

# STRAIGHT TALK ABOUT INVENTORY

## FROM THE EXECUTIVE'S PERSPECTIVE

By Ray Lankford

### **“How well does your company manage inventory?”**

- Executives are frustrated.** This question was recently asked of a number of executives by an industry research organization. The responses were depressing. Many executives expressed frustration over their seeming inability to make inventory perform as a competitive asset for their companies.
- A vital asset.** That frustration is understandable considering the importance of inventory. It may be the biggest capital asset on the balance sheet. It is the key to customer service, and to effective use of the factory. And it could be the source of abundant free working capital if it could be managed better.
- Don't we know how to do it right?** So what's the big obstacle? Why is inventory so often such an intractable problem? After all, more time and talent has probably been directed to inventory management than any other business subject in the past 100 years. Shouldn't we know how to do it right by now?
- Yes, but management must initiate change.** The fact is, we do know how to manage inventory. Workable principles and techniques do exist, but few companies practice the proven methods effectively. And like everything else, the ultimate responsibility for initiating improvement resides with top management.
- What do you need to do?**
- A strong mandate needed, not just an edict.** First, you must **mandate change**. Without clear visibility of determination on the part of top management, the habits and practices of inventory control professionals and middle managers are not likely to change for the better. However, just a flat edict to lower the inventory or give better customer service won't do. The executive mandate must be an informed directive, pointing to a better way of managing. And that means you must become more informed about inventory management.

**Use proven techniques.**

No, you don't have to become a technical expert. But you do need to know enough to realize that there is a structured methodology for inventory management and to insist that proven principles and techniques are used by educated professionals in your company. You need to know that computer technology now makes it possible to apply the best analytical techniques to both item and aggregate inventory planning, without requiring a staff statisticians to process and interpret information. Computer modeling can design the optimum size and composition of inventory to meet you objectives of investment and marketing strategy.

**Develop a structured method of managing.**

But you must take the initiative and mobilize your managers for the important second imperative, which is **to develop a structured methodology** of inventory planning and control to replace the well-intentioned, but ineffective, practices now being used.

**Make improvements permanent.**

You must be sure you make permanent changes in the way inventory is managed. There is nothing in business more temporary than an improvement in inventory forced by a management edict. Don't risk a relapse. Make the changes stick. To make improvements permanent, you will need to institutionalize them in the organization through systems, training, and documentation. Just because you have an MRP system, don't think you have all it takes in the way of systems. MRP doesn't come close to doing the whole job of inventory management. Figure out what you have and what else you need to get control of inventory once and for all.

In summary, there are three imperatives for top management in order to radically improve inventory performance:

- First, mandate change - it has to come from the top;
- Second, develop a structured planning and control methodology - you have to know something about the state-of-the-art; and
- Three, make you improvements permanent - this may take some investment, but it will pay off dramatically.

**Remember the cardinal rule.**

Finally, remember the cardinal rule of inventory management; Inventory must be *planned strategically*, but it must be *controlled analytically*.



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