



Maximize Profitability through Inventory

Is the company's inventory situation enhancing or inhibiting profitability? A simplified Pareto Analysis of inventory – either finished goods or raw materials – can reveal much about its impact on company performance.

WONDERMENT® Project Steps:

1. View the entire company or break down the inventory by product lines.
2. Work in either raw materials or finished goods.
3. Use Pareto Analysis to find the top 20 inventory parts. (See 80/20 Rule to the right)
4. Put your results in a chart.



80/20 Rule

80% of the inventory value is made up of 20% of your parts.

Vilfredo Pareto

Example: Press Manufacturer

Joshua's Printing Presses, a \$10M manufacturer, has a 25% margin and only three inventory turns. The average inventory balance is \$2.5M. Joshua's finished goods inventory is \$1.5 M, made up of 50 different types of presses (model #'s). A Pareto Analysis reveals:

In Your Company ...

Using either finished goods or raw materials, determine the key inventory items you have and the respective cost of each. It's helpful to also note your inventory turns per year. Apply Pareto Analysis to see what it reveals:

The Numbers ...

Your Numbers...

The Top 20% of 50 Model #'s	The Top 20% of _____ Parts
10 models (20%) = \$1,100,000	_____ parts (20 %) = \$
The Other 80%	The Other 80%
40 models (80%) = \$ 400,000	_____ parts (80 %) = \$

Note: You can also apply Pareto a second time to your numbers to decrease the sample size.

What questions does this raise?

Regarding those top 10 finished models or your top inventory items ...

- How many are sold per month?
Are there multiple customers for the models? Make a list.
- How fast can you build them?
- How fast do they turn over?
- Who inside your company is (should be) responsible for this inventory?
- Why is the quantity of models there?
- Do these customers ...
 - Pay a premium for having these parts in stock?
 - Give you additional market share?
 - Legally commit to taking the stock?
- What would you do with the cash if the inventory were not there?
- How can you get rid of it?

Send us your unique numbers and get a free Pareto T-shirt. Log on to www.jacquard.com or call 847.945.8700