

# NEWS & TRENDS

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RESEARCH

## Overseas sourcing pushes inventories higher

IF YOU'RE SOURCING FROM OVERSEAS, INVENTORY INCREASES ARE INEVITABLE, BUT THEY CAN BE KEPT IN CHECK.

BY CORINNE KATOR, ASSOCIATE EDITOR

WHILE ORDER FILL RATES and picking productivity have steadily improved over the last three years, inventory levels have skyrocketed. That's one of the highlights of "DC Measures 2008," a benchmarking report released at the Warehousing Education and Research Council's ([www.werc.org](http://www.werc.org)) annual conference last month.

Three years ago, the report says, companies reported holding an average of 20 days of raw materials in inventory. Now they're reporting 62 days worth.

Kate Vitasek, managing partner at Supply Chain Visions ([www.scvisions.com](http://www.scvisions.com)) and co-author of the report, says stagnation in the U.S. economy is part of the reason inventories are so high right now. But that's certainly not the whole story.

Inventory levels have been on the rise for the past decade, she says, because U.S. companies have changed the way they do business. They offer more choice and faster service, and supply chains are more complicated.

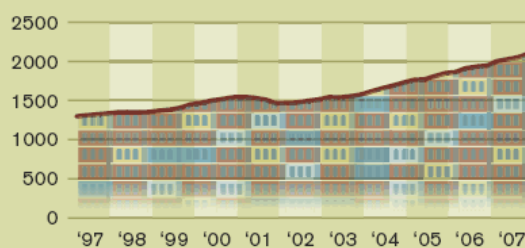
The biggest factor complicating supply chains, she says, is increased sourcing from overseas. (According to the American Assoc. of Port Authorities, container traffic at U.S. ports has increased 72% over the last decade.)

Importing materials, Vitasek says, automatically adds at least 30 days of inventory because of product being held in inventory as it crosses the ocean. In addition, companies sourcing from overseas usually hold more safety stock in response to longer lead times.

Supply chain consultant Rosalyn Wilson agrees overseas sourcing has added extra time and uncertainty to companies' supply chains, and that has pushed

### U.S. private inventories

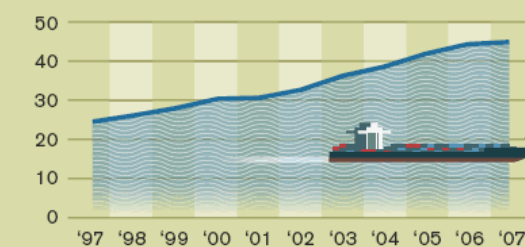
\$ (billions)



Source: Bureau of Economic Analysis

### U.S. container port traffic

Total TEUs (millions)



Source: American Assoc. of Port Authorities

inventories up. "But that doesn't mean we're doing something wrong," she says. "It just means we're doing it differently."

"What's happening is making sense," she adds, "and I don't see any way of getting around it as long as we continue to globalize."

But there is, of course, room for improvement.

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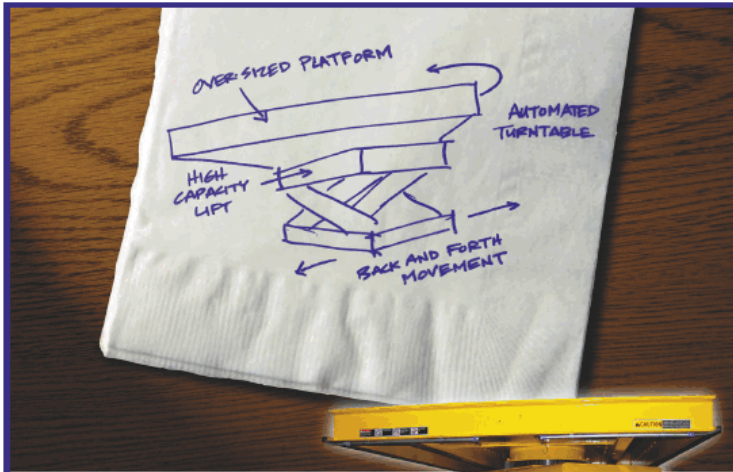
Experts agree one way to improve inventories is to shorten the supply chain by selectively moving some production closer to home.

"In the rush for off-shoring, it's possible that some products went out that shouldn't have been off-shored to begin with," says Mike Peters,

first vice president at ProLogis (www.prologis.com). "And it's possible that they'll come back—maybe not to the U.S., but perhaps to Mexico."

Another way to improve inventories is to leverage today's sophisticated inventory planning tools. A recent report from Marsh (www.marsh.com), a

consulting firm specializing in risk management, says companies using multi-echelon planning software to manage inventory on a global level commonly see inventory reductions between 10 and 20%. (continues on p. 12)



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*Imperfectly Frank*

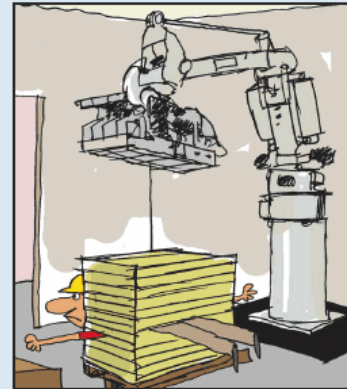


"Frank now questions his decision to purchase a wire guided system on eBay."

—Steve Knight, *Cost Plus World Market*

### This month's contest

*Imperfectly Frank*



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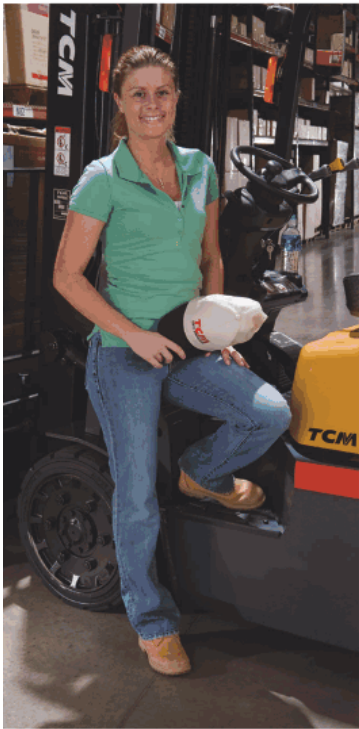
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