



Making It Count

Improving operational efficiency
with well-developed inventory
management procedures

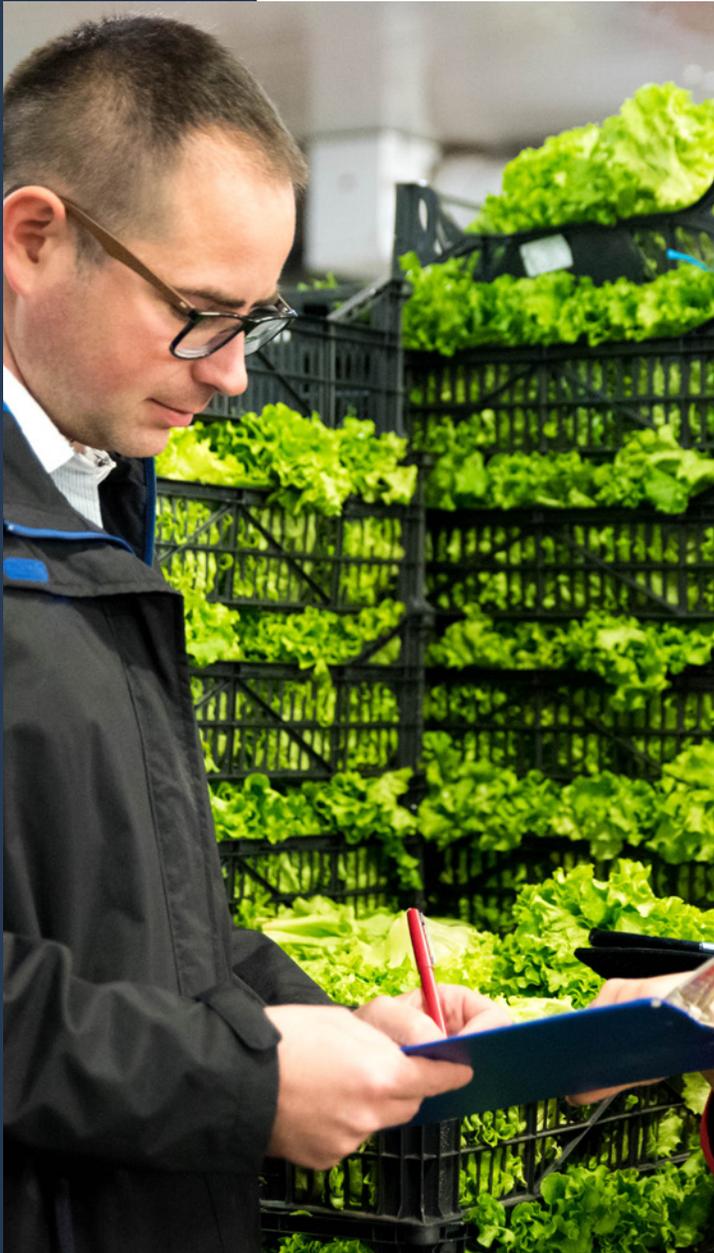
JUSTFOOD

When there are issues or cost overruns with supply chain operations, food manufacturers may look for the problems that are easiest to detect, ranging from inadequate employee training to a verifiable breakdown in machinery. But sometimes the most persistent difficulties can be the hardest to trace, and those problems' roots may begin long before they become noticeable.

Some of the industry's biggest losses stem from faulty inventory management procedures; it can be easily overlooked, but it's as essential to a healthy supply chain as employee education or mechanical upkeep. If raw materials are lost or mismanaged, it can reduce potential revenue, and food waste remains a huge problem—approximately 133 billion pounds (or 31%) of the United States' food supply is wasted every year. In food manufacturing, the loss of raw ingredients is the second highest cost to companies (at 25%) besides labor, with the third-highest cost for the industry far behind at only 4%. It remains, far and away, one of the most difficult challenges the industry faces, and according to Todd Austin, a senior application consultant for Aptean's JustFood ERP, many companies are aware of the challenge but nevertheless encounter difficulty in overcoming it.



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“It’s not that it’s overlooked. They don’t have the tools in place to accurately assess it,” he said. “They know they have an issue, and they know it should be better, but the tools they have aren’t allowing them to make a better decision.”

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Part of the reason issues with inventory management remain so hard to solve is that the slightest, undetectable error can “snowball” into a more significant hindrance to your operations, making it difficult to correct problems quickly and safeguard operations for the future. This is why manufacturers must ensure they’re investing the necessary time, staff, expertise and resources to strengthen awareness of the importance of inventory management throughout the entire supply chain. Doing so can be a proactive step toward ensuring stable operations now and in the future.



Inventory management's costs and benefits

Inventory management – the proper acquisition, tracing and storage of ingredients through the supply chain from purchasing to finished product – offers a number of immediate and apparent benefits to manufacturers, but the costs of improper inventory management can have a real impact as well. Leaders must consider the time lost when employees must fix problems caused by the lack of appropriate inventory management procedures. To combat such shortfalls, manufacturers need to develop the right mindset, according to Rodney Smith, an executive director of Supply Chain at Creative Foods.

“I think the biggest thing is that people tend not to have an inventory strategy or plan. They try to fly by the seat of their pants,” he said. “I think you have to set the groundwork and stick to it. If you find areas of improvement, you need to jump on it. In keeping inventory accurate, there’s always human error. You need to find ways to mitigate the risk and errors that happen.”

However, many manufacturers react to the loss of raw ingredients in the supply chain by assuming that it’s an inevitable byproduct of operations. Therefore, they buy excess ingredients and produce excess inventory



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with the assumption there will be mistakes along the way. In doing so, manufacturers lose potential revenue in two ways; they've spent time and resources on materials that were lost or damaged, and they're overspending on producing inventory that might not be needed if inventory management procedures were stronger. According to Austin, manufacturers see overbuying as the safer option to avoid damaging relationships with retailers.

"They can't run out," he said. "They're selling to Target, Costco and others, who will stop buying if they ship short."

But effective inventory management can have the opposite effect, creating a self-sustaining environment that improves cost effectiveness. In the same way that mistakes can metastasize into significant problems along a supply chain, small, affordable inventory management improvements can quickly outpace any initial investment by saving the company from larger drains on resources and revenue that could occur with faulty management practices. According to Smith, 'buying more' ingredients is not a long-term solution to a company's inventory management issues, because it does nothing to address the root concerns.

"We're not just going to throw inventory at the problem," he said. "We need to come up with a plan."



How can manufacturers improve inventory management in their supply chains?

Team and company leaders may be reticent about the first steps to take in improving inventory management procedures in their operations, but Smith and Austin both asserted that with the right focus and proper investment, such improvement is within reach for any company.

First, employees need to understand the importance of accurately counting and assessing ingredients and products in the supply chain, as mistakes made

early in the process may not arise until later. However, sometimes employees view inventory management (and the tools and resources used to improve it) with caution, fearing leaders are looking to automate their jobs. Austin said this couldn't be further from the truth, and leaders need to make that clear to those under their management.

"You go through a rigorous hiring process, find the right candidate for the supply chain job, and then put them

behind a spreadsheet and have them key in numbers. We want to let the people in these places do their job better," he said. "We're not trying to replace them; we can't replace them."

Employees' hesitancy about new tools and resources could be easily addressed if they're kept informed throughout any decision-making processes, Smith said. By involving them in discussions about how to improve inventory management, it's far more likely that they'll understand that any changes aren't being done to replace them.

"You'll have adoption when you get someone involved in the process," he said. "You're going to get so much further ahead when you involve them at the early stages, and not waiting until the 11th hour."

Additionally, manufacturers must ensure they're finding the right tools to fulfill these ambitions. For example, if a company wants to count inventory on a daily or weekly basis, a physical process to get their Manual Requirements Planning (MRP) calculations could become too time-consuming, according to Austin.



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“That’s pretty easy if you have one or two raw materials, but some of our customers have hundreds or thousands of raw materials, and doing that on a spreadsheet on a manual basis won’t work,” he said. “We show them how to do it better.”

When installing an Enterprise Resource Planning (ERP) system, it’s easy to see the robust ROI inventory management can offer.

But this will take some initial investment, and leaders must trust that savings will come, even if the Return on Investment (ROI) is more difficult to comprehend than a new piece of machinery. When improving inventory management with an Enterprise Resource Planning (ERP) system, Smith said it’s easy to see the ROI, provided manufacturers give their improvements time to bear fruit.

“You’re getting things to be more accurate, you’re not having obsolescence, and you’re not carrying too much inventory,” he said. “There’s definitely more cash available that you’re able to invest.”



Conclusion

With the right tools and mindset in place, inventory management can be a properly integrated aspect of any manufacturer's supply chain operations, according to Austin, and the cost savings will help companies be more proactive in other aspects of their business. By maximizing cash flow and minimizing waste, manufacturers can quickly respond to price pressures or put more funding into Research and Development in order to stay attuned to consumer needs and preferences, as well as get products to market quickly at an affordable price.

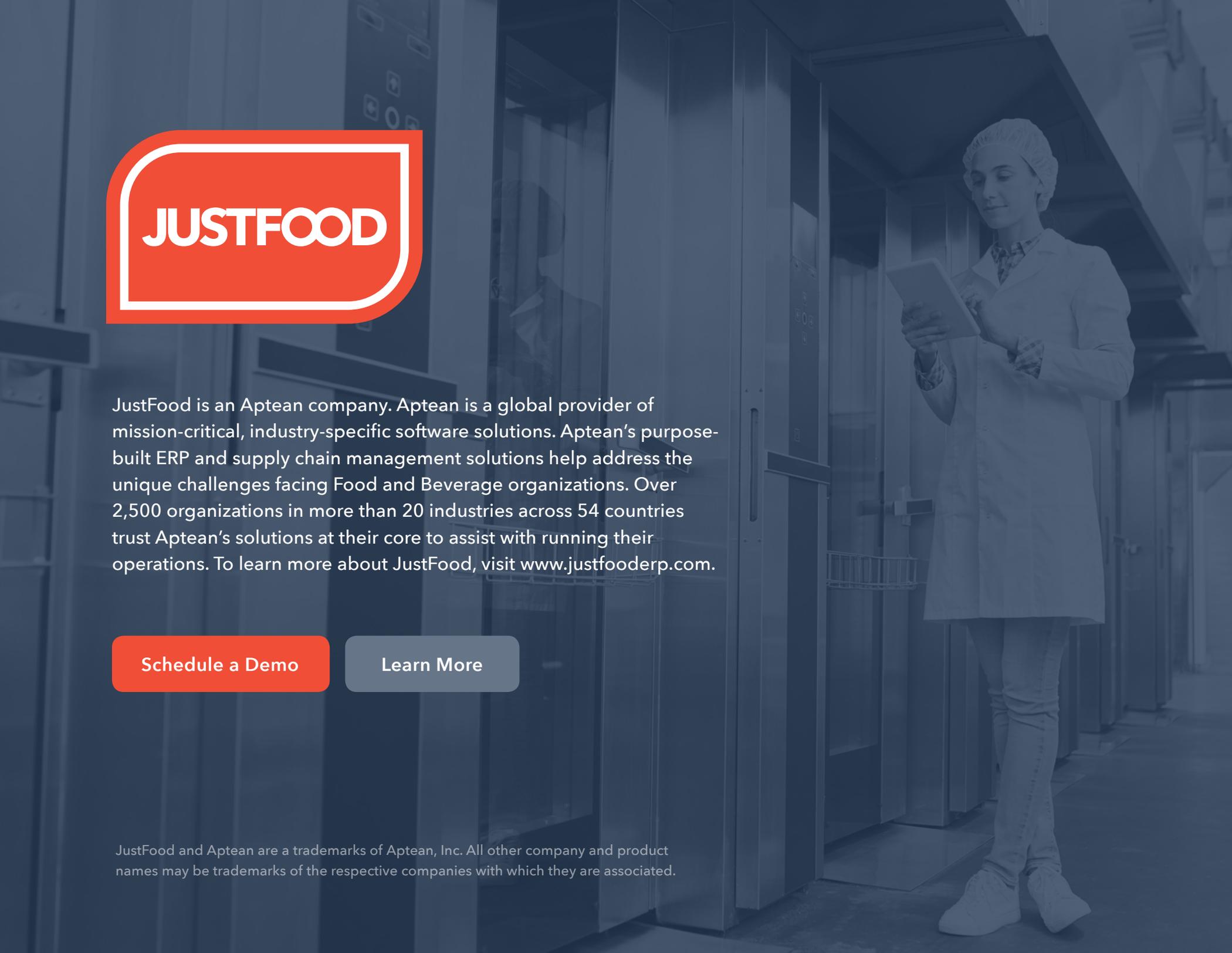
"(Inventory management) enables you to grow the business, which most of our customers are trying to do," he said.

Particularly, small- and mid-sized companies can look to inventory management as a way to differentiate themselves from larger competitors. The more involved and sizable a supply chain becomes, the more difficult it is to conduct proper inventory management. A smaller company might be able to attract retailers by

pointing to strong inventory management procedures that subsequently allow them to pass on the cost savings. Above all, Smith cautioned that without investment in your staff to help them better understand the value of inventory management, companies could be facing an uphill climb toward success.

Without investment in your staff to help them better understand the value of inventory management, **companies could be facing an uphill climb toward success.**

"You can't attack a problem if you don't understand the problem, so there has to be discussion and understanding of the importance," he said. "You invest in the people and the people are going to care, and they're going to do the job that needs to be done."

The background of the entire page is a grayscale image of a woman in a white lab coat and hairnet, looking at a tablet. She is standing in a clean, industrial hallway with stainless steel walls and doors. The lighting is soft and even.

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