

INVENTORY PEOPLE – NEW AGE THINKING

Is it time to take stock of the people who manage inventory and is it perhaps time for turnover?

At one of our client's premises, you used to hear the question, "Are you a bearings man, or are you a seals man?" The implications behind a "bearings" or "seals" label were that product knowledge was very important, even paramount, in how you approached product ranging and inventory management. If you knew your products you would intuitively know what levels to set, and what to order. Secondly, it paid to be very hands on. How else could you gain the product knowledge and experience so necessary to succeed in such a culture? And of course this hard-won knowledge has often meant that inventory managers in these companies have been with their employers for many years.

Certainly when you go to a branch and ask for product advice, no one can deny the value of experience and product knowledge. However, it is very hard to maintain such an emphasis for many back office areas like inventory management, especially when the product range is very large in many businesses, often so large as to be virtually impossible to know and understand well enough to genuinely be on top of all the issues. The demands of business for increased productivity mean that the cost of managing inventory and the product range has to be reduced. New tools and automation simply must be embraced.

Old habits and mindsets die hard

Unfortunately when someone invests so much in product knowledge, some of the disciplines and ideas inherent in the new software tools can be difficult to comprehend and utilise. When the best software evaluates over 20 different variables to optimise range, inventory levels and purchasing decisions, it can be too much for some 'old timers'. When you are used to a regime that works on holding two months of stock for all products, being presented with policy driven automated recommendations that often break these long held beliefs can be particularly confronting for some. It is even harder when some of the management hold fast to some of the old beliefs too.



New habits, mindsets and skills needed

With such large inventory ranges, the old ways simply cannot cope. The transition that is needed for inventory management is not unlike what happened with the advent of robotics for the production line. Many of the old production line skills and the often repetitive nature of tasks were simply not needed any more. In their place came more educated people who could design, monitor and manage the automated production systems.

Today we need a new kind of inventory manager, someone who is much more comfortable with statistics, probability and risk management. You cannot get it right all the time, and you have to accept that occasionally you will be wrong. A good inventory manager needs to be able to play the percentages and be judged on the overall results. A failure on one product can be defended if you can show that you got it right, say 95 percent of the time. Having advanced software tools extract extra value from your ERP data – far more than even the most experienced inventory manager can accumulate. Balancing and optimising the performance across the portfolio is also important. This means, for example, accepting that there are times to exit a product line, and to not stock to past levels. That requires, (often brutal) discipline and trust in the numbers.

It's important to be able to set policies and rules so that the automated software, the 'inventory management robots', will perform as expected. That takes logic, coding and interpretive skills, often not found to the required extent in old school inventory managers. Knowing the catalogues has to be supplemented with knowing how to read tables, reports and graphs and how to 'program' the new tools.

Just as important is being diligent with maintaining master data for effective inventory management automation. Good inventory managers know that by maintaining the 'rules of the game', they will play a much better game. Rather than reacting to stock outs and other emergencies, where product knowledge might well be of value, they will find ways to manage down the probability of the stock out ever happening. If a problem happens too often, they will also find ways of changing the rules, to reduce its likelihood in the future.

Is there still a place for (product) knowledge?

Clearly there is a place for the friendly branch staff member who helps you find the right part, although advanced product catalogues and the internet are changing that landscape too.



However, to say that product knowledge is not needed is going too far. Automation of inventory management decisions definitely works with fast moving products and if you have best of breed software tools, you can automate a lot of decisions for medium and even many slow moving products too. However, where you sell parts very intermittently the level of uncertainty goes up. The statistical estimates are more subject to error. This is where experience of the customers, the market and product knowledge can add value.

Where knowledge and experience can add value is increasingly shifting to areas like improving the supplier relationships – improving the consistency of lead times, through exchanging information and finding ways to reduce or eliminate minimum order quantities (MOQs). Another way is finding alternative suppliers who might charge a premium but can offer a rarely used part without an MOQ. Aim to reduce the impact of new product launches that do not live up to expectations, and leave you with too much stock, and knowing when to exit a product from your range, at your branches, and ultimately from your business. Let the other guy hold on for too long and wear the excess write-offs. Another area of improvement is helping the business position its inventory investment to achieve a balanced set of strategic service level, profitability and return on asset objectives.

This is not about casting out the experience of the past. It is about recognising that inventory management is entering a new age. There will be new career opportunities for the super-users of the advanced inventory management systems. Improved productivity can give people opportunities to develop better inventory management practices and keep their knowledge current and relevant. It could well be time to equip your business with better systems and different skill sets, attitudes and ideas.

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