



CJ COSMETICS

In April 2007, Kate Chang was appointed as a Vice-President of Manufacturing at CJ Cosmetics in Bangkok. During her first week, she discovered that raw material worth as much as 60 million baht was being stored. Kate wanted to take steps to reduce the amount of raw material in the warehouse and to propose the more effective inventory control procedures.

Background

CJ Cosmetics was commonly known as the largest cosmetic manufacturing and distributing company in Thailand. The company produced a broad range of cosmetics including lotion, powder, and eye and cheek colors. Apart of having its own brand, CJ Cosmetics also served many leading brands and distributed its products in Southeast Asia. Last year sales were 900 million baht. With a sizable market expansion, the company planned to increase its product lines by 10% by the end of the year 2008. Overall demand was forecasted to grow by 20% in the following year.

At the end of April 2007, the company appointed a new Vice-President of Manufacturing, Kate Chang. Kate was responsible for all manufacturing related departments which include purchasing, warehousing, and production departments. Each department manager reported directly to Kate. They were scheduled to have a weekly meeting to update the situation and to discuss any problem or concern that might occur in the operations.

Warehouse Operations

This case was written by Karndee Leoparote at the Thammasat University Case Writing Workshop under the supervision of Professor James A. Erskine. It was prepared solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

During her week, Kate spent most of her time walking through shop floor and visiting all three departments under her responsibility. She put all her effort in order to thoroughly understand the overall business process and work flows between departments.

First department that Kate visited was the warehouse department. During her first visit, Kate gathered relevant information and regular process from the warehouse manager, Jack Wang. Jack was responsible for storing incoming raw materials that were purchased by the purchasing department and issuing any raw material requested by the production department. Almost 90% of raw material is chemical agents which required to be stored in a certain temperature range and had different expiration dates.

Jack explained that there were more than 2,000 different items being stored. Approximately 8% of those items were common to production processes of all products while others were used in only certain product lines. Raw material items were stored in alphabetical order. For example, any chemical agent or item whose name started with the alphabets A and B were stored in aisle 1, and so forth.

Jack also commented that the warehouse was getting too crowded. Many of items had to remain on the pallet and left on aisles. Jack also mentioned his plan to renovate and expand the shelf space and warehouse area. Since most items are chemical agents in liquid form, each container and pallet were very heavy. With only two fork trucks being operated in warehouse, it was not sufficient especially during busy period. Therefore, warehouse operators tended to put the new coming items on top of the existing one. Jack also added that the physical inventory check was taken twice a year, and usually a substantial amount of adjustment must be made each time. Incoming and outgoing raw materials were recorded using the company's inventory software. However, there were times that recording had to be done manually due to frequent server downtimes.

Walking through warehouse and going to historical document with Jack, Kate had different perspective and thought that the company was storing too much raw material. She then asked Jack to run down some figures about the inventory value and found that the raw materials were worth as much as 60 million baht. Furthermore, the record showed that more than 40% of those items were already expired.

Purchasing Department

On her second day, Kate visited purchasing department and sat down with the manager, Seree Leo. Seree explained her responsibilities that she had to stay intact with the suppliers. The production process required large amount of different items. Therefore, in some case, one item can be ordered and purchased from different suppliers depending on the supplier's proposed leadtime and prices. Seree explained proudly that, at times, she was able to save a lot of money for the company by buying raw material in a big bulk where she could get the discount as much

as 30%. Seree also explained that she triggered the ordering process according to pre-calculated reorder points and the suppliers' lot sizes.

Kate reflected what she had learned and informed during her first days. While sales were growing steadily and financial status seemed to be healthy for CJ Cosmetics, Kate thought that she could improve the overall process to save a significant amount of expense for the company. She wanted to take her steps in resolving excess inventory level and wanted to propose the solution scheme by her first month evaluation meeting.