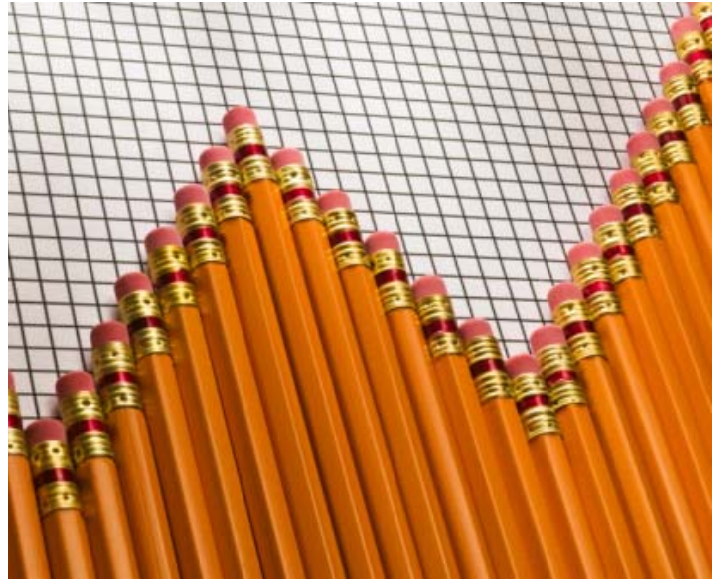


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The payoff of paying attention to your inventory

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To ensure success and profitability, it is essential for any business selling goods to have the right inventory available where and when it is needed. Inventory is an investment that, if managed well, can bring maximum benefit. Requisite to proper inventory management is complete knowledge of your inventory. This means having visibility over your current inventory from source to fulfilled order, as well as traceability of your historic inventory.

There are hundreds of software tools that companies can utilize to provide them with the total picture of the inventory throughout their supply chain. Your company probably already has licenses for several of these software tools. Getting the full benefit from any of these tools to help optimize the inventory management process is one of the main challenges. However, software is only effective when the right policies, processes, controls, and practices are in place to ensure that stock levels are precisely where they need to be, when they need to be there, thus enabling the accurate, complete fulfillment of every customer's order.

Businesses must know what inventory is currently in stock, so as to not over order products. Having too much inventory, or the wrong selection of inventory, means that a business' precious cash is tied up in a low or no return venture, while better return opportunities go unfunded. Too much inventory can also result in product obsolescence or waste, especially if the stock is perishable. Obviously, items such as fresh produce have extremely short shelf lives and perish if stockpiled. Other items may not be "perishable", but still may have

short "shelf life", such as trendy teen accessories or electronic devices utilizing yesterday's technology, which can obsolesce quickly and often take up an inordinate amount of space in warehouses.

Overstocked items also consume space, which costs money, especially if the company uses multiple locations to serve one geographic market or is paying a third party to store overflow. Excess inventory can cost in terms of productivity, when storage utilization exceeds the point at which inventory can be optimally slotted to minimize material handling vehicle travel and operator labor cost.

It is the combination of the right tools providing clear visibility of demand and inventory, measurable processes, and the operational flexibility to respond efficiently to feedback that enables the proper management of inventory and eliminates overstocks. The real benefit is the ability to convert unnecessary inventory into cash for high ROI investments. For example, a home appliances distributor that uses several "off-site" warehouses in addition to their three North American distribution centers recently determined that if it were to divest itself of the inventory in two of its auxiliary warehouses with dismally low inventory turns, the company would no longer incur well over one million dollars annually in operating costs and would be able to reinvest those dollars tied up in inventory more profitably. If this distributor redirected this inventory investment and earned a mere 8% APR, that would provide them \$1.6 million annually. As most companies, this distributor has many proposed projects

ving for funding, which the combined savings and earnings of \$2.6 million could support. The motivation to divest themselves of excess inventory came from the discovery of the value of converting that inventory quickly.

Some businesses also have under-stocked inventory items, and unfortunately, in more cases than not, these are the same businesses that have overstocked many items. There is a common thread here: the lack of adequate inventory management strategy and tactics. The reality is that most businesses ignore many inventory problems, especially if they are not glaringly obvious. If business is good and/or the distribution center personnel don't complain about inhaling dust from old inventory (and they receive overtime pay to cross-dock items for a shipment), these issues tend to get "swept under the rug."

Who can even calculate the lost sales resulting from orders shipped incomplete? "Back orders" leave a negative impression of the seller/shipper, even if they are shipped within minutes of the rest of the original order's shipment. And this sentiment doesn't even compare with that of irate customers who are promised merchandise by an advertisement, only to learn that the promotional item is not theirs to take home.

To compound the issue, inventory management is often a political "hot potato". Sales pushes to have all products available for shipment at any time, prompting Procurement to fill the warehouse with inventory just in case customer demand exceeds expectations,

while Customer Service pushes to have orders shipped immediately. The Warehouse attempts to efficiently store product and fulfill orders despite being crowded by stagnant inventory, and Finance tries to control costs. The results are often based on reaction to the latest events, rather than effective policies and sound business decisions.

So how does a company go about paying enough attention to its inventory in order to receive the highest payoff? It takes an objective view, along with the knowledge and experience about "what works" in your business, to first identify the type of inventory issues that exist, their impact and root causes, as well as what do to about them. To be totally informed and in control, profit-wise, over your inventory decision-making processes, a number of key business processes need to be assessed.

All of the elements in the checklist on the following page affect inventory and your company's ability to convert it to profits. Take a moment to rate how well your organization performs these inventory-related processes. Does your company follow industry best practices, make full use of its information systems and supply chain assets, and regularly evaluate the potential of applying the latest technologies to your business? This checklist can be used to pinpoint your company's opportunities to improve the way it moves inventory to make money.

Rate Your Company's Performance of these Key Inventory-Related Processes:	We Excel	Room to Improve	We Need Help!
Strategic Supply Chain Network Planning (Optimize number, capacities, functions, and locations of all supply chain facilities and other assets in network)			
Demand Forecasting (Communication of Sales & Marketing's Plans to Supply Chain Operations)			
Sourcing (Evaluating risks and benefits of single/multiple vendor sourcing, global/local sourcing, and vertical industry growth opportunities)			
Collaboration with Suppliers (Quality, Responsiveness, Added-Value Services, Shared Visibility, Ownership of Inventory)			
Procurement (Managing conflicting objectives, SKU Rationalization)			
Inventory Visibility Across Supply Chain (At Suppliers, In Transit, Within All Company-Owned and 3PL Facilities, Customer Receipt)			
Optimal Allocation of Inventory (Across Geographic Markets, Among Supply Chain Network Facilities, ABC Analysis)			
Inbound Freight Transportation Management (Import regulations, port selection, consolidation, carrier negotiations/selection, transportation spend management)			
Outbound Transportation Management (Mode selection, routing and scheduling, carrier negotiations/selection, freight spend auditing, fleet management)			
DC/Warehouse Capacity and Requirements Planning			
Distribution Center (DC) and Warehouse Site and Facility Design			
DC/Warehouse Operations Continuous Process Improvement			
Selection of the Best Planning, Decision-Support and Transaction Software Tools for Procurement, Inventory Management, SKU Management, Customer Order Processing (WMS, ERP, TMS, YMS, MRP, SCE, IMS, LMS, etc.)			

Rate Your Company's Performance of these Key Inventory-Related Processes:	We Excel	Room to Improve	We Need Help!
Optimal use of Legacy Planning, Decision-Support and Transaction Software Tools for Procurement, Inventory Management, SKU Management, Customer Order Processing (WMS, ERP, TMS, YMS, MRP, SCE, IMS, LMS, etc.)			
Lean Process Design for DC/Warehouse Facilities' Operations			
Layout and Selection of Equipment for processes in DC/Warehouse Facilities			
Management of Competitive Bid Process for DC/Warehouse Storage and Material Handling Equipment and Information Systems			
Optimization of Slotting (Minimize Vehicle & Operator Travel, Fixed, Seasonal and Dynamic Locations, SKU Groupings, Forward Pick Areas, Allocation to Storage Equipment Types, Location Capacities, Replenishment and Picking Methods)			
Unit Load Design for Maximum Cube Utilization (Storage Locations and In Transit)			
Use of Outsourced Services (3PL, Storage, Order Fulfillment, Temporary Labor, Value-Added Services, Transportation, SaaS, Security, Returns, Facility and Employee Services, Administrative Services)			
Negotiations with Inventory, Transportation, and Logistics Service Suppliers			
Measuring Performance (KPIs, Scorecards, Disseminating Performance Information and Enabling Improvements Using Results)			
Customer Order Fulfillment Planning (Order Quantities Not Requiring Break Pack, SKU Grouping, Picking Methodologies, SKU ID, Voice Technology, Fill Rates, Picking Accuracy, Order Assembly)			
Inventory Accuracy and Condition (Inventory Identification, Inspection, Quantity, Cycle Counting, Damage, Quality, On Hold, Accountability, Disposal)			

The primary components of inventory management, planning and optimization, are key to ensuring the right products, in the right amount, get to the right place at the right time. It is a juggling act that sounds simple, but involves the effective coordination of a lot of “moving parts”. Miss on one, and the impact can be significant, including lost margin, poor customer relations, and lost sales. And the situation can be even direr if the “moving parts” stop moving, indicating that your inventory investment portfolio needs better portfolio management.

The great news is that with the proper tools and inventory decision-making processes in place, future inventory decisions can be made with much more assurance that your inventory’s sojourn through your business’ supply chain will be minimized and will effectively enhance your company’s bottom line.

About the Author:

Manny Cueto is the leader of Auxis’ Supply Chain practice, where he manages consulting engagements in supply chain evaluation, process improvement and optimization. Manny is an accomplished supply chain executive with more than 20 years of progressive experience in all aspects of domestic and global supply chain operations. His background covers logistics, manufacturing, engineering, strategic planning and operations. His experience in leading multiple business transformations through significant change across multiple, diverse and disparate geographies has resulted in positive impacts for many companies.

Prior to joining Auxis, Manny served as a senior level consultant for the technology and business consulting solutions company Accenture. During his tenure, he was responsible for thought leadership, strategy, and transformations that led to helping deliver world-class business and technology solutions that realized high value for clients. Prior to Accenture, Manny served as the Vice President of the Customer Solutions Organization for the North American Contract Logistics division of Kuehne-Nagel. Manny also spent 10 years with Frito-Lay, the snack food division for PepsiCo Inc.

Manny received his Bachelor’s degree in Industrial Engineering from the Georgia Institute of Technology. He is an active member of the Council of Supply Chain Management Professionals.



About Auxis:

Auxis is a management consulting firm dedicated to enabling growth for our clients. We offer a multi-disciplined approach to develop and implement practical, robust and scalable solutions that generate superior business performance, providing significant competitive advantages to our clients. Our core belief is that our success should be measured by tangible and sustainable financial results. Simply put, Auxis helps clients prosper.

Auxis can help you to adapt your supply chain for the benefit of your customers, business partners, and shareholders through service offerings such as strategic evaluation, sourcing and procurement, supply chain planning, supply chain network design, outsourcing, transportation, warehousing and distribution, and IT supporting infrastructure selection and deployment.

Auxis' Supply Chain team understands that a good plan is only half the story. What really matters is your company's bottom line impact from our work. Just ask our clients how our practical and results-focused initiatives have helped them. Our holistic, practical approach to supply chain excellence results in solutions that transcend business functional boundaries and achieve corporate objectives.

Headquarters

55 Miracle Mile, Suite 300
Miami, Florida 33134
(305) 442-0060

www.auxis.com

Ft. Lauderdale

7901 SW 6th Court, Suite 130
Plantation, Florida 33324
(954) 236-6682

Atlanta

3500 Lenox Road, Suite 300
Atlanta, GA 30326
(404) 419-2215

Washington, D.C.

1701 Pennsylvania Ave, Suite 300
Washington, D.C. 20006
(202) 390-8606