

Inventory Stratification RESEARCH PROJECT



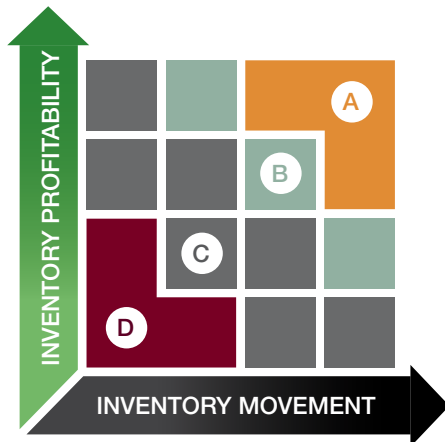
TEXAS A&M
UNIVERSITY

Best Practices ★ Actionable Results ★ Education

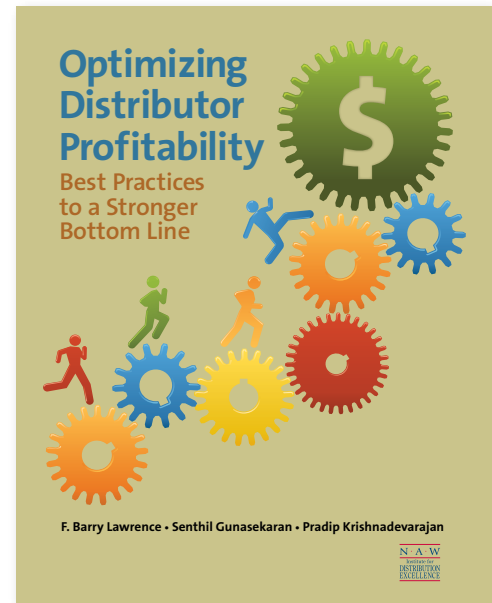
Distributor Process Framework



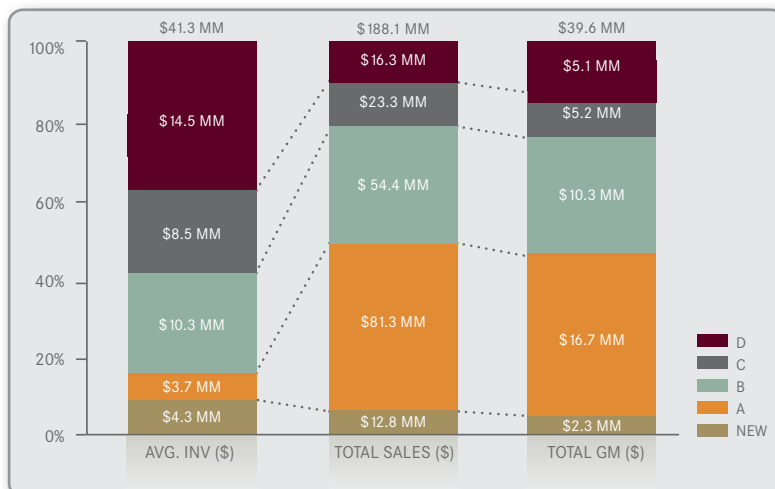
Stratification Model



Education & Roadmap



Sample Results



Industrial
Distribution
Program

Inventory stratification is the process of ranking inventory items based on relevant factors applicable to the business environment. The purpose is to classify items into a certain number of categories (typically less than five) so that working capital can be managed optimally.

“Through knowledge learned from the inventory management program, attended by all our management and key salespersons, we have reduced our total inventory levels by over 20%.”

Brent A. Burns, Vice President,
ISC Building Materials, LP

Representative Project Outcomes

PROJECT AREA	DISTRIBUTION CHANNEL	CLIENT REVENUE	PROJECT OUTCOME	
			Inventory Reduction/ Re-deployment	Service Level
Inventory Stratification	Metals Distribution	\$ 1 Billion	↓ 17%	
	Pipe, Valve and Fitting	\$ 1 Billion	↓ 12%	↑ 7%
	Oil & Gas Equipment Mfg.	\$ 1 Billion	↑ 20%	↓ 6%
	Paper Manufacturing	\$ 220 MM	↑ 10%	↑ 3%
	Chemicals Distribution	\$ 125 MM	↓ 33%	
	Hardware	\$ 125 MM	↓ 35%	↑ 3%
	Fluid Power Equipment	\$ 125 MM	↓ 33%	↑ 8%
	Building Materials	\$ 80 MM	↓ 22%	↑ 4%

Inventory Strategies



KEY TAKE-AWAYS

- Reduce obsolescence and right-size inventory investments
- Maximize your ROI on inventory
- Balance customer service
- Optimize safety stock investment
- Minimize total relevant cost
- Manage item-level profitability
- Effective use of IT & human resources

“We collaborated with Texas A&M on an inventory stratification project which has resulted in a successful classification of our inventory based on item level profitability. We have already seen a significant reduction in capital employed and expect to benefit from further decreases.”

Kevin C. Reid, Vice President - Procurement,
ThyssenKrupp Materials, N. A.

“I was impressed with the overall program at TAMU. When I look back to the program, I was impressed with the Item Stratification segmentation of Critical (A&B) Items and (C) Items.”

Randy Thomas, Regional Manager, Wilson Supply

INDUSTRIAL DISTRIBUTION PROGRAM