

# What Is Inventory Cycle Time?



Often, the discussion around supply chain management centers on the role of companies as consumers, and how they can streamline the flow of raw materials, goods, and services into their business processes in order to save money and achieve greater efficiency.

But those same companies form part of the supply chain for their own customers, too. Optimizing important processes that serve as key performance indicators (KPIs) such as *inventory cycle time* is critical to customer satisfaction, profitability, and growth.

Understanding and streamlining your company's inventory cycle time helps you meet your customers' evolving expectations for quality, speed, and convenience—and achieve savings and a healthier bottom line through efficiency improvements.

## Inventory Cycle Time Defined

The question of “What is inventory cycle time” has a few different answers, depending on who's doing the asking.

The general definition of inventory cycle time is “the amount of time (usually measured in number of days) required to produce and deliver an order to the

customer.” The “customer” in this phrase could be a distributor, retailer, or the consumer.

## Manufacturing Companies

For manufacturing companies, inventory cycle time—also called *order cycle time* (OCT) or *Order Fulfillment Cycle Time* (OFCT)—covers the manufacturing process and related activities in three phases:

- **Ordering Phase** (also known as Administrative Phase or Sourcing Phase)
  - Raw materials ordered, received, and reviewed.
- **Production Phase** (also known as the Work-in-Process Phase or Manufacturing Process Phase)
  - Goods produced, finished, and packaged.
- **Finished Goods/Delivery Phase**
  - Products delivered to the customer.

As an example, let’s say Company X has a 13-day ordering phase, a 30 day production phase, and a 5-day delivery phase. Their total inventory cycle time is 48 days.

## Retail and Distribution Companies

For retailers and distributors, inventory cycle time is focused on inventory levels of finished goods sold. It measures the amount of time required (again, usually measured in days) for complete inventory turnover of a given product.

These companies also use OFCT. However, because they do not manufacture goods, OFCT in this context refers to the amount of time between the moment a customer places an order and the moment they receive it.

For retailers and distributors, OFCT looks more like this:

1. A customer places an order, using a purchase order, credit card, etc.
2. The order is received.
3. The order is sent to customer fulfillment for processing.
4. The order is packed and shipped.
5. The customer receives the order.

So if, for example, Company Z orders 2,000 Purple Widgets and sells out of those widgets in a month, the inventory cycle time for Purple Widgets is 30 days.

Looking at OFCT, we see that customers ordering Purple Widgets using standard shipping receive their order in an average of three days.

The OFCT for Purple Widgets (with standard shipping) is three days.

Customers using expedited shipping, however, receive their Purple Widgets the next day. So the OFCT for Purple Widgets with expedited shipping is one day.

For both manufacturers and retail/distribution companies, having the most accurate, speedy, and reliable inventory cycle time possible is essential to meeting customer demand and expectations.

*With proper inventory cycle optimization, even small businesses can go up against the titans to capture (and keep) customer loyalty.*

## **Optimizing Inventory Cycle Time**

In a marketplace where companies like Amazon have set a standard defined by immediate (or nearly so) gratification, keeping your customers waiting is a definite sale-killer—and can cost you not just a quick sale, but the business of dissatisfied customers.

Backorders, kinks in the production process, inaccuracies in recording a customer's order, or replenishment failures on essential goods (stock outs) are all common problems that can damage customer experience, company reputation, and the bottom line.

That's why measuring and streamlining your inventory cycle times and order cycle times is so important for any company looking to compete effectively. With proper inventory cycle optimization, even small businesses can go up against the titans to capture (and keep) customer loyalty.

Almost any company can take control of this crucial metric with help from an inventory management solution.

With a comprehensive procurement solution like PLANERGY, you can create a

purpose-built inventory control solution, or integrate an inventory management module within an overall business process improvement initiative.

Consider the many ways in which digital tools can help you optimize your inventory cycle times/order cycle times:

- Cloud-based data management, process automation, and analytics supported by artificial intelligence make it easy to monitor and tweak every workflow in the inventory cycle time/order fulfillment cycle time metrics.
- Continuous improvement becomes standard operating procedure as monitored workflows and processes are refined for even greater efficiency and accuracy over time.
- Full data transparency helps you pinpoint and correct costly errors, delays, and process inefficiencies such as incomplete purchase order information, excessive lead times on essential materials, or bottlenecks in replenishment workflows.
- Inventory control is seamlessly connected to your Procure-to-Pay (P2P) process, enabling sustained process refinement across all business units.
- Analytics mine centralized, shared data for actionable insights into potential opportunities for improvement, expansion, and innovation on both ends of your supply chain.
- Real-time tracking and data analysis provide support for best-in-class inventory management techniques like just-in-time ordering to reduce stock outs and maintain cost-effective levels of safety stock. More customers receive their orders in less time without sacrificing accuracy or completeness, improving customer satisfaction.
- Transparency and process improvements shorten order to cash cycle time as well, bringing more cash into your coffers more quickly while providing accurate data for optimal cash flow, reporting, and financial planning.

## **Lower Inventory Cycle Times to Lose “Wait” and Boost Efficiency**

Your company's role as a reliable and responsive part of your customers' supply chains is as important to your company's success as the reliability and responsiveness of your suppliers.

Prioritizing inventory cycle times/OFCT as a KPI, and using the right digital tools to measure and optimize them, lets you implement efficiency and accuracy improvements at all levels of the order fulfillment process.

Trim the wasted time from your inventory cycle, and you'll enjoy happy, loyal customers along with a robust reputation, accurate cash flow, and a very healthy bottom line.

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