Oliver Wight's Quick Guide to
Inventory Governance

This guide provides a quick reference on Inventory Governance, describing how this process can directly impact and improve your inventory levels, and your working capital utilization. Inventory Governance balances the competing factors of customer service, the costs associated with expediting, and the cost of inventory. It helps swiftly improve inventory effectiveness and reduce Slow Moving Obsolete Goods (SMOG).

Inventory is not a problem...
Inventory is a symptom

Inventory is an outcome of business decisions made elsewhere

This symptom can be treated directly

Is Your Company Struggling with These Issues?

- Inventory: Too much, too little, wrong stuff, wrong place

- Unclear governance around inventory targets, approvals, policies

- Limited visibility to inventory levels & ability to analyze

- SMOG: Slow Moving and Obsolete Goods (SLOB, Excess, Expired, Etc....)
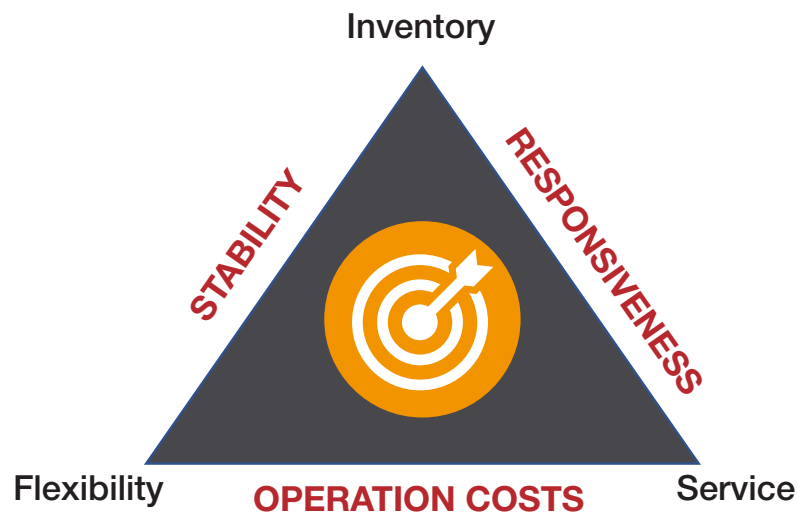
What is Inventory Governance?

Inventory Governance is a program designed to help companies *get their arms around* their inventory levels, quickly highlighting inventory symptoms, tradeoffs, and underlying issues. By implementing an Inventory Policy with common sense methods to govern both inventory levels and inventory targets, clients gain control and improve efficiency.

Inventory Governance provides better control of working capital through a better understanding of the tradeoffs of business decisions involving inventory, balancing inventory, responsiveness/flexibility/expedites, and service. We explore and exploit the causes, effects, math, and logic of inventory.

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Benefits Realized with Solid Inventory Governance

- Pharmaceutical Company: $30M inventory level improvements found in two weeks, with root-cause resolutions on underlying issues beginning in six weeks!

- Chemical Company: Inventory target reduction of greater than $50M, sustained after 2 years!

- CPG Company: Identified $50M in stagnant inventory, drove plans to sell $15M, identified root causes, initiated action on the remainder!

Inventory

STABILITY

RESPONSIVENESS

Flexibility

OPERATION COSTS

Service

Typical Factors Driving Inventory

Factors

- Distribution Strategy
- Sales Plan
- Customer Service Objectives
- Supply Strategy
- Master Schedule
- Lot-sizing rules
- Safety stock levels
- Purchasing policies and culture

Decisions and Assumptions

- Uncertainty: The degree of predictability and reliability of the demand stream and the supply stream

- The time taken to move product through the supply chain processes

- The balance between supply and demand at each stage in the supply chain

- The desired or competitive Customer Service Level

- Replenishment Quantity and Frequency

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What is Covered in an Inventory Governance Program?

Topics Included:

☐ The Triangle: Align your Supply strategy with your Corporate strategy

☐ Improve your Inventory Targeting

- Cycle stock: The most insidious problems and trade-offs
- Pipeline: key impacts on safety stock, no matter who owns it
- 2 forms of Safety Stock: Calculation, considerations, ERP issues
- Pre-Build & Hedge stocks: Why these are often over-planned
- SMOG, Inventory Disposition, Reserves, and Roles

☐ Data & Systems: recognize, report, target and manage inventory

☐ Inventory Policy: embedding good behaviors & processes, playing your position

☐ Assumptions, Risks & Opportunities

☐ Measurements, KPI's, Tools & Templates

☐ Linking to Business Plans and Processes

☐ Capstone exercise: Identify and work YOUR inventory issues, including categorization and potential action – in under 2 days!

☐ Expectations for the quality of assumptions

Through the Following Activities:

☐ Current State Assessment & Information Gathering

☐ Inventory Governance Best Practices Education

☐ Inventory Governance Process Design and Policy Workshop

☐ Inventory Governance Policy Implementation Coaching

Followup:

☐ Once Inventory Governance is implemented, it's time to assess your progress and help address the root-cause issues that arise, including people, processes, and behaviors. Oliver Wight is prepared to assist with proven, ongoing solutions.

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