The impact of inventory systems on the working capital management

Case study based on Holcim Lanka Ltd

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Abstract

Given the rising costs of energy and raw materials, mounting losses in the financial sector, tighter capital market, and ongoing predictions of an economic downturn, many companies are concerned about their ability to generate the funds needed for growth. But there is one potentially powerful source of cash that is often neglected: Working Capital. By increasing the productivity of their working capital can sharply reduce their dependence on outside funding and better manage the economic storms that blow their way.

Too much of working capital usually means that too much of money is tide up in accounts receivables, ruthlessly suppressing payments to suppliers, and cutting inventory across the board. But this attack only the symptoms of working capital issue, not the root causes. A more effective approach is to streamlining end-to-end process; companies can reduce buffer stock, decrease replenishment time from internal and external suppliers. The key is to uncover the underline causes of excess working capital across the entire value chain.

This case study which was developed on Holcim Lanka Ltd a multinational affiliate in Sri Lanka, has investigated to compare the potential benefits and grow backs of two different inventory management approaches mainly which has being using at Holcim Lanka Ltd at present Vender Manage Inventory System (VMI) and previous inventory management system of Material Requirement Plan (MRP) which has been fully replaced by VMI in year 2005 to point out the level of inventory affects on the outcome of the financial measures of performance.

The strategy use in this study is an in-depth case analysis on two inventory control systems performances on working capital (WC) management of Holcim Lanka Ltd. Overall focus of analysis of the research is based on a

conceptual model by way of five domains of material categories; Electrical, Mechanical, Safety, Consumable & Bulk. Apart from that Correlation Coefficient, Linear Regression, Pearson Correlation, One-way Anova and Leven's test has been used as analyzing tool in this study where the statistical analysis is applied to the financial information of Holcim Lanka Ltd over the 36 months period from 2006 to 2009.

Study confirmed that, there is very high significant impact on the WC by total inventory values in both the operating system and all five material categories. Furthermore it has been confirmed that, operating systems has a significant correlated with the total inventory value, and VMI system shown the best results than MRP with the average annual saving of 0.83 billion to the company. Average annual inventory value indicates as 4.28 with MRP and 3.45 with VMI system.

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