

An interview with Niranjn Kirloskar managing director, Fleetguard Filters Pvt Ltd

Fleetguard Filters, Cummins Group: One of the few companies to implement Theory Of Constraints based pull system, right from manufacturing to retail

Q: The auto industry is reeling under a second slowdown in five years. How has your company been affected and what steps are you taking to withstand the impact?

A: Of course, in both, the August 2008 slowdown and the current one, the sales to our OEM customers have gone down. However, our After Market distribution business has been a significant bulwark for our company. We have increased our sales in the After Market segment over nine times in the last six years. Our market share has grown consistently because of our strength in the distribution business - even in times of slowdown. We are now market leaders in some of the key segments in heavy duty filtration.

Q: You are one of the very few companies in India, which has implemented a pure pull system right from manufacturing to distribution and now, unto the point of retail. Can you share your experience of making such a dramatic transition?

A: We have been on an exciting journey for about six years to make the transition from forecast based push to a pull system. The paradigm changes were significant in production to move away from batch production to variety based production, which was assumed to lead to inefficiencies but we have actually generated excess capacity by not producing what is not immediately required. The changes in sales were even more fundamental - we had to move away from a system where we used to push material to distributors at the month end, to now, a system where goods are invoiced daily as per consumption. This called for changes in the way we measured sales. Sales teams do not have a primary sales target - they have targets for generating real demand in the market and increasing range and reach of our products.

Q:What happened to all your trade schemes, which usually support a push approach?

A: We overhauled all our trade schemes, which were based on meeting short-term targets. Such schemes created an artificial wave of peaks and troughs because of demand pre-ponement and did not help anyone in the chain. We have now stopped all such schemes and shifted the budget to long-term loyalty programs with our key customers and influencers - the mechanics in our case.

Q: How could you manage with your competition having aggressive schemes for the channel partners? Did you not lose out on sales?

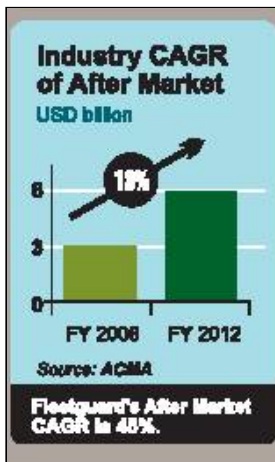
A: We actually have the best scheme for our channel partners. Due to the low inventory, our distributors earn an ROI of above 80 percent in my business. They have zero stock outs with only 15 days of inventory at the most for each product. In return, they work extensively in the market for increasing range and reach. They cover the nook and corner of their territory to cater to every retailer, while continuously expanding the range - that is the win for me. At the retail point, almost every retailer appreciates our system of small stock and frequent supply. They are seeing how this is impacting their business and most of them are realising that this way of operations is helping them rather than buying in large lots.

Q: What has been the scale of implementation?

A: We started in 2008, partnering with Vector Consulting Group. We implemented the daily pull based system of theory of constraints with all our suppliers, manufacturing plants and distributors. Our sales team is in weekly touch with over 30,000 retailers and 40,000 mechanics. We also manufacture and supply to OEMs based on pull based consumption. We commit 100 per cent availability at a daily level to OEMs.

Q: What has happened to the inventory and working capital requirements?

A: We operate with a finished goods inventory of 11 days, while our distributors enjoy 20 turns. We do not have a month end sales skew. At the same time, our credit policy is very strict in the chain. We take advance payment from our distributors, while they give credit of 15 days to the retailers. It is win-win-win model for everyone in the chain.



Results of 6 years of TOC implementation

Parameter	2007	After
No of SKUs	300	600
Inventory	45 days	18 days
Receivables	40 days	11 days
Availability	Monthly order fulfillment was 80%	99% availability at distributors on a daily basis
Number of distributors	60	147
Area covered by each distributors	No area demarcations	Area demarcation - not more than 3 districts per distributor.
ROI of distributors	More than 45 days of stock. ROI of about 20%	Less than 15 days of stock. ROI of over 80%. (Margins kept same as before and trade schemes were discontinued).
Number of retailers covered	5000	43000
Number of mechanics under loyalty program	0	45000
Number of sales officers	28	70
Number of mechanic sales representatives	18	220

9 Sales Increase times in 6 years since 2008.