Fleetguard goes

Leading OE supplier of filtration products for heavy-duty diesel engines sees sales

Fleetguard Filters Pvt Ltd (FFPL), the leading OE producer of air, fuel, and lube oil filters for commercial vehicles and industrial applications, has seen rapid growth in profitability by focusing its energies on developing its aftermarket sales. Considering the fact that the company was primarily dependent on OEM sales for most of its first 15 years, its growth was restricted by the growth plans of its OEM customers, to whom it is a 100 percent supplier.

From just 20 per cent of sales prior to 2005, its aftermarket business, including the OE spares channel, has grown to account for 60 per cent. The company supplies a retail network of 8,000-odd shops through 18 CFAs and 80 distributors.

Having realised after its first 15 years that conventional tools like Six Sigma and TQM could not deliver the kind of profitability growth it sought, FFPL began in 2006 to deploy Theory of Constraints (TOC) solutions companywide with the objective of achieving a seven-fold increase in profit in four years.

The Rs 240 crore (calendar 2007 revenues) company is well on course to achieve its goal, although managing director Niranjan Kirloskar did not want the profit figures published, citing price pressures from FFPL's OEM customers.

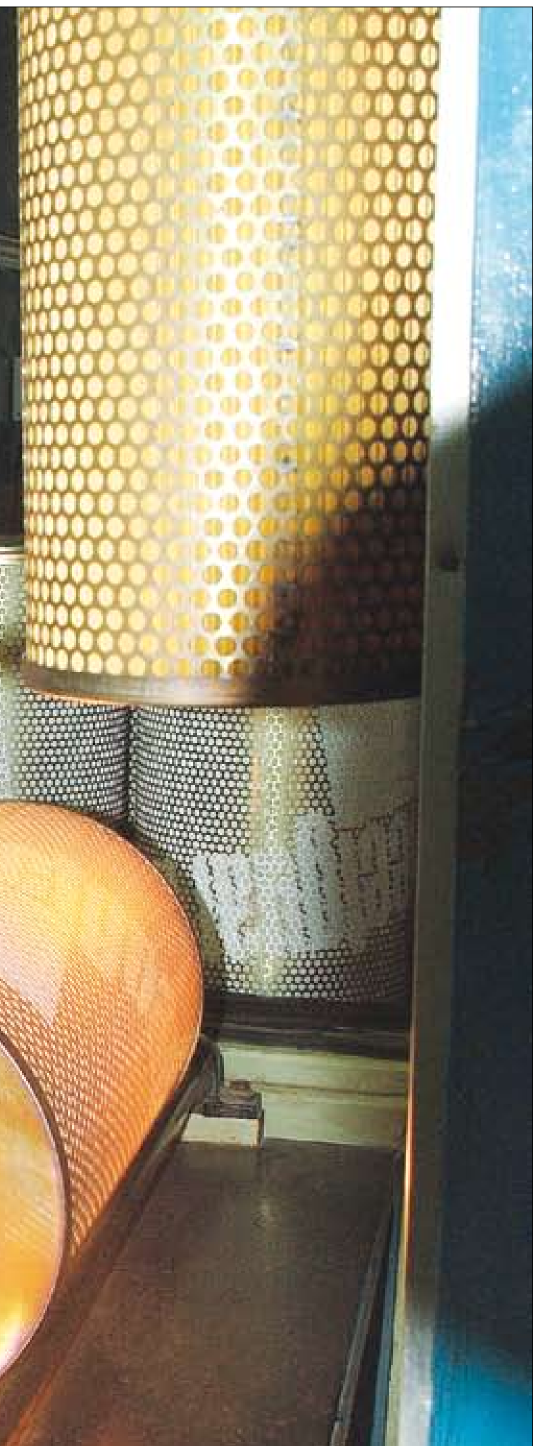
Describing how FFPL went about it, Kirloskar says: "We had to look for the one constraint that had the biggest impact on our profitabil-

Air filters going into the oven, which melts the hotmelt adhesive that bonds the endplate to the accordionated filter paper cylinder contained within two perforated metal cylinders.

PHOTOGRAPHY: MAYUR KADAM

after the market

grow rapidly after adopting an innovative retail strategy, says **Eliot Lobo**.



"We have no control over OE sales growth, so we focused on the aftermarket, because that's where we get the maximum profits."

Niranjan Kirloskar
Managing director

Light test. This allows the filter paper to be checked for holes and highlights any imperfections in the sealant bonds at either end.

ity. There are many things that can impact on profitability, like cost-reduction. Yes, it will grow your profit, but by how much? One percent?"

The company identified sales as the most critical constraint. "We have no control over OE sales growth, so we focused on the aftermarket, because that's where we get the maximum profits," he says.

Increasing reach and range

To succeed in the aftermarket it was obvious that FFPL would need to have reach, i.e. excellent distribution and 100 per cent availability, and a wide range of products. In October 2006 the company started working with sales guru Kiran Kothekar's Vector Consulting Group.

"To begin with, the most important thing was to understand the significant need of the customer, and then come up with a strategy or tactic to fulfil that need. And secondly, that strategy or tactic would have to be virtually impossible to replicate," Kirloskar explains.

"We first identified that need in the aftermarket. Our immediate customer is the distributor, and his need is cashflow or inventory turnover or return on investment. How do you give him a higher ROI? By reducing his inventory. And how

TALKING TO KIRAN KOTHEKAR, VECTOR CONSULTING GROUP

What's in it for the distributors?
We identified the significant need of the market. For the distributor, whom we addressed first, this meant the rotation of his money. Whereas the distributors earlier had their money blocked in up to 60 days of inventory, today it is just 10. As a result, their return on investment has increased 300 per cent.

Earlier the system was, I should push everything to the distributor. Because if I block his capital, he is forced to sell. I'm saying, no, release his capital. If I release his capital, what is he doing? Previously, if he was doing sales of Rs 12 lakh a year, he had to hold 60 days of stock, i.e. Rs 2 lakh of sales. Rs 2 lakh in the business.

Now if I make it 10 days, his investment is not even Rs 20,000. But with the availability, his sales have become Rs 24 lakh. And if he has a 10 per cent margin, he used to make Rs 1.2 lakh profit on Rs 2 lakh invested. Now it is Rs 2.4 lakh on only Rs 20,000. This is even better than the stockmarket in its prime!

Today after a year, I go to him and say I want an exclusive sales representative for Fleetguard and he's giving it to us. We're increasing the frequency of visits to the retailers, from once or twice a month to once a week. Now each distributor has a route plan. We're bringing the whole distribution paradigm of FMCG companies to the retail market of Fleetguard. It's unheard of in the auto industry.

. . . and suppliers?
The suppliers are also participants in this growth. The dynamic buffer management extends to their

"We're bringing the whole distribution paradigm of FMCG companies to the retail market of Fleetguard. It's unheard of in the auto industry."

operations too. One has doubled his output in the last five months, with a minimum increase in capacity. Which means his profit has nearly doubled.

Why FFPL stands out
The company has told its distributors, "If my unavailability with you goes more than one day for an item, I will pay you a penalty." This is the only company that is doing this. And it has paid the penalty last year. The management has the courage. That's why this company is different. That's why it's growing at this speed.

The importance of availability
Why do distributors not keep 10 days' stock? It's because they fear they will have stockouts. They will lose their retailers, they will lose their customers. When a mechanic comes to buy and the filter he needs is not available, the sales loss is huge. The retailer certainly doesn't want to lose that sale, because the mechanic has come to buy a basket of products for an overhaul. So he pushes a lower-priced brand he purports is of the same quality. And Fleetguard loses that customer, maybe for life. At the same time it loses one sale prospect for all other products of its brand. We estimated that this loss could be huge. It has been proven now, that just by availability, my sales have been increasing by 70 per cent.

Paying it forward
This whole programme is called Samanvay, meaning symbiosis. And from the distributor to the retailer now, we're calling it Samruddhi (progress). The MLP is called Humsafar. First, we created the availability through Samanvay. Then we are capitalising on that by creating the pull (Humsafar). When the distributor has his capital released, he must now reach out to the various retailers, to complete the chain.

do you reduce his inventory? By ensuring availability of the parts."

This was quite the opposite from how companies traditionally operate — creating availability by forcing distributors to hold mountains of inventory. "Sure, I can have availability at tremendous inventory. But then all my money is stuck, the distributor's money is stuck, and the goods need not necessarily sell," he adds.

In fact that had been the situation at FFPL too, with inventory pile-ups in the pipeline and at the factory, spelling losses. Marketing would change the work orders to our factory every now and then, resulting in "too much" dynamism on the shopfloor.

Consequently, the company was also afflicted by the 'month end' syndrome with seasonal swollen inventories and big discounts for the distributors, resulting in further losses. After Vector came in, all this changed.

Earlier the distributor's typical inventory was 45–60 days worth of sales, which meant he was getting inventory turns of about 6–8 a year. So the company lowered the inventory and increased availability. Today the distributor's inventory is typically 10–15 days. Now his inventory turns are 24–36, which is a substantial improvement in his ROI (see interview with Kiran Kothekar above).

New products are rigorously tested in the R&D lab. Accelerated new product development is another leg of FFPL's TOC strategy.

Situation at the plant

Earlier, the plant would produce those parts ordered by the marketing department. And marketing would order those parts that had higher margins, but that might not be required by the market. In addition, the management was always wanting to know what the efficiency of the plant was.

"So even if there was no order the plant would produce, and then marketing was forced to dump it on the distributors. Now the distributor didn't have the money to buy it, so marketing would extend the credit period and add a 2 per-cent scheme for the month-end," Kirloskar says. "Consequently, production efficiency was 100 per cent, but nothing was sold. We'd incurred expenses on the plant by running it without any orders, and we had no revenues to show in return."

Together with Vector, the company first classified its entire portfolio into made-to-schedule (MTS, the fast-moving products) and made-to-order (MTO, those with a lead time of up to six months). Then a plant warehouse (PWH) was inserted into the distribution chain.

Now the plant feeds the PWH, from which the CFAs replenish the distributor's stock. For the MTS the suppliers, plant, PWH, CFAs, and distributors each have a tricolour (red-yellow-green, or RYG) charts that display the stock

level or buffer for each part. At each link in the distribution chain, the entire stock is the buffer. When the stock falls below 33 per cent it is in the red; if it is between 33 and 66 per cent it is in the yellow band; and a level above 66 per cent is green.

Compared to a conventional system, there is no ordering anymore. The distributor logs onto the Fleetguard portal at the end of each day and simply enters the details of how many parts he has consumed, provided the number for each part is a multiple of the minimum order quantity or MOQ. The CFA will ensure that his stock is replenished by that quantity, within 24 hours.

"In this system the lead time for MTS products is now equivalent to the replenishment time. No sooner does the distributor consume one than the CFA sends one," Kirloskar explains.

The stock levels at each of the 18 individual CFAs and 80-odd distributors are monitored by a 'war room' at the PWH. The four 'generals' here study the demand trends for each part number on the basis of the data they receive at the end of every day, and also prioritise deliveries to distributors on the basis of their respective RYG statuses.

"They determine who should get what supply. If one distributor has sold one, and another 10, who should get supply first? That depends on their RYGs. If the distributor who's sold one is in the red, he is supplied first," says Puneet Kulraj of Vector.

The war room also prepares a daily consolidated buffer penetration report (BPR), which is the stock status at the PWH of each of the 650-plus part numbers, including 325-odd for the aftermarket. It is the BPR that determines the work order that is passed on to the plant the next morning.

The frequency of supply to each distributor depends on his (predetermined) buffer and the replenishment time. Of course, timely replenishment requires daily input of data from the

Fleetguard is an OEM supplier to several automotive, engine and compressor manufacturers like Ashok Leyland, Atlas Copco, Cummins, Eicher Motors, Tata Cummins, Tata Motors and Ingersoll Rand India.

The plant warehouse is the nerve centre of Fleetguard's India distribution operations.

Production scheduling for the day is based solely on the previous day's buffer penetration report.

FACTFILE

Nashville-based Cummins Filtration produces filtration, exhaust, coolant, and chemical technology for engine-powered systems. It is the largest business in the Cummins Components Group, which also includes the turbocharger, emission solutions, and fuel systems businesses and reported nearly $3 billion in sales in 2007.

Cummins Filtration operates in India through two joint ventures. Fleetguard Filters Pvt Ltd, a 50:50 JV with Perfect Sealing Systems, produces air, fuel, lube filters, and complete air intake systems, and markets coolant and hydraulic filters. And Cummins Exhaust India Ltd is a 50:50 JV with Cummins India Ltd that makes silencers, mufflers, spark arrestors, and diesel oxidation catalysts for applications ranging from automotive to trucks and buses, agricultural and construction equipment, and gensets.

distributors. "To some distributors we supply daily. To some we supply once a week. There's nothing fixed. It only depends on the urgency they have."

So how does this system account for growth? While the buffers were initially sized based on historical trends of consumption and lead time, the war room monitors every buffer daily. If one buffer is constantly in the red, that means sales of that part are going up.

There are two ways to deal with this, according to Pandit: the company either manages the increased sales with the same buffer by improving productivity at the plant, or resizes the buffer. In reality the buffers are being sized constantly. This is called dynamic buffer management.

The results have been dramatic, particularly for the distributors. Virmeet Singh Maini of Maini Auto Agencies (MAA), Fleetguard's Pune distributor, services more than 650 retailers in the region extending to Kamshet on the Mumbai highway, Bhigwan on Solapur Road, Alephata on the Nashik highway, Ahmednagar, and Satara. He tells *Autocar Professional* his sales have shot up from Rs 7 lakh to Rs 20 lakh in one year, while his inventory has fallen from one-and-a-half months to just one week.

MAA did business worth Rs 2.5 crore in 2007–8, of which Fleetguard accounted for 50 per cent (He is also a distributor for SKF and NRB bearings and has just opened a service station for Holset turbochargers.). "Initially we had all our capital blocked in just 30-odd part numbers. Now we are able to push a wider range into the secondary market (retailers)," he says.

Maini guarantees one-hour delivery to his 'A-category' customers and now operates a fleet of six delivery vehicles, of which three were added in the last six months just to meet the growth in sales.

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Virmeet Singh Maini,
Maini Auto Agencies

The company, which has been associated with Fleetguard for seven years, is a key promoter of FFPL's mechanic's loyalty programme Humsafar, although it has undertaken activities reaching out to mechanics and truck drivers on its own for years.

Since January, Maini and the company have together been extending the replenishment model to the retailers. Only in this case, since most are not IT-enabled, the record has to be maintained by the distributor, who has one or more representatives dedicated for Fleetguard, make the rounds once a week entering the retailers' sales details in a register.

"We had already been following up with the retailers on our own, and giving them frequent door deliveries. Now we have formalised the process," he says.

This outreach to the last link in the distribution chain, called Samruddhi, should take FFPL to Rs 350 crore at the end of 2008. ■