

Gain Control Over Inventory Management: A Manufacturer's 10-point Health Check

As your business continues to grow, how are you dealing with the growing pains of managing your inventory? Ask yourself these 10 questions to find out!



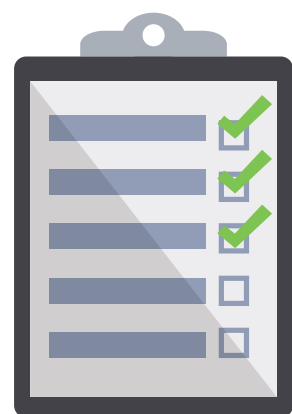
Manufacturers all know the importance of managing their inventory effectively, but getting it right is still a challenge for many companies. This vital business competency can control costs and deliver a competitive advantage.

Ask yourself these 10 questions to see how well your inventory reduction processes measure up!

1 Do you report your operating inventory levels by category: safety, replenishment and excess or obsolete stock?

Best Practice Identify requirements and report inventory levels against:

- Minimum safety stock needed to ensure against supply chain problems
- Replenishment for refreshing deliveries every two weeks
- Overages resulting in excess or obsolete inventory



2 Are you using standardized statistical methods to calculate your safety stock levels?

Or are you using a simple rule of thumb such as "all products made in factory ABC need 15 days of safety stock?"

Best Practice Efficient operations use a standard statistical formula that looks at historical data for individual products.



3 Do you recalculate safety stock levels on a regular basis to ensure they are up to date?

Safety stock calculations take into account both customer's (or manufacturing's) consumption rate and the transit time from suppliers, but these are not "set it and forget it" calculations. Due to seasonality, weather events, fluctuations in demand, raw materials availability and other factors, optimal safety stock levels can change.

Best Practice Best in class operations update their calculations every three to six months to ensure that decisions are based on the most accurate information.



4 Are executives involved in key inventory-related policies?

Decisions about inventory levels are strategically important to the business, not just the supply organization.

Best Practice Executives actively participate in inventory management decisions in order to achieve strategic objectives.



5 Does a cross-functional team determine the optimal frequency for producing or ordering products?

You may be missing key information if solely production planning or sourcing managers make these decisions. By considering factors across the entire organization, cross-functional teams can reduce replenishment stock needs by 50 percent and ensure the ability to fulfill big promotions.

Best Practice Set production and ordering schedules with a cross-functional team.



6 How do you determine the frequency for ordering and inventory production?

Best Practice Set frequency for ordering an inventory production to minimize overall cost and accounting for negotiations between the different parties factoring in events such as upcoming promotions and uncertainties like bad weather.



7 Do you recalculate the optimal production frequency as part of a continuous improvement process?

Once you've reduced inventories, you'll have to put new processes in place to lower them even more over time.

Best Practice Focus on the biggest levers for continually reducing inventory.



8 Do you have visibility into excess and obsolete stock linked to inventory reduction plans?

Often, excess stock has its roots in ineffective sales forecasting, planning or business modeling that insufficiently accounts for product complexity and life cycles.

Best Practice Establish processes to determine why excesses are being created and develop a plan of action to sell them off.



9 Do you perform root-cause analyses on excess and obsolete stock and execute plans to minimize recurrence?

Best Practice Create two task forces with linked action plans: The first identifies the root causes and determines ways to reduce the creation of new excess and obsolete stock. The second partners with Sales to effectively sell off the stock.



10 Do you apply the above practices across all parts of your inventory and organization?

One mistake commonly made is to focus solely on finished goods.

Best Practice Build a comprehensive map to prioritize ways to reduce inventories in all categories including raw materials, works in process, spare parts and goods with retailers.



If the previous questions revealed ways you could increase the effectiveness of your inventory management, why not get started right away? Now is the time to make improvements, set up processes to regularly re-evaluate, and embark on a journey to continuously improve your company's financial health and grow your business.



Contact Betty Bruce for details on how we can help!

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