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Is Your Inventory System Working?

In my experience in working with clients across multiple industries, geographies and sizes, I have no doubt that effective inventory management is far from a no-brainer, yet implementing a few secrets to success can yield dramatic bottom line results. In today's new normal business environment, characterized by sluggish growth, tight liquidity, elevated customer expectations and a general theme of "more for less", companies need an inventory edge! After all, cash is king.

I watch trends closely as one of my secrets to success is synthesizing people, processes and systems from a cross-functional perspective to uncover hidden opportunities. Lately, I've seen an increased need for effective inventory management systems. Interestingly, the reasons stem from vastly different sources: 1) a decrease in profitability (which led to a need to track inventory more closely); 2) poor customer service levels (which led to a need to implement inventory management process improvements); 3) A need to free up cash (which led to a need for inventory and distribution collaboration improvements).

Inventory management could be the subject of my next 100 articles as there are many ingredients to an effective inventory system; however, I've boiled it down to a few questions: 1) Do you have the right talent? 2) Is your system working? 3) Have you eliminated complexity?

1. **Do you have the right talent?** - It is surprising how often this question is overlooked yet it is #1 to achieving bottom line results. Although inventory could be considered a "basic" fundamental skill and is often on the resume of every supply chain and operations job applicant, all talent is not created equal.

There is vast confusion surrounding inventory skills and which skills are needed for which job functions. For example, do you need inventory control? Inventory accuracy? Inventory planning? Supply chain planning? Inventory tracking? In addition, most of these roles require far more than inventory expertise; they require the right combination of analytical skills and communication skills. It's one of the only roles outside of a CEO/ COO that often times puts you in the middle of multiple, competing functions..... got communication skills?

If there is one consistency, it is that if you find the right fit, you can develop the rest. More often than not, I find that the person already exists within the organization and is often underappreciated. Thus, secret to success #1 is to identify the person (or, in the rare case, find the person), give them the

responsibility, communicate the new responsibilities to the organization and back it up with training and support.

2. **Is your system working?** - First, to clarify, when I refer to system, I mean the combination of the process and system. The second most common mistake is to try to put a square peg in a round hole. Instead of dictating the process or system based on whatever worked in a previous life or what your ERP system says is "best practice", I've found the key to success is to understand what works for each particular situation (unique combination of people, processes and systems).

If you utilize a configured product, why are you adding enormous complexity adding 1,000's of part numbers to address configurable elements? For example, if you produce doors, there is a standard door type (the base product), and then there will be thousands of iterations based on the dimensions, material type, color etc. The same can be true in aerospace for specs and characteristics associated with types of metal. Set inventory up to support your business.

If you have a complex, multi-level bill of material, are you lost in complexity? How can you simplify? If you are dealing with a product with lots or expiration dates, can you track it easily? No matter your product, can you get closer to your customer and find out what they are selling? What's most important to your inventory? Focus on that!

3. **Have you eliminated complexity?** - Last but not least, I gain tremendous traction in delivering bottom line results solely from eliminating complexity. I find that complexity is enticing - the more complexity, the more people feel valued and indispensable. So, instead of getting lost in complexity, encourage and reward simplicity.

Get the team together and brainstorm ways to unscramble the complexity. Can you focus on just A items? What are other ways you can categorize your inventory in order to prioritize so that you focus on what will achieve the majority of your results? Can you start with one machine? One commodity? One location? One customer? One supplier?

If you improve inventory accuracy by 10%, you will end up with 10-100+% improvement in on-time delivery and/or efficiency. If you improve inventory turns by 10%, you'll end up with MORE CASH and increased efficiency. Why not spend a few minutes to think about the question: Is my inventory system working?

And the list goes on. Undoubtedly, focusing attention on existing customers is not just a good idea, it is essential. Brainstorm the ways you can provide value to existing customers, and stay tuned for future newsletters as we delve further into this key to success. You don't have to start with a complex plan - what is one action item you can do to improve current relationships?

Lisa's Tips: Sustainability

Not only is sustainability gaining traction as an emerging trend but it can also add dollars to your bottom line.

1. **Reduce waste** - look for all types of waste; not just the standard trash cans of manufacturing waste. Think about the lean definition of waste.
2. **Packaging** - certainly there are countless opportunities in packaging. How can you optimize packaging while minimizing materials? Can you optimize for more efficient pallets? Truckloads?

3. **Heating, cooling & lighting** - there are often times hidden opportunities in these areas. Are you using the latest lighting technology? Have you reviewed your energy usage? Opportunities often times pop out.
4. **Supply chain network** - have you thought through the optimal supply chain network? Consider not just cost and lead time but also distribution patterns, the complete footprint etc.
5. **Collaborative partnering** - have you thought about how to partner with your customers and suppliers to not only increase sustainability but to also improve the overall supply chain performance? You might be missing a goldmine!

Recommended Reading

"[Talent is Overrated: What Really Separates World-Class Performers from Everybody Else](#)" by Geoff Colvin - I found this to be an interesting book on talent. It explores what is talent and what isn't talent. It turns out that deliberate practice is a vital component.

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