PEPSICO, INC.
COMPRESSING ORDER LEAD TIME TO REDUCE SAFETY STOCK INVENTORY

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PepsiCo is a global consumer products company which owns, creates, and delivers many of the most recognizable global beverage and food brands. The largest division of PepsiCo by revenue is North American Beverages (NAB) which coordinates production, bottling, and distribution of Pepsi-owned carbonated soft drinks and many other non-alcoholic beverages throughout North America. The division also produces or purchases and then distributes beverages under contract for brands such as Lipton, Starbucks and Rockstar Energy. With the goal of achieving divisional, as well as corporate, financial objectives, NAB executives sought to improve inventory management leading to a reduction in inventory. The Tauber team made a number of recommendations, many of which were piloted, that resulted in considerable inventory reduction without adversely affecting service levels or increasing transportation costs.

Our Tauber team analyzed the distribution network and the long lead times to internally replenish hub and satellite warehouses for direct store delivery, developed a current state process map and order timeline, and identified recommendations to use the down time in the order process. The team determined that lead time and thus safety stocks could be reduced through reducing the load tendering times to PepsiCo's internal fleet as well as third party carriers. The team worked with the supply planning team to lower lead time settings for contracted products and Gatorade SKUs on three lanes of traffic, piloting this compressed lead time strategy for eight weeks. The team facilitated coordination and responded to input from key stakeholders including the supply planning, transportation, warehouse management, finance, and business intelligence teams.

The pilot resulted in an inventory reduction savings of $740K over the eight week pilot. Extrapolating the lead time reduction pilot results nationally, the project would yield savings of $18.4 million. Transportation costs per load remained flat and within tolerance limits. While service levels in the form of out of stocks did increase, they tracked with national and regional trends, as products experienced shortages due to constrained production. Importantly, the pilot also generated no additional expense for PepsiCo. The team recommended the pilot expand in conjunction with PepsiCo's shift in supply planning to ordering daily, to allow for stronger responsiveness to supply challenges as well as generating maximum inventory reductions.

The team also recommended process changes including enhancing inventory visibility for order planners to tender truckloads in parallel with finalizing order quantities, exploring adding headcount to the supply planning group at the NAB home office and hub facilities to enable further lead time compression, and utilizing existing SAP modules to more accurately project safety stocks and order quantities.