

INVENTORY MANAGEMENT

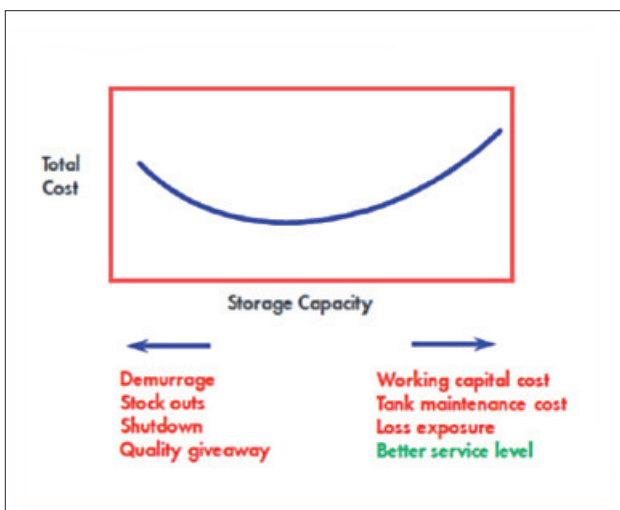
THE CHALLENGE

In today's challenging refining business environment, effective stock management can add a lot of value to the business.

A reduction in working capital through minimisation of product and intermediate stock holdings could be an attractive option that results in significant benefits through the release of buffer stocks and reduction in storage facilities.

The intention though is to maintain inventories to satisfy customer demand and service level agreements without adversely affecting Margin by too high storage cost.

In order to make the most of such opportunities, a clear picture of the efficiency of current stock handling is required.



FINDING THE OPTIMUM

In that picture the right balance in active storage capacity of an asset needs to be established.

- Too little storage can result in lost opportunities and potentially lost customers;
- Too much storage wastes valuable resources but is “easy” to ignore.

History shows too little storage gets corrected (feel the pain), but too much storage takes purposeful review.

The cost of holding stocks in a refinery can be substantial to the bottom line performance. For example if a refinery holds a total of 4 million barrels of stock, then at an average valuation of 50 US\$/bbl the value of the stock is \$200 million.

If the cost of money for the business are 10% then the cost of holding the stock is \$20 million per year.

EPS STOCK TARGETING PROCESS

EPS Stock targeting is the Process where the optimal inventory stock targets for example for a refinery, chemical plant and/or distribution terminal are defined.

Factors such as:

- Minimum deadstock (or heel) by taking unnecessary tanks out of service and reviewing remaining deadstock;
- Meeting Compulsory Stock obligations efficiently Level of Contingency (Safety);
- Stock held for own or customer security based upon economic criteria;
- Fully optimised Operating stock;
- Market conditions, are taken into account during the process.

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EPS applies a standard review process and methodology for the stock targeting.

The normal steps in this process include:

- Review Preparation and Kick-off;
- Information gathering, Interviewing key people;
- Data Analysis (typically off-site);
- Challenge session with client team;
- Presentation and implementation of final stock targets and reporting

THE BENEFITS

- Current stock handling policy to be quantified and made transparent;
- Working capital reduction: 10-20% equivalent to 3 to 6 \$ c/bbl typical

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