

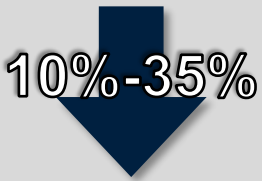
Inventory Management and Reduction



THE KEYSTONE GROUP
ATLANTA • CHICAGO • LOS ANGELES

Typical Results

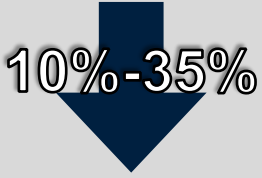
Raw Materials



WIP



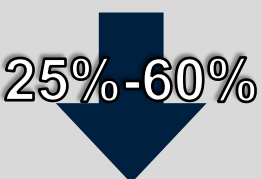
Finished Goods



Service Level



E&O



Indicators of Excess or Misaligned Inventory



Financial

- Declining inventory turns
- Inventory spoilage or write-offs
- High expediting & freight charges
- Excessive material handling costs
- High excess and obsolete inventory

Operational

- Poor on-time delivery or fill rates
- Finished good stock-outs & lost sales
- Large amounts of unorganized WIP
- Bias to “keep the machines running”
- Poor forecast accuracy



Approach to Inventory Reduction



Step 1: Understand the Situation

- Classify existing inventory as active, excess or slow/non-moving
- Analyze trends
- Understand root causes of excess and obsolete



Step 2: Manage the Faucet

- Improve S&OP (processes, systems, etc.)
- Reduce inefficiencies in operations
- Reduce impact from vendors (lead time, quality, etc.)
- Reduce complexity of product offering
- Improve communications with customers



Step 3: Drain the Tub

- Discount within existing channels
- Source from internal locations with excess inventory rather than vendors
- Return to vendors
- Convert to usable product/consume
- Sell on secondary market

Four Rights of Inventory Optimization



Right Part

- FG aligned with customer demand
- Raw aligned with production schedule



Right Time

- Aligned with customer lead time expectations and production plan



Common Pitfalls

- Reduction vs. prevention
- Active vs. E&O turns
- Safety stock calculations



Right Place

- Raw/WIP available at work center
- FG available in warehouse for on-time/ in-full (OTIF) delivery



Right Quantity

- Balance requirements of customer, working capital and production
- Based on reorder points & safety stocks



Apparel

- Reduced inventory by \$10M
- Increased turns by 25%
- Increased sales by 20%, in part due to correct inventory
- Increased warehouse efficiency by 40%



Transportation

- Reduced FG by 32%
- Reduced WIP by 20%
- Reduced Raw by 14%
- Total two-year inventory reduction of \$32M (20%)



Food and Beverage

- Reduced total inventory by 8%
- Rationalized 1,925 SKU's (64% of total SKU's)
- Implemented new processes to enhance S&OP



Electronics

- Reduced inventory 7% in 5 weeks
- Reduced inventory 12% in 8 weeks