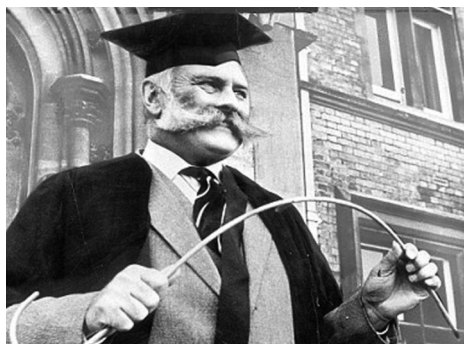


INVENTORY DISCIPLINE

Discipline is essential to manage inventory well but maybe it's time to review the discipline(s) we use and their effect.

When I grew up you would often hear the phrase, "Spare the rod and spoil the child". Every time you received the cane, you were asked to believe that the stinging welts would be a helpful reminder of what you ought to do in the future. Not surprisingly many of my generation had a rather rebellious view of discipline thereafter. More recently you might hear something like, "I blame the parents. No discipline." Where do you draw the line?



Now inventory management is not quite the same, but many people shy away from imposing the right disciplines and the consequences that ought to come with good and bad behaviours. They don't ask questions like, "What are we trying to achieve?", "How to best achieve it?", "What should we encourage? What must be discouraged?" and "Where should the boundaries be set?"

Avoid lax or bad inventory management disciplines

Probably the worst thing we can do is fool ourselves into believing that everything is OK if it is not. "We just need to apply some better disciplines and everything will be right." We may be simply avoiding the reality that our systems, processes and people are in real need of improvement. We do not want to confront the need to change. It avoids the question, "Why is it that we have not practised good disciplines in the past?"

The answers you have to confront often include that the people simply do not have the skills or motivation, or that the systems and processes are simply too hard to use, especially when you consider they have to be applied across thousands of SKUs. If it is simply too hard and too slow to do the right thing then it will not get done. So what is the right thing?

Focus of good discipline

The military has a good idea of why it needs good discipline. One of the reasons is that when the going gets tough it wants soldiers, sailors and aircrew to behave in a way that is instinctive. Rules of engagement make it clear where discretion can be used, and where lines must not be crossed. It endeavours to train people so that reactions are appropriate to the situation. Before it starts to train people however it typically describes the kind of behaviour it needs. It usually ends up in a 'manual'. This describes how things should be done, often in concert with others. When seconds might count you do not want people making it up on the fly as to how to strip and clean a weapon. It has to be automatic.

Similarly, with thousands and thousands of SKUs, you simply cannot look at every one in detail every day or even every month. The focus has to be on the policies, rules and data that need to be in place so the system can handle 99 percent of the detail. Therefore the focus of the disciplines has to be on maintaining quality data and cleaning the demand histories, so that you can effectively delegate your detailed decisions to the system. Rather than being oppressive and burdensome, good disciplines actually free up time. They are key to raising productivity and inventory quality, and can be embraced as being of real value. So what are some of the disciplines that are needed and how can they best be applied?

Executing the right strategy: The best disciplines and the best data will not deliver the best possible performance if they support the wrong strategy. If for example all your branches order from suppliers directly rather than consolidate via a DC you could have too many branch deliveries and purchasing productivity could continue to be well below par. You ought to be able to model and tune your strategies to produce optimal approaches.

Execution must match planning: Planning for daily replenishments but then only achieving weekly, will clearly cause more stock shortages than planned. Taking a week to put away stock after it is received will likewise damage service levels. Work orders that aren't closed off properly will continue to draw on available stock. Quality processes are important and the benchmarks they can meet (your real capabilities), need to be reflected in your inventory planning.

Master Data: If you expect that the system will do all the detailed work you absolutely must have quality input. Valuable people time needs to be spent on the exceptions, the grey areas, and not



the things that ought to be black or white. This means that your supply chain configuration, your item master, your kit definitions, supplier lead times etc. must all be up to date. If not then you cannot rely on the system outputs and that destroys productivity. With a system that might use up to 20 different variables to optimise inventory levels, you need to measure and periodically review the quality of this data so that you can continue to rely on it. Ideally your system will also help you monitor this.

Transaction Histories: These drive forecasts and the various statistical analyses that help set the right stocking levels. If you lose a customer, you need to be able to easily stop that customer's demand from influencing future stock levels. If you temporarily had to substitute another product, you need to adjust your sales histories so that future forecasts reflect what should have happened. Importantly the system must help you do this once, and properly document it. That way you will not have to revisit it every month thereafter.

In general you have to help your inventory management system do the right thing and it has to help you by helping identify the targets that require your attention.

Good discipline will reward you

Discipline therefore rather than something to be feared should be something that is embraced.

If you have the right strategy, the right system, the right procedures and you stay on top of the data quality, you can actually free up time and significantly improve inventory turnover and service levels. It is absolutely critical that your staff understand the need to continue to practise good disciplines. You need to set standards that do not tolerate second best.

With the right approach to disciplines you can avoid the punishing effects of poor practices and be top of your class.



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