

MATCHED ITEMS

You know to replace a water pump you need some other parts, but does your inventory management system?

In the last article we highlighted how knowing the Common Quantities in which an item is used or sold can be at least as important as knowing how often something is sold, and often more so. With the right tools such information can be quickly and easily gleaned from your ERP system. You can learn the quantities in which an item is consumed and then stock the right quantities to fill that need without carrying too much stock, or failing to have enough.

This article focuses on using the information inside your ERP system to look at the combinations in which products are used or bought.

So if someone needs to replace a water pump you would of course be aware that you will certainly need gaskets. But you also know that you are certain to need coolant, there is a high probability that you will need some belts and it would be good practice to replace the hoses and their clamps too.

How is this sort of issue best addressed?

Kits cannot cut it

It is highly likely that the water pump will come in a kit along with the required gaskets. That is fine as all the components are certain to be used. But what about the hoses, the belts? If they are in the kit there will be plenty of times when they are NOT needed. So either the customer resents their imposition as part of the kit. Or they ask for them to be removed or they will go elsewhere; so it affects the competitiveness of your offering. And what happens when they are removed – you end up with orphaned components.

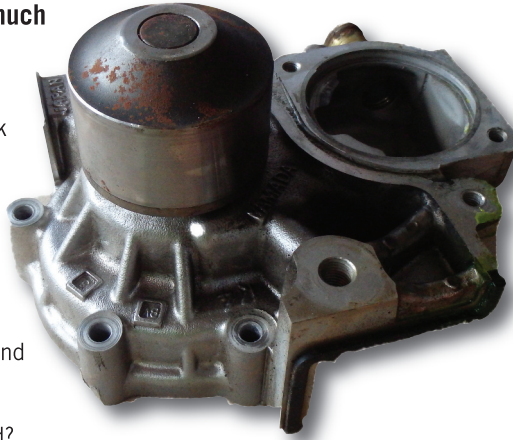
Kits also suffer when they have to be raided for one or more components which means that the rest are often then useless or at least difficult to manage.

Components just don't belong in a kit unless they are 100 percent going to be used together. When components are less than 100 percent used together they are far better handled as Matched Items.

Matched items make for a better solution

It is far better if you can recognise that the parts go together occasionally or fairly frequently, or rather that the right tools can do that for you – they can find what matches with what.

It is possible to recognise how often the parts are used together and in what ratio. This can then be used to match up the inventory



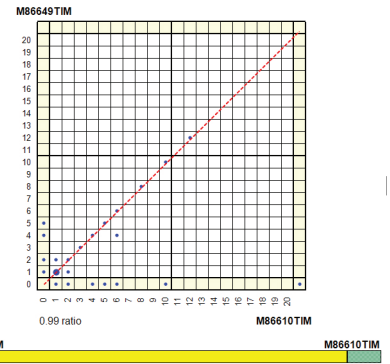
levels for the different components. So if you use one part, say twice a month and there is another part that is used say 25 percent of the time, you can make sure you have at least one unit on hand for that eventuality.

The great thing is that a pattern recognised from the sales or parts usage in one part of Australia is likely to be repeated elsewhere in the country, so pattern recognition can readily translate to profits.

So when someone rings up for the harmonic balancer you can rest comfortably because you know you also have the right number of seals and other related parts in stock too. Don't have them and you lose the sale and lose your reputation and market positioning too.

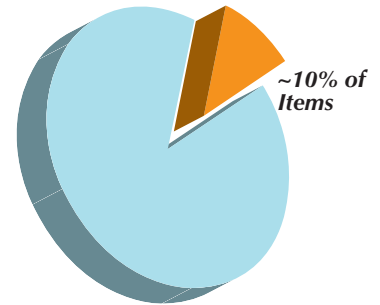
And would you like clamps with that?

Of course rather than just avoiding lost sales, which is no doubt very important, matched items can be a source of increased sales and service. Patterns recognised from your sales history can help you recognise when the buyer also might need something else. Sales intelligence generated from your ERP data can translate into a helpful suggestion as to what else might be needed. You have the stock with smarter inventory levels, and you can sell maybe 10 - 20 percent more. Everyone can win, even the consumer who may pay a little more, but they avoid future failures, because they do have the new hoses and the new belts with that new pump.

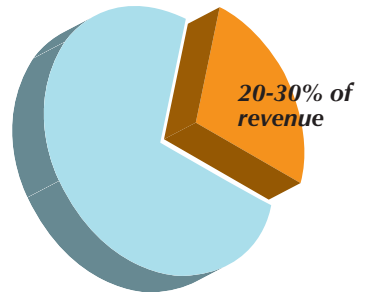


So do matched items matter?

Intuitively it does sound smart to make sure you have the parts together in stock when they might need to be used together. Does it however translate into numbers that matter?



Well one of our clients has roughly 10 percent of their parts that appear in 'matched item sets' i.e. they are known to be sold or used together a reasonable amount of the time. However these items appear in orders that comprise something like 20 - 30 percent of



their order lines and their revenue. Is it worth taking out an insurance policy on such a large proportion of your sales? Especially when it can be so easy to do?

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