



Blast-off: How inventory costs can go through the roof

Have you ever wondered what would happen if you did not manage your inventory levels and were not able to locate products in your supply chain? For those that have wondered this or are actually living it, I can tell you very clearly what will happen in this scenario and is happening in companies all across the globe.....your costs will go through the roof. “How do I know this?” you may ask, “you know nothing about our business.” It is quite simple, what else could result from this? We all know that nothing positive can come from the fact that you have unknown amounts of inventory floating around your supply chain and no process for managing it.

By neglecting management of your inventory levels, you do not know how much product you have available for sale. In this scenario, what will be the first thing you do when a new order comes in? That’s right, you will make more product. What if you already had that product somewhere in your warehouse or elsewhere in your supply chain? You likely incurred labour costs to produce those products and may even be paying overtime to the workers making the product. Alternatively you are unnecessarily paying the supplier who makes it for you. Does that sounds like a good business strategy?

What if a customer calls and says that they need 500 widgets by tomorrow and want to know how many you have available? What will you answer? Sorry, we do not know how many we have but we will get the order to you tomorrow. So you stop your production line and start making 500 widgets at the expense of another product, when in fact one of your distributors had 500 extra widgets from the previous production run. You see how this becomes a slippery slope draining your company of money? You manufacture produce whenever there is demand because you do not know how much of that product already exists.

As you can see, managing your inventory, even in its simplest form, is a sound business practice and can lead to:

- Reduced production costs as a result of only manufacturing what is needed;
- Reduced handling and storage costs for products where there is no demand;
- Reduced waste and obsolete products;
- Reduced time spent looking for product within your supply chain.

There are many other positive results that your organization can achieve by even having a simple inventory management process, but only the first four are free.