

Does Your Organization Include a Lean, Mean Inventory Reduction Machine?

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As more companies recognize the critical role that Supply Management plays in the success of the enterprise, more is expected. Gone are the days of just holding costs steady and carrying a high inventory to avoid problems being an acceptable strategy for the organization. Today annual decreases in double digit are expected along with inventory turns at or above 12 minimum, with turns in the 20's becoming more common. How do you do that? Let's focus on Inventory for this discussion. Does your supply management plan include a lean, mean inventory-minimizing system?

The need for accurate inventory — and accurate information about the materials — as well as a process used to meet the need exists in every organization and must be met by supply managers. The military spends time planning for its needs — flow planning of every troop movement to ensure supplies are available to meet the requirements of a mission — sometimes just-in-time (JIT). In a simple, real-life example within your own kitchen, you check the recipe (the bill of materials), then check the ingredients in the pantry (inventory in the warehouse), to see what you need from the grocery store (the supplier).

No matter what type of items you are talking about — raw materials, components, assemblies, MRO items, or finished goods for resale — you are involved in this process of not only purchasing the items but also being correctly informed about your inventory on-hand. In fact, it matters little if you are running a Just-In-Time (JIT), Just-In-Case (JIC), Just-About-Time (JAT), or even a Just-Past-Time (JPT) operation. For any organization that maintains an inventory, realistic planning will require that you know where you are in terms of inventory control and that you are continuously improving. This is achieved through a simple three-part approach: know what you have, know what you need, and get other stakeholders involved.

What Do You Have?

The accuracy of your inventory records can enhance your ability to find the needed inventory information. There are many variations in the method of measurement, but most are modifications of the simple calculations for the percentage of the items checked that had accurate counts and were in the listed location in an inventory system. In other words, if you use a cycle counting method to maintain accuracy, what percentage of 10 items do you find in the place and in the correct amount that your locator system says it should be? (Cycle counting is a physical stock checking system in which the inventory is divided into groups, either using a random or specific method to divide the items up, which are physically counted, in cycles which is where the name comes from, at predetermined intervals, depending upon the strategic value of the item.) Methods used in cycle counting ranging from:

- Manually taking a list, counting a few items each day, and comparing with online counts, after reconciling the actions that might not yet be reflected in the system
- Using an ABC analysis of your key items to establish a frequency of checking inventory levels — “A” items are checked more frequently than “C” items

- Using other methods to determine frequency of usage of parts and adjusting frequency of counts based on that criteria

The manpower involved and the level of complexity to reconciling the counts with the system are the primary considerations in determining which inventory methods are best for your organization. Very simply, this becomes a return on investment issue. How much will you invest to keep the numbers accurate? The level of problems created by past inventory discrepancies will give you an idea of the criticality of accurate inventory data to help guide the decision of what method to use.

What Do You Need?

Conduct periodic reviews, based on the latest sales and production data and internal insights, of all minimums, maximums, and other order rules. Business shifts, customer demand changes, seasonality, engineering changes, obsolete items, and other events that can affect the demand for any item are all critical to be aware of and current on. Though this type of data refers primarily to volume requirements, other aspects to consider include cost of holding inventories, replenishment lead times, order processing costs, and transportation costs. These can all have a direct effect on where you have your inventory dollars tied up versus where you need them, and they all change over time.

Developing a regular sales and operation planning meeting provides the opportunity to ask others in the organization about the events that affect demand from the people closest to the end customer. These meetings might even include discussion about how close inventory should correlate to the forecasted numbers. Couple these meetings with regular discussions with engineering to stay informed of major changes that are coming. This will provide the forewarning needed to avoid most major inventory obsolescence problems.

Beyond that, the supply manager can review the history of such data to detect changes that should be reviewed in more depth for their impact on inventory. Many changes are slow and shift slightly over time. Because there is no rocket across the sky to alert a supply manager to changing needs, reviewing inventory history will help supply managers notice the slow slipping of volume that points to a shift in business or usage — impacting the need for inventory.

Working Together

The first two parts of this simple three-part approach are focused on making the best inventory control decisions possible for a given operating environment. In other words, considering forecasts, lead times, cost structure, etc., what is the most cost-effective way to manage inventory? The third part of the approach focuses more on process improvement — an area rich with opportunity for supply managers to impact their inventories. It is within this area that supply managers can look for creative ways to work with suppliers and internal customers to find unique solutions to inventory issues.

Start by getting ideas, solutions, and suggestions from your suppliers and internal departments about inventory. Are you a world-class customer to your suppliers? Is your internal customer being served in the most efficient way? Can your supplier ship in a different way, in different packaging, or in counts per box/pallet rather than higher or lower, which better matches the demand of your use or sale point? Are your internal requirements based on current needs or

“how we always did it”? These are questions you can ask to find a better solution. This better solution might be waiting for your openness to it.

Most suppliers' objectives are the same as yours — to make a profit. Most have come to the realization that as your sales increase, their sales can increase. To get suppliers to participate in better inventory management, explain openly that you are looking for ways to decrease the cost of goods sold (COGS) through better inventory management so that you eventually can capture a larger share of the market with lower costs and higher volume. Suppliers understand that this is synonymous with volume increases for them and increased profit.

If your organization has the resources to do it, another strong method for motivating suppliers to work with you to achieve better inventory control is to offer business improvement consulting to help them grow and be more profitable. Typically, this offer is best directed at smaller suppliers. The concept of supplier development can increase inventory control by identifying ways to create a more efficient inventory flow as well as improving costs for the entire supply chain — as one supply chain member's costs impact each member's costs.

Bottom line, control inventory in real time. Do not let a past decision that may have been valid at the time drive you deeper into a problem. Ensure your inventory records are accurate, review your order rules, and ask other stakeholders, including the supplier, for help while you work on a solution to best meet your organization's needs.