

Inventory Cost Reduction

PROBLEM:

Loss due to inventory write off and high inventory levels

BACKGROUND:

In this case, a large manufacturing company with several strategic business units had inventory-related challenges in terms of write off as well as excess inventory. This was a recurring concern every fiscal period. Inventory-related issues impacted the bottom line as well as cash flow.

SOLUTION :

A detailed analysis was carried out using C&E (cause and effect) matrix, FMEA (failure mode and effects analysis) and pareto analysis. Pareto analysis of write off data helped identify root causes of the same. C&E matrix gave the rating of inputs of customer importance from a CTQ (critical to quality) standpoint. C&E was carried out for material planning, purchasing and warehousing. The inputs from C&E were further explored in FMEA. In FMEA, the potential causes for failure modes and corresponding ideal controls were identified; this then formed the basis for a master action plan.

RESULT:

The successful completion of the project led to an annualized reduction of inventory write off from a baseline of 2.4% to 1.4%. There was also an inventory turns improvement of 6.4 to 10.2. The annualized saving from this project was \$860 K.