

Materials Management

An organization's fixed assets are typically its greatest investment, as well as its greatest source of annual expense. Of that annual expense, material and spare part inventories to support the maintenance of those assets can represent a substantial dollar value against the bottom line. Effective management of that inventory can minimize the total investment of materials and parts required to maintain vital assets.

Leading logistics experts place the cost of carrying inventory between 18 and 75 percent of the total inventory value per year depending on the type of products and the business sector. These costs include the floor space required to house the inventory, the utilities and overhead for the floor space, shelving, taxes, manpower, and other factors. One often overlooked cost is associated with having to store and then scrap material and parts that have become obsolete or have "failed in storage" due to inventory mismanagement. Recent trends in materials management include:

- Reducing the risks and costs associated with incorrect inventory levels
- Minimizing inventory investment to free up capital and reinvest in new business
- Moving away from traditional "line item replenishment" towards needs forecasting and just-in-time ordering
- Optimizing stock levels
- Reducing the "carrying cost" of inventory.

One vehicle utilized to assist organizations with optimizing the management of their material and spare part inventory is the implementation of an Enterprise Asset Management (EAM) system.

Often, the dollar savings in eliminating duplicate inventory items, reducing balances to reflect historical usage, and the

elimination of floor space can provide all of the return on investment for the EAM software and implementation.

Almost all modern EAM systems have built-in

functionality that can provide immediate results in materials management. Some of those tools are as follows.



ABC Analysis

This analysis identifies which inventory items represent your organization's greatest monetary investment in terms of dollar value and rate of turnover. Conducting the analysis through the EAM:

- Identifies and sorts inventory items by importance – A (highest) through C (lowest)
- Sets reorder points and safety stock levels appropriately for A, B, and C items
- Determines the appropriate cycle count frequencies for each item.

Reorder Points

The EAM can automatically calculate optimum reorder points based on criticality (What happens if I have a stock out?), vendor lead time (How quickly can I get another?), ABC type (How quickly does this item get used?), and upcoming/planned work (Is there future work that requires this item?). This calculation within the EAM can help:

- Avoid stock outs for critical items
- Minimize overstocking of items
- Reduce carrying costs (fewer items in stock)
- Move the ordering process toward just-in-time
- Base reorder points based on future needs rather than basing reorder points on past ordering history.

Stock Check Report

This EAM report can list all items that have not been issued this year or past years, sorted from highest value to lowest value. The report assists materials managers by:

- Highlighting levels of under-stocked items and identifying overstocked items in inventory
- Displaying stock levels between storerooms
- Illustrating cash tied up in slow-moving stock.

Stearns & Wheeler has implemented many EAM systems for a wide variety of organizations and industry sectors. These implementations have resulted in immediate cost savings through the introduction of Materials Management Best Practices, which are made possible by the advanced functionality inherent in modern EAM systems.