



The Distribution Team

We wrote THE BOOK on Distribution Inventory Management

Override This

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In my travels it seems like I encounter a consistent challenge with distributors. They bought a software package to help them manage their assets and cannot trust it or figure out why the numbers are out of whack. It seems like the most common problem is when the numbers the system kicks out regarding everything from replenishment to finances don't seem to match up with the distributor's expectations. After further investigation I often found that the system is doing what it is supposed to do, but the wackiness comes from something the distributor did to the system.

Overrides are features put into software systems to help distributors manage some of the anomalies they fully understand happened. There are overrides for a variety of strange events. Understand that using an override option is something different than implementing a work around of the systems functionality. Overrides should be used to make the system understand the anomaly when it crunches the millions of numbers to produce your reports. Often a distributor puts in an override because it generates the end result desired without going back and understanding how to achieve the same result the proper way. Overrides are input by purchasing more than anyone else because they try to have the history reflect the most perfect reality. But when you put in an override, do you really know the downstream impact? Did you document the reason for overriding the system data so others can understand why it was done?

Overriding usage history is the most commonly used form of system overrides. Software designers put in override usage buckets for the end user to incorporate for strategic reasons. Let's say for example that your usage of a particular product is trucking along at a fairly consistent rate and then there is a huge swing in actual usage, what should you do? Using the example below, we should take advantage of the override feature the system designers put in for your use.

Jan	Feb	March	April	May	June	July	August
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150	180	130	700	165	190	20	170
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So it looks like for a few months we have a fairly consistent usage for this product. Some movement up and down but nothing to worry about. Then we look at April's actual usage and we see 700 pieces. This is definitely a huge swing from what we've seen on this product in the recent past. This is not a seasonal item so we do not have to look back at last year's usage to see if we always sell a huge amount in April. But we can easily see that something happened in April that makes this an override usage candidate. But what should we do with the override option?

Well let's try to figure out how many we normally sell on a daily basis. Let's say we have 30 days in the month that we are using as our daily denominator. So let's take 30 days and divide it into the monthly usage to figure out a daily usage rate per month. The results look like this:

Jan	Feb	March	April	May	June	July	August
5	6	4.3	23.3	5.5	6.3	.75	5.6

Well maybe we can use these numbers to help us since they make a little more sense when taken to daily usage. But we still have that huge 23.3 and .75 sitting in front of us. We need to make something happen in the override usage bucket so we do not have the 700 and 20 per month usages roll into our average usage and order point calculations.

Well before we decide anything let's look at some other factors in this product's usage scenario. We will focus on the high and low months. We need to look deeper into the month we sold 700 pieces. An easy look would be to see if in April we did any ship directs that went directly to the customer but still ended up in our usage for the month. If we have some ship directs that went from the vendor to the customer and we did not bring those into stock and the redistribute them, we can identify them and the quantity. Maybe we found some that went just that way and we can subtract them from the normal usage from stock sales to get us a little more in line with our normal occurrences. This might take us to a number that requires no override usage to be implemented. Therefore we need to identify any shipments that were not out of our stocking inventory so we can do this analysis after the fact. Without marking a sale and fulfillment as a direct ship we are left to guessing what happened in April.

Now don't give up hope just yet, we might have another place to help us figure it out. Let's look at the sales for the month of April and see if we had any singular orders with large amounts. Hey maybe there is one sale in there for like 500 pieces. Well then we simply make the call to the customer and see if this is a one time event or something they will want to purchase in the future. Maybe we started a new project with this customer and this entails all of this item they will need for the project's duration. Maybe they started phase one of a multi-phased project and they will be buying a bunch of this item in future phases. Maybe we look at every sale and nothing pops out at us that can easily solve our dilemma.

By now you have spent way too many hours on the answer and are more frustrated than when you started. The good news is that you have the override option to help when nothing else pops out at you. Now is when you use it like it was designed. You look at the daily usage that makes sense to you, maybe using a daily average over a couple months to guide you. Then you multiply it by 30 and that becomes your monthly usage in the override bucket. In this scenario you could use 5.5 per day times 30 and manually put in 165 pieces for the usage rate in the override bucket in the system for April. Now you have used the override feature like it should be used. Do not blow away the actual usage numbers in your system. Good systems have buckets available for you to maintain the actual usage number and the override usage number. The reason for the huge sales in April still needs to be determined so you are not continually facing this situation, but you can let the system use the manually inserted override usage of 165 when calculating your next order point.

Wait a second now, we have that really weird month in July, only 20 pieces sold. Now what should we do to help us figure it out? Well the most common reasons for low monthly usage is stock outs during the month. It typically does not occur because the sales just dropped off that drastically. So look to your days out of stock during the month and see if there are more than 7 days when you were out of stock. You might want to set up a simple report telling you when you have any stocked items out of stock for more than 7 days in any month. This will at least give you an alarm that something might be amiss with the actual monthly usage. You might need to use an override to adjust what would be normal if you would have had the inventory in stock.

But overrides are helpful in many areas in the system. You can use an override when the actual lead time is 25% greater than or less than the normal lead time. You can also set up a simple report to let you know that such a variance in the lead times happened and prepare yourself to make an override adjustment.

Overrides are not meant to make the system report things like you want. They are there because things happen that make what should be most normal abnormal. You need to either throw out these highs and lows when calculating any averages, or use the override to put in something that makes the most sense to you. If you find yourself putting in numerous overrides in the course of six months then you need to make some adjustments elsewhere. You might want to look at increasing your order quantities if you are out of stock all the time. You might want to increase your order size if you are seeing upward spikes. You might want to get a little more intimate with your customers to see if a few of them will continue to drive up the usage rates. If that is the case, then figure out when and how much they need and use a special order or direct ship method to handle them. But whatever you do please understand why you are putting in any overrides in the system. Document what you are doing and the reason. We cannot just put them in and completely ignore that an override put in the system will impact some later decision. Because we cannot remember everything we do, create an override log per month documenting the what, why and where you overrode something. So when your numbers don't come out like you wanted a few months down stream, you can look back and see if it was something you did or something wrong with the system. I am going to bet I know

which answer is the right one, but I will let you decide if you want to override my answer.

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