

LEAN INVENTORY CONTROL

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Distributors make money by selling their inventory to their customers but for many the inventory is their largest investment that cannot be used until it is sold. They can have considerable capital tied up the inventory which is costing them in bank charges, factory space, heat, lighting, handling and recording costs, and the product becoming obsolete.

Lean Inventory Management

A Lean inventory management system allows a distributor to meet or exceed customers' expectations of product availability with the amount of each item that will maximize the distributor's net profits. In a Lean system, inventory is regarded as a sign of a sick factory that is in desperate need of some type of treatment. The ideal goal for a company should be to have an inventory as close to zero as possible. Effective inventory management, allows a distributor to meet or beat their customers' expectations of product availability while maximizing their profits.

Develop an Approved Stock List

Every distributor makes a commitment to stock an inventory of approved stock for each location. The commitment does not necessarily mean that some of the items are always on the shelf but can be supplied in a few days. In most cases, some of the material in inventory is not on the approved list and here are some ways it finds into a warehouse shelf:

- The customer orders 15 pieces and the buyer must make a minimum order of 30 pieces (15 go in inventory).
- Customer cancellation or return of some items.
- A customer stops buying product especially stocked for them.
- Left over quantities of discontinued products.
- Left over stock items that were ordered on expected sales.

Steps to Effective Inventory Management

There are two different approaches organizations can make with regard to inventory. They can assume it is just a necessary evil and start a special inventory reduction program whenever cash gets tight. Or they can make strategic decisions on the level to carry, put an inventory management process in place to actively manage inventory and continually improve the business results..

Are You Making Money?

Are you in business to make money? Do you stock material to meet customer's

expectations? If so, this article is going to look at how the material in stock relates to the goals of a company. It should be helping a company to meet customers' expectations of availability while contributing positively to the company's bottom line.

Inventory

Lean is a philosophy of business that means doing things as simply and cheaply as possible while providing superior quality and fast service. Overproduction or overstocking leads to increased inventory and money sitting idle. **Inventory means any goods that are being held for any length of time, inside or outside the factory.** In the Lean system, inventory is regarded as a symptom of a sick factory.

Causes of Inventory

- Acceptant of inventory as normal or as a **necessary evil**
- Poor equipment layout
- Long changeover times
- Large-lot production or purchasing
- Obstructed flow of goods
- Stocking on speculation
- Defective material

An awareness revolution must occur in everyone if inventory is to be eliminated or reduced. People must believe in the possibility of **zero inventory**; inventory covers up problems; it never solves them.

Cost of Carrying Inventory for 1 Year

Typical costs for carrying inventory for 1 year ranges about 20 to 35% of its original cost, therefore it costs 20 to 35 cents to carry a dollars worth of inventory for one year. Items that must be considered:

- Cost of putting stock away and moving material in the warehouse.
- The cost of warehouse space, utilities, maintenance, etc.
- Insurance and taxes on inventory and warehouse.
- Recording inventory and product cycle turnovers.
- Inventory damage, loss, and obsolescence.
- Cost of money sitting idle in inventory.

Inventory Replacement/Reordering

Lean inventory implies that in Just-In-Time system there should be little or no inventory; an ideal situation (sell one, order a replacement). Stock should turn over at least 4 times a year on special items and at least 12 times on stock items and no more than one month's stock be kept in inventory. Generally it is wise to keep a little extra stock in inventory for unexpected conditions. Be sure to evaluate, for example a suppliers' discount of 2% for quantity purchases because it usually costs a company as much as 3% to carry this inventory for one month.

Inventory Checklist

Use a checklist to analyze the workplace and identify inventory. Add any other items that can be improved or related to inventory waste.

Inventory Waste-finding Checklist				
Process:	Date:			
Description of Waste	Yes	No	L/S	Causes/Improvement Plans
1. Lots of inventory on shelves/floors				
2. Shelf/floor storage takes up space.				
3. Inventory stacks block walkways.				
4. In-process inventory accumulates within individual operations.				
5. In-process inventory is stacked up between operators.				
6. In-process inventory is stacked up between processes.				
7. Impossible to visually determine quantities of in-process inventory.				
Total				

(L/S refers to Large or Small Problems)

Conveyance

Conveyance refers to any transport or movement of material, parts, assembly parts, or finished goods, from one place to another for any reason. It is caused by poor layout, large-lot production or overstocking, single-skilled workers, the need for conveyance systems is assumed.

Conveyance Checklist

Use a checklist to analyze the operations and identify conveyance waste. Add other items or suggestions as needed.

Transport Waste-Finding Checklist				
Process:			Date:	
Description of Waste	Yes	No	L/S	Causes/Improvement Plans
1. Pile up during transport.				
2. Change of transport devices in mid-transfer.				
3. Previous/next process on another floor.				
4. Transport requires manual help.				
5. Transport distance is too long.				
Total				

(L/S refers to Large or Small Problems)