
# This Time, Don't Forget Your Stopwatch!

## We Know the Drill

The drill is familiar. The Baker Hughes oil rig count peaked at 1609 in early October. It teased us by drifting only a percent or two lower heading into the holidays. Now, in late January, we find ourselves with a "four-handle" on the oil price. The oil-directed rig count is in free fall, down 18% from the peak and falling two to four percent a week. In just a few weeks, we have erased more than two years of growth, matching the rig count we had at the end of March 2012. Every seven or eight rigs lost from here turns the clock back another week. Stick around this industry long enough, and you will experience one of these cycles. Stay for 30 or more years, and you will be a veteran of many cycles.

## The Bust Phase Play Book

For veterans of prior cycles, the pages in the play-book for the bust phase of the oil services business cycle are familiar. We forge answers to questions like: How long? How deep? Do we need temporary fixes or do we need to make structural changes? We struggle to get ahead of the curve. We worry. Did we to cut too deep? Did we cut deep enough?

## Cutting Just Variable Cost to Preserve Margins is a No-Win Game

Preserving margins requires that we cut variable costs deeper to compensate for weak pricing and the difficulty of reducing "fixed" costs. Unless we address the fixed cost structure, margins cannot be preserved by cutting variable cost alone. Activity falls away, but the organization stays busy keeping up with the business we still have. Keeping employees motivated and focused is a priority as we try to restructure on a deadline. It is hard to be creative on a deadline. Eyes roll when we bring up yet another initiative. However, we must address the underlying processes. So where do we start?

## Start With Inventory

Inventory is waste. Inventory is waste we cannot afford. Carrying inventory is expensive. A company must invest capital in it. Capital has a cost, based on the debt and equity markets, and shareholders expect a return on their investment. It must be warehoused. It must be counted. It is subject to shrinkage. It can become obsolete. Many of the costs of carrying inventory are hidden but, more important, inventory hides many costs.

As you walk around the shop floor, train your eyes to see all inventory that is not in motion or being worked on as waste. When you see idle inventory, challenge your team to identify the purpose of the inventory and what could be done to eliminate the need for it. Ask: "What would happen if we did not allow that inventory to be carried?"

Inventory does not solve problems it hides them. Inventory hides inefficient processes. Inventory hides processes that do not produce reliable results. Find the process the inventory is hiding and work on making the process more efficient and more reliable to reduce both costs and the need to carry inventory.

Do not rely on inventory reduction strategies that force vendors to invest in your unwanted inventory. Inventory reduction without process improvement moves the problem to someone else and does not improve overall economic performance. In time, the cost of carrying inventory will eventually be passed on to the company by the vendor.

## Why Inventory Now?

The best time to have addressed how much inventory we are carrying was yesterday and unless your name is H.G. Wells that page is not in your playbook. The worst time is tomorrow because it never comes, so tear that page out of the playbook. That leaves us with now. Leverage the current weak business environment as a burning platform.

Reduce inventory by targeting the poorly performing process it is hiding. Look for idle inventory. If you are listening, idle inventory screams that there is a broken process. Making these processes more efficient now protects margins and builds competitive advantage that supports prices.

## Measure Inventory with a Stopwatch

The most important tool for controlling inventory may be a stopwatch, and the best unit of measure may be days and hours rather than dollars.

The table summarizes many of the reasons a company carries inventory and the reduction strategy associated with each reason. Each reduction strategy depends on managing time better to manage inventory better. We manage time by making processes more efficient. When a company improves processes to reduce the time that inventory is idle (when value is not being added) inventory investment will be reduced, and costs will be cut. Supply chain executives need to develop a keen eye for spotting inventory and being relentless in pursuing idle inventory as wasted investment and fixing the process that the inventory is hiding. Remember, inventory reduction is about managing time!

## What Do I Do Next?

1. Identify processes for improvement. Inventory investment in idle inventory is the telltale sign that a process is broken and has been hidden, same the way oil on the garage floor tells you to look for an oil leak.
2. Convert the dollar measurement into a time measurement. If staged inventory totals $250,000 and the firm ships $100,000 per week, you have a two and a half week opportunity.

**Table: Reasons for Carrying Inventory**

| Reason for Inventory | Inventory Reduction Strategy |
|---|---|
| Lot Size | Reduce ordering cost or set-up cost |
| Demand During Lead Time | Reduce lead time |
| Safety Stock | Improve the reliability of stated lead times<br>Reduce average lead time<br>Improve forecast accuracy |
| Work-in-Process | Reduce interoperation queue times<br>Reduce set-up times |
| Staging | Reduce process times<br>Improve process reliability of manufacturing and procurement |
| Transportation | Reduce transportation times<br>Improve reliability |

3. Set an audacious goal. Can the two and a half weeks be cut to two days? Could two days be cut to half a day?
4. Empower a team, break out the lean tool kit, and value stream map the process. What are we doing and why? Is there a better way to do it?
5. Identify non-value adding steps and eliminate them. Make the value adding steps more efficient. Then do it again.
6. Implement with urgency. Redeploy excess assets or people to value adding processes or release them.
7. Monitor and repeat with a more aggressive goal.
8. Last, treat performance gains as treasures, not to be squandered when activity picks back up as it inevitably will. React quickly to preserve lead time gains, communicate them to your customer, and build competitive advantage!

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