



Aerospace firm embraces holistic inventory transformation, saves millions

A successful organization is one that can deftly coordinate its many moving parts, but, sometimes, even the best organizations can get out of sync. That was the case with an aerospace company and its inventory. The organization knew it was operating with too much stock and was even holding millions of units after they had been written off the books. The company made numerous attempts to optimize its inventory, but when those efforts came up short, the CFO reached out to Protiviti to conduct an assessment of the company's inventory management process.

Together with Protiviti, the firm set two major objectives:

1. Identify quick wins that would impact inventory reduction goals immediately
2. Identify long-term supply planning process improvements that would have far-reaching effects on lowering costs and optimizing inventory.

Following a 12-week assessment of five of the firm's manufacturing sites, the Protiviti team identified three major areas of potential organizational improvement and suggested nine detailed recommendations. Within the first month after the review, the organization was able to reduce its safety stock ordering levels by \$1.5 million, or 75%. To date, it continues to see improvements.

The organization made a number of other measurable improvements over the same one-month period, including lowering the minimum order quantity (MOQ) on items where the MOQ represented three or more months of demand, which reduced the value of inventory needed to be held by \$2.9 million. The assessment process included stakeholder interviews, policy appraisals and process analysis, each yielding major discoveries that led to greater efficiencies and significant savings.

Understanding the source of inventory inefficiencies can be eye-opening, particularly when seemingly insignificant factors, like buyer behaviors and incentives, have significant and measurable financial impacts.

- Tony Abel, Managing Director, Protiviti

Standardizing the Organization

The stakeholder interviews revealed that supply chain staff had varying organizational structures in place at different sites. In fact, of the five sites reviewed, four had widely different staffing arrangements. Additionally, frequent changes were made to supply roles and reporting assignments across the sites without companywide consistency or clear communication of strategy.

Inconsistent use of ordering parameters and a lack of clear responsibility were two important sticking points that prevented optimal inventory. To address the former, a recommendation was made to revamp and standardize the ABC priority categories as they applied to specific supply areas, such as safety stock.

The Protiviti team recommended that the company standardize inventory job titles and reporting structure and align the roles of the planning staff to value streams for consistency. Among other benefits, consistency was necessary to allow peer-to-peer work collaboration across sites.

The team also suggested that all supply planning processes be consolidated under a vice president of supply chain. Previously, many of the processes had been siloed and site-specific. A schedule of regular meetings for supply employees was developed to keep the lines of communication open and ensure regular attention to the company's needs and policies as they changed.

Rightsizing Inventory

To address inventory issues, the team analyzed historical demand profiles and forecasting accuracy in specific areas, including safety stock, MOQs and order multiples. It also reviewed vendor lead times and customer-specific contractual requirements that could affect inventory beyond the normal manufacturing schedule.

Based on the review, the team determined that inconsistent use of ordering parameters and a lack of clear responsibility were two important sticking points that prevented optimal inventory. To address the former, a recommendation was made to revamp and standardize the ABC priority categories as they applied to specific supply areas, such as safety stock.

To establish clear ownership of assigning ABC priorities, the engagement team suggested the creation of a matrix that specified roles and responsibility among the inventory staff — also known as the RACI (Responsible, Accountable, Consulted, Informed) matrix.

Expanding Visibility

During the review process, Protiviti determined that the firm's supply and procurement software programs did not have consistent definitions of work-in-progress (WIP) and finished goods inventory. Additionally, the semi-finished goods inventory could not be distinguished in one of the major IT systems, and high-level reporting did not delineate WIP items. To resolve these issues, the team suggested standardizing operational reporting to include "semi-finished goods" as a category and expanding inventory source codes to differentiate various stages of production.

The organization has continued to adapt and improve. It has embarked on several far-reaching adjustments that have added significantly to its bottom line, including a reorganization of the inventory management team, revised roles and responsibilities, and extensive recategorization of ordering parameters.

Another problem area involved key performance indicators. Some sites felt dutybound to operate in accordance with customer on-time request (OTR), as opposed to the on-time delivery (OTD), contractual requirements. The team suggested that the firm prioritize OTD as the companywide standard while continuing to measure OTR as a supplemental satisfaction metric.

Welcoming Change

Since the changes were recommended, the organization has continued to adapt and improve. It has embarked on several far-reaching adjustments that have added significantly to its bottom line, including a reorganization of the inventory management team, revised roles and responsibilities, and extensive recategorization of ordering parameters.

Altogether, the aerospace firm proved that successful businesses must learn to not only adapt to difficult changes but continuously improve. Because of the company's openness to embrace change and to rethink its entrenched inventory organization and processes, it was able to achieve substantial quick wins in as little as 30 days and reposition itself for success in the long term.

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