Inventory Turns

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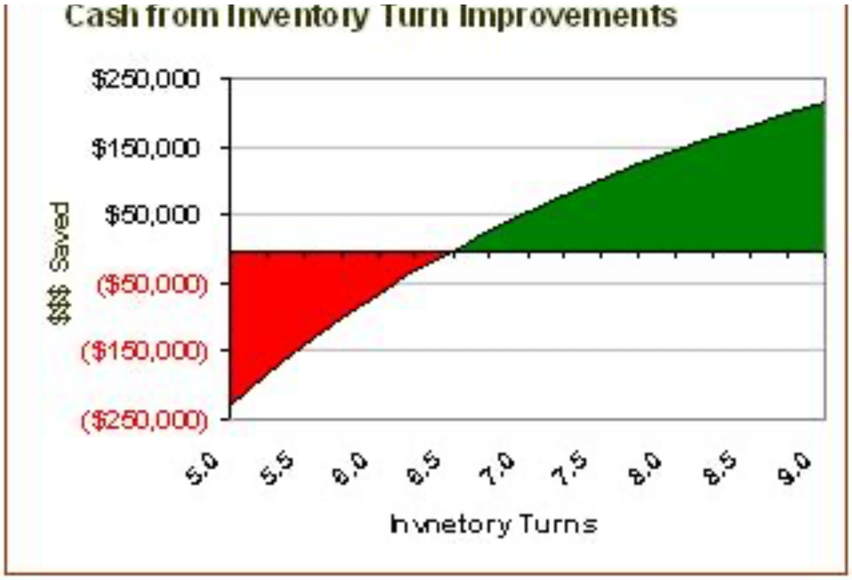
Let's assume that the adage "Cash is King" is the credo of your company. If this is the case, a few basic changes in your inventory processes can generate an incredible positive cash flow, at no cost.

Inventory Turns is a complex concept that non-finance executives find it difficult to appreciate. As we illustrate the power of inventory turnover, assume the annual cost of goods sold is $5 million and the inventory at month's end is $769,231.

Annual Inventory Turnover	Average Inventory On Hand	Cumulative Savings	Weeks of Invnetory On Hand
5.50	$909,091	($139,860)	9.5
5.75	$869,565	($100,334)	9.0
6.00	$833,333	($64,103)	8.7
6.25	$800,000	($30,769)	8.3
6.50	$769,231		8.0
6.75	$740,741	$28,490	7.7
7.00	$714,286	$54,945	7.4
7.25	$689,655	$79,576	7.2
7.50	$666,667	$102,564	6.9
7.75	$645,161	$124,069	6.7
8.00	$625,000	$144,231	6.5

In this scenario, our inventory turns 6.5 times per year, on an average of every 8 weeks (52 weeks per year/6.5 turns). In other words, the inventory "rolls through" your organization every 8 weeks.

Optimizing your purchasing processes, working with vendors and enhancing technology, let's say that you can conservatively improve seven days in inventory. This equates to average weeks of inventory on hand of 6.5, or 8.0 inventory turns per year.



This improvement in inventory turns generates annual net cash of $144,231. Of course, in the non-theoretical world, the savings are significantly greater for the reduction in inventory saves, financing costs, and the opportunity cost of carrying this inventory.