



The Distribution Team

We wrote THE BOOK on Distribution Inventory Management

The Right Stuff, At the Right Time, In the Right Quantity

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The headline sounds like a perfect world for distributors. How nice would it be to have just what the customer requested and in the just the right amount each and every order? There are some companies that come very close to this inventory nirvana. However, that did not happen overnight. They spent a good deal of time working on all the little things that make this possible. To achieve this sort of success, you too need to work on fine tuning your inventory management controls.

Most distributors use an inventory management software package to help them manage this huge asset. While this is a great tool, mismanaged it can be your biggest nightmare. I suggest you take at least one to three days a year, bring in some outside professionals from the software company and review all the inventory control points currently managing your system. It is very easy to just assume that the control points established when you put the system in, or did your last update are working fine. However, many of the control features are trying to manage 75-80% of the products you carry. There are often a good number of items that need to be managed manually or with some additional tools.

We have all heard about the Order Point or Reorder Point (Usage rate X Average Lead Time) + Safety Allowance. This is the building block of all replenishment systems. It is the key timing device that alerts you to the fact that your Replenishment Stock Level (On hand + On order + Incoming transfers) has reached your order point. It is time to reorder the product such that you have enough to service your customers.

These two simple control points contain some key elements that need your attention. In the Order Point formula, the most critical piece is the Usage Rate. This is often a misunderstood calculation. It is simply the average of the last 6 months or last 3 months actually usage of each and every product. You can manually adjust this number when you have exceptional sales or very few sales. You look at the actual numbers and analyze them to see if you need to put in an override usage rate for one or more of those months.

Things like promotions, specials, overstock sales and price discounting can affect the actual usage substantially in any month. If you know you are going to “pump up the

volume” on certain products during any period of time, let the system help you by putting in promotional or special pricing date boundaries in the pricing matrix. Then run a promotional pricing product usage report to tell you exactly the effect it had on your actual usage. Then override the actual usage such that your newly calculate usage rate reflects normal usage and gets smoothed out to count for the promotional usage.

The usage rate also depends on sales personnel input, days out of stock and vendor performance. All these need to be looked at before just letting the system automatically calculate your new usage rate. Sales personnel input is critical when you have some spikes in your usage due to their success with one or more customers in a short period of time. It might be that a new customer has come into the market place and your personnel were able to capture a large new order. Your Sales Personnel need to communicate if this is a one time event, or a recurring event that we need to stock up for in the future. If they don't share this critical information with Purchasing, your order point will be impacted over time. If this happens, your overall stock levels will reflect this over time, often with a negative impact on your bottom line.

Always look at the simple exception reports you can run to highlight your usage exceptions. Most of you already have them as part of your software, but do you use them proactively? The true power of most software is the reporting that helps you act instead of react. Reaction is easy, and we have done that for years, but taking action on a timely basis is the difference between those companies that have the right product and those that don't.

In summary, checking your inventory management controls, using your exception reporting and gathering good data from your sales personnel are all very feasible. Doing these on a regular basis helps you establish the best possible order points and minimums so the building block of your inventory control system is as solid as possible. Once you do the little things right, establish your baselines correctly, you will begin to realize the distribution nirvana of having the right stuff, at the right time and in the right quantity.

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