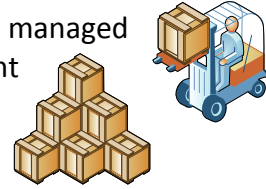


How is your inventory doing?

Inventory plays a crucial part in operations and needs to be organized and managed in ways that support profitability and corporate vision. There is an element of planning and design, which precedes inventory management. When done carefully, that planning and design task generates effective inventory policies that can be readily deployed to ensure that the capital invested in inventory is used effectively and in full harmony with the strategic direction of the organization.



This paper outlines some of the primary aspects of inventory and discusses their implication with respect to operational efficiency, customer satisfaction and supply chain considerations.

Accuracy: Inventory accuracy refers to the degree your recorded inventory matches the physical count on the floor. We have seen how lack of accuracy could threaten the wellbeing of businesses and cause debilitating disruptions in their operations. Inventory inaccuracy could cause:



- Failure to secure clean audit reports for not meeting GAAP or IFRS verification standards
- Disruption in the availability of financial services or declining of loan applications by banks
- Erosion of trust on the part of business owners or shareholders
- Disqualification of tax reporting due to misrepresentation of asset values
- Inability to offer workable delivery times or honor contractual obligations versus customers
- Lack of reliable information to manage inventory effectively
- Increasing stock out risk and missing profit-making opportunities

Prioritization: How many stock-keeping-units (SKU) do you have? Do all of them require or deserve equal inventory-management attention? Can you afford to give all SKUs you fullest attention? The likely answers are: a lot, no and no! Rather than spreading limited resources thin, one has the option to prioritize. Prioritization requires careful establishment of criterion. SKU prioritization informs effective supply-change management, economizing inventory levels and cycle-counting for increased accuracy.



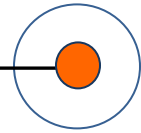
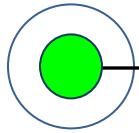
Balancing: Too much inventory costs money and too little of it adds vulnerability. So, how much inventory is good inventory? Finding answers for the many SKUs which you maintain requires some careful analysis. Among others, rationalizing the size of your inventory depends on your process stability, supplier reliability, demand predictability, and gross marginal contribution of products. All four types of inventory can use balancing and optimization: Input material, work in progress, finished goods as well as MRO supplies.



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Response time: Input material, WIP, and finished goods are interchangeable.

This means that you can choose to adopt operational policies that drive a certain inventory group up or down. Such policies must be crafted carefully to support high-level business strategies that address customers' needs and wants. Where in the process you keep inventory – especially WIP inventory – has a substantial implication on your ability to meet customer demand in a timely fashion.



Storage: Inventory storage areas are the most neglected space-occupying-units in layout design. Whether you use random or dedicated location methods, for storing SKUs, the objective should be to minimize retrieval and stowing away efforts. Such efforts use time and resources and produce no value in the eyes of the customer. There are many factors affecting optimal assignment of storage locations for all categories of inventory. The right storage planning, design and location have direct implication on operating cost and competitiveness.



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