What is it?
A method used to identify and dispose of outdated, damaged, or otherwise unusable storeroom material.

Why use it?
There is a common misconception that once an item has been paid for and stocked in the storeroom, it no longer costs money to keep it, no matter how long it has been around. In many cases this couldn’t be further from the truth. The fact is that the cost of capital (i.e. interest rate on borrowing money), insurance, taxes, and factors combine to result in annual inventory carrying costs of as much as 20% or more. In other words, every year you hang onto a purchased item, it costs an additional 20% of the original purchase price to maintain it. In addition to the financial impact and the obvious implications of space utilization, an obsolescence review also helps to identify and reduce overstocks, as well as ensure that the latest version of each part is being used.

What factors are critical for success?
Accurate usage history is essential to an effective obsolescence review.

Evaluation of inactive material and all recommendations regarding whether to keep or dispose of particular items should not be done in a vacuum or by storeroom personnel alone. These activities should be completed by a cross-functional team with all of the pertinent information about the items to make an informed intelligent decision.

For any items which are determined to be obsolete, follow up action must be completed to ensure that the obsolete items are deleted/deactivated from the inventory control database, and that the impact on any Bills of Materials is assessed.

In order to eliminate obsolete inventory without a significant negative impact on plant financials, an obsolescence budget should be established and managed in much the same way as any other line item in the budget.

Most important is to keep documentation of all evaluation details so that the same level of effort is not duplicated should the same item appear in a subsequent obsolescence review.

How do you use it?
Step 1 Establish the criteria for determining which items to evaluate. Typically, this is based on activity levels (or lack of activity) over the prior 3-5 years.

Step 2 Generate a list of the storeroom items fitting the criteria.

Step 3 Review the inactive items to see if they appear on any active Bill of Material (BOM).

Step 4 Verify the BOM data and make changes as necessary.

Step 5 Flag any obsolete item (in the inventory control system if possible) to prevent any further activity while existing inventory is depleted.

Step 6 Determine the best method of disposition for any unusable stocks:
• Return to Supplier
• Sell
• Recycle
• Scrap

Step 7 Document all relevant information pertaining to any item in the review, whether it was determined to be obsolete or not. This includes rationale for disposition, and documentation of any follow up activities.

Step 8 Record any carrying cost savings resulting from reduction/elimination of obsolete materials.

Step 9 Establish the time line for the next review. Typically an obsolescence review should be done once per year.