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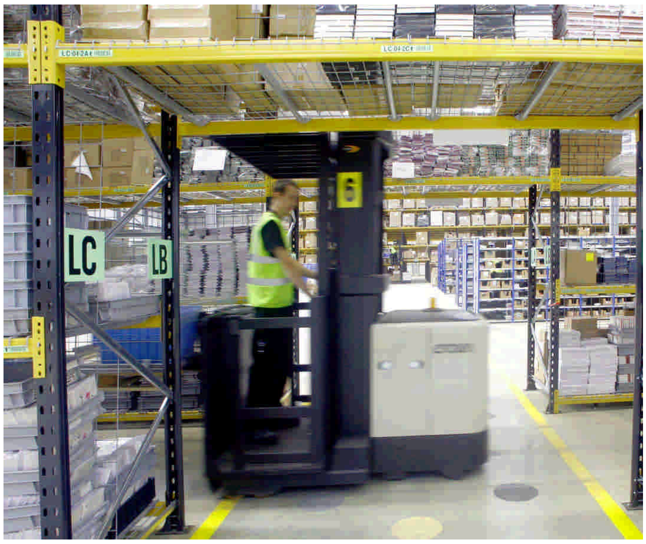
Back to Basics



Getting inventory management right

Inventory management (IM) is increasingly seen as a key function of warehousing and one that deserves serious attention from senior management and logisticians alike, says Andy Keith, partner at Total Logistics, the supply chain consultancy.

Inventory, stock, or parts – in supply chain terms they are all the same thing; integral elements of the logistics process that need to be stored and made ready for despatch when required. The real issue is how should companies manage the process to minimise the amount of stock they need to hold, without letting customers down when an unexpected flood of orders comes through the door?

How much stock you hold is a pretty accurate indication of how much control you have over your supply chain. Stuck between the vagaries of customer demand and the predictability of suppliers delivering on time, inventory acts as a buffer against the inevitable when things go wrong (supplier side) or unexpectedly well (sales side). The trick to achieving world-class inventory management is all about employing processes and systems to reduce waste and react quickly to changing circumstances. In our experience, too many companies do not pay sufficient attention to this basic part of the supply chain management process.

Too often, managers faced with the challenge of improving their stock and warehousing systems find it hard to obtain clear, practical guidance on the issue. Take a look on the internet, searching the term 'inventory management', and you will most likely find pages of academic papers filled with jargon, graphs and equations. While it may have a great deal of validity, this information is usually a turn-off to most managers, who need practical and effective guidance on stock management.

Achieving good inventory performance does not necessarily require large investment in new IT systems. The first step is to understand the balance between service level and stock buffers for your business.

Every industry faces different issues in their supply chain, and the degree of supply chain collaboration varies considerably even within the same sector. However, in our experience, there are half a dozen key areas where businesses can get inventory management wrong. What's often needed is a fresh approach to old and outmoded methods and the willingness to adopt new ways that comes from being shown the benefits of an alternative approach.

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Procedures – Apart from industries such as FMCG, where supplier performance is closely monitored with fines often incurred for late delivery, the simple rules of engagement are often not clarified and agreed with suppliers. Therefore, we often see suppliers failing to deliver to agreed timescales with no penalty, or changing standard box quantities without warning.

We advise businesses – be they in traditional industries such as engineering or FMCG – to take the issue of supplier management and procedures seriously from a warehousing perspective, as poor performance at this stage of the supply chain can have huge knock-on effects across the whole organisation. Make your suppliers accountable for their performance by bringing visibility to this area of the supply chain.

An example of good practice here is the high street retailer Poundland. The company posts a 'saints and sinners' list of suppliers in its office reception. When reps are waiting for a meeting at the retailer's premises, they clearly see how they are doing against their competition in terms of supplier performance.

Better visibility – Businesses with several buying operations – all ordering from suppliers separately often encounter problems in the area of inventory management by not using a centralised system. Inevitably, this leads to a poorly disciplined process, where there is little visibility.

Organise – While managing your suppliers more effectively will bring better visibility and control, clear systems in the warehouse can improve performance overnight. We still see many warehouses in the retail, manufacturing and engineering sectors, where poorly organised stock management has brought about incremental chaos. Poor visibility on what stock is being kept where (and in what quality) creates huge inefficiencies and wastes warehouse staffs' time locating products.

Relocating stock to the most appropriate/accessible place is a hugely important and effective process that businesses need to do on a regular basis. While the obvious process of locating slow stock up high and fast moving on lower, more accessible areas, this is not the whole story. Stock profiles are always changing and require re-assessment from time to time. Stock held in the wrong locations will lengthen travel times both for 'putaway' and picking tasks, creating significant hidden inefficiencies.

Cross-docking is another logistics solution that can be introduced to handle fast moving stock. Companies must study the volumes delivered by higher volume suppliers and of faster moving products to look for the opportunity to pass through to sales outlets.

Human errors – Many inventory management issues stem from basic human errors, often in the area of inputting information. We often see mistakes being made during the receiving process, for example, where operatives mistakably enter 250 units into the system instead of 25 units. Again, having clear guidance when it comes to common understanding of what a single unit actually is, can be an area of confusion among warehouse staff. This can be addressed by training and refresher sessions, or providing product manuals with photographs, to ensure input inaccuracies are kept to a minimum. Dimension or weight checks can also be built into the process to ensure accuracy.

Refresh stock – It's a simple rule, but too many businesses break the basic principle of every good housekeeper: Don't stock things in the warehouse that you will never use. What's needed is a process of disposal or clearance built into the warehouse management process. Here, internal rules of engagement need to be agreed. A figure for stock write-offs need to be agreed – providing an annual budget - so that this process happens every year. We have avoided the need for warehouse extensions simply by conducting an appropriate housekeeping exercise on obsolete stock!

Our project experience has shown that as much as 30 per cent of warehouse capacity can be tied up with stock being in the wrong place. This space can be recovered by re-slotting the product range to appropriately dimensioned locations, and by weeding out obsolete stock.

Balance costs – The trend towards low cost manufacturing has caused businesses to require extra stock buffers to accommodate the longer response time. Some businesses fail to review their stock levels as the new supply chain develops. There may not be a single sourcing solution for the full range of products. Those with highly variable demand might be better sourced more locally, with a shorter lead time.

New challenge of high tech products - The emergence of high tech products has created new challenges for inventory management, as this type of product is often 'old' as soon as it is launched. Any stock in the system rapidly loses value. As technology moves at a blistering pace, so the supply chain needs to flex to accommodate this new challenge. Demand forecasting for this type of product is also inherently difficult for inventory managers.

Although there are no obvious and simple solutions for this high tech market niche, there may be lessons to be learnt from other industries, such as publishing, which face similar issues of demand forecasting and rapid 'product obsolescence'.

When new books are launched in the publishing world, there is typically a huge surge in sales, followed by a drop off. To deal with this unpredictable sales pattern the publishing industry has a sale or return culture to get around this. Although it is difficult to see how a sale or return system would work here, it is important to ensure that the contractual terms give a fair balance of risk carried between manufacturers and their customers.

Clearly, by following simple, low-cost procedures, many businesses could significantly improve their inventory management regimes, saving them cost and improving efficiency at the same time. Such improvements can have a strong impact on the customer experience – turning a basic operational efficiency exercise into part of the product itself.

One customer, a trade wholesaler, was experiencing problems with an over-spent inventory budget, but low

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stock availability. Our first step was to study the behaviours in their supply chain that were causing the problems. We discovered issues such as branch managers hoarding scarce products, which was creating shortages for their colleagues. Next, we reviewed the ordering parameters that were being used by the buyers and found that re-ordering points were only set when a product was introduced, and therefore did not reflect the age of the product. This had not been changed since the system was installed several years earlier, which resulted in too much time being spent on adjusting recommended orders. Simply re-setting the system parameters would have swamped the company with shortage products. So, with the customer, we developed a system that identified the most important products to order first, and a progressive improvement plan. The result was that they were able to improve their order fill by 8 per cent and contain their stock levels within budget.

Inventory management may not be the most exciting element of the supply chain, but it is an essential building block of the logistics function. Best practice here can significantly reduce costs, improve warehouse efficiencies and enhance the customer experience. At the extreme, ignoring the basics of inventory management could put your company out of business.