

## Tradeoff of Holding Costs and Setup Costs



## Poll Question 3

**Question 3:** Which Maturity Level for Lot Sizing is Your Company using?

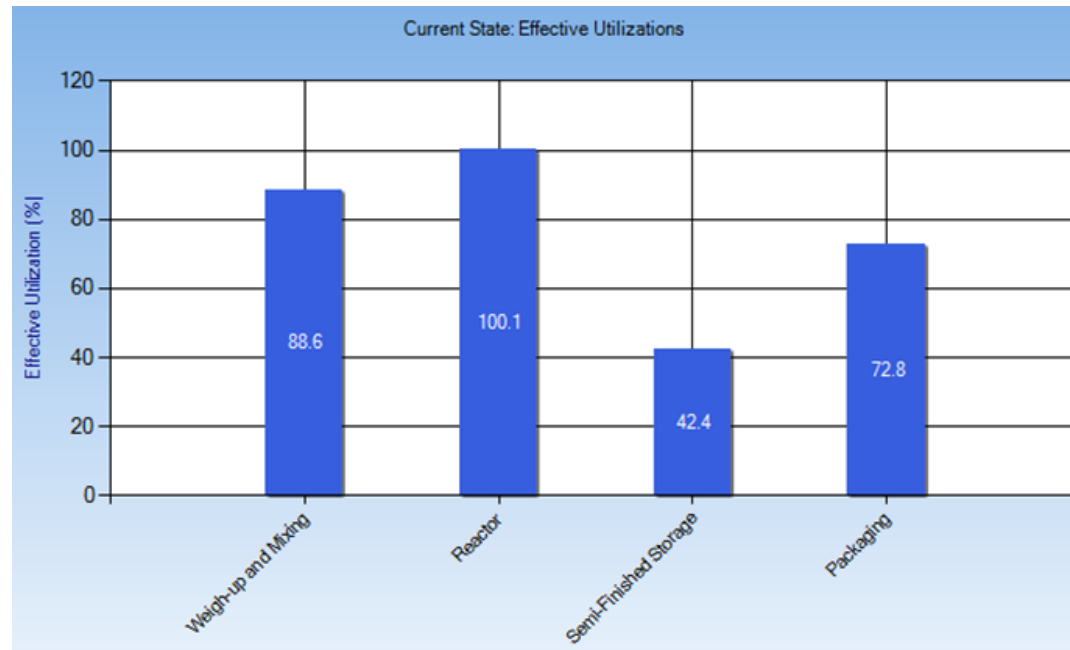
- a.) Level 1: “Acoustical” Lot Sizes
- b.) Level 2: Economic Order Quantity
- c.) Level 3: Enterprise Resource Planning Heuristics
- d.) Level 4: Lot Size Optimization





# Invistics Lot Sizer

Optimizes lot sizes, batch sizes, and/or campaign sizes



	Total Cost (Inv + Setups)
Current Conditions	\$26,816.66
Optimized Value	\$14,980.64
Improvement	\$11,836.02

Current State Results Recommendations Text Output

## Recommendations

Material Number	Material Description	Number of Setups	Setup Cost	Lead Time	Lot Size	Reorder Point	Target Service	Avg. Inventory Level	Avg. Inventory Cost	Total Cost
538845	VARIANT BL 3175A 0215.00 KG D009	0.39	211.32	1.47	23953.00	36106.37	0.95	34625.77	386.95	598.26
928716	VARIANT B 302 0225.00 KG DR09	0.04	19.76	13.65	8800.00	3996.72	0.95	3971.09	39.42	59.18
2450953	VARIANT N 100 0225.00 KG B01	0.54	286.45	1.15	48514.00	53264.63	0.95	48113.99	466.77	753.21



# Lot Size Optimization

## Typical Inputs and Outputs

### Inputs

#### Product Data

- Demand (mean and std dev.)
- Holding Cost
- Unit Cost

#### Routing Data

- Process Times (mean and std dev)
- Setup Times (mean and std dev)
- Changeover cost
- Min/Max allowable Lot Sizes

#### Work Center Data

- Reliability (MTTF/MTTR)
- Crewed Hours

### Target Performance

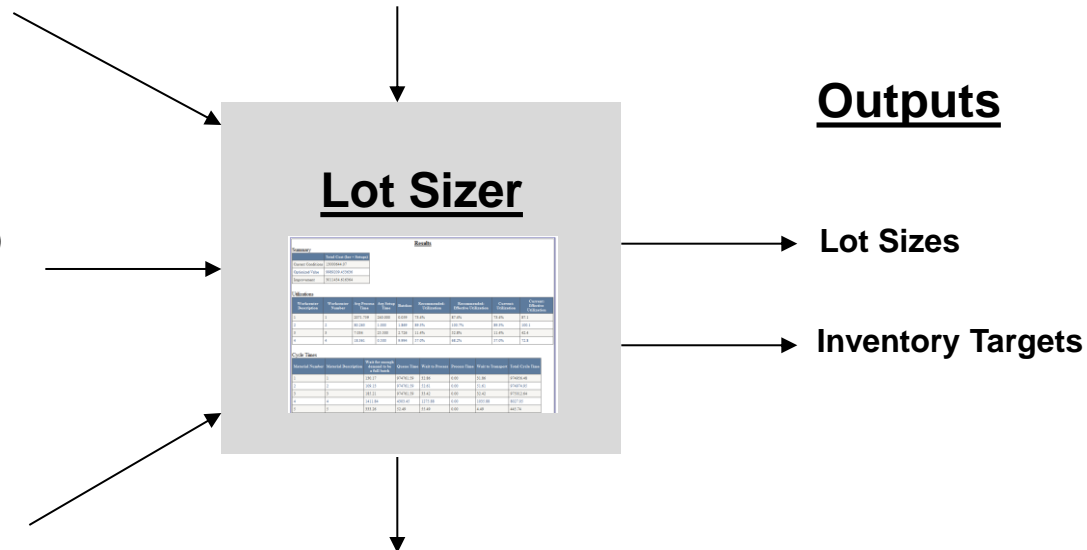
- Customer Service
- Inventory

### Outputs

- Lot Sizes
- Inventory Targets

### Projected Performance

- Setups Per Week
- Inventory
- Setup costs




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- Beyond EOQ: Best Practices for Lot Size Optimization
- ➔ ■ Case Study
- Sequencing Issues: Best Practices for Rhythm Wheels
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# Case Study: Lot Size Optimization Best Practices

Company	Details
	<ul style="list-style-type: none"><li>▪ <b>Products:</b> High-Mix Specialty chemicals</li><li>▪ <b>Characteristics:</b><ul style="list-style-type: none"><li>▪ Few raw materials transformed into many finished products</li><li>▪ Excessive working capital</li><li>▪ Suboptimal lot sizes contributed to<ul style="list-style-type: none"><li>▪ Excessive cycle times due to too-large lot sizes for many SKUs</li><li>▪ Too frequent changeovers due to small lot sizes for some SKUs</li></ul></li><li>▪ Capacity Concerns due to high utilizations</li><li>▪ Lot Sizing: Using Part-Period-Balancing (SAP Heuristic)</li></ul></li></ul>

# Approach Taken

1. Gathered needed data- *Not as intimidating as it appeared*
2. Performed lot size analysis- *Used Invistics software*
3. Analyzed results- *Big projected improvements*
4. Entered results into ERP- *Continued running their supply chain as usual, but with optimized lot sizes*
5. Measured the Results – *reduced change-over costs and inventory significantly*



# Lot Sizer Overall Summary

Upload File:

Browse...

Analyze



Current State

Recommended Case

Text Output

Summary

Utilizations

Cycle Times

Cost Analysis

Results: Summary

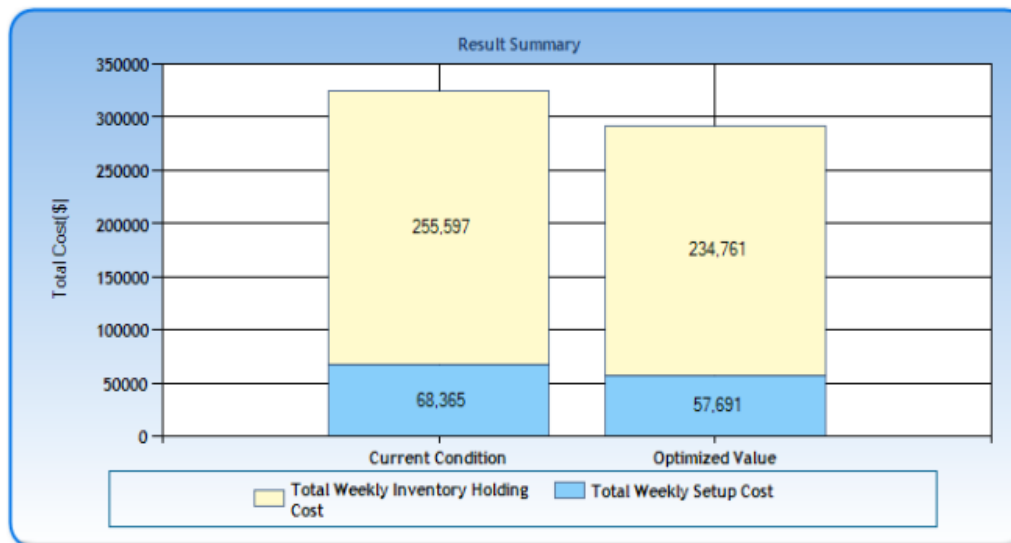
	Current Conditions	Optimized Value	Improvement
Total Cycle Time (days)	203	166	37.02
Total Avg Inventory (Qty)	28,628,767	26,145,884	2,482,883
Total Avg Inventory (\$)	\$ 75,957,506	\$ 69,765,615	\$ 6,191,891
Total Weekly Setup Cost	\$ 68,365	\$ 57,691	\$ 10,673
Total Weekly Inventory Holding Cost	\$ 255,597	\$ 234,761	\$ 20,836
Total Weekly Cost (Inv Holding + Setups)	\$ 323,962	\$ 292,453	\$ 31,509

Select Chart: Cost Summary

Show Point Labels: ☒

Show X Axis Margins: ☒

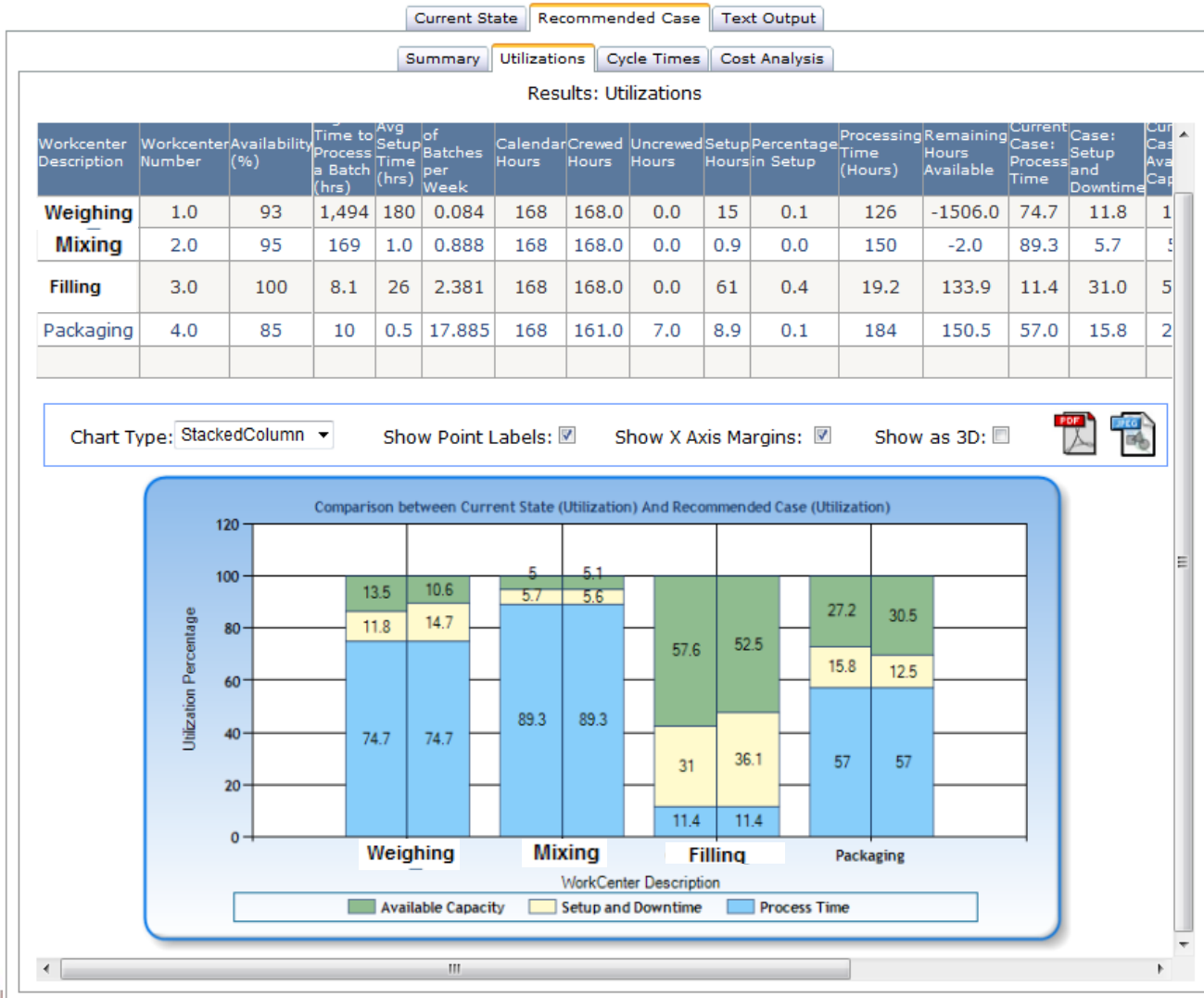
Show as 3D: ☐



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# LotSizer Overall Utilizations



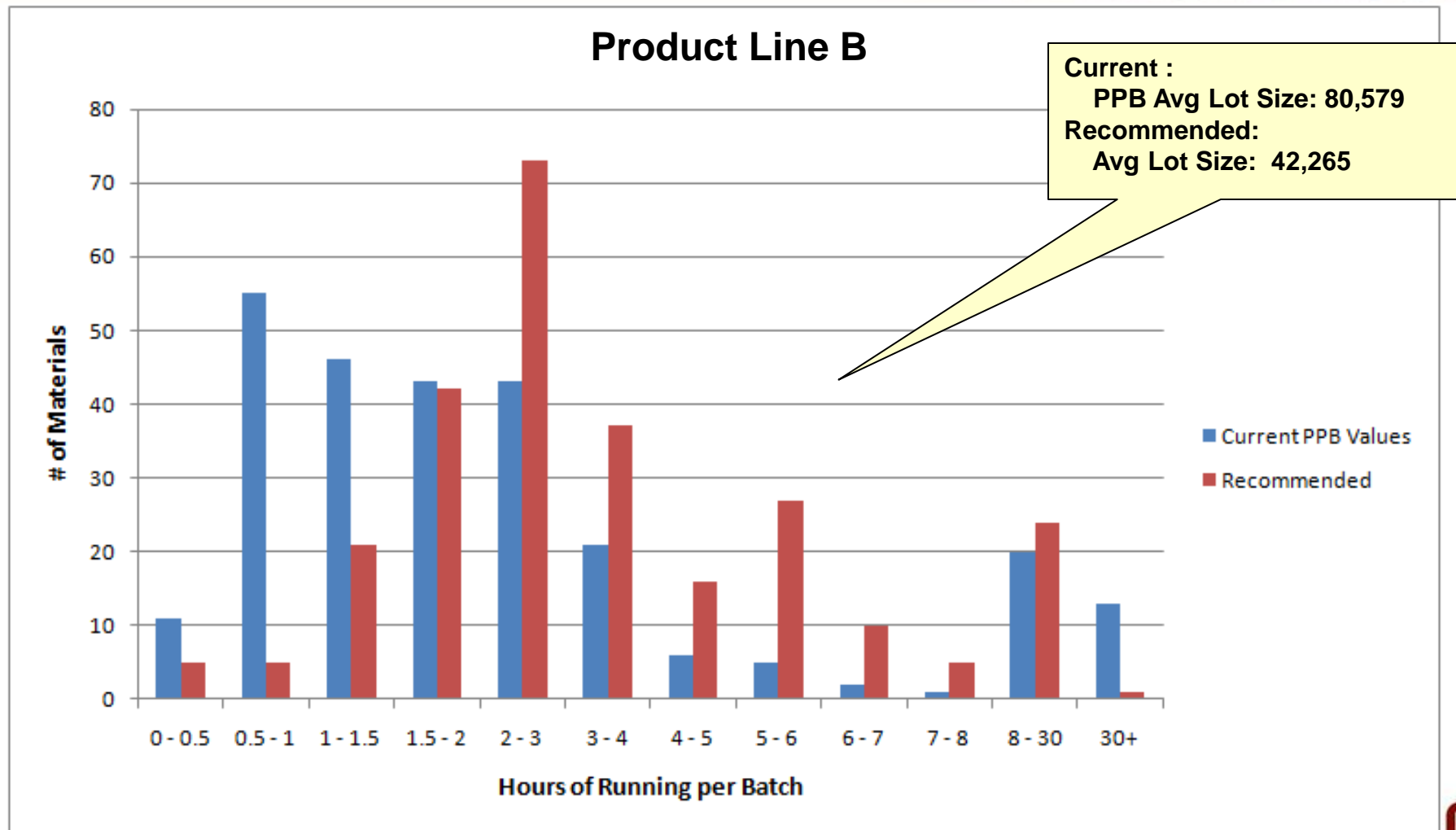
# Sample Output from Lot Sizer

Material Number	Material Description	Recommended Lot Size	Current Lot Sizes (PPB)	Difference Between Recommended and Current Lot Sizes
		51,482	36,288	-15,194
		85,280	81,375	-3,905
		6,393	2,616	-3,777
		115,023	169,529	54,506
		108,330	105,808	-2,522
		95,659	135,124	39,465
		86,337	95,436	9,099
		88,545	84,719	-3,826
		79,953	72,714	-7,239
		47,510	97,716	50,206
		84,880	122,255	37,375
		71,646	65,976	-5,670
		54,039	71,412	17,373
		98,874	108,331	9,457
		6,209	6,660	451
		5,912	8,960	3,048
		6,076	6,192	116
		5,921	7,252	1,331
		6,153	6,504	351
		62,566	35,490	-27,076
		41,301	34,537	-6,764
		25,658	8,035	-17,623
		33,461	13,635	-19,826
		26,763	31,656	4,893
		27,532	23,322	-4,210
		29,455	23,348	-6,107
		22,437	23,520	1,083
		21,109	26,838	5,729
		33,491	26,148	-7,343
		34,699	22,591	-12,108
		60,652	135,180	74,528
		17,914	14,726	-3,188
		59,211	55,339	-3,872
		89,287	99,290	10,003

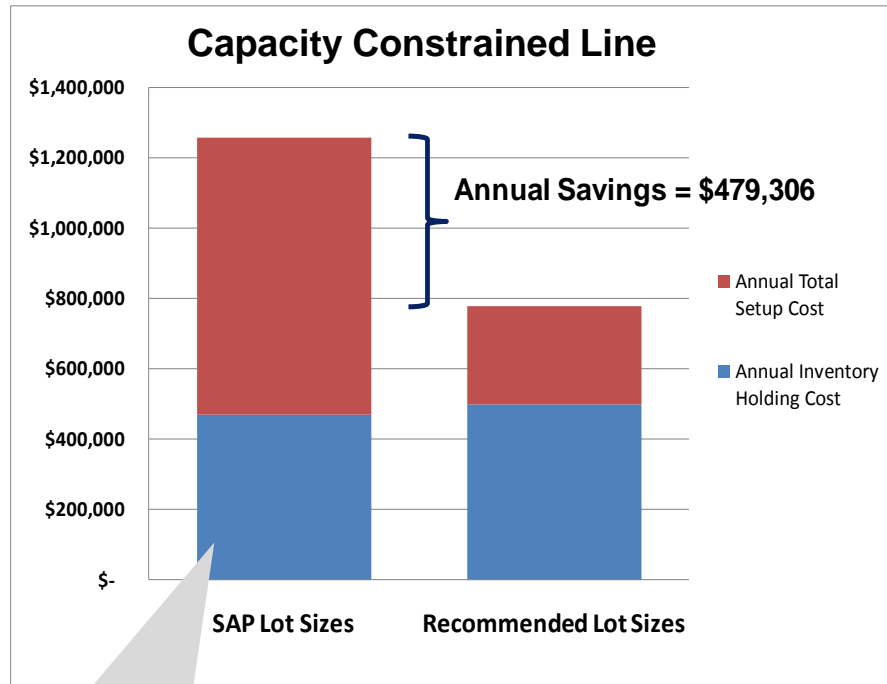


# Optimized Lot Sizes:

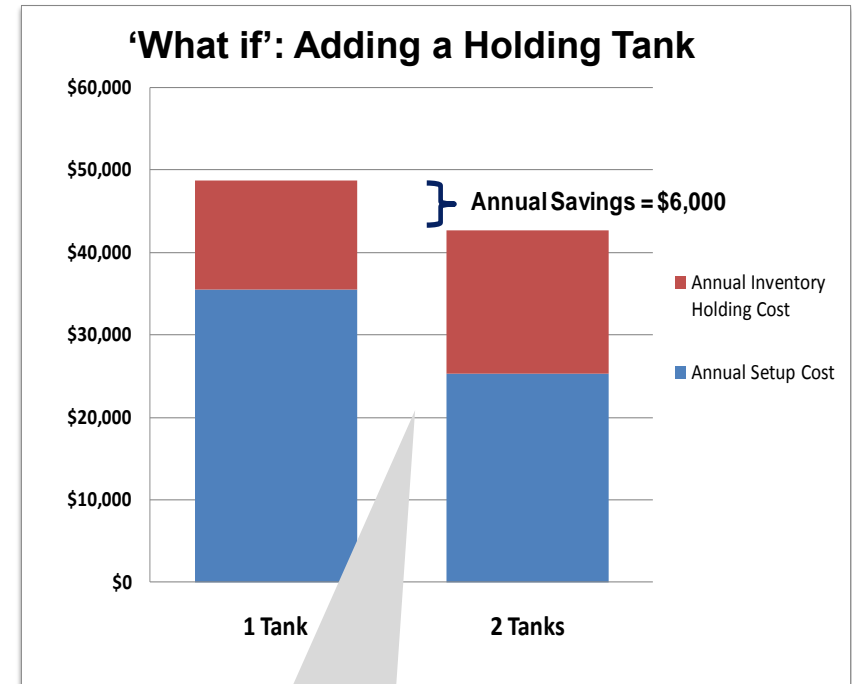
## Fewer very short runs, Fewer very long runs



# Analysis Summary



Recommendations show fewer changeovers for the less expensive materials. This frees up capacity, and ends up saving money overall (even though the qty of less expensive material on hand actually *increases*).



The additional tank allows less changeovers, but more material will be held. The overall cost impact using optimal lot sizes (sometimes less than a full tankful) allows for cost savings.

# Results

- Within the next 12 months, the inventory levels decrease by \$4.5 million without any sacrifice to customer service.
- These improvements were all realized by simply changing the lot size values in SAP to the values calculated by Lot Sizer.
- In addition, overall costs were decreased by \$500k annually. This improvement was due to a combination of the improved lot sizes and reconfiguring of the tank farm as recommended during the project.



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- Urgent Challenges
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- ➔ Sequencing Issues: Best Practices for Rhythm Wheels
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## Poll Question 4

- **Question 4:** What software, if any, are you using to manage Cycle Stock and Lot Sizing?
- a.) ERP System (SAP, Oracle, JDE, etc.)
- b.) Homegrown Company Software
- c.) Third Party Software
- d.) No Software



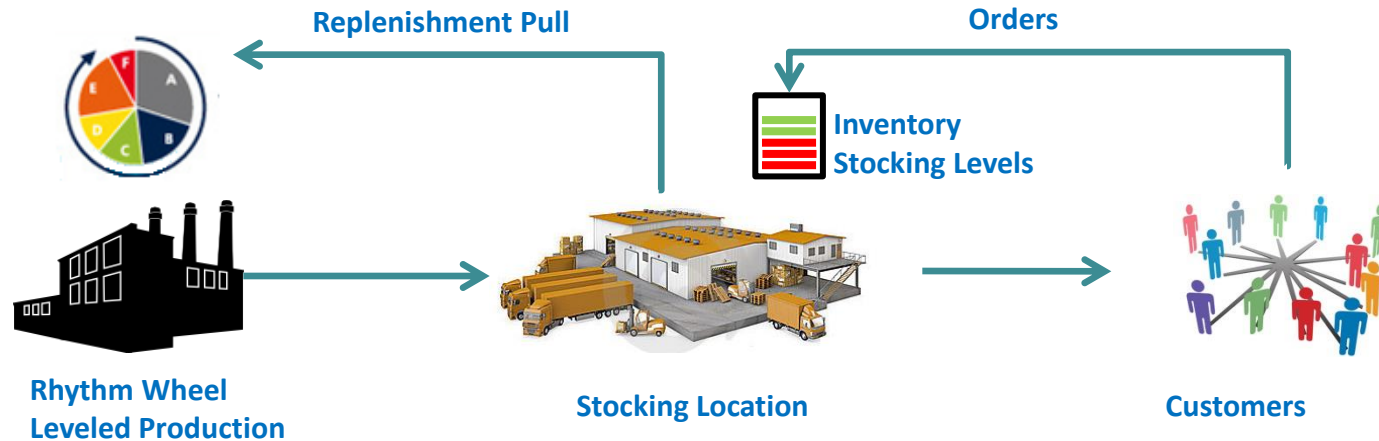
# Sequencing Issues

- Some manufacturing plants have “sequence-dependent” change-over costs/times. Examples:

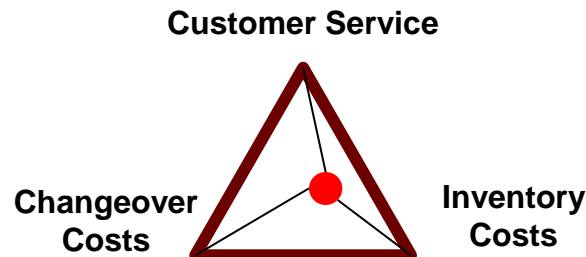
Industry	Sequence-Dependent Changeover Examples
Food & Beverage	Label changes are faster than flavor changes
Consumer Packaged Goods	Label changes are faster than container changes
Discrete Part Fabrication	Group similar sized parts together to avoid lengthy setups
Electronic Assembly	Group similar board sizes together to avoid lengthy setups

- These plants need to optimize both lot sizes and production sequences

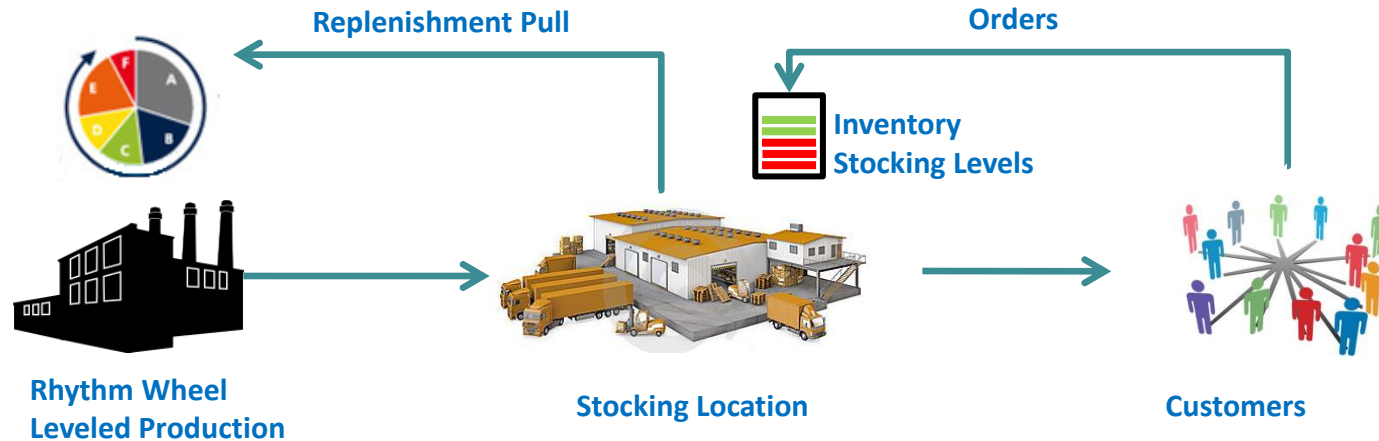
# Introduction to Rhythm Wheels



- Sequences products on a repeating pattern or “wheel” to minimize changeovers times/costs
- Levels production and lowers demand volatility, while encouraging rapid wheel “frequency”
- Allows the plant to run optimized lot sizes while replenishing inventory stocking levels
- Enables the supply chain to find the sweet-spot that minimizes total costs



# Best Practices for Designing a Rhythm Wheel



## 1. Establish initial policies and conditions:

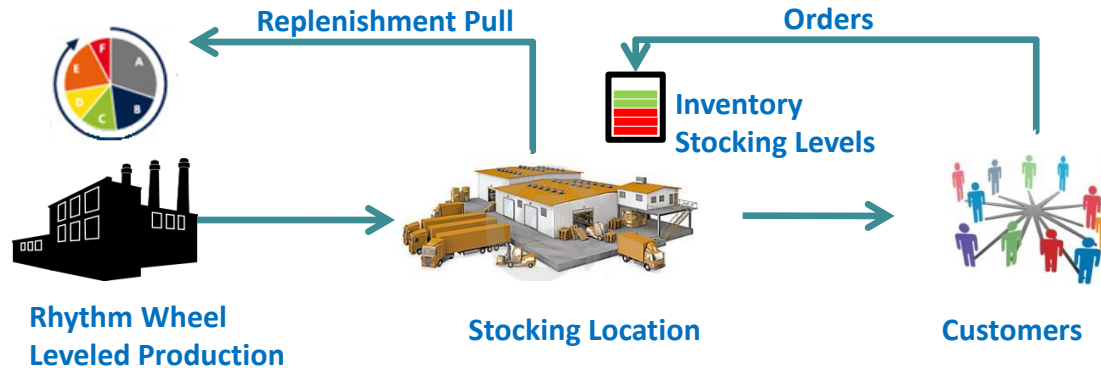
- A) Decide minimum production quantities by SKU family (sometimes called min. campaign size)
- B) Determine initial sequence (assuming every part every interval (EPEI) to start)
- C) Optional: Estimate initial (non-sequence dependent) lot sizes

## 2. Optimize Cycle Stock - Design Rhythm Wheel by balancing load across time periods to minimize overall cost:

- A) Select a potential Rhythm Wheel Run Frequency (aka Cycle Length or Cadence)
- B) Group low volume SKU families into selected time periods (not EPIE => skip in some periods)
- C) Optional: Fine-tune sequence within each time period
- D) Recalculate load in each time period. If not balanced/acceptable: return to step 1A, 2A or 2B

## 3. Optimize Safety Stock - Right-size inventory levels by SKU

# Best Practices for Implementing a Rhythm Wheel



## 1. Update Materials Requirements Planning (MRP) with these parameters:

- A) Minimum/expected lot sizes
- B) Inventory min/max/safety stocks

## 2. Streamline implementation and Measure success & conformance:

- A) Automate replenishment using optimized inventory stocking levels
- B) Measure/reduce days Between production
- C) Celebrate success, and look for ways to further accelerate Rhythm Wheel Run Frequency

## 3. Refresh the parameters regularly, at least quarterly

# Cadence Advisor

## Designs Rhythm Wheels and Expected Benefits & Costs

### invistics Cadence Advisor: Weekly Workbench

Recommended Cadence Cycle (week) 12

Overall Cadence Cycle (weeks) 12

Totals		Totals
		Shift Hours
Atlas	Total Capacity	960
	Current Plan	591
	Remaining Capacity	369
Zeus	Total Capacity	960
	Current Plan	366
	Remaining Capacity	594
Combined Shift-Hrs		963

1		2		3		4	
Units	Shift Hrs	Units	Shift Hrs	Units	Shift Hrs	Units	Shift Hrs
62,164	80	52,461	80	84,022	80	12,179	80
	34.5		76.3		67.7		18.4
	45.5		3.7		12.3		61.6
30,283	80	136,331	80	26,303	80	75,546	80
	17.6		74.2		15.7		38.9
	62.4		5.8		64.3		41.1
	52.13		150.48		83.40		57.23

						Totals	
						Total Units per	Total shift-
						Cadence Cycle	hrs per
							Cadence
SKU	Material	Workcenter	Secondary Workcenter (override)	Weeks between run	Production Per Run Freq. (Cases)	First Week	Cycle
5	Product 1	Atlas		2	50,774	1	167.4
6	Product 2	Zeus		2	40,433	2	121.4
88	Product 3	Zeus		4	10,053	2	17.5
197	Product 4	Zeus		4	24,251	1	39.0
501	Product 5	Atlas		4	22,181	3	77.7
7400	Product 6	Zeus		2	4,831	2	16.3
7829	Product 7	Atlas		4	5,001	3	11.8
10977	Product 8	Zeus		6	4,887	2	6.1
11098	Product 9	Zeus		4	17,204	2	26.9
11141	Product 10	Atlas		4	11,390	1	19.9
11324	Product 11	Atlas		4	5,167	2	23.8
13501	Product 12	Zeus		6	7,431	2	8.7
13701	Product 13	Atlas		4	32,372	2	144.2
13747	Product 14	Zeus		6	12,895	2	14.6
14135	Product 15	Atlas		4	6,066	3	30.1
14320	Product 16	Zeus		6	3,671	2	4.1
14345	Product 17	Zeus		6	22,203	4	23.5
14355	Product 18	Zeus		6	5,735	3	6.2
14441	Product 19	Atlas		4	7,522	2	34.9
14516	Product 20	Atlas		4	3,031	4	13.8
14588	Product 21	Atlas		4	2,373	4	14.9
15540	Product 22	Zeus		6	7,588	3	9.9
15541	Product 23	Zeus		6	11,322	3	12.2
15542	Product 24	Zeus		6	5,526	2	5.7
15847	Product 25	Atlas		4	3,417	4	18.9

1		2		3		4	
Units	Shift Hrs	Units	Shift Hrs	Units	Shift Hrs	Units	Shift Hrs
50,774	27.9		0.0	50,774	27.9		0.0
	0.0	40,433	20.2		0.0	40,433	20.2
	0.0	10,053	5.8		0.0		0.0
24,251	13.0		0.0		0.0		0.0
	0.0		0.0	22,181	25.9		0.0
	0.0	4,831	2.7		0.0	4,831	2.7
	0.0		0.0	5,001	3.9		0.0
	0.0	4,887	3.0		0.0		0.0
	0.0	17,204	9.0		0.0		0.0
11,390	6.6		0.0		0.0		0.0
	0.0	5,167	7.9		0.0		0.0
	0.0	7,431	4.4		0.0		0.0
	0.0	32,372	48.1		0.0		0.0
	0.0	12,895	7.3		0.0		0.0
	0.0		0.0	6,066	10.0		0.0
	0.0	3,671	2.1		0.0		0.0
	0.0		0.0		0.0	22,203	11.8
	0.0		0.0	5,735	3.1		0.0
	0.0	7,522	11.6		0.0		0.0
	0.0		0.0		0.0	3,031	4.6
	0.0		0.0		0.0	2,373	5.0
	0.0		0.0	7,588	4.9		0.0
	0.0		0.0	11,322	6.1		0.0
	0.0	5,526	2.9		0.0		0.0
	0.0		0.0		0.0	3,417	6.3

# Cadence Advisor Software to Design Rhythm Wheels

## Inputs and Outputs

### Inputs

#### Product Data

- Demand (mean)
- Holding Cost
- Unit Cost
- Sequencing attributes (for setups)

#### Routing Data

- Process Times (mean)
- Setup Times (mean)
- Setup costs and time (mean)
- Primary/Secondary work centers

#### Work Center Data

- Crewed Hours
- Minimum production times/quantities

#### Historical Data

- Historical Orders/Production Qtys and sequences by date

### Current Performance

- Current Cadence (Frequency & Sequencing)
- Current Lot/Campaign Sizes by SKU
- Current Min. Production times & quantities

## Cadence Advisor



### Outputs

- Updated Rhythm Wheel (Frequency & Sequencing)
- Updated Lot Sizes by SKU
- Updated Min. Production times & quantities
- Projected costs (cycle stocks + changeovers)

### Projected Performance

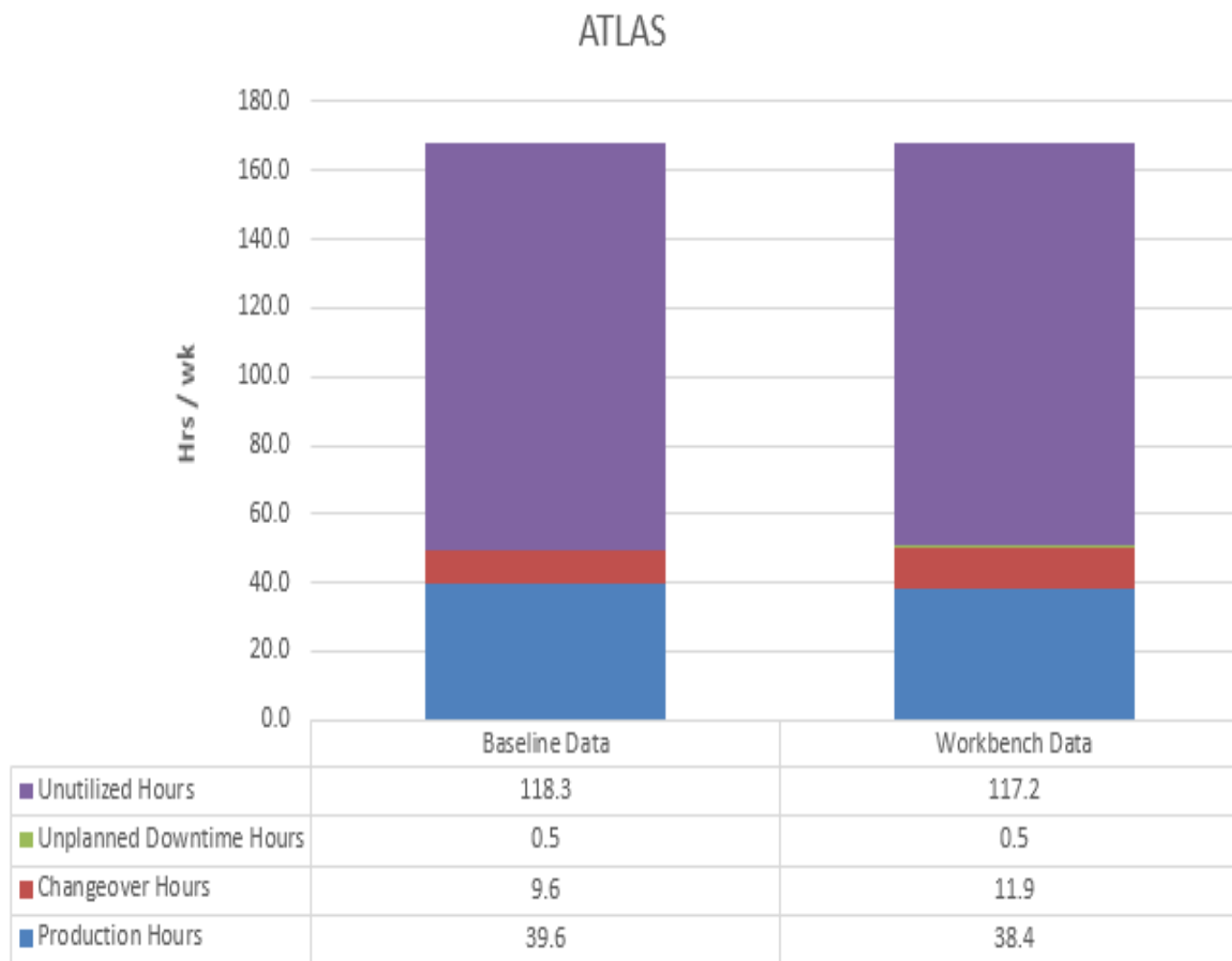
- Projected Utilization by Line & Time Period
- Projected Setups Per Week & Setup Costs
- Projected Inventory & Inventory Costs





# Cadence Advisor

Compare past change-overs/utilizations to expected future benefits, by Line



istics®



## Helps Plants Update Their Rhythm Wheels & Sustain the Benefits Long-Term

**invistics** *Cadence Advisor: Sequencer*


[illegible]

# Agenda

- Urgent Challenges
- Beyond EOQ: Best Practices for Lot Size Optimization
  - Case Study
- Sequencing Issues: Best Practices for Rhythm Wheels
- ➡ ■ Case Study
- Questions & Discussion



# Case Study: Best Practices for Rhythm Wheels

Company	Details
	<ul style="list-style-type: none"><li>▪ <b>Products:</b> Consumer Packaged Goods</li><li>▪ <b>Characteristics:</b><ul style="list-style-type: none"><li>▪ Many finished goods SKUs running on a few shared production work centers</li><li>▪ Sequence dependent setups require thoughtful production sequencing</li></ul></li><li>▪ <b>Challenges</b><ul style="list-style-type: none"><li>▪ Create a more level, repeatable production “cadence”</li><li>▪ Minimize overall costs (cycle stock carrying costs + changeover costs)</li><li>▪ Avoiding over-utilized lines</li><li>▪ When possible, shift production from one work center to another to balance utilization</li></ul></li></ul>

# Using Cadence Advisor

1. Create 'from-to' Changeover matrix, classifying each changeover by code
2. Determine overall Cadence Cycle
3. Create estimate of lot sizes for each SKU
4. Fill up capacity of each week in Cadence Cycle by allocating SKUs to acceptable periods
5. Sequence within each week to minimize changeover costs
6. Iterate as needed to arrive at cadence with minimal overall costs

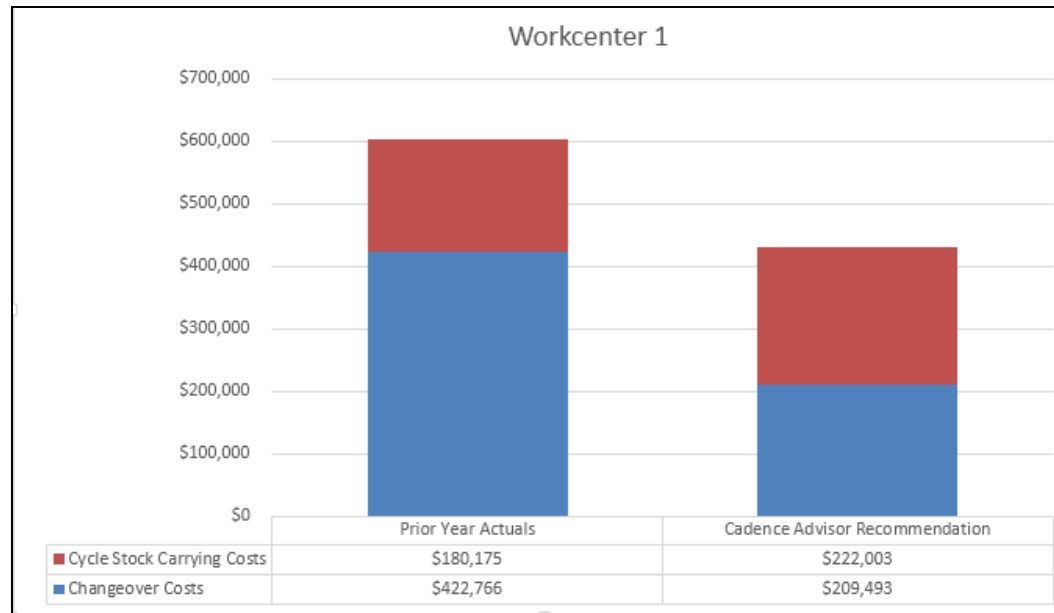


# Cadence Advisor: Recommendations

Single view allows users to allocate products to a given week while sequencing on the fly



# Cadence Advisor: Recommendations



- In the case above, there were many extremely expensive setups, resulting in a recommendation for longer runs overall and fewer setups, with slightly higher cycle stock

# Agenda

- Urgent Challenges
- Beyond EOQ: Best Practices for Lot Size Optimization
  - Case Study
- Sequencing Issues: Best Practices for Rhythm Wheels
  - Case Study

➡ Questions & Discussion





## Poll Question 5

**Question 5:** What was the most relevant part of this Webinar for you?

- a.) Best Practices
- b.) Case Study
- c.) Introduction to Software Tools
- d.) Q&A





# Thank You! Questions?

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**Tom Knight**  
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