

Case Example:

Reducing Inventory and Product Costs



1. Situation

- Designer and manufacturer of high-end custom furniture and case goods
- Total inventories growing and putting burden on cash flow and return on assets
- Total value of inventory approximately 22% of sales
- Upholstery costs excessive and revenues have been flat for past three years
- Excess capacity at upholstery plants requires new sales or consolidation

3. Deliverables

- Diagnosed existing inventory levels and changes in levels historically
- Performed Cost of Quality (COQ) analysis to determine actual costs and root causes of inventory buckets
- Identified and implemented “quick hit” projects to drain the inventory levels
- Identified and implemented longer term fixes to the forecasting and planning process to assure inventory levels would not become excessive
- Identified opportunities for cost reducing upholstered goods for new markets

Discreet
Manufacturing
Industry

2. Key Issues

- Majority of inventory (75%) was in finished goods as a result of poor forecasting and planning
- Client planning and production processes were inefficient and inventory was used as a safety mechanism for sales
- Client had difficulty being responsive to market changes and would rarely obsolete or replace product that was not selling keeping high levels of inventory
- Manufacture of upholstered goods had not changed in 20 years and has gone unchallenged

4. Results

- Created leadership team cohesion. This was the most critical element
- Created energy and excitement for the change. This energy is being cascaded and serves to propel the organization forward
- Clear concise understanding of accountability and authority for each member of the team
- Created team alignment and gave the team confidence in decision making

“We were never able to make much progress reducing inventory levels. The Conequity team helped us break through our thinking and showed us ways to reduce inventory within reducing service levels.”

President, Custom Furniture Company