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From thought to action

INVENTORY AS A STRATEGIC ASSET

The oil in your supply chain engine

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Executive Summary

So many organisations believe they have an inventory problem. Inventory is seen as an unwelcomed consequence that must be addressed. The unavoidable outcome of forecasts, service targets, or operational inefficiencies.

As a result, leaders focus on reducing it, rather than understanding what it is actually doing for the business.

This creates a familiar tension:

- **CFOs see too much cash tied up but cannot explain why**
- **COOs are pushed to reduce inventory but know that doing so risks service and resilience**
- **Supply chain teams end up firefighting the symptoms rather than addressing the root causes**

Resilient Supply Chains do not happen by accident. They are built through deliberate choices. Inventory is one of the most powerful, and most misunderstood, levers available.

This paper explores why inventory should be treated as a strategic asset and as a key foundation to achieving operational excellence.

It will explore how inventory underpins supply chain resilience, and where leadership teams must make different decisions if they want confidence, not surprise.

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What is Supply Chain Resilience?

Supply chain resilience is often misunderstood.

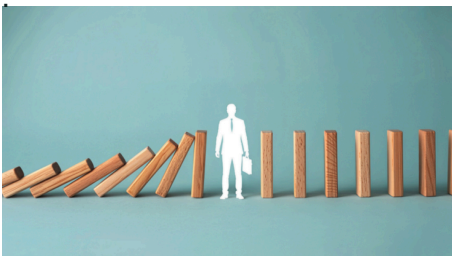
- **It is not just about eliminating risk**
- **It is not about holding more stock "just in case"**
- **And it is not the opposite of efficiency**

Resilience is the organisation's ability to manage disruptions, recover quickly, and adapt deliberately.

Time, cost and the ability to continue to serve customers profitably during disruptions are key attributes in measuring resilience.

Every supply chain carries inventory. The difference lies in whether that inventory exists by design or by default.

Resilience always involves trade-offs between cost, service, and risk. Mature organisations do not attempt to eliminate these trade-offs, they make them explicit and intentional.



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Why Leaders Feel Out of Control

Inventory is one of the most critical strategic assets that an organisation has.

Its purpose is to provide a buffer that enables a supply process to meet its demand requirement in the most cost-effective way. It exists as an assurance for the gap between a utopian process and reality.

Despite its importance, inventory remains one of the least well-governed assets in most organisations.

The CFO Perspective

- On the balance sheet inventory appears everywhere, but ownership is nowhere
- Working capital moves up and down but often with limited explanation or insight as to why
- Working capital is a financial outcome rather than a financial decision
- Working capital is cost to reduce not an asset to optimise

The COO Perspective

- Operational leaders are pressured to reduce inventory while simultaneously protecting service, resilience, and growth
- Achieving this is then characterised by cautiousness, the use of hidden buffers, and constant reactive decision-making
- Firefighting becomes the de-facto approach to address isolated inventory issues

Inventory is never "wrong". It simply reflects the system it sits within

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Inventory is a Design Choice

Inventory should not be seen as a consequence - It is a design choice.

Inventory may appear to grow randomly. It doesn't, it reflects two things:

1. How the supply chain has been designed (or not designed)

2.The decisions made that deliberately, or inadvertently, impact it

Inventory is harder to manage when:

- **Lead times are long or uncertain**
- **Demand is volatile**
- **Decisions are slow or unclear**
- **Planning horizons are misaligned**

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Like oil in an engine

Inventory is a necessary buffer between mismatched parts of the overall system. It should act as a lubricant. Just like oil in an engine.

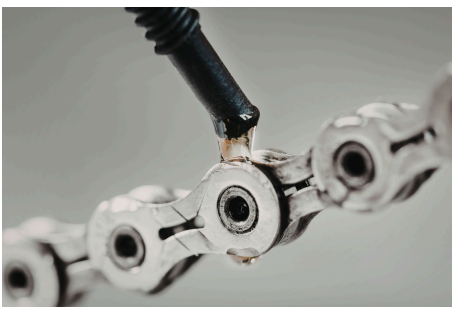
The right amount, in the right place, enables smooth operation. Too little, and the system seizes. Too much, and performance degrades.

Its real purpose is to absorb variability inherent in the system.

Treating inventory purely as a cost to be minimised ignores this. It will lead to decisions that whilst optimal in isolation run the risk of degrading overall performance.

The path to effective inventory optimisation is therefore:

- **Recognise its purpose**
- **Design the supply chain with this concept in mind**
- **Ensure decision-making is managed in a way that optimises the system not its parts**



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Inventory and Supply Chain Design

The Missing Link

Many inventory initiatives fail because they focus too narrowly and, at best, achieve a short-term, standalone reduction.

Local optimisation such as adjusting planning parameters, changing procurement practices or setting up one-off initiatives may deliver those short-term gains. However, they rarely survive the next supply chain disruption or deliver sustainable benefits.

This is because the underlying system remains unchanged.

To be effective, Inventory cannot be separated from:

- **Network design and structure**
- **Product design**
- **Manufacturing strategy**
- **Operational planning**
- **Customer offer**

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The Role of S&OP

Where Inventory Decisions Belong

If inventory also reflects decision-making the next question is obvious: **where should the choices and trade-offs be made?**

The answer is Sales and Operations Planning (S&OP)

[Many organisations have quite rightly extended their definition of S&OP to Sales Inventory and Operations Planning (SI&OP) to recognise this important aspect of operational planning]

S&OP is not a reporting activity or a forecasting forum. At its best, it is the **decision-making discipline** where demand, supply, and financial intent are reconciled.

It provides the best professional judgement with what is known at a point in time. In mature organisations:

- **Inventory trade-offs are debated and authorised in advance**
- **Scenarios are tested before cash is committed**
- **Changes in Inventory are expected, not discovered**

Without this comprehensive governance, changes in inventory are explained after the fact.

This is a clear sign that sales and operations decisions are misaligned

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Questions Mature CFOs Ask in S&OP

Mature CFOs don't attend S&OP to review numbers. They attend to test decisions. These are the questions they should bring to the forum.

- **Purpose & Intent**
  - What is this inventory protecting us from
  - What is it enabling?
  - Which risks are we consciously carrying, and which are we unintentionally funding?
- **Trade-offs**
  - What did we choose not to optimise this cycle — and why?
  - Where have we prioritised service or growth over cash, and is that the right call?
- **Forward Visibility**
  - What inventory movements are we expecting before the next cycle?
  - What decisions are driving them?
  - If working capital changes, will it be a surprise or a consequence?
- **Scenario Thinking**
  - What happens to inventory if demand shifts, supply breaks, or lead times extend?
  - Which scenarios have we tested and which are we currently exposed to?
- **Ownership & Control**
  - Who owns this decision
  - Who is accountable for the outcome?
  - What rules of engagement apply if we choose to deviate from plan?
- **Financial Alignment**
  - Is the business willing, and funded, to support the proposed inventory position?
  - What are we deliberately choosing to spend cash on this cycle?
- **Signals, Not Symptoms**
  - What is this inventory telling us about how the system is working?
  - If we reduced it, what problem would immediately surface elsewhere?
  - What other optimisation opportunities does this provide?

The difference:

- **Immature S&OP explains inventory**
- **Mature S&OP authorises it**

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What Good Looks Like

From Reactive to Deliberate

When inventory is treated as a strategic asset, behaviour changes.

Leaders share a common narrative about:

- **Why inventory exists**
- **What risks it is mitigating**
- **What it is enabling**

Inventory targets are intentional. Trade-offs are explicit. Exceptions are visible.

There is a clear understanding of inventory entitlement:- the minimum inventory required to meet market demands while considering the existing level of flexibility in a supply chain.
As a result:

- **Working capital becomes more predictable**
- **Service improves without heroics**
- **Disruption triggers decisions, not panic**

Resilience emerges not from stockpiling, but from clarity, alignment, and disciplined decision-making.

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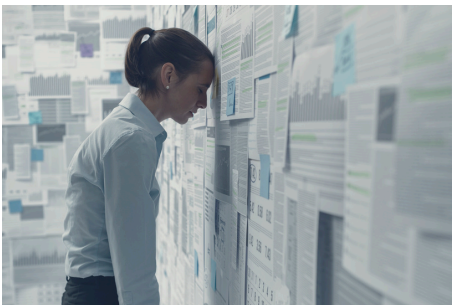
Why Inventory Programmes Stall

Despite good intentions, many initiatives fail for predictable reasons:

- **Starting with tools before design decisions are clarified**
- **Treating inventory as a KPI problem not a systemic issue**
- **Optimising locally while destabilising the end-to-end**
- **Lacking clear ownership and decision rights**

In each case, inventory is asked to compensate for a lack of clarity in the way an organisation perceives its inventory.

Technology can enable and amplify good strategic decisions, but it cannot replace them.



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Where to start

The right, first conversation

The first step is not optimisation.

It is **clarity of purpose**.

Before asking how much inventory to hold, leadership teams must agree:

- **What risks are we consciously carrying?**
- **What service levels truly matter?**
- **Where are we willing to deploy cash, and where are we not?**

These are strategic questions, not operational ones.

Until they are answered, inventory will continue to behave unpredictably.

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What Mature Organisations Do Differently

Most organisations manage inventory. Mature organisations design with it. Here's what distinguishes those that use inventory to enable resilience rather than tolerate it.

They define the purpose of inventory
- Inventory is not held "just in case"
- Each buffer exists for a clear reason — to protect service, absorb variability, or enable growth

They accept trade-offs instead of hiding them
- Mature teams recognise that cost, service, and resilience cannot all be maximised at once
- They make these trade-offs explicit, deliberate, and visible to leadership

They decide inventory in S&OP not after the fact
- Inventory decisions are made proactively in S&OP, not explained retrospectively in reviews
- Changes are planned, authorised, and funded

They assign clear ownership
- While many functions influence inventory, accountability for decisions sits with a named role
- Decision rights are clear, and rules of engagement are enforced.

They use inventory as a signal, not a sticking plaster
- Unexpected inventory movements trigger questions about system design not firefighting
- Inventory reveals problems instead of masking them

They introduce technology last, not first
- Tools support clarity, they do not create it
- Process, roles, and decision forums are established before any software is selected

The result:
- **Inventory behaves predictably**
- **Resilience improves without destroying cash**
- **Leaders gain confidence in their supply chain**

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Next Steps

If this paper has raised uncomfortable questions, that is usually a sign the right questions are being asked.

Inventory can either:

- **Constrain growth and erode confidence, or**
- **Enable resilience, service, and strategic control**

The difference is not in the tools you use, but in the decisions you make.

If you would like to explore how your organisation is currently using inventory — deliberately or by default — Iter's **Inventory Optimiser** provides a structured way to assess design, governance, and decision-making, and to identify where resilience can be improved without destroying cash.

Register for our Inventory Optimiser Diagnostic Service

You can also book a call with us here Contact Us