

INFORMATION TO MANAGE YOUR INVENTORY

It's all there – you just need to find it.

Some car faults can be hard to find. You need all your senses. Where's that oil coming from? That whine? That smell? You need all your faculties. Take off a fan belt and see if the sound persists. What happens when the engine idles? Why is it starved for performance? The fault might only appear intermittently so you need to be even smarter to find it, and smarter people do find ways to fix things faster. They have knowledge, experience and the right tools to find the solution. The problem is there and it probably is not going away – you need to resolve to find it. If you have the opportunity to use a more advanced diagnostic tool, normally it would be wise to use it. Why struggle?

In a similar way, if your inventory management is not running as well as you would like, you will probably find that it is not going to get better by itself, and that your ERP system already contains much of the information you need. However you do need the right tools and different ways of understanding what is needed. The details, just like the engine noise and vibration, might be masking issues. To appreciate the opportunities for improvement, you will need to think of different questions. If you don't ask then you will miss something, and that may cost in very real terms.

In the previous two articles we explored two very basic but extremely important questions: 'Why hold inventory?', and 'Why manage inventory?'. The rationale for understanding what you are trying to do, really needs to start there. However while you may have a handle on why you need to act, the challenge may appear daunting. How exactly do you get in command of your data and what and how can it be done. In future articles we will explore more of 'How' you can increase your inventory performance. In this article we want to demonstrate just how much of the answers are right in front of you, although you may need to examine things a bit differently. You don't necessarily need to capture a lot more information or clean a lot of dirty data. It can be a lot simpler than you might initially think.

Simple Data can lead to Smarter Information

Orders: Virtually every ERP system we know of contains the following information for each order: the item, the selling location (branch or warehouse), the date the order was entered

and when it was required, and the quantity and sale price, and usually the item's cost. From just these half dozen or so pieces of information a lot of intelligence can be derived including:

Common Quantities: From the quantity ordered you can derive the quantities in which items are used, so that you can stock the right amount of stock to satisfy orders, and avoid having too little or too much stock. This is especially important when it comes to big ranges of slow moving parts. If something is used in 4s then stocking should be in multiples of 4, but how often does your ERP suggest you hold 3, 5 or 6? Add up all the 'a few too fews', and the 'few too much' and then work out how much that translates to in service levels and working capital. It all adds up.

Lead Times: A large proportion of parts will be required virtually immediately, but there could well be a significant number of items that will be ordered in ahead of schedule. This advance warning can allow you to hold back expensive slow moving parts in a more central location, allowing you to stretch your inventory investment further. In some cases this might allow inventory levels to be reduced by 50+% without compromising service levels.

Timing: When is the item required? Summer? Winter? Just before school holidays? While variability is the norm of most aftermarket situations if you can get even a small edge in the predictability of your demand you can gain service level and inventory turns advantages.

Matched Items: By looking at the combinations of items within the orders, you can find how often people order a certain hose and a coupling together, a water pump and a new set of belts or bearings for an associated part. When parts are required together nearly 100% of the time, kits may well be part of the solution but there are better ways of handling things when a part is only required, say 50% of the time, in concert with another part. By properly understanding combinations of parts, you can help ensure that people get everything they need from you rather than going elsewhere. Having learned what sells in one place you might even sell more ... would you like a bearing with that belt?

You can also deduce things like the gross margin which can help you determine the level of inventory you should carry. If you make a lot of money, then obviously you don't want to be out of stock.



Just six or seven bits of information for each order can translate into a lot of intelligence about how you ought to optimise your inventory levels. If you look elsewhere in your ERP system, you will find a lot of other information from which you can extract value too. For example, by comparing the expected arrival date for each purchase order with its actual receipt date, you can build up a picture of supplier reliability, which can help you further refine safety stock levels.

How many enquiries did you get via your web site? How many did not turn into sales? Why?

A Wealth of Information or an untapped Asset?

Everyone understands inventory as a business asset and that it needs to be used effectively. However where does your ERP information figure on your 'balance sheet'? It has taken many years to accumulate and may have cost hundreds of thousands of dollars and even millions to record. You might want to look at this information asset a bit differently. How much more value can you extract from it, especially if you maintain it well. With the right approaches, the right skills and the right tools there is potentially a lot of value just waiting to be tapped. It's there, you just need to find it.

For further information visit www.horizoninventory.com.au or email info@horizoninventory.com.au