ACTIONABLE INFORMATION

When you are trying to juggle a lot, it is too easy to make bad decisions

All too often we are faced with situations like this. It is the yearly focus on tidying up excess stock, the annual "bring out your dead" stock ritual. The CFO is reading the riot act about all the working capital tied up in potentially useless stock. All of a sudden the write-down provisions look woefully low. You don't know whether to duck for cover or volunteer to become a hero.

The situation can be made even worse by poor information. You simply cannot act on it.

So what sort of problems would make it difficult to act on available information? Well maybe:

- It is too late – you have missed your opportunity to take a small price adjustment. Now you need drastic surgery and it will hurt.
- You cannot trust the information. It is compromised by poor master data or dirty transaction information.
- You are overwhelmed by too much data. You just cannot keep track of everything.

So what needs to be in place in order to have quality, timely information that is prioritised for action?

Quality Information you can Trust

You have to start with data from which you can draw reliable conclusions. That means:

- Having master data that is accurate. For example you need to periodically review what sort of lead times can be expected from every supplier, and how much deviation from that, early and late. To do this you must not only collect the information over a sufficient period of time to develop meaningful statistics, but you must gather it, and interpret it at reasonable levels of granularity. Your ERP system needs to record this information and you need processes, tools and capable people to interpret and stay on top of any shifts in performance. It is also critical that the people and the processes employ a consistent set of measurement definitions. There needs to be one source of truth.
- Having clean transaction data. You don't want to be continually revisiting a forecast that is based on abnormal sales events that are unlikely to be repeated. That means cleaning data when you first notice a problem. Ideally this should be quick and easy, and should enable you to track the reasons behind and the volumes of dirty data. There just may be systemic problems that require an overall process or system solution, that could just make everyone's lives a whole lot easier.

If you don't have these things right then you are inevitably going back over old ground, and wasting valuable time rediscovering the quality issues that caused the problem in the first place.

Completely Ready for Action

If we just focus on the already mentioned excess situation, unfortunately all too often people try to act on something like a list of items that have not moved for a year. Ignoring for a moment the issue that this may simply not be timely enough, you cannot afford to spend too much time wading through such a list. What are some of the reasons why this might be so:

- Not every item costs the same. Clearly you need to focus on the item that is burning up too much working capital so each item's unit and extended cost need to be considered. Having too many one cent o-rings is hardly likely to be an issue, but having too many fully assembled gear boxes probably would be.
- If you have a fast moving item, then a year of too much stock would be a major problem, but so too might be even a couple of months. The key is to establish the right excess alert level for each product and that will be different for each product. Even a mild deviation in stock turns from the target band can soak up too much working capital.
- However having two of a slow moving item, rather than just one might not be something you can do too much about. You will have more than a year of stock, until perhaps you sell one and then all of a sudden you have just one and perhaps a lot less than a year of stock. What is the probability that this will happen?
- Is the product perishable? If it is then it deserves your attention far earlier.
- Is the product selling from another warehouse? Do you have options? Is it only sold to one customer, and as such, any slowdown in turnover might be regarded with more alarm?

Ideally your inventory management system should consider many factors to help you focus on those items that really require your attention – the ones where you can have the greatest impact through the actions you take. You can only juggle so many things, so it would be wise to have an inventory management capability that enables you to make the right decisions for the right products, quickly. You need to very rapidly get on target.

Timely and Proactive

Getting a list of items that have not moved for a year is probably at least a year too late. Far better to make minor revisions every day rather than being forced to make major cuts once a year.

Ideally you need to flag excess very early and stop ordering. Prevention is always better than cure, so rather than "bringing out the dead stock" annually, it is much better to ensure problems don't get that bad – better to stay healthy. If a product is slowing down, be proactive and adjust the inventory settings to enable a more appropriate risk position to be adopted. Better still, have a system that helps you implement such policies easily and effectively across thousands of items. You know what ought to happen. Well your system ought to know that too. It should help you be decisive.

For example as a product dies, ideally your system will adjust the risk profile, will back off the ordering, pull back stock from branches to regional hubs and your main DC(s), and will ultimately recommend you exit the product from the range, before you lose all the money you ever made from it. If you take actions in advance, your profitability and Return on Investment can be significantly enhanced.

And it ought to run on Auto-Pilot

Of course the real trick is that the system ought to take many of these decisions for you, to free you up to think about business strategy, inventory policies and new sourcing options.

The challenge might just be to break free from old habits and take your inventory management practices to a whole new level. There are only so many things each of us can juggle. It will be a whole lot smoother if we have complete, quality timely information on which we (or our systems) can act!

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