

2. Initiatives of the service parts section

The Service Parts Section's work is founded in the legal requirement for the company to continue to provide parts to consumers for 20 years after production of a product is discontinued. As a result of that obligation, the section had a huge warehouse containing a massive inventory of parts. The section earned its income by selling repair parts, but labor costs, rent, and inventory interest were expensive and the section was consistently in the red. In addition, the job of the Service Parts Section staff was, while important, largely thankless, so morale was low.

The main causes of the section's unprofitability were:

- (1) Four percent of parts were supplied free of charge within the warranty period.
- (2) Seven percent of parts should have been sold for a charge but were given away free under pressure from sales staff.
- (3) Excess parts left over from production were left with the Service Parts Section, and made up around 20% of inventory.

No wonder the section was in the red. To rectify the situation, a range of improvement ideas were considered, including:

- (1) Seeking payment for parts the company supplied free during the warranty period directly from the president who approved the scheme.
- (2) Seeking payment for parts from any sales department that orders they be provided to customers for free.
- (3) Only taking delivery of parts actually needed from production departments, disposing of all excess inventory, and scaling back warehouse area.

It was calculated that those measures alone would cut losses to less than 2%. The 16 employees of the Service Parts Section were inspired by this development to come up with ideas for cost reductions. One employee suggested that increasing parts racks from three shelves to five would allow the section to reduce warehouse space; another proposed they should ask the design departments to increase shared parts to help reduce inventory.

Implementing these ideas resulted in immediate benefits on the section's balance sheet. A year later, they had gone from a loss to a profit of 2%. Staff morale increased, too, and there was a palpable feeling in the workplace that it was the Service Parts Section's mission to improve the company's standing. To top things off, the prompt delivery rate (which measures the section's success in shipping orders received by 3 p.m. no later than 5 p.m.) skyrocketed to 95% and beyond in just over a year.



Production of microwave ovens
(1970)