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### **Inventory Management Remains the Weakest Link in the Supply Chain**

*CCMI outlines strategy for reducing inventory and unlocking the door to increased cash flow for manufacturers and retailers*

ALEXANDRIA, Va. (February 25, 2002) – According to Capital Consulting & Management Inc. (CCMI), a supply chain-focused consulting firm, efforts to reduce inventory levels maintained by U.S. manufacturers and retailers are not keeping pace with the significant advances being made in other supply chain-related activities. CCMI believes that while inventory management is the weakest link in the supply chain today, applying new strategies can yield significant improvements in inventory levels and costs.

“Through the adoption of technology, increased information was supposed to replace physical inventory in 21<sup>st</sup> century supply chains, but it’s not happening as quickly as anticipated,” said Scott Elliff, president of CCMI. “By all measures – quantity of information flow, speed of data transmission and sophistication of technology tools – the availability of information is continuing to grow exponentially. At the same time, overall business inventories of raw materials, work-in-process and finished goods as a share of the Gross Domestic Product are virtually the same as they were five years ago, and are now at an all time high level of about \$1.5 trillion.”

Reducing inventory frees up capital for better uses, such as reinvestment in new plants and equipment, marketing and sales initiatives to grow market share and increased dividend payouts to shareholders. For a company with one billion dollars in sales, reducing inventory from “average” levels to those achieved by leaders within that company’s industry can generate anywhere from \$20 million to \$100 million in added annual cash flow.

To achieve these benefits, CCMI recommends that companies rebalance the roles of information systems and operational improvement programs. “Technology is a terrific enabler for providing better visibility of inventories and efficiently performing complex inventory optimization and replenishment calculations, but it’s the *people* within the companies who need to set the business policies and procedures, make the day-to-day decisions about what to order, make, stock and ship, and diligently address ongoing problems,” said Elliff.

By far the best results are achieved when new technology is coupled with focused strategies to improve underlying business processes, which typically include five key program elements:

- Updating lead times and order quantities to reflect improvements in transit times and delivery reliability
- Analyzing and sharing data on production and sales levels with suppliers and customers, so that more timely adjustments can be made to future forecasts
- Building additional flexibility into manufacturing processes, through just-in-time programs, last-minute customization capabilities, and fast lane make-to-order replenishment methods, especially for volatile seasonal merchandise
- Redesigning warehouse networks, layouts and procedures to speed up the flow of goods from suppliers to customers
- Aggressively disposing of obsolete or “dead” inventory that clogs the supply chain

“Companies that are coupling these supply chain process improvements with the latest in real-time supply chain information technology are achieving the most dramatic improvements in costs and service levels, and are making inventory management a much stronger link in their supply chains,” said Elliff.

### **About Capital Consulting & Management Inc. (CCMI)**

CCMI has more than 16 years experience developing and implementing supply chain process improvements that truly "move the needle" for clients by reducing costs,

shortening cycle times, improving performance on key financial measures and strengthening strategy and capabilities. Overall, CCMI has helped clients save more than \$2 billion in annual operating costs and inventories, with typical reductions of 15 percent or more in procurement, manufacturing, transportation, logistics, order fulfillment and related areas. CCMI has had a leading role on projects for a diverse set of clients, including Amgen, Amtrak, AT&T, General Electric, Kmart, Lucent Technologies, NexPress Solutions, Sara Lee, SkyJet and Zenith Electronics. For further information visit [www.ccmiservices.com](http://www.ccmiservices.com).