



PROVIDING SOLUTIONS FOR PEAK PERFORMANCE

Topic – Why Inventory Optimization Matters

Companies with warehouses and large amounts of inventory are familiar with how much risk and effort is required in keeping their inventory well organized and their organizations running efficiently. Even with the best of efforts, some companies end up with surplus inventory that ultimately does not benefit the company and negatively impacts the supply chain and balance sheet.

Inventory optimization is crucial for an organization to ensure they are effectively managing their total supply chain, backorders, backlogs and forecasting accuracy. If inventory optimization is a new concept to you, it is the method of balancing capitalized investment constraints, objectives, and service-level goals over a large assortment of stock-keeping units (SKU's) while taking demand and supply volatility into account. In other words, it means the organization effectively uses their ERP system to have the least amount of inventory on-hand while efficiently completing their clients' orders and predicting future inventory stock levels.

Whether or not your organization currently struggles with end of quarter pushes and bullwhip effects (large swings of inventory with response of the customer demand), your supply chain and inventory stock levels will improve drastically with this method. By doing so, this approach will assist in your clients being more satisfied due to high service levels, and your organization's bottom line will have higher cash flow, return on capital, and more.

When your organization is ready to start the inventory optimization process, Racca Solutions Group (RSG) is available to assist every step of the way.

RSG's process is not just strategic, but also tactical. Our team seeks to educate all levels of management so the change to the organization is sustainable after our team is no longer engaged. This helps build a sustainable, continuous improvement culture within your business that will support future and continuous growth initiatives. Read the recent client Case Study in the next column to envision how RSG can assist your organization soon!

Case Study – Inventory Optimization

Situation Analysis: RSG was engaged by a manufacturing organization to evaluate planning and purchasing processes to help eliminate excess inventory.

Improvements: RSG evaluated the strategies that were being utilized and found groups were spending an excessive amount of time manually managing the supply chain nor were they utilizing the ERP system to support planning and decision making. The following were opportunities for improvement:

- Purchasing methodologies were not aligned
- Utilization of manual forecasts with "no horizon" to "short horizons"
- 30% of SKU's in ERP system were not active
- Extensive utilization of min/max levels and safety stock levels were used to cover supply chain issues
- Lead times and offsets were not utilized
- Current suppliers were extending lead times and not adhering to agreements of shipping levels

RSG recommendations included:

- Train and develop internal resources in supply chain methodologies and ERP functionality
- Clean up current system data; deactivate non-active items, update critical parameters for active items (item offsets, removal of safety stock, min/max levels, etc.
- Develop a plan for every part. For example: ABC evaluation and align purchasing methodology to item demand (Lot-for-Lot, Period of Supply, Reorder Point)
- Optimize planning and purchasing parameters by utilizing ERP to drive standard work processes and assign primary supplier and buyer, and implement order policy codes to utilize historical dates when generating suggestions

Results: Team executed recommendations and saw a shift from fire-fighting to managing the "A" items and ordering only when the ERP recommended for "B" and "C" items. Metrics showed a reduction in late purchase orders and leveled purchasing transactions. Eliminating safety stock and min/max levels released ~\$20MM inventory for use. New order policy codes implementation with utilization of ERP suggestions reduced overall inventory by \$9.2 MM in the first year. This project will translate to an annual ROI of 50X.