

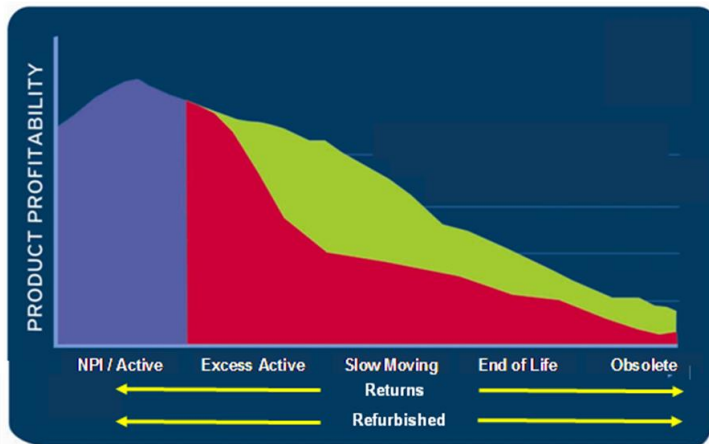
Cash in on At Risk Inventory



FREE FLOW

The At Risk Inventory Challenge

“Manage cash.” ... “Free up working capital.” ... “Increase cash flow.” These days it seems your CFO is single-threaded on the subject of cash management. As a Supply Chain Executive, you’re used to scouring your forward and reverse supply chains for cost reductions. But have you ever considered that you’re in control of a largely untapped cash-generation machine for your company—At Risk Inventory?



At Risk Inventory Across the Product Lifecycle

*Product profitability peaks early then erodes as products age.
Progressive remarketing can restore profitability if managed proactively
across all stages of the product lifecycle.*

At Risk Inventory. You recognize it, across all stages of the product life cycle: excess or non-saleable inventory stemming from over-optimistic demand forecasts, inventory stuck in sales channels, excess active inventory on the road to obsolescence, channel and customer returns, inventory that needs to be refurbished. Are you doing everything possible to use this idle inventory to help your company’s bottom-line performance?

By adopting a proactive, routine asset remarketing process you can generate cash AND reduce warehousing expenses, standard cost revisions and other carrying costs associated with at risk inventory. This cash isn’t treated as revenue: It is used to offset inventory reserves and will directly impact your P&L.

This paper will help your team understand how to wring the most cash possible out of your own at risk inventory. You’ll learn:

- How you can improve recoveries on customer returns AND dramatically reduce your reverse logistics cash-to-cash cycle
- Why moving remarketing efforts earlier in the product lifecycle yields the most impact
- How to manage this effort
- What to look for in an asset remarketing partner

Did you know?

In most companies, 20% of all inventory falls into an “At Risk” category during one or more stages of the product lifecycle.

Think Beyond Liquidation

Your inventory management team probably already has a process in place for liquidating returns, but are you generating as much cash as you could? Ask yourself:

- **Is your liquidation community continually refreshed?** If the same brokers buy your inventory year-over-year, you may be giving away margin for the sake of convenience.
- **Are pricing decisions made by the same individuals making the sell decisions?** If so, you could run afoul of Sarbanes-Oxley and other compliance requirements.
- **Is your process supported by a database application** that records and archives all lists and offers? If spreadsheets are your process management tool, you lack financial controls AND you are cheating yourself out of a rich repository of data to monitor pricing trends, analyze remarketing performance and continuously improve financial recovery.

Shrink Your Cash-to-Cash Cycle

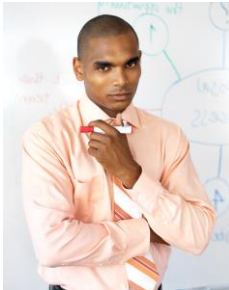
In the reverse supply chain, the cash-to-cash cycle marks the time between when your company issues a credit on a customer return to the moment you put cash in the bank from recovering that asset. This cycle can be lengthy—from 10 weeks to well over three-quarters of a year, depending on how and where rework is done on the returned product prior to remarketing.

You can escape this cash-flow quagmire. Here are some points to evaluate:

- **What is the cost-benefit of reworking your returns?** You may assume you'll get the most cash from factory-refurbished product, even if you have to ship the product back to your offshore ODM. But there is a healthy market in the "as-is" returns business, and selling "raw" returns eliminates the cost, risk and cycle time of product refurbishment. There IS a similarly vibrant market for factory-certified refurbished product, so make this decision carefully—know your costs, your processing times and the cash-flow impact of extended cycle times.
- **Can you collapse two or more process steps under a single vendor?** You may be able to sidestep the receipt of returns altogether and have your remarketing partner receive, sort, disposition and remarket them. This will also reduce cycle time.
- **Which products suffer the steepest price erosion, and which offer the highest margin?** Having the data to answer to these and similar questions will help you determine what products should have priority in the reverse logistics chain.

Take a Lifecycle View

If the average recovery on obsolete product is 10¢ to 20¢ on the standard cost dollar compared to wholesale pricing on active inventory, why do you let it sit in warehouses until price erosion has eaten away most market value? The answer is simple: Objections from your Sales organization, which is concerned about channel conflict, grey market activity and sales cannibalization.



Put yourself in the shoes of your VP of Sales. You're trying to make goal, and your CFO is cajoling you to clear out excess inventory by the end of quarter. Your response: "My team doesn't have time to search inventory spreadsheets, find interested channel partners, take offers to the CFO for approval, go back with a counter-offer, etc." The REAL issue isn't channel conflict, it's that the sales team has no easy way to figure out which products are excess without distracting them from Priority #1: Selling.

By moving this information out of spreadsheets and into a central online location—like many leading Fortune 1000 organizations are choosing to do—your company will dramatically reduce the offer/counteroffer/approval cycle. An added benefit is accountability: Your company has an audit trail of which inventory is moving, who is moving it (and who isn't), and what products sell at the highest and lowest margin.

There is no issue of channel conflict because you're selling to your channel. There is no issue of visibility because the at risk inventory data is refreshed continuously. You're transforming the excess inventory promotional activity from an end-of-quarter fire drill into a steady-state identify-and-sell cycle.

Did you know?

In 2008, conservative estimates for the global excess inventory market ranges from \$60 billion to \$80 billion.

Source: Enable Holdings

Get Started on Strategy

Here is what you can do immediately to help your company generate more cash from at risk inventory.

1. **Take the lead to improve recoveries on returns.** Short-term improvements can be initiated through a simple discovery discussion with your inventory manager, using the questions provided. Taking a close look at your existing process will lead to uncovering ways the reverse logistics cash-to-cash cycle time can be reduced over the long term.
2. **Engage your counterparts in Sale and Finance.** Developing a strategy to implement proactive inventory reduction programs for excess active inventory will require their input—and blessing. Meet with them separately, informally, and chances are you'll find them more than willing to investigate a no-risk process to address an age-old problem.
3. **Identify inventory thresholds.** Once you have key stakeholders (Sales, Finance and Supply Chain) in conceptual agreement, you should begin identifying the inventory thresholds beyond which action must be taken, the frequency for reviewing those inventory levels, and the means by which you'll make inventory visible to the Sales force. If you have a well-established Sales & Operations Planning (S&OP) process, this may be the right process on which to base this program

Controlling P&L Implications	
1	Clearly categorize excess inventory by age (i.e. 6-12 months, less than 12 months, etc.)
2	Review historical recovery trends and extrapolate a forecast P&L impact, assuming all inventory is purged
3	Seek business unit approval for recovery levels
4	Set these recovery levels as reserve prices
5	Go to market and release only when reserve prices are matched or exceeded
6	If reserve prices are not met, seek approval for exceptions before creating orders on the system

Pick the Right Partner

Your asset remarketing process may require more management attention and resource bandwidth than you can spare. You can retain control over critical decisions, and let a partner manage the day-to-day effort. That way, you can leverage their application technology rather than building your own, tap their buyer base rather than growing your own, and apply your energy to strategic actions suggested by their metrics and reports rather than toward creating pivot tables in spreadsheets.

Your partner should let you reap short-term cash improvements AND help you build long-term programs that deliver consistent asset recovery performance so your CFO can confidently reduce inventory reserves that directly impact the bottom line.

Here's a checklist of what you should seek:

- **Look for supply chain expertise.** Check out their management team, their reference accounts. A partner that is going to help you develop a lifecycle asset management strategy should have done this before.
- **Look for flexible selling methods.** Low-value, high-volume products such as compact flash memory are well suited to auctions, but high-value, low-volume products such as servers will bring higher ASPs using fixed-price sales. Your partner should support both basic selling methodologies, at a minimum.
- **Look for a platform that is easy to adopt.** The application you use to manage your asset remarketing process should be customizable and map easily to the workflow established by your Sales, Finance, and Supply Chain teams. The software should be hosted as a service (so you don't have to engage your IT organization to get it up and running quickly), and it should be redundant and scalable enough to accommodate your global organization at no additional cost to you.

- **Look for robust management reporting and actionable metrics.**

Your effort should be spent in strategic process improvement, so make sure your technology partner can provide actionable, relevant and comprehensive performance metrics to guide the way.

- **Look for a global presence.** Your products may not bring the highest return if they're sold in the same region in which they're recovered. Make sure your partner has the global presence not only to know regional markets but to be able to execute in them.



Take Action

Building more discipline into your asset recovery efforts will generate more cash in the short term, AND it will lead to a permanent positive impact on your company's P&L. By applying the concepts discussed in this white paper, At Risk Inventory expert FreeFlow has typically improved recovery in many consumer electronics companies by 20 percent in the first year. Visit these links to read more about how FreeFlow has worked with companies including Apple, Logitech, Microsoft and SanDisk to improve financial predictability and maximize recovery at all stages of the product life cycle.

Learn why Gray Williams, VP of Supply Chain at Logitech, is pleased with the improvement to the bottom line and to their asset recovery process as a result of their partnership with FreeFlow.
<http://www.freeflow.com/logitech.htm>



Bill Paganini, Sr. Operations Director at SanDisk leveraged FreeFlow's experience and expertise to get up and running quickly. More:
<http://www.freeflow.com/sandisk.htm>

Check out www.FreeFlow.com to learn more about lifecycle at risk inventory management.

Or you can talk to one of FreeFlow's experts - call (888) 616-5407 or email us at info@freeflow.com.

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