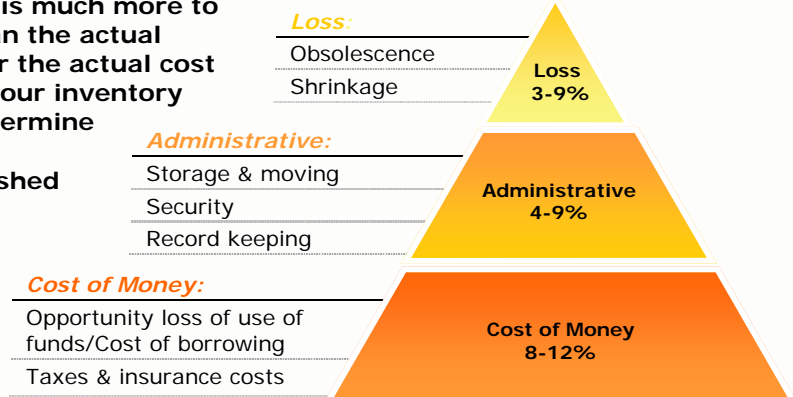




Optimize Inventory

Many people do not realize there is much more to the cost of carrying inventory than the actual purchase price of the inventory or the actual cost of the finished goods. Knowing your inventory carrying costs is important to determine the best overall purchasing (raw materials) and warehousing (finished goods) strategy. Inventory management experts estimate the total carrying costs of inventory to range between 15% and 30% of your inventory. The components that determine these percentages are illustrated.



Costs of Carrying Inventory Pyramid

Example: Bottling Company

The manager of Jerry's Bottling Company, a materials and distribution facility, currently has \$10M in inventory that turns twice a year. After learning the true cost of carrying inventory he realizes that, worse case, he has \$3.0M in cost tied to his inventory. By working with production and suppliers he is able to reduce his inventory by half, dropping it to \$5M. This reduces the inventory carrying cost to \$1.5M, netting him an annual savings of \$1.5M.

Use the example and table below to determine your company's carrying cost and the savings associated with reducing inventory.

| Jeremy's Bottling | | |
|--------------------------|------------|--------------------|
| | Baseline | 50% Inv. reduction |
| Annual Sales | \$30,000 | \$30,000 |
| Gross Margin | - \$10,000 | \$10,000 |
| Cost of Goods (COG) Sold | = \$20,000 | \$20,000 |
| Inv. Value \$'s | / \$10,000 | \$5,000 |
| Inventory Turns | = 2 | 4 |

| Your Company | | | |
|--------------|-------------------------|-----|-----|
| Baseline | Reduce Inventory by ... | | |
| | 10% | 25% | 50% |
| | | | |
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| | | |
|-------------------------|-----------|-----------|
| Inventory Value \$'s | \$10,000 | \$5,000 |
| Est. Carrying Cost % | X 30% | 30% |
| Est. Carrying Cost \$'s | = \$3,000 | - \$1,500 |
| Savings | | = \$1,500 |

| | | | |
|--|--|--|--|
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What questions does this raise?

- Who, inside your company, is (should be) responsible for inventory management?
- Are there problems with your suppliers or production that cause inventory to be high?
- Is any of your inventory currently at risk or not moving?
- What would you do with the cash if the inventory was not there (reduced)?
- Do you consider the inventory carrying costs in your purchasing decisions?
- How will this impact your COGS?

Please tell us what you think. Log on to www.jacquard.com or call 847.945.8700.