
INVENTORY REDUCTION

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Checklist Helps Position Inventory Strategically In Supply Chain

Inventory management traditionally has focused on stationary inventory, or the inventory around the segments of the supply chain one directly controls. Trading partners, suppliers and customers alike, typically concern themselves with managing their own inventory from a stationary perspective. But what this ignores is in-transit inventory. New technology now coming onto the market however, makes this inventory “visible,” and enables inventory management professionals to consider the total inventory impact, from both the stationary inventory and the inventory in-transit.

It’s this increased visibility that will encourage inventory management professionals to drive their organizations toward strategic inventory positioning. “Today’s environment of mergers and acquisitions, and the uncertainties associated with developing e-commerce strategies only increases the need to strategically position companywide inventories while managing costs out of the system,” Richard H. Sharpe, CEO and president, Competitive Logistics LLC (Atlanta; www.competitivelogistics.com), explained at the *2001 Annual Conference of the Council of Logistics Management* (www.clm1.org). “It’s all about being able to think through innovative ways to manage inventory out of the supply chain, to take away real dollars, and have a direct impact on the P&L.”

Increased inventory visibility is desired for better inventory management. It’s also what top management wants, says a recent survey sponsored by Transentric LLC (St. Louis; www.Transentric.com). Asked about the “potential of merging information throughout the supply chain on a real-time basis and making it visible to multiple participants throughout the supply chain,” 73% of the respondents said it was a priority to gain more visibility and control over inventory in the supply chain.

Inventory management issues stall strategic positioning of inventory. Sharpe finds despite this enthusiasm for visibility, specific issues must be addressed and repaired before any consideration can be given to this objective. The inventory management issues include:

1. Vision and leadership

- No standard inventory management policy for the “total” organization
- Lack of enforcement of policy
- No champion accountable for overall strategic visibility
- Incentives drive inventory levels toward self-protection
- Parties unwilling to share data across the chain

2. Infrastructure

- Information technology:
 - Incompatibility of systems that process inventory information
 - Data availability (or non-availability) and integrity (not trustworthy or timely) issues

- Bricks and mortar:
 - Outsourcing shifts organizational competencies
 - Third-party warehousing/transportation adds additional system interfaces

3. Metrics

- System-wide measurements not established
- Lack of common channel terminology, standards
- Product transformation in the supply chain creates new measuring units

4. Continuous improvement

- Inability to gain real-time inventory information, especially in-transit
- Access to tools to manage large amounts of data may be costly
- Interpretation of information may be complex and decentralized

The four-step solution. Competitive Logistics has developed a multi-phase solution strategy to assist inventory management professionals and the corporate executive team to achieve their objective. The strategies include:

1. Assess current position. A 10-point checklist (see sidebar) assesses your company’s current and future inventory positioning strategy and begins the process. “It can be uncomfortable,” Sharpe acknowledges, but “do it objectively for maximum benefit.”

2. Prioritize objectives. Review the completed checklist to determine the priority of areas that must be considered, and then select the single area where the most value will be achieved. Staying with the inventory visibility objective, initiate an action plan. For example, it might include specifics elements such as:

- Identifying specific inventory goals, and creating a timeline for the overall project.
- Establishing responsibility and accountability among those in your organization to carry through on their assignments.

Strategic Inventory Checklist

Vision and Leadership

- 1. There is support for strategic policy across organizational lines. YES NO
- 2. There is executive level support for strategic inventory initiatives; this group is updated on progress on a regular basis. YES NO
- 3. The impact of organizational behavior on total inventory costs is clearly understood. YES NO

Infrastructure

- 4. Effective ways to gain access to inventory information across the supply chain are in place. YES NO
- 5. Customers’ demand profiles are known and the impact of these customers on profit is understood. YES NO
- 6. Cost tradeoffs between in-transit vs. stationary inventories are considered when making decisions concerning transportation mode(s). YES NO

Metrics

- 7. A supply chain inventory scorecard is in place and being used. YES NO
- 8. The organization recognizes the importance of having time sensitive inventory information. YES NO

Continuous Improvement

- 9. Network modeling is being performed periodically to confirm that inventory positioning and flows are effective. YES NO
- 10. Resources and optimization efforts are focused on the true cost tradeoffs that are inherent in inventory decisions. YES NO

(Source: Competitive Logistics LLC)

- Establishing and executing a review schedule, including milestones to achieve, to chart progress.

- Communicating, on an ongoing basis, commitment and importance to the organization to gain understanding and buy-in.

“It’s basic project management,” he explains.

3. Use an incremental approach. “Pick one initiative, start small, achieve success, and gain momentum,” he advises. “Don’t try to do a whole bunch of them at one time. Let the organization adapt and assimilate one change at a time, and have initial successes fund future projects.”

4. Take a “whole” solution approach. Sharpe explains: “It’s all about people, processes, and technology.” Think about the people, make sure that you’ve addressed what you’re going to ask them to do. Do they have the skills to do it; is additional training needed; are there behaviors that need to change?

Develop efficient processes. “Make sure the processes that you’re going to use are the most efficient for what you want to achieve,” he asserts. Then apply the right technology. “Make sure the technology has the capability of addressing the concerns and issues under study, and is compatible with the existing infrastructure,” Sharpe concludes. □