



Working Capital – an opportunity not to be missed

Operating Working Capital (OWC) can be perceived differently by key personnel in the same company. The Finance Director may be responsible for the overall level of OWC - but might not have the means or influence to really keep it under control. On the other hand, the Supply Chain Director is desperately fighting the daily battle to contain operating costs and may not recognise that he/she could also make a crucial contribution by helping reduce OWC.

In fact, OWC is a major opportunity for Supply Chain Directors to prove their worth, whilst at the same time resolving the FD's dilemma. In manufacturing companies, inventory is invariably the biggest lever on OWC and by reducing the value/amount of stock; you effectively release that capital to be reinvested into those products or services which generate a far higher return.

Of course, this is straight forward in theory but in order to realise this opportunity one must bridge the gap between the consolidated, global accounts and the local day-to-day actions which drive them. It is important to create a shared understanding of the need for stock, a methodology for analysing and rebalancing it, as well as some tangible goals. Additionally, it is necessary to develop some relatively simple tools and have the discipline to stick to the plan.

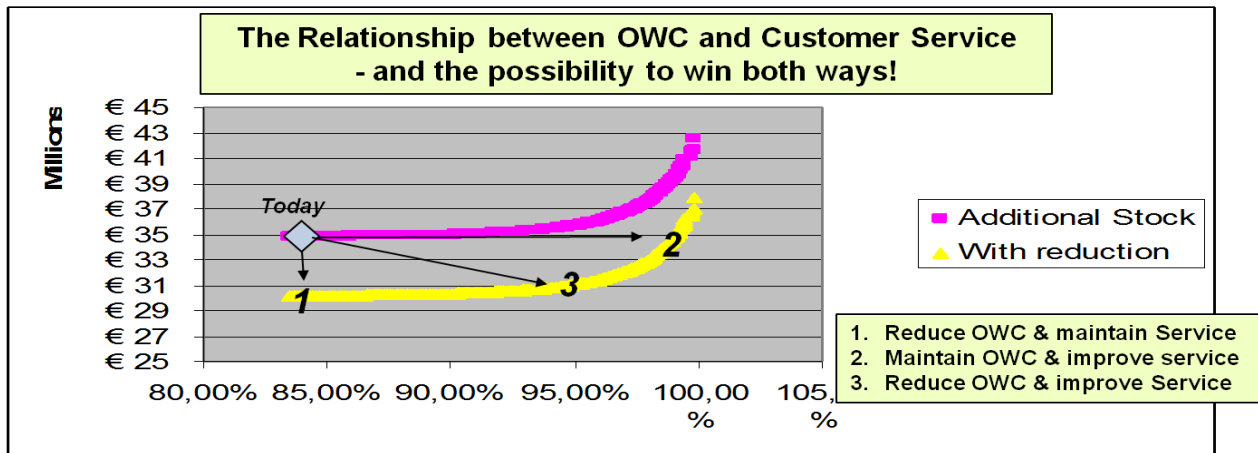
There are classic pitfalls to be avoided. Simply cutting inventories could destroy customer service in the process. Similarly, whilst one-off reductions are certainly achievable, these are rarely sustainable and the company's OWC soon returns to former levels.

Inventories are necessary and you need enough – but no more than that - to satisfy Customer demand at a predetermined service level. This includes sufficient safety stock to enable you to deal flexibly with a reasonable level of unforeseen circumstances such as higher sales than forecast, late production etc.

The key inputs required for the analysis are visibility of customer demand (sales forecast), the inventories themselves and of course, the lead times and production plans. As the Supply Chain Director is often party to all the necessary input data, he is in the ideal position to generate the costs/benefits for various service options and to present these to his commercial colleagues. He is also well positioned to execute the agreed plan.

At Bisham, we use 3 very practical spreadsheet tools and reports to facilitate this process:

1. The first enables you to understand the relationship and trade-offs between customer service and inventory levels. This report takes emotion out of the discussion and enables rational decisions to be taken. Additionally, the same tool can be used to refine/understand what-ifs i.e. "How much inventory would be required to provide 95% On-Time Delivery for those products which generate 80% of the revenue - but only 85% OTD for the remaining 20%?" This is always an enlightening analysis which often reveals that there is significant potential both to reduce inventories and to improve Customer service.



2. To complement this high-level analysis, we have developed a report which displays every SKU and grades them for inventory level (high or low) and stability. From this view, it is possible to see which SKU inventories can be reduced (high and stable) and which SKUs need to be increased (low or volatile). This report enables you to draw up a plan to rebalance your inventories – certainly not a simple across-the-board reduction.
3. The third report displays the future planned stock development. This can be at SKU or product group level and can be shown in a number of variables (eg. kgs or £/€). This enables you to see whether you are on course to meet your goals but also, crucially, to anticipate problems and resolve them proactively.

Whilst the examples here relate to finished goods, this methodology and these reports are equally relevant both to in-bound materials and intermediates, as well.

In summary, this practical approach and suite of reports/tools enables the Supply Chain Director to take the initiative and lead the discussion on Working Capital. By rebalancing inventories to get the right mix, you can help your Finance Director realise OWC reductions and then, as a result of the visibility you create, to control and sustain the desired level of Working Capital.

Finally, from our experience, it is possible to make a significantly larger and sustainable financial impact by leading the reduction of Working Capital, than the Supply Chain can realistically achieve through the annual savings of operating costs – which you have to do anyway!

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