IS JUST-IN-TIME ALWAYS ENOUGH?

Just-in-time production strategy and its current effect on the flavour industry

The past two years will certainly go down as some of the most challenging in history for the flavour industry. The impact of global natural disasters – earthquakes in Haiti, Japan and Indonesia, floods in Northern India and a drought in Brazil, for example – have contributed to significant raw material shortages.

Limited supply is naturally affecting those producers who have chosen to adopt a just-in-time production strategy. But how exactly does this affect the flavour industry as a whole?

Just-in-time manufacturing explained

A just-in-time (JIT) production strategy aims to improve a business's return on investment by reducing in-process inventory and the associated carrying costs. The basic principle behind JIT is that inventory is waste – it is seen as incurring costs, or waste, rather than adding and storing value.

The benefits of this strategy are clear and offer obvious advantages for the producer – he must only carry enough inventory to meet his requirements, and he reduces his costs as there is no storage requirement for excess product. He also does not have to tie up significant amounts of working capital in stock during financially challenging times.

However, is there a situation when it isn't the most suitable approach? And can a JIT manufacturing strategy in fact lead to serious disadvantages for the producer and customer?' The answer may lie in other external factors influencing an industry at a particular time.

Worldwide shortages

The severe impact on crops of recent natural disasters has reduced the availability of some raw materials. And, where availability may not always be affected, the quality of raw materials is, which means they are unsuitable for use and samples are rejected.

Industry has also felt the effect of a stop-start purchasing trend among buyers. Chemical plants subsequently closed and farmers planted fewer crops through lack of confidence so there were fewer materials available to purchase. However, when demand started to increase once again, buyers rushed to secure supplies causing immediate shortages.

These factors combined highlight a potentially negative impact of a JIT manufacturing approach. Reduced raw material availability, coupled with a reluctance to hold inventory because of its associated costs and the lack of financial credit offered to suppliers, has lowered the amount of 'buffer' stock held within that chain. So, if a manufacturer does not hold enough of a particular product to satisfy a customer order, he or the customer must look elsewhere. This contributes to longer lead times between supplier and customer – up to ten weeks in some cases – which disrupts the speed and efficiency of the supply chain.

Increased volatility

The stop-start purchasing trend also exposes the pricing of these materials to greater volatility and increased influence by manufacturers and speculators who do hold stock. It therefore becomes much more difficult to forecast the price of raw materials, causing purchasers to be cautious.

On top of this, the limited availability of crops means that suppliers of raw materials are both reluctant and often unable to commit to contracts even at open prices. This means that they have no obligation to their customers – the flavour manufacturers – despite previous sales or historical relationships. The lack of contract ensures that the manufacturers have no commitments or obligations to their suppliers should the price of the raw material fall.

Strict shipping regulations

Lower available stock levels are further exacerbated by a lengthening of the time it now takes to move goods to suppliers following lot sample approval or other confirmations. High fuel prices have resulted in a reduction in the fleet size of ocean-going vessels and a fleet-wide go slow is also in force to maximise fuel economy. Far stricter controls relating to the appropriate shipping of hazardous goods is contributing to an overall time delay.

Too high a price to pay?

Although a just-in-time manufacturing strategy offers clear benefits, its effectiveness depends on other factors influencing an industry at any given time. For a just-in-time manufacturing strategy to be effective, it requires a level of price stability in the market, consistent material quality and availability plus a relatively steady demand. Flavour ingredient producers at source cannot offer such guarantees. Manufacturers should therefore adapt their strategies to accommodate the challenging times ahead to ensure continuity of supply and support the industry's continued recovery.

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