

# #039 : Why Optimize Inventory?

Inventory costs money. Too much inventory blocks much needed cash and too little of it makes the customer dissatisfied. Mismanagement of inventory limits the earning potential of an organization.

## How much it really costs?

It depends on various aspects. For example, to manage inventory organizations pay carrying cost, taxes, and obsolescence costs.

**7-16%**  
Carrying cost  
(% of COGS)

**3-5%**  
Obsolescence cost  
(% of COGS)

## What existing inventory management systems can do?

Existing ERP systems address the following:

- How much stock is required?
- Where it is required?

## What existing inventory management systems cannot do?

Existing ERP systems do NOT address the following:

- Is the plan correct if not what is wrong?
- Whether the required inventory is excess or too low?
- How the current situation can be improved?

## How to optimize inventory?



Elimination of excess inventory



Reduction in inventory needed with inventory management/replenishment tools, reduction in variability, lead time and centralization



Achieved inventory level