

[Back to List](#)

## Inventory Reduction: The Path to Supply Chain Management

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by Robert Martichenko

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Reading this article will enable you to see inventory from a perspective contrary to most conventional views defining inventory as an asset.

Perhaps the greatest incentive to change our viewpoint is the unprecedented speed at which corporate environments are transforming. Not surprisingly, many organizations and individuals are seeking shelter against these transformational changes, which result in either corporate growth or rapid decline. The old guard, which has traditionally been comprised of stable organizations, is now oftentimes staring down bankruptcy.

What will differentiate the winners from the losers in this context? Many will respond to this question with answers that pertain to profitable growth, the ability to embrace globalization or, perhaps, a commitment to embrace technology to realize productivity gains. These items are the effects of doing the right things, but they are not the strategies that define today's industry leaders.

The one element that will define organizational survival is, in a word: "inventory;" I am referring to the unwavering, relentless and even fanatical drive to reduce excess inventories. Why can inventory reduction lead to organizational success? It goes beyond the reduction of inventory carrying costs. The most powerful result of inventory reduction is the relationship between inventory, waste elimination, problem solving and teamwork.

Because of the extreme of today's business issues, it is time to talk in absolutes. Topping our list of absolutes are

1. An organizational culture focused upon and committed to the elimination of waste at all levels.
2. Individuals within successful companies will be problem solvers first and process owners second.
3. Companies who have problem solving cultures will achieve and benefit from the riches of teamwork and true supply chain management.
4. Eliminating waste, problem solving, teamwork and supply chain management are achieved through the elimination of excess inventories.

At this point, you are probably asking yourself a few questions, such as: How can inventory reduction pertain to waste elimination, problem solving and teamwork, and be critical to quality measure in order to realize optimal supply chain management?

### **Waste Elimination - Problem Solving - Teamwork and Inventory**

To draw an analogy, picture your organization as a boat navigating down a river. The river represents the business environment, flowing fast, with treacherous unknown obstacles ahead. Just below the water are many rocks waiting to puncture the hull of your boat. These rocks represent waste of all sorts, such as waste of transportation, space, inventory, time, knowledge, packaging, internal silos and poor supply chain relationships. Building on this analogy, the inventory is the water level of the river. As inventory rises, so does the water level.

As we flow down the river, we are very cognizant of the rocks (waste) below. In fact, some of these rocks have now protruded above the water and we are at risk of sinking this boat. We can opt for one of three things to stay afloat:



1. Try to navigate around the rocks, relying on people and brute force to get us through. The equivalent of daily fire fighting.
2. Raise the water level (inventory level) in order to ensure the river flows on top of the rocks to avoid puncturing the boat.
3. Eliminate the rocks permanently, making the river void of waste and obstacles.

Unfortunately, for many organizations, we choose to raise inventory levels as soon as obstacles surface. For example:

1. We do not have confidence in our supply base (a rock), so we increase safety stock (the water level) to gain a sense of security.
2. We have unstable transportation lead times (a rock), so we increase buffer stocks (raise the water level) in order to cover ourselves for the uncontrolled variability in lead times.
3. We have a lack of teamwork between internal departments (a rock), so we build inventories up between departments (raising the water level) in order to protect ourselves from perceptions of incompetence in other departments.
4. We do not communicate with customers (another rock), so we hedge against demand uncertainties by raising finished goods inventory levels (raising the water level).

These examples show that we often use inventory to hide waste and other problems. Secondly, inventory develops and promotes cultures where internal and external silos are built and maintained. In other words, functional silos are not invisible walls, as we all believe; they are physical walls constructed with inventory. This inventory builds walls that deter any efforts for horizontal and vertical integration in the supply chain.

Completing the river analogy, one of two things will result in the end.

1. We will continue to ignore waste (the rocks) and continue to raise the water level (inventory) in order to avoid the rocks. Eventually, the water level will spill over the river banks, grounding us and rendering us inoperable. This is equivalent to bankruptcy caused by uncontrolled internal costs as a result of waste perpetuating itself throughout the organization.
2. We can recognize that we need to eliminate the rocks immediately and permanently. The goal is to create a river that is calm and navigable. This will only be accomplished if we eliminate the rocks. To achieve this, however, we need to see them and therefore it's imperative that we reduce inventories to expose this waste.

To be sure, this is not an easy task. It is counter intuitive for us to think the best step forward is to reduce inventories in order to highlight many of the problems inside our organization. The process may shut plants down, short ship customers and expose lack of teamwork at senior levels of the organization. Who in their right mind would sign up for that?

### **It's a Matter of Survival**

There is no question that our vision of true supply chain management is not being realized as quickly as needed. Many people think that people issues and the proverbial internal silo cause this delay. Organizations that continue to allow functional silos to exist, and fail to foster teamwork will not survive. Organizations that do not relentlessly eliminate waste will not survive. These are the "absolutes" I alluded to.

Much research into learning models has shown that human beings learn best by solving problems. As Aristotle said, "we learn by doing". Teamwork is about solving problems together, having a common goal and leveraging the strengths of each team member to maximize the overall potential of the team. Cross-functional teamwork is not something that results from training programs or feel good pep talks. Teamwork happens when we are forced to solve problems together and realize that inventory is hiding the problems we need to solve.

Once this is accomplished, supply chain management will be a bonus byproduct. That is, supply chain management is not something we directly implement; it is simply a result of doing the right things. It evolves when we decide to fight against waste in the system. Organizational survival depends on this one crucible.