

Case Study

Excess and Obsolete Inventory

A large designer and producer of aircraft for military and civilian use accumulated several million \$ of excess and obsolete inventory. The inventory had been fully financially reserved. The material manager was being measured on both gross and net inventory values. While the net inventory number reflected the reduction due to reserving the inventory, the gross inventory measurement was not being met.

The material manager also knew that military parts sales were being lost to smaller companies that were awarded contracts due to small business set asides and competitive reasons. The OEM, however, was obligated to support the military customer even if a contract was awarded to a different source.

ATC offered a program to purchase the inventory at a fraction of the OEM's standard cost. The OEM was able to absorb the reserved inventory to reduce inventory. The benefits included:

- Reduced OEM inventory carrying cost
- Generated cash
- Provided a safety net of inventory

As ATC was able to compete more effectively with others selling the same parts at a lower cost, the profits from the sale of inventory were shared with the OEM. In addition, should the OEM need parts for production or other kit sales, ATC sold the inventory back to the OEM at a significant discount from original standard cost.