

## Agile inventory management – results that ‘stick’ when reducing and controlling inventory

**Management focus on reducing working capital has never been sharper. Julian Mosquera, Director at LCP Consulting explains how taking our wider 5 step inventory management approach will yield an improved, sustainable and agile inventory profile.**

Whenever business performance drops and cash flow becomes restricted, the rush to reduce working capital is as predictable as sunrise. The actions are equally predictable and reactionary ... an immediate reduction of order or batch production quantities; aggressive purchasing actions; inventory is consumed and replenishment decisions postponed; lead times inevitably become extended.

Suddenly it is customer service and supply capability that suffers. Perversely, businesses then place even greater efforts on ‘fixing’ the inventory management and service problems that have been self induced.

The current recession, more than most, has shown the frailty of such actions. The speed and depth of the global downturn has demonstrated the weakness in current systems of control. How businesses have reacted has further deepened the impact, through the wholesale reduction of orders, hardening of trading terms and a reliance on the inventory at hand.

There are notable exceptions, where greater collaboration between supply chain partners has enabled businesses to trade more flexibly with each other, to ride the downturn.

The result will in general be a ‘capacity hole’, where suppliers simply no longer exist to serve the market, and those that do have run down operations to levels that will take months to ramp up. The inflationary pressures this will exert are expected to be substantial in the short term. The major loser is customer service.

Standard inventory management practices have been found to be insufficient in the complex global supply chain we navigate today. Basic actions such as reducing lead time, improving forecast accuracy, revising system parameters and safety stocks, deployment of consignment stocks etc. only go so far.

Businesses need to take the lessons of the last year and revise the way they manage inventory across the whole supply chain, working with partners at all levels to achieve a more predictable and sustainable result.

We have identified 5 key steps that deliver more sustainable and stable inventory management ... a systematic approach that addresses *‘the devil in the detail’*.

### LCP prescribes a sustainable approach to inventory reduction & control

#### 1. Segment the supply chain

It is absolutely key to recognise that no business operates a single supply chain, one size does not fit all; managing a business as though it does immediately drives in inefficiencies. Mastering supply chain complexity is essential; it is a fact of business life and should be embraced.

Understanding each of these supply chains, characterising them, and then working to establish the ideal means of managing each individually is the right way forward – and is one of the keys to delivering sustainable benefits.

#### 2. Reduce unprofitable complexity

Our experience is that 15% of the customer/product mix erodes more than 50% of the profit potential. It is this group that typically drives more than 50% of inventory, be it slow moving, large batch sizes or months of cover. Designing this group out or designing their profitability back in is a key step to connect the supply chain to a company’s performance. Establishing inventory controls to detect and tightly manage these is critical.

#### 3. Synchronise and integrate to eliminate waste

Lean management methods cut waste and cost along the supply chain. By streamlining flows and ‘tuning’ operations to the different supply chains, inventory becomes ‘governed’ by those characteristics. Working with key suppliers, customers and service providers, to align their activities and demands with your capabilities offers the best chance for resilience and predictability.

As a result, decisions on make-to-stock versus make-to-order are easier, flow control of inventory is more natural and *inventory reduction occurs as a consequence* of these actions rather than an act in its own right, which guarantees its sustainability.

#### 4. Design, plan and execute for agility

We can not afford high inventories, capacity and asset surpluses to cope with volatility. Agility is about fast, flexible and accurate processes to meet customer demand.

Whilst only applying to a selected segment of the business and operations capability, we ‘design-in’ supply chain agility to improve customer service, to limit inventory exposure and business risk, and to reduce manufacturing assets.

#### 5. Align rules and targets to the flows

Unless business systems are configured to the newly defined supply chains and ways of working, sustainable results will not be achieved. Terms of doing business with all partners across the supply chain should reflect these new controls and the insights gained.

# a thought leadership Insight

By defining inventory management controls and targets tuned to each supply chain, with standardised performance measurement across the business, we focus on performance and provide the backbone to controlling the end-to-end supply chain.

## LCP's approach in practice

By following this prescription, when a business comes under pressure, it will already be optimally configured and sufficiently flexible to respond to volume changes, without the dramatic interventions that create chaos and result in the loss of visibility and control.

Our established and proven approach, applied across numerous consulting assignments in all sectors, has delivered remarkable 'step change' benefits in performance, such as:

- reduction in material costs and waste
- reduction in inventory / working capital
- reduction in supply chain costs and cost avoidance
- increased on-shelf availability
- improved shop floor productivity

## Global Chemicals Manufacturer

Applying our approach, one US plant identified a reduction in Components and Packaging of 37%; applying agile thinking they were able to reduce WIP and associated movements by 80%: eliminating \$500,000 of inventory.

In a major European manufacturing facility, just focusing on supply chain segmentation and implementing the right controls resulted in a €900,000 raw materials reduction, with improved supplier performance and adherence to schedule.

## Global Pharmaceutical Manufacturer

By focusing on integrating planning, ensuring supply chain processes and controls reflect the different product demand profiles, reducing the inherent lead times and with the requisite process disciplines, this manufacturer initially delivered €10 million working capital reduction, with more identified and being focused on.

## Spanish Fresh Food Manufacturer

This manufacturer was under considerable pressure to increase capacity and improve customer service. LCP introduced inventory flow control of all materials from suppliers through to finished goods despatch, with shop floor reorganisation to synchronise production with daily demand. An overall inventory reduction of more than 30% was achieved, food waste reduced by ~25%, whilst increasing capacity by a full shift!

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## About LCP Consulting

LCP Consulting is a leading specialist in customer-driven supply chain management. With over 20 years' experience in the field, we identify where supply chains make major contributions to how businesses operate profitably and compete effectively. We support businesses review, re-design and implement changes to their end-to-end operations. Our fact-based diagnostics pin point exactly where & how to cut costs, enhance operational efficiency and invest for the future.

LCP Consulting is a member of the Green Logistics Consultants Group, which is an international collaborative network of supply chain consultants who focus on improving the environmental performance of supply chains.

Head Office:  
LCP Consulting  
The Stables  
Ashlyns Hall  
Berkhamsted  
Hertfordshire HP4 2ST  
UK

Telephone: +44 (0) 1442 872298

For more information please visit [www.lcpconsulting.com](http://www.lcpconsulting.com)

Contact: [info@lcpconsulting.com](mailto:info@lcpconsulting.com)

