



ECCI

Great old-fashion service

Integrating Information, Processes and People

Software and Professional Service: Financial, Distribution, Manufacturing, CRM



We Are All About Manufacturing

Reduce Your Working Capital Through Inventory Turns

Freeing up cash is even more imperative in a weak economy but we see that many companies believe that they need to keep a lot of inventory on hand to meet their “Ship-On-Time” goals. Many companies we talk with believe shipping on time means good customer service. Inventory provides a buffer used by many companies to correct internal issues and mistakes. Our experiences are many companies justify high inventory levels as the cost of delivering good customer service. We believe that inventory can be reduced without impacting customer service levels. Additionally by increasing your inventory turns you have more money available to generate additional profits for your company. We believe, in a weak economy, one of the top mandates is freeing up capital so that you have the money needed to go after more business.

Our customers increase Inventory Turns reducing their working capital and free up more capital.

Let’s look at some examples of how we free up \$75,000 in working capital.

Let’s say that you purchase or make \$100,000 of product in January. At the end of the year the revenue you received from the product is \$125,000. This means that you have \$25,000 of Gross Profit on an investment of \$100,000.

Now, let’s say that you purchase or make \$50,000 of product in January. Just before you run out of stock you purchase or make another \$50,000 with the revenues from selling the first shipments of inventory. At the end of the year the revenue you received is still \$125,000 with the same \$25,000 of Gross Profit. But this time your investment was only \$50,000.

Again, another way you can look at this is – let’s say that you purchase or make \$25,000 of product in January. Just before you run out of stock you purchase or make another \$25,000 with the revenues from selling the first shipments of inventory. Again when you were about to run out of inventory you purchase or make another \$25,000 with the revenues from selling the last shipment of inventory. One last time in the year, when you are just about to run out of inventory you purchase or make another \$25,000 with the revenues from selling the last shipment of inventory. At the end of the year the revenue you received was still \$125,000. This means that you still had \$25,000 of Gross Profit but now your investment was only \$25,000.



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In each of these cases we improved our inventories and dramatically reduced the amount of working capital needed. We now have an additional \$75,000 that we can put to work generating additional profits.

COGS	Inventory	Turns	Additional Work Capital
\$100,000	\$100,000	1	\$0
\$100,000	\$50,000	2	\$50,000
\$100,000	\$25,000	4	\$75,000

Current Year's Cost of Goods Sold
 -----(divided by)-----
 Average Inventories

Using this same example let's look at how long it takes to get this inventory off the shelf and into your customers hands.

COGS	Inventory	Turns	Days before you see Income
\$100,000	\$100,000	1	365
\$100,000	\$50,000	2	182.5
\$100,000	\$25,000	4	91.25

Learn how ECCi can help you reduce your working capital so that you have more capital to generate additional profits.