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Finding More Profit: Look Inside

By Herb Shields – HCS Consulting

In today's economy, the ability to remain competitive is becoming more difficult. Many companies miss or underestimate the profit and cash flow impact of two areas within their internal operations – Purchasing and Inventory.

Most manufacturing companies spend over 50% of their total revenues on purchased materials and services. They have a significant part of their total assets invested in purchased material inventory, work-in-process, and finished goods. However, management attention and resources are more often focused on increasing sales and reducing labor costs. Both are worthy objectives, but there are a lot of dollars that can be dropped to the bottom line by using the leverage that already exists in lowering purchased prices and improving inventory turnover.

Modern purchasing techniques have moved beyond getting three quotes and buying from the lowest priced supplier. Understanding the industries that comprise your supply base and analyzing the cost structure of key materials are just two actions that can lead to dramatic cost savings. Many companies are forced to compete in a world market, but still concentrate their purchasing locally, another missed opportunity. If you have a person responsible for purchasing, have you had a discussion about cost savings, stocking programs, and other opportunities? If your purchasing activity is not centralized, the people handling your dollars may lack proper training and skills.

We are all used to seeing inventory listed as an asset on the balance sheet. It really needs to be thought of as a liability, perhaps even as an unnecessary evil. Less is truly better than more, and yet, the first law of inventory is that it will expand to fill the available space. Every dollar that we can eliminate from inventory is cash that can be used to increase sales, reduce debt, or fund improvements. Has your management team examined your internal processes that create inventory from the other perspective – using those processes to reduce inventory and improve turnover? Is the process documented and understood by all the functional areas involved? Measurements, such as inventory turns, record accuracy and bill-of-material accuracy, are critical to maintaining the right levels of inventory throughout your system. Doing an ABC stratification is a simple first step in focusing attention on the different segments of inventory.

Reviewing the purchasing and inventory areas within your company can provide significant opportunities to increase profitability quickly and without more investment. Look inside, you may be surprised at the results.

Herb Shields has 30+ years of experience as an operations executive in capital equipment, automotive, electrical machinery, and consumer products companies. As VP of Materials Management at Helene Curtis, Herb led the supply chain organization which helped the corporation win Vendor of the Year awards from Walmart, Target, etc. Herb has led global sourcing teams in a variety of commodity areas. He has traveled extensively in Europe and Asia for companies including Unilever and Danly Machine.

As a consultant, Herb has delivered improved results for clients in their supply chain activities. Working with client personnel, Herb has reduced the cost of purchased materials and services, improved inventory turns and customer service, and enhanced peoples' capabilities with customized training programs.