



# Navigating Inventory Costs in Today's Uncertain Time

Keith West, Director



◆ 40+ Years in Business

◆ Serving 8,000+ United States & International Clients

◆ Thousands of Community Service Hours Each Year

◆ 6+ Locations throughout the West Coast

### Tax

Business, International, Private Wealth, Research & Development (R&D) Tax Credit, State & Local, Estate & Trust

### Audit & Assurance

Financial Statement Audits, Reviews & Compilations, Internal Audit, Sarbanes-Oxley Compliance (SOX), Employee Benefit Plans

### Risk Assurance

HIPAA, SOC Reports, ISO Certification, NIST

### Consulting

Outsourced Accounting, Lease Accounting, Family Office

### Technology

Sage Intacct, ERP, BlackLine, Limelight, Finance Automations

### Sustainability

B Corp Certification, SASB Standards & CDP, Impact IQ ESG Assessment, Climate Neutral Certification

# Our Team

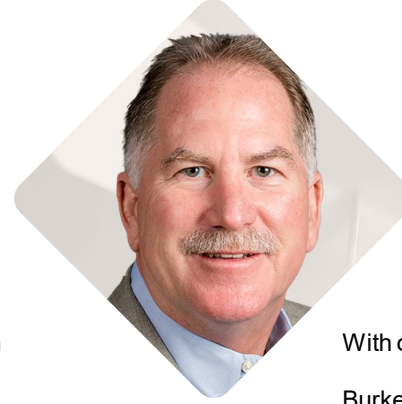


## Keith West

### Audit Director

With over 12 years of audit and accounting experience, Audit Director Keith West specializes in helping closely-held businesses balance their tax and financial reporting objectives.

Keith works extensively with clients in construction, technology, and manufacturing and distribution sectors. He is an expert in financial reporting for owner-operated private companies. Keith dedicates significant time to understanding his clients' businesses and their goals and uses this knowledge to advise clients on the technical aspects of accounting, including revenue recognition, consolidations, foreign currency transactions, and inventory valuation. These types of issues are essential in helping clients enhance their bottom line, grow and, when appropriate, attract buyers of the company.



## Kevin Burke

### Senior Internal Audit Manager

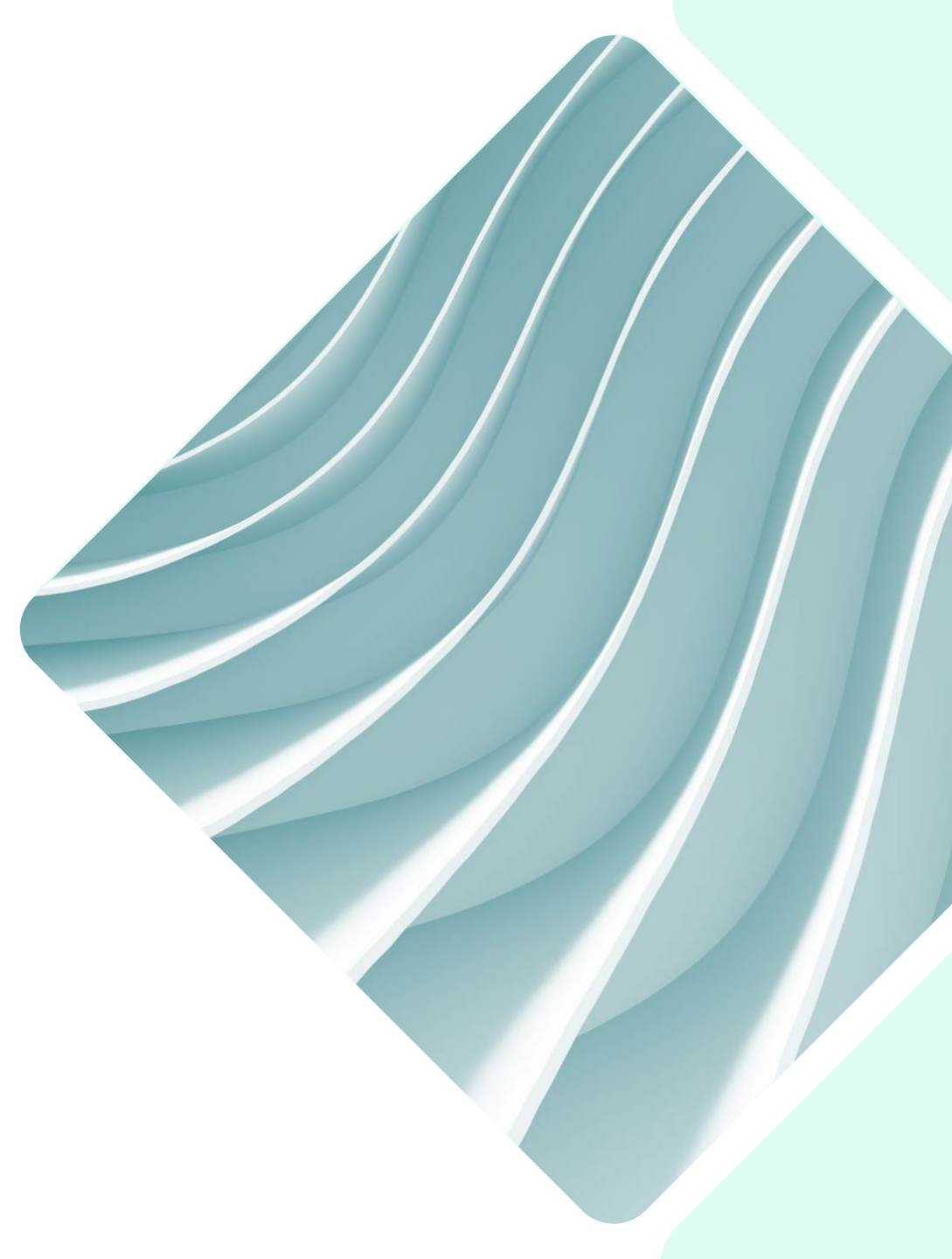
With over 20 years of experience, Senior Internal Audit Manager Kevin Burke specializes in Sarbanes Oxley (SOX) implementation and ongoing compliance, operational auditing, and operational and financial close process improvement, including BlackLine systems implementation and consulting. His skills include risk assessment, control design, and optimization. He has worked extensively with midmarket and enterprise organizations, with special emphasis on technology, construction, hospitality, and bio-technology industries.

As a former Controller, Kevin brings a deep understanding of the demands and challenges today's finance teams face. Prior to joining Sensiba, Kevin also served as Senior Global Internal Audit Manager for VeriFone, where he managed the worldwide SOX compliance program.



# Agenda

- ◆ Adapting Pricing to Inflation
- ◆ Understanding Macro and Microeconomic Uncertainty
- ◆ Costing Accuracy
- ◆ Best Practices Overall
- ◆ Best Practices for Standard Costing
- ◆ Demand Forecasting
- ◆ Risk Mitigation Strategies
- ◆ Technology and Automation
- ◆ Pricing Decisions



# Pricing When Inflation is Rising

- ◆ Utilize Enterprise Profit Management to identify customers in the following buckets
  - ◆ A. High-revenue, high profit
  - ◆ B. High-revenue, low-profit (loss)
  - ◆ C. Low-revenue, low profit



# Understanding Macro and Microeconomic Uncertainty

## Macro Uncertainty

- ◆ Economic conditions that affect an entire industry or country, such as inflation, exchange rates, interest rates, and geopolitical factors.

## Micro Uncertainty

- ◆ Factors specific to a company, like supply chain disruptions, labor costs, material prices, and demand fluctuations.



# Importance of Costing Accuracy

## Accurate costing is crucial for:

- ◆ Profitability
- ◆ Decision-Making
- ◆ Pricing Strategies
- ◆ Financial Reporting

## Tips for accurate costing:

1. Identify and categorize costs
2. Overhead allocation
3. Activity-based costing (ABC)
4. Monthly Cost Variance Analysis



# Best Practices for Manufacturing Costing

## Data Collection and Analysis:

- ◆ Gather data from multiple sources, including suppliers, internal systems, and market research, to obtain a comprehensive view.
- ◆ Use historical data to identify cost trends and patterns, enabling better predictions in uncertain times.





# Best Practices for Manufacturing Costing (Continued)

## Scenario Planning:

- ◆ Develop different cost scenarios based on macro and microeconomic factors to assess potential impacts.
- ◆ Conduct sensitivity analysis to understand how changes in variables affect overall costs.



# Best Practices for Manufacturing Costing (Continued)

## Flexible Cost Structures Best Practices:

1. Review product mix.
2. Prioritize scenario planning.
3. Consider leasing more assets.
4. Build a contingent workforce.
5. Establish alternative suppliers.



# Best Practices for Standard Costing

## When to Update Standard Costs:

- ◆ During periods of input price volatility.
- ◆ During times of economic uncertainty – budgets prepared may not remain relevant during the year.
- ◆ When changes in output are identified.
- ◆ When non-temporary input prices are identified.



# Best Practices for Standard Costing

(Continued)

## Alternative Methods for Updating Standard Costs:

- ◆ Selectively adjust standards on an increased frequency.
- ◆ The Pareto Principle can be applied, analyzing and updating the 20% of items that make up 80% of your cost.
- ◆ Triggering Event Approach.



# Best Practices for Standard Costing

## (Continued)

### Tips for Monthly Standard Cost Analysis:

- ◆ Examine costs every month.
- ◆ Apply cost / benefit principles.
- ◆ Avoid interpreting variances in isolation from each other.
- ◆ Do not be misled by favorable variances.
- ◆ Review and monitor your supplier contracts for limits on pricing adjustments.



# Demand Forecasting

**Demand forecasting** is the process of using predictive analysis of historical data to estimate and predict customers' future demand for a product.

This plays a crucial role for many reasons:

- ◆ Production Planning
- ◆ Inventory Management
- ◆ Cost Reduction
- ◆ Supply Chain Efficiency





# Demand Forecasting (Continued)

## Best Practices

- ◆ Working with customers proactively to update demand.
- ◆ Working with vendors to secure supply and lead times.
- ◆ Updating the model weekly and reviewing the model monthly.
- ◆ Ensure the right people are at the table.
- ◆ Streamline the ordering process through preapproved purchasing limits.

# Risk Mitigation Strategies

- ◆ Hedging:

- ◆ Future contracts
- ◆ Options contracts
- ◆ Forward contracts

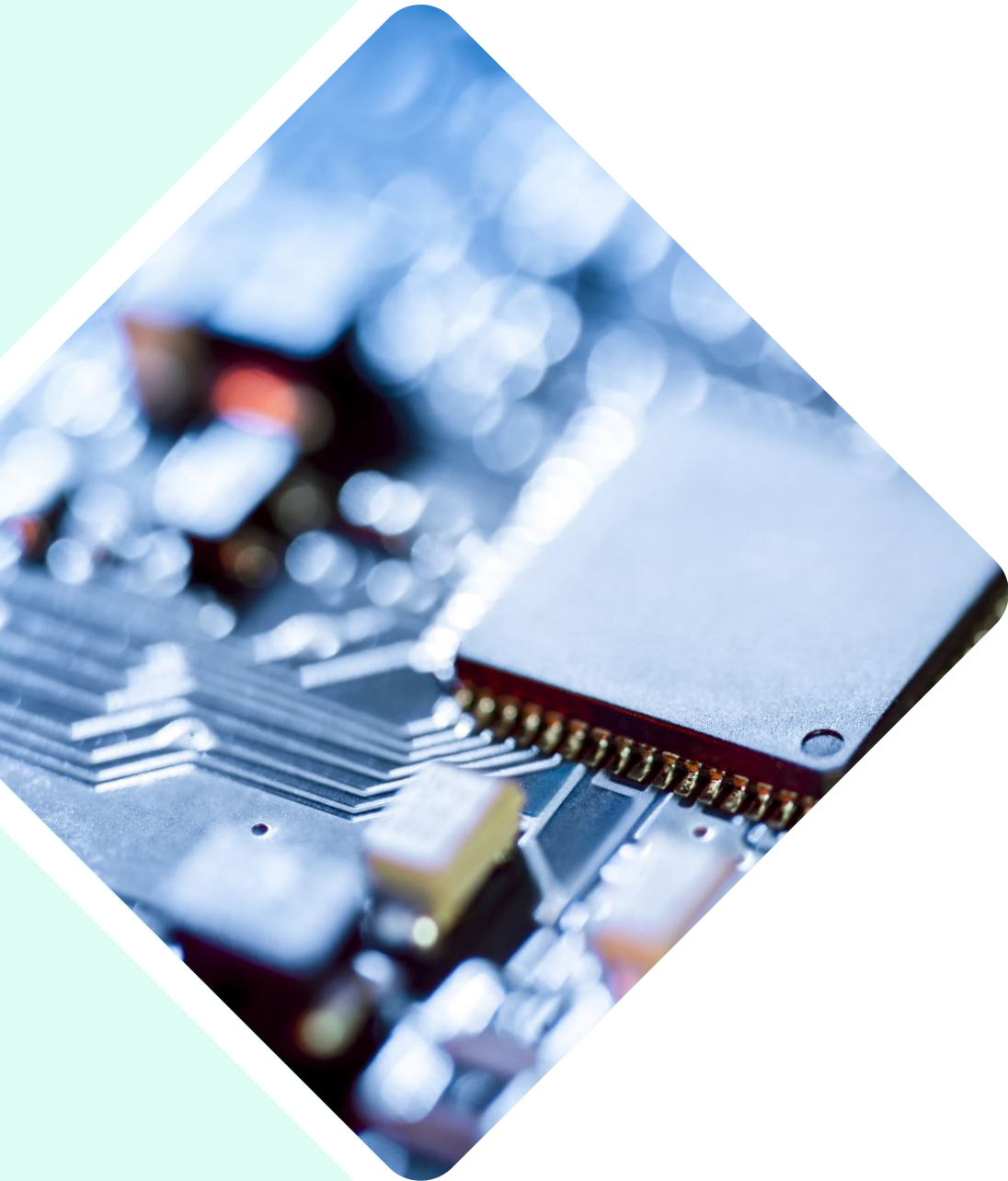
- ◆ Diversification:

- ◆ Suppliers
- ◆ Production locations

- ◆ Contingency Planning







# Technology and Automation

- ◆ Leverage advanced technology and automation tools for data analysis, cost calculation, and scenario modeling.

# Pricing Decisions

- ◆ Screen Request For Proposals(RFP) for potentially volatile inputs
- ◆ Consider Cost Plus Contracts
- ◆ Consider Price Escalators





Questions?  
Contact Us

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