

CASH ASLEEP IN THE BUILDING · CHAPTER TWO

What the Stockroom Is Afraid Of

Every shelf is a decision about a risk, and most stock is insurance against a fear nobody has named.

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THE LICENCE

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Chapter Two of Cash Asleep in the Building. The whole book, with every chapter, is at business.hautelumiere.life/library/cash-asleep-in-the-building (DOI https://doi.org/10.5281/zenodo.23989319).

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ABSTRACT

Every shelf is a decision about a risk, and most stock is insurance against a fear nobody has named. It is a quarter past seven on the last Saturday in December, and the warehouse is colder than the yard outside. The annual stock count began at seven. The planner has a clipboard, a hand scanner and a fleece under her high-visibility vest, and she has been given aisles twelve to sixteen, which she volunteered for because she wanted to see them. In aisle fourteen, on the second level, there is a pallet of cast motor housings wrapped in film that has gone grey with dust. The label says it was received twenty-six months ago. She scans it, writes the count on the sheet, and stands for a moment with her hand on the film. She remembers the order. She placed it.

CHAPTER TWO

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Quarter past seven, aisle fourteen

It is a quarter past seven on the last Saturday in December, and the warehouse is colder than the yard outside. The annual stock count began at seven. The planner has a clipboard, a hand scanner and a fleece under her high-visibility vest, and she has been given aisles twelve to sixteen, which she volunteered for because she wanted to see them. In aisle fourteen, on the second level, there is a pallet of cast motor housings wrapped in film that has gone grey with dust. The label says it was received twenty-six months ago. She

scans it, writes the count on the sheet, and stands for a moment with her hand on the film. She remembers the order. She placed it.

She is a composite, drawn from the way stock counts and the decisions behind them are described in the operations literature and in the house's own practice, and no firm is meant. She remembers, too, why she placed it. A supplier of housings had let the firm down twice in one spring, and the production director had said, in a meeting she can still hear, that it must never happen again. So she bought six months' supply. The supplier never let them down again. The housings are still here, and so is the money that paid for them.

Ammanuel Santa Anna's writing on where abundance stops moving has a phrase for the pallet that is almost too exact. Stagnation, he writes, arrives quietly, "in the corners of your life where flow has ceased and stagnation has settled in like dust on a forgotten shelf."[8]

This chapter makes one claim. Most of the cash a firm holds as stock is held as insurance, and each insurance policy was taken out against a fear: a supplier who might fail, a forecast nobody trusts, a customer who once shouted. The stock is the visible part. The fear is the part that has to be managed, and until it is named, reducing the stock only moves the fear somewhere else.

A shelf is a decision

There is a habit in finance of treating inventory as a single number, a line on the balance sheet that is too high or too low. On the warehouse floor it is never a single number. It is several thousand separate decisions, each made by a person on a day, for a reason. The pallet in aisle fourteen was a decision about a supplier. The finished units by the loading bay were a decision about a customer. The half-built assemblies on the floor by the press were a decision about how often it is worth resetting a machine. Read that way, a warehouse is the part of Chapter 1's map of who holds the firm's money that can be walked with a torch.

The engineers who built the Toyota Production System took that view further than anyone, and the account of their thinking that Taiichi Ohno published in 1978, and in English in 1988, made the case against holding stock in the strongest terms the operations literature has.[9] Ohno counted overproduction, the making of things before anyone needed them, as the worst of the wastes, because it hid the others. A factory that makes too much has stock to cover every failure, and so it never learns which failures it has.

That idea reached most managers through an image, and the image is worth handling with care. In lean teaching a factory is often drawn as a boat on a river. The water level is the stock. Beneath the surface are rocks: unreliable machines, late suppliers, quality problems, long changeovers. While the water is high the boat floats over all of them, and nobody knows where the rocks are. Lower the water and the rocks appear, one at a time, and can be removed. The image is widely associated with Toyota and is taught in many lean courses, but its first author has not been traced for this book, and it should be read as a teaching picture rather than a quotation from anyone.

Santa Anna's canon, writing about the material side of a value stream when its flow is impaired, gives the same idea without the boat, and in the plain words of a quality engineer: "Quality defects multiply because problems are buried under layers of work-in-progress rather than surfaced immediately." The pallet in aisle fourteen buried one problem, a supplier's unreliability, so completely that nobody ever went back to ask whether it had been solved.

That is the first thing to see on a stock count. Every slow-moving line is a rock that the water is still covering, or a rock that has gone and left the water behind.

The hike and the drum

The best-known account of stock as an organisational problem is not a study. It is a novel. Eliyahu Goldratt's *The Goal*, written with Jeff Cox and first published in 1984, follows a plant manager named Alex Rogo through a few months in which his factory is told it will be closed unless it improves.[10] The book's argument, carried by its plot, is that a plant does not make money by keeping every machine busy. It makes money by moving work through the one resource that limits the whole plant, and everything else should be paced to that resource. Machines kept busy for their own sake simply fill the floor with work that cannot yet go anywhere.

Goldratt's most famous scene, from memory of the novel, is a scout hike. Rogo is leading a line of boys through the woods, and the line keeps spreading out, with gaps opening behind the slowest walker, a boy the book calls Herbie. Rogo sees that the speed of the line is the speed of Herbie, and that the gaps are inventory: distance walked by the fast boys that does not bring the troop any closer to camp. He puts Herbie at the front, lightens his pack, and ties the line together. In a later book, *The Race* (1986), Goldratt and Robert Fox gave the method a name: drum-buffer-rope.[11] The drum is the constraint, which sets the pace. The buffer is a deliberate, sized stock placed in front of the constraint so that it is never starved. The rope ties the release of new work to the pace of the drum, so that nothing enters the plant faster than it can leave.

Two things in that method matter for anyone standing in aisle fourteen. The first is that it does not abolish stock. It places it, on purpose, in front of the one resource that cannot be allowed to wait, and it sizes it. The second is that every other stock in the plant is, by the method's logic, either a buffer somebody chose for a reason they could state, or an accident. The house's Luminous 100, its reading of the frameworks every consultancy sells, adds the sentence about Goldratt's theory that every stock count confirms: it "almost always reveals that the real bottleneck isn't where you think it is."

A word on the strength of this evidence. *The Goal* is a business novel, and *The Race* is an argument with diagrams; neither is a study, and the success stories that followed them are mostly practitioners' accounts. The method has lasted because its logic follows from the arithmetic of queues, the same arithmetic that John

Little proved in 1961 and that the house's first business book used to walk a single order.[12] It should be read as a sound way of thinking about where stock belongs, not as evidence of how much any firm will gain.



What the American shelves showed

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What the American shelves showed

The question a finance director will ask next is whether any of this shows up across many firms, and there is a careful answer.

In 2005 Hong Chen, Murray Frank and Owen Wu published a study of the inventories of publicly traded American manufacturing companies from 1981 to 2000.[13] Their abstract reports that the median inventory holding period fell from ninety-six days to eighty-one over those two decades, an average reduction of about two per cent a year. The largest fall was in work-in-process inventory, the half-made goods on factory floors, which declined by about six per cent a year. Finished-goods inventories did not decline at all.

That last finding is the one to keep. Two decades of lean manufacturing, just-in-time supply and better software cleared the factory floors and left the finished-goods shelves where they were. The stock that went was the stock engineers could see and control. The stock that stayed was the stock held against customers: against a forecast, a promise, a fear of the order that might not be filled. It is the stock the planner in aisle fourteen and the sales director by the loading bay are holding.

The same study looked at what inventory meant for investors. Firms with abnormally high inventories had abnormally poor long-term stock returns. Firms with slightly lower than average inventories did well. But, in the abstract's words, "firms with the lowest inventories have only ordinary returns." That is the same honest grade that the research on the whole cash cycle gives, and it guards against a familiar mistake. Stock is not bad. Unexplained stock is expensive, and stock cut below what the work needs is a different expense, paid in lost orders and rushed deliveries. The study is of large listed manufacturers over two decades, and its stock-return findings are associations, not proof that cutting stock causes a share price to rise. What it shows clearly is where the stock went, and where it did not.

How fear is passed upstream

If finished-goods stock is held against customers, the next question is why it is so often more than the customers needed. Two pieces of research answer it, and both are about behaviour rather than arithmetic.

In 1997 Hau Lee, V. Padmanabhan and Seungjin Whang described what they called the bullwhip effect.[14] In a chain of firms, each ordering from the one above it, the orders a supplier receives tend to vary more than the sales the retailer actually makes, and the variation grows at each step upstream. They traced it to four causes, which their abstract names: "demand signal processing, rationing game, order batching, and price variations." Each is a reasonable response at one desk. A buyer who sees sales rise orders a little extra in case they keep rising. A buyer who fears a shortage orders more than she needs, expecting to be rationed. A buyer who orders once a month orders a month at a time. Each adds a little exaggeration to the signal, and the supplier, reading the exaggerated signal, builds stock against it, which is one reason the small firm at the far end of the chain, met in Chapter 4, so often holds stock it was never asked to hold.

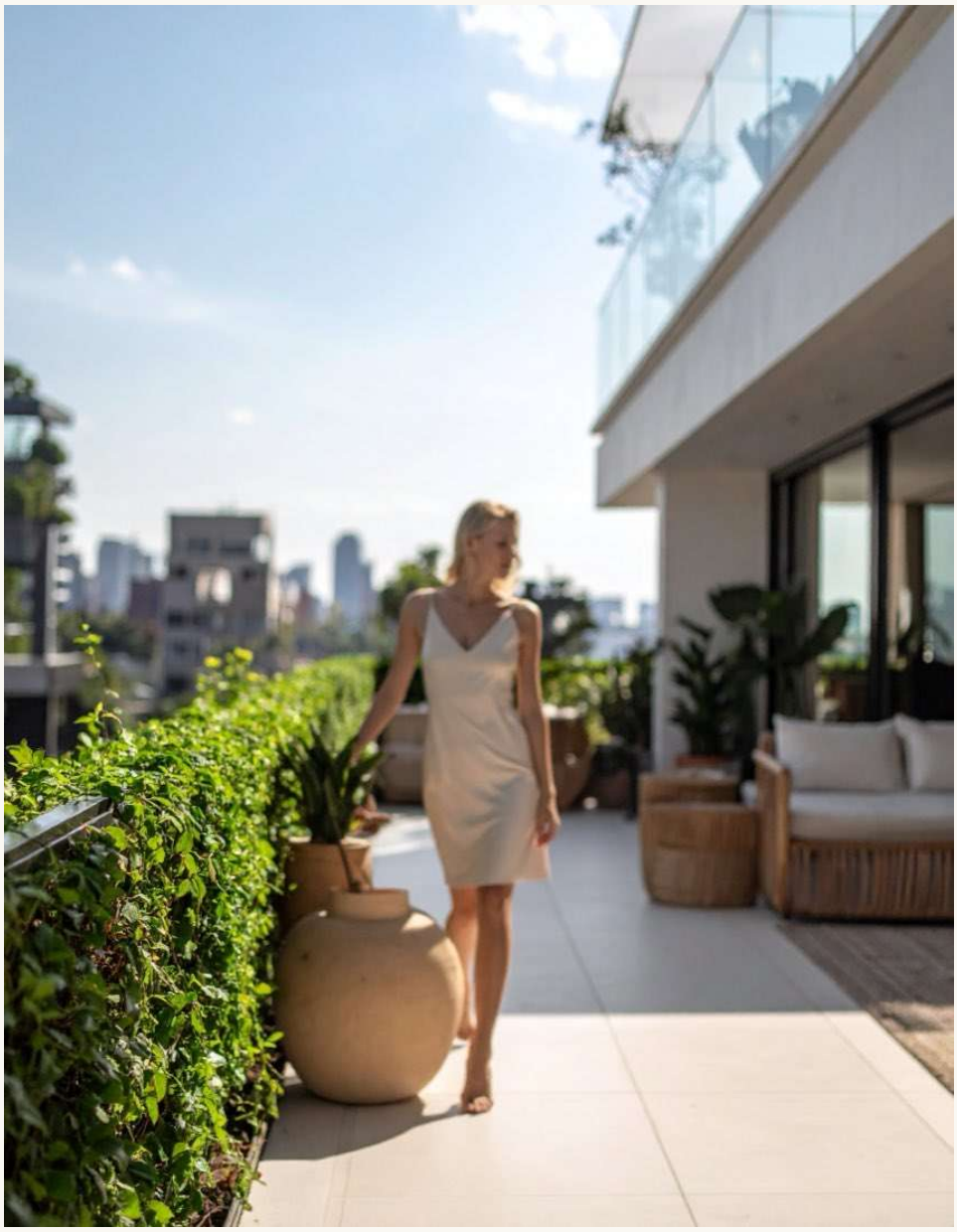
Eight years earlier the systems scientist John Sterman had shown the same thing in a laboratory. His 1989 paper reported an experiment in which people managed a simulated distribution chain, the exercise now widely known as the beer game, with each player ordering stock from the next and orders arriving after a delay.[15] The players' choices, he found, systematically diverged from the best policy, and the cause was not

stupidity. They anchored on the stock in front of them and adjusted from there, and, in his abstract's words, were "insensitive to the feedbacks from their decisions to the environment". The commonest form of that insensitivity is easy to describe. A player orders, sees no delivery yet, and orders again, forgetting what is already on its way. When everything arrives at once, the shelves overflow.

Read the pallet in aisle fourteen through both studies. The supplier's two failures were real. The response to them, six months' supply, was the bullwhip at one desk: a fear converted into an order, at the scale of the fear rather than the scale of the need. And nobody in the meeting where the director said *never again* asked what would tell the firm, later, that the danger had passed. The order was placed against a feeling, and feelings do not send cancellation notices. *The Margin*, another of the house's books, reads the list too long to finish, a pile kept because putting anything down feels dangerous; a warehouse can be the same list in steel and cardboard.

Santa Anna's canon describes the body's side of this with unusual directness. Writing of what chronic scarcity does to the people who allocate resources, it says that the body in that state accumulates "not because accumulation is strategically wise, but because the nervous system equates having-more with being-safe." And it is careful, in the same passage, not to blame anyone for it: "This is not malice. It is survival behavior wearing a business suit." The production director who said *never again* was not being careless with the firm's cash. He was protecting the plant, and the planner, from a repeat of a bad spring. The six months of housings were his relief, made physical.

The Luminous 100 reads the lean wastes the same way, as signals rather than sins. Of the worst of them it says that "overproduction reveals an organization that hasn't learned to listen to what the living system actually needs". The listening that was missing in that meeting was not to the customer. It was to the supplier, who had fixed the problem by the summer, and to the planner, who knew.



Walking the oldest shelves

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Walking the oldest shelves

What changes this is a walk, and it is a different walk from a stock count. A count asks how many. The walk asks why.

Picture the planner in the second week of January, with the count reconciled and a list from the stock system of the forty lines that have moved least in the last year, sorted by the value tied up in each. She takes the list to the production director and the sales director and asks for an hour. They walk the warehouse together, the three of them, starting with the most expensive line and stopping at each one.

At each shelf they ask four questions, and they write the answers on the list. Who decided to hold this, and when? What were they protecting against? Is that danger still there? And if it is, who in the firm now owns it? The first answers come easily, because most of the people who placed the orders are still in the building. The second answers are where the walk earns its hour. The housings were protection against a supplier. The finished units by the loading bay were protection against one customer who, three years ago, cancelled an order and then reinstated it in a rage. A shelf of spare control boards was protection against a component shortage that ended eighteen months ago. A rack of sheet steel in an unusual gauge was protection against nothing anybody could remember, which is its own kind of answer.

The third question is the one the planner was afraid of, and it turns out to be the kindest. Asked whether the supplier of housings is still unreliable, the production director says, after a pause, that it has not missed a delivery since the spring the order was placed. Nobody tells him he should have cancelled the order. He says it himself, and then he says the thing the walk was for: he would rather hold three weeks of housings and have the planner ring him the day a delivery slips than hold six months and hear nothing. The fear has not gone. It has been given an owner and an early warning, which is what the six months of stock were trying, badly, to be.

They make three changes, in this order. The fears that are no longer true are written off in the plan: the housings will be used before any more are bought, and the steel in the unusual gauge is offered back to its mill. The fears that are still true are given a named owner and a signal, so that the protection is a phone call rather than a pallet. And the stock that genuinely protects the slowest machine in the plant, the paint line that every hood must pass through, is sized on purpose and labelled as a buffer, so that everyone can see the difference between stock that was chosen and stock that was left.

Santa Anna's writing on stagnation lists what flow looks like when it has stopped, and two items on the list describe the shelves the three of them walked: "the account that has not been reconciled, the conversation that has not been had". Most of the forty lines were conversations of the second kind. The walk is how a firm turns a hoard back into a buffer. The Luminous 100's entry on kanban gives the reason the difference matters, in a sentence about work in progress that holds as well for a warehouse: "every living organism has a natural metabolic capacity, and exceeding it doesn't create more throughput but more toxicity". A warehouse full of fears is not safer than one that holds what the work needs. It is slower, and every slow line is cash the firm cannot use.

There are predictable ways for this to go wrong. A walk taken by finance alone becomes an audit, and the people who placed the orders defend them. A walk that ends in a target for stock reduction, set before the fears are named, produces empty shelves and rushed orders within a quarter, which is the lowest-inventory group in Chen, Frank and Wu's study, paying for its virtue in ordinary returns. And a walk that blames the person who placed the order teaches every planner in the building to stop placing orders that might later look wrong, which is how stock-outs begin. Chapter 7 carries the walk as a run sheet, with the four ques-

tions, the order of the changes and the signs that each is failing, and Chapter 6 places it in the order of a first ninety days.

The gain is plain once the shelves are walked. Every line that no longer needs to be held is cash the firm gets back once, and storage, handling and the risk of obsolescence it stops paying for as long as the line stays clear. The money is the firm's own, released by its own people, and it can be counted against the stock records the firm already keeps. It is also easy to count wrongly, by measuring a year-end snapshot that was tidied for the count, which is why the honest measure of a release has a chapter of its own, the fifth, and why it reads stock as an average over the year rather than on the night of the count.

Walking the shelves in your own building

The shelf walk asks why, where a stock count asks how many, and the difference between the two is where most of its finer points lie.

Choose the lines by value and by age together. A list of the slowest-moving lines will be dominated by cheap items nobody cares about; a list of the most valuable will be dominated by stock that moves every week. Ask the stock system for the lines that have moved least in the last year, ranked by the value tied up in each, and start with the top forty. That list is where cash is sleeping and where somebody can still remember why.

Walk with the people who placed the orders. A shelf walk taken by finance alone is an audit, and audits are answered defensively. Take the planner, the person who runs production and the person who runs sales, because between them they placed or asked for almost everything on the list. Walk, rather than meet: standing beside the pallet is what makes the questions concrete.

Ask the four questions in order, with curiosity. Who decided to hold this, and when? What were they protecting against? Is that danger still there? If it is, who owns it now? The second question is the one that matters, and it must be asked in a tone that makes the answer easy. A planner who says *I was afraid we would run out again* has told the firm something more useful than a forecast. A planner who is made to feel foolish for saying it will not say it next time.

Tell a buffer from a hoard. Some stock is there on purpose and should stay: the deliberate buffer in front of the one resource every order must pass through, which in Goldratt's method protects the whole plant from waiting. Name it, size it from how long that resource could be starved and how often, and label it on the shelf as a buffer. Everything else on the list is either a decision someone can still defend, or a decision whose reason has gone.

Give every fear that is still true an owner and a signal. The commonest outcome of the walk is not that the danger has gone; it is that the danger has shrunk and nobody was told. Replace the pallet with a person and an early warning: the supplier's lead time watched by someone named, a call the day a delivery slips, a

forecast shared by the customer the stock was protecting against. Then size the stock to the warning, not to the memory of the worst spring.

Let finance decide the write-offs, separately. Some lines will turn out to be obsolete, and writing them down is an accounting decision with its own rules. Keep that decision out of the walk. A walk that ends with the people who placed the orders watching their decisions turned into losses on a report will be the last honest walk.

Look at your own ordering for the bullwhip. Before blaming a supplier or a customer for the stock, check the firm's own habits. Does it order in large lots because of a price break, and has anyone worked out what the extra days cost? Does it place larger orders after a shortage, and smaller ones after a glut? Does it order again before the last order has arrived, as Sterman's players did? Each of these makes stock out of nothing but timing.

Set reorder rules from the work, not from the last crisis. How much to hold should follow from how long it takes to get more, how much that time varies, and how much is used while waiting. Those three can be measured from records the firm already keeps. A rule set from them can be explained to the next planner. A rule set from a meeting in a bad spring cannot.

Walk again every quarter, and keep the list. Fears return, and so does stock. A short walk each quarter, against the same list, catches the shelf that has started to fill again while the person who filled it still remembers why. Keep the answers to the second question from each walk; over a year they become a list of what the firm is actually afraid of, which is worth more to its leaders than the stock report.

Chapter 6 places the shelf walk early in the first ninety days, after the money walk has shown how much of the cycle sits in stock, and Chapter 7 carries the shelf-walk sheet, the four questions and the buffer-sizing page.

Quarter past seven, next December

It is a quarter past seven on the last Saturday in December, and the warehouse is as cold as it was a year ago. The planner has the same clipboard and the same fleece, and aisles twelve to sixteen again.

In aisle fourteen, on the second level, there is a pallet of motor housings, wrapped in clear film. The label says it arrived three weeks ago. Beside it is a card in the production director's handwriting with a supplier's name, a phone number and the words *ring me the day it slips*.

The space where the grey pallet stood is a space. She scans the new one, writes the count, and moves on to aisle fifteen.

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