MASTERING YOUR INVENTORY SYSTEM AND DATA

When you are the skipper at sea you know that you are responsible for the safety of your vessel and all who sail on her. That responsibility can weigh heavily on you.

However you feel a lot better if you know your boat is properly set-up and everyone knows what to do if something out of the ordinary should happen.

Being comfortable only happens with careful and deliberate preparation. If you get it right, you can engage the auto-pilot and just perform periodic checks to make sure you are keeping on course.

Setting the system up properly

Running an effective inventory management system is very similar to this. It is extremely important that everything is set up properly.

Just as on a boat you would not go to sea with some systems not operating, it is vital all of your inventory system components are working. You need to know your list of items. They have to be correctly classified. If you have rules based on an item's category then you need the category to be correct. Similarly if you have bad unit cost, weight or volume data, this can throw the planning calculations out of whack – just like strapping a big steel knife right next to your magnetic compass, you are almost certain to go off course.

You also need to complement good quality item reference data with good forecasts and accurate lead time information. Perhaps even more importantly however is that you need to know your limitations, or rather the limitations of your information.

You may know for certain that a branch is stocked from a certain DC, but you will almost never know exactly what the demand for that branch is, and there will probably always be some degree of uncertainty in your supplier lead times.

You need to know each of these numbers but you also need to know the extent to which you can rely on them. If the data is inherently unreliable, how is that uncertainty incorporated into your planning systems and calculations? Don't deceive yourself by believing something is better than it really is. If it takes a week to receipt stock your reference information must reflect this. If not then you will be planning for something that cannot be delivered.

Over time you need to improve reliability, improve process cycle times and planning windows, and learn from mistakes. After all it is much easier when you can run most of the time on auto-pilot.

Knowing who is responsible for what (and why)

On a boat it is very clear who is in charge. It is the skipper, in the only legally enshrined dictatorship.

The skipper bears full responsibility for everything that happens on board. Responsibility is clear.

However what happens with product introductions and initially sourcing product? Do product development and marketing produce the initial demand outlook, but then also decide exactly how much stock to go into each branch and DC? Do the sales people worry about this initially and then let the purchasing team take over post-launch?

You are probably aware of how things break down when roles are not clear. It is all too easy to over stock everything when the focus is on a successful product launch as opposed to a profitable product life cycle. People need to be aware of the risks of each decision and how they might impact you some years down the track.
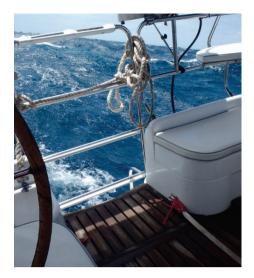
It is therefore important to back up a bit and examine the question from the point of view of why you are doing things. Starting with why tends to lead to a better definition of what and then who should do everything in your system. Rather than have marketing and product development decide on the stocking strategy for every new item, maybe it is better that they focus on a reliable picture of demand, and then have inventory and purchasing people work on how to position the stock to service that demand.

What happens when you strike heavy weather?

One of the things you learn on a boat however is that things will go wrong. The art of good seamanship is avoiding putting yourself in that position or at least not doing it too often.

In the same way that everyone needs to know what happens when things proceed to plan, it is important to understand how you will handle exceptions. What happens when you lose a key customer and are stranded with a lot of stock? What policies are in place so you can manage the possible risks of being stuck with too much stock that is unique to one customer? Smart inventory managers just like experienced sailors avoid putting themselves, their vessels, and their inventory into risky situations. However they will happen.

On a boat everyone must know what to do if there is a 'Man Overboard' incident. If you need to abandon ship you need a check list so everything that needs to be done is done as calmly as possible. Panic, and you will fail to set off your emergency beacon or leave the hand-held radio on board, or not secure the life raft before you launch it into the tumbling seas.

So too with your inventory system. What happens with a product recall or failure? A lost customer? A global financial crisis? A supplier failure? An earthquake affecting one or more suppliers? It is important that these scenarios are thought through well in advance so who needs to do what and why is clearly understood. If not then you lurch from crisis to crisis. You break things. Too many crises and it will break you.

Better to get an early warning

Of course besides good seamanship or prudent management it really helps if you can make yourself (and your system) as aware as possible of what might be expected. For example if there is a clear trend visible from Vehicle On Road data that suggests a particular part is getting to a less than viable demand position, it is better to take a different tack early. Don't persist with a course that is highly likely to end up with excess and write downs that can sink you. Make sure you can spend time with key suppliers and understand how they operate so you don't get surprised by problems.

Of course you can only stay on top of things, and have the time to read the signs, if you have a boat (system) and a crew (team) you can trust. If you are constantly fighting the helm you will fatigue.

The trick therefore is to set up a system you can trust, maintain your master data so it can be trusted too, ensure everyone understands how they are to behave and manage the process, and to know how to react to the various scenarios that will arise.

If you can do these things and stay aware of what might happen, then you can engage the auto-pilot and have a much happier and comfortable voyage. It is much better to be scanning the horizon and enjoying calm seas.

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