

Case Rautakesko: Increased replenishment efficiency

Background

Rautakesko is Finland's leading building and home improvement products company, and is the fifth largest of its kind in Europe. After the turn of the millennium, Rautakesko has grown into a truly international expert in the field. At the same time, efficient management of the company's material flows has become more challenging.

Consequently, Rautakesko recently launched a development project to restructure its product replenishment process. As part of this project, Rautakesko is implementing the RELEX Processor and RELEX Optimizer replenishment solutions. Rautakesko's aim is to increase the level of automation of the replenishment process and to increase the accuracy of inventory management.

A project of this nature is naturally an extensive one, which is why it has been divided into several phases. In late 2008 the project was initiated by restructuring Rautakesko's wholesale replenishment process in Finland.

Key challenges

- At the outset, purchasing responsibilities were fragmented according to product categories, which made developing the replenishment process difficult
- Due to decentralised responsibilities and insufficient system support, the efficiency of the replenishment process was insufficient

Goals

- Making the replenishment more systematic and streamlined by automating routine purchasing tasks
- Reducing inventory value
- Securing availability

Reasons for selecting RELEX as a partner

- RELEX offers a comprehensive replenishment solution that is innovative, cost-effective and suitable for both wholesale and retail trade
- The company's extensive knowledge on the replenishment processes in specialty goods trade at both the wholesale and retail levels
- RELEX's genuine enthusiasm for developing the business operations of the client



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Rautakesko in a nutshell:

- A subsidiary of Kesko
- Revenue in 2008: 2.9 billion €
- 360 retail outlets in eight countries

Results

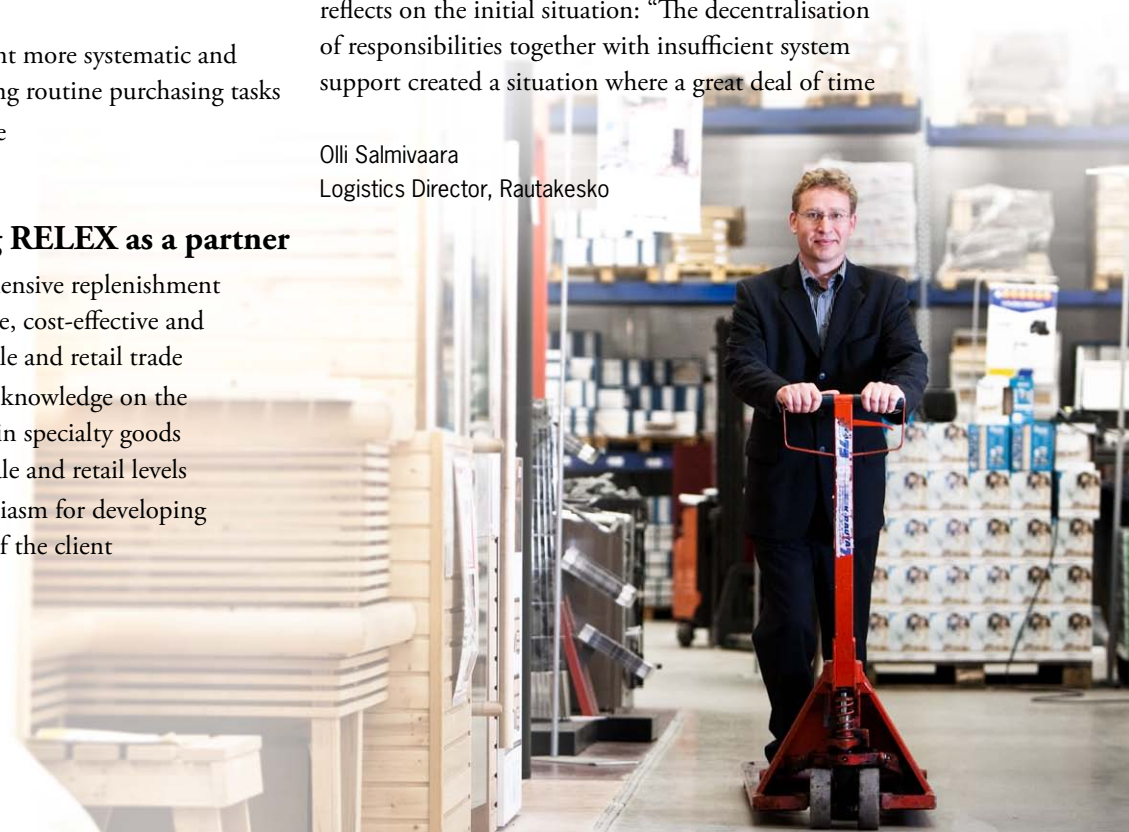
- Clear reduction of inventory value
- Significant reduction of purchasing personnel
- Availability has remained at a good level

Outset

At the outset, Rautakesko's wholesale replenishment orders were placed by the persons responsible for the different product categories. The decentralisation of purchasing responsibilities was also evident in the use of support tools: Excel, SAP and Logistcar were all used parallel in the replenishment process.

Rautakesko's Logistics Director, Olli Salmivaara, reflects on the initial situation: "The decentralisation of responsibilities together with insufficient system support created a situation where a great deal of time

Olli Salmivaara
Logistics Director, Rautakesko



was spent on replenishment, but the results – especially with regard to inventory turnover – were never up to par. Developing the replenishment process was difficult and no significant progress could be attained with the old operational methods and tools.”

Analysis project supporting decision-making

The first step in developing the replenishment process was an analysis project conducted by RELEX. The project produced a reliable estimate of the attainable benefits beforehand. Mr Salmivaara has only praise for the analysis project: “The project provided us with a clear picture of our current operational model, its challenges, and the areas where improvements could be made. Due to the fact that we had already previously utilized computer-assisted ordering in purchasing, we needed concrete proof about the additional benefits of the new system and operational model. RELEX created a simulation model that utilized our own product-level data and showed us how the new operational model would function in practice. The analysis project enabled us to ensure that the restructuring would provide us with the desired results.”

Significant organizational changes

As an integral part of developing the replenishment process, Rautakesko decided to centralise its wholesale replenishment by assigning all the related responsibilities to a single team. “The centralization of operations was made possible by the new RELEX Processor replenishment system. The centralization was seen as an opportunity to increase the know-how of the team that is responsible for placing replenishment orders and to boost the efficiency of the entire process. Discussions with RELEX’s other clients strengthened our views concerning the feasibility of this course of action”, Mr. Salmivaara says.

Implementation on schedule

The implementation project involved integrating the RELEX Processor replenishment system with Rautakesko’s enterprise resource planning system, SAP R/3. The integration went smoothly and the system was in operational use within three months of the implementation project’s launch. The entire implementation took six months.

Concrete results quickly

According to Logistics Director Salmivaara, concrete results were achieved right from the beginning, but the full benefits of automated ordering were obtained only after everyone was familiar with the new organizational model.

Rautakesko was able to attain a high degree of automation within a short timeframe – roughly 90 per cent of all order lines are currently ordered automatically. Mr Salmivaara comments: “The implementation of the coordinated replenishment ordering logic took the replenishment process to a new level of efficiency. As the volumes of some of our suppliers are extremely small, putting together a well-balanced mix of orders to fill a transport unit, or to meet the minimum order limit, used to take unreasonably long. Now, the system automatically determines the correct order quantity and time regardless of what sort of order restrictions have been agreed upon with the supplier.”

These process changes have manifested themselves in the improved efficiency and better overall results of the replenishment process. “At the moment, replenishment ordering requires significantly less personnel. In addition, the improved performance of the replenishment process translates into lower inventory levels. As the current challenging economic situation has a strong influence on the construction industry as a whole, freeing up capital and minimizing the risk of inventory markdowns have gained additional importance as management goals.”

Business-oriented development

According to Mr Salmivaara, the effort to develop Rautakesko’s replenishment process is not a mere system implementation project but rather a business development project. “RELEX has delivered exemplary results on both fronts: the replenishment solution has functioned well and we have had continuous discussions and communications with RELEX’s experts in order to further improve our operations”, Salmivaara says.

Rautakesko points out that development of business operations should not be forgotten even during economic slumps. The thing to do is to select the development areas with particular care and determine the proper scope of the efforts according to each business’ resources. “The pay-back time of this development project is measured in months rather than years. The reasons for our success lay in the way we determined our goals in a business-oriented fashion and how we selected the best possible partner. We will be sure to utilize these same principles as we move on to develop the replenishment process in the retail trade sector”, Mr Salmivaara states.