

# What's driving your inventory?

Know these seven basic principles to help you gain control

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DO YOU FEEL LIKE YOU ARE IN CONTROL OF YOUR inventory, or is it controlling you?

We decided to ask a couple of experts in the field for a condensed "Inventory 101" course, if you will, that might offer up some guidelines for developing a smart inventory strategy.

Arnold Quesenberry, senior associate with A.G. Raymond & Co., which provides management and technical solutions for the wood products industry, says most companies, regardless of size, don't understand what drives inventories. Before inventory control decisions are made, he says, these basic principles must be understood.

**Know what your customers expect.** "If you can cut your delivery time in half, what is that going to do for you?" Quesenberry asks. "In some cases, it's great, but in many cases, it may not be beneficial at all."

**Know what minimum cut quantities to accept.** "It's important to know what is your company's best cutting cycle," he notes. "How often are you going to re-cut items, when are you going to cut them and what is that minimum quantity going to be? Obviously, minimum cut quantities apply to your low volume items too. So if you say, 'I can never cut or produce less than one-hundred,' one-hundred could be a year's supply. You've got to weigh that."

**Know whether it's better for you or your vendor to keep inventory.** "I don't care what product you are producing, you can not produce it without inventory somewhere. Whether you've got that inventory, or you drive it back to vendors, you have got to be able to economically and quickly convert it into a shippable unit."

**Know what your equipment will allow you to do.** "Is your equipment antiquated? Maybe it doesn't have quick set-up, for instance. Finished goods inventory is an investment, but so is the equipment required to convert raw materials or WIP (work in progress) into a shippable unit."

**Know where you want to put your money.** "Total inventory turn is not necessarily as important as what you do with your high volume items. The most common mistake is just looking at inventory value as a lump sum and relating that to turns and not looking at what is in that inventory. A lot of your value is in your low volume items, and that isn't doing you any good."

Vince Ross, president of Ross Associates, Inc., an industrial engineering consulting firm whose niche is wood products, believes most wood-working facilities just don't have good data on their inventory quantities. They're also mistakenly under the impression that they need "safety stock" in order to be able to react quickly in case somebody wants something. He offers these suggestions to overcome those situations.

**Know about barcoding.** "Just as it is beneficial to barcode your lumber tickets right from the beginning, it's also advantageous to barcode each operation throughout the plant. You can use that information for inventory planning, scheduling, control and forecasting."

**Know the advantage of cellular manufacturing.** "To eliminate 'safety stock,' a change in manufacturing philosophy may be the answer," Ross says. "Contrast typical batch manufacturing, where stock is before and after multiple operations with cellular manufacturing where you have inventory before one machine and it flows all the way through until you get it out the last machine. You have eliminated that entire inventory between each operation. It's a simple concept — not rocket science — but people don't do it."

Now that you've taken this "mini" course on inventory management, your final exam might be to test these principles on your own inventory. A passing grade could bring about cost-cutting measures for increased profitability. ■