One of the world's largest manufacturers of computer chips, Intel needs little introduction. However, the company needed to make a lot of supply chain cost reductions after bringing its low-cost "Atom" chip to market. Supply chain costs of around $5.50 per chip were bearable for units selling for $100, but the price of the new chip was a fraction of that, at about $20.

THE SUPPLY CHAIN COST REDUCTION CHALLENGE

Somehow Intel had to reduce the supply chain costs for the Atom chip, but had only one area of leverage—inventory.

The chip had to work, so there were no service trade-offs that could be made. Being a single component, there was also no way to pay less in the way of duties. Intel had already whittled packaging down to a minimum and with a high value-to-weight ratio, the chips' distribution costs could not really be pared down any further.

The only option was to try and reduce levels of inventory which were, at that point, kept very high in order to support a nine-week order cycle. The only way Intel could find to make supply chain cost reductions was to try and get this cycle time down and therefore reduce inventory.