

# Managing inventory in uncertain times

Inventory is the most crucial supply chain buffer and the most significant source of waste. Reaching the right balance requires carefully executing strategy, discipline, and organizational alignment. This is why UST partnered with industry expert and founder of Supply Chain Insights, Lora Cecere, to deep-dive into the root causes of inventory surpluses and how organizations can effectively tackle these complexities.



Read on to dive further into Lora's research, which integrates quantitative studies from Supply Chain Insights (2019–2023), corporate reporting data synthesized by YCharts, and insights from qualitative interviews with supply chain leaders and inventory management directors conducted in November 2023.

## 5 drivers of excess inventory

Effective inventory management is a complex process, but it can address many of your organization's challenges.

 <p><b>01</b></p> <p><b>Longer shipping lanes</b></p> <p>The impact of longer in-transit shipments and shipping variability increased inventory.</p>	 <p><b>02</b></p> <p><b>Product proliferation</b></p> <p>The addition of products to portfolios increased manufacturing cycle stock.</p>	 <p><b>03</b></p> <p><b>Bullwhip effect on raw materials</b></p> <p>Establishing inventory targets only through MRP introduces the bullwhip effect in raw material management.</p>
 <p><b>04</b></p> <p><b>Increase in demand and supply variability</b></p> <p>Traditional approaches focusing only on safety stock management are insufficient.</p>	 <p><b>05</b></p> <p><b>Focus</b></p> <p>Effective inventory management requires organizational alignment.</p>	

### Technology alone will not prevent excess inventory


**28**

more days

On average, companies held 28 more days of inventory across all industry segments in 2022 than at the beginning of the recession in 2007.

**90%**

This increase in inventory occurred even though over 90% of manufacturing/retail organizations own and operate Enterprise Resource Planning (ERP) and Advanced Planning Solutions (APS).



## Optimizing inventory with leadership involvement and ownership

Leadership teams must push for organizational ownership of inventory. A barrier to alignment is the definition of the forecast. Forecasting excellence and high inventory turns go hand-in-hand.

**1/4**

One in four companies are clear on corporate strategy.

**75%**

Clarity on the form and function of inventory and supply chain design is an opportunity for 75% of manufacturers greater than \$1B in annual revenue.

### What demand focus drives supply chain excellence?

 <p><b>Sales-driven</b></p> <p>Alignment to a sales-driven forecast. Sales teams are biased toward sales incentives and will drive bias.</p>	 <p><b>Marketing-driven</b></p> <p>Organizational execution of marketing plans. Marketing programs focused on market share and growth objectives without discipline on demand shaping activities grow inventories.</p>	 <p><b>Budget-driven</b></p> <p>The budget defines plans as a constraint. Using the financial forecast to drive inventory results in the wrong inventory produced.</p>
 <p><b>Demand-driven</b></p> <p>Ingestion of channel data to improve the demand signal. Using channel data decreases signal latency and enhances accuracy, reducing inventory levels.</p>	 <p><b>Market-driven</b></p> <p>Plans driven by market signals bidirectionally from channel to supplier's supplier ensure the plan's feasibility and buffer alignment.</p>	

## 7 strategies to improve inventory management practices

Moving forward to reduce inventory and manage variability with ever-changing markets requires companies to think past traditional approaches.

- 01**

**Build a balanced scorecard**


Align the definition of supply chain excellence to a balanced scorecard. Build organizational ownership of inventory through metric systems. Make inventory the ownership of all to earn bonus incentives.
- Redefine work**

Define the organization's roles in forecasting, budgeting, and inventory management. Get clear on the differences between sales-driven and demand-driven and marketing-driven and market-driven.
- Tackle inventory management**

Measure inventory effectiveness and set goals for its form and function. Actively use optimization to design buffers.
- 02**

**Understand the current state**

Measure Forecast Value Added (FVA), inventory effectiveness, and the lead time variability in existing processes. Build a planning master data layer to inform and align supply engines/models in each supply chain planning batch process.
- 03**


- 04**

**Get clear on the role of the budget and ERP**


The financial budget is an input to planning but should never be a constraint. ERP is the transactional system of record but should never be the backbone of the supply chain planning taxonomy.
- 05**

**Take on the change management journey.**

Drive organizational alignment to manage inventories better. The journey requires constant focus and discipline. Include inventory management metrics in the balanced scorecard.
- 06**

**Focus on inventory management in sales and operations planning**

Use S&OP processes to make decisions on inventory strategies. Eliminate inventory waste quickly to reduce operational costs.
- 07**



## The UST difference

UST offers full lifecycle inventory management and rightsizing services to optimize your strategy with an end-to-end methodology.

 <p>Identify and eliminate inefficiencies</p>	 <p>Maintain and optimize inventory levels</p>	 <p>Enhance supply chain resilience</p>	 <p>Improve financial performance</p>
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Let's co-create a plan to reshape your inventory management strategy

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