

# GOOD STRATEGIES TAKE SOME DIGGING

**Developing good business and inventory strategies can take some effort – you have to be prepared to dig and often, to turn over long held beliefs**

Good strategy starts with good questions. You might suggest that strategy should emanate from the answers to questions, but if we don't ask the right questions first then we will not ever get the right answers.

Unfortunately, strategy development in much of business is plagued by people who assume they know the answers, and then embark on flawed strategies. And flawed strategies certainly in the inventory management and supply chain space manifest in lost opportunities, below par profits and stalled growth. Following the leader or the mantras of others is a sure way to come second at best – strategic leadership requires original thinking and conversion of this thinking into reality.

So, if good strategy starts with good questions, better questions will lead to better strategies. This begs the question, how might you improve the questions you ask for your business, your inventory management approach and your supply chain?

## Dig Deeper for the Prizes

To develop better strategies that will stand the test of time you need to ask particularly penetrating questions.

For example, it is important to ask, "What products should be in the product range?" but it is even more important to ask, "What sort of products should be in our range?", "Why?" and "What criteria should be considered for including products in our range?"

Even better are the questions, "What business are we in?" and "How can inventory management contribute to our overall business value and differentiation?" Answering these latter questions forces you to dig more deeply and think more about the very nature of your business model.

So, if we confine ourselves to aspects that are more supply chain or inventory management related we might ask questions about our turnover expectations for each and every product in the range. In a market with so many makes and models, are we going to service the really slow movers? Why? At what price? How? If you keep asking these simple questions like "Why?" and "How?" then eventually you will find the answers that should drive your strategy.

## Dig in the right places

If you are not careful of course you will find it is very easy to explore too many options and end by digging into so many holes that you simply get lost. It helps if you can ask some questions that will help bring it all back together like, "What is my customer value proposition?" and "What is my competitive advantage and how can I sustain it?"

If your customers want a full range of products then

that says that you most likely will need to stock fast and slow movers, exotic long lead time products and popular shorter lead time products, and you will need to have an excellent service offering across the range. That inevitably will pit you against the entire market so might it be better to only focus on one sector, or even only the slow movers in one part of the market. Are you going to excel in what others find to be very difficult? What are you going to do to improve your delivery model?

With Australia's large Car Parc, the issue that must be faced is what to do with the really slow movers. You ultimately cannot stock the products everywhere; the inventory bill would just be too great. How can you move the product as quickly as possible to where it is needed? Customers might wait a day, but will they wait two? How much transport cost can be borne in the pricing of each product? Can you optimise your warehouse processes to rapidly and efficiently pick and manage such products? Do your systems for planning and shifting inventory support you and help you implement the most efficient model for every product over time? By asking these questions you will fill in the gaps in your business model.

The bad news is that the rules keep changing. With the advent of Amazon and other players, the expectations of customers and the capabilities of your competitors are changing all the time. The good news is that if you are prepared to keep asking questions, to keep challenging your business model, then you have a much better chance of remaining competitive into the future and to maximise the reward for your efforts.

## Get help digging

If you do strategic planning properly you will rapidly discover that there are many, many variables. What will be the impact of extended warranties? 3D Printing? Outsourcing some or all of the distribution? Transport costs for different standards of service?

Finding the right way to approach the problem can be a real challenge. Overwhelmed by the complexity, all too often people end up approaching things far too simplistically. We have often seen people who bought and set up warehouses only to discover that they could not handle the required volumes and could not work together across a supply network to deliver the service required, with the right level of inventory.

Fortunately, there are some easy solutions available.

You would not try to physically dig a hole without the right tools, and the same goes here. With the



right software you can model most if not all the variables and explore the different scenarios before you spend a cent on new warehouse capacity or systems. And, the modelling does not have to be 'back of the envelope' Excel type modelling. With the Horizon Inventory planning approach, it is very easy to model entirely new supply chain configurations, new inventory management policies and capabilities. The very algorithms that can assist you every day to optimise your supply chain and inventory disposition can also be used to help decide how everything ought to be configured for the longer term too.

So how do you start? It is important to start with the demand that your supply chain must service. What are your customers' lead time expectations? How many lines in each order? What combinations of products are required? What gross margin are you achieving or might be achieving for different types of products in your range?

Once you have a good handle on the demand, you might expect it is then fairly easy to look at how you might service that demand. Should you directly import stock into each capital city or might it be better to import it into one city and then redistribute it to other locations? Should you pursue the same strategy for every product or different strategies for different products based on their lead time characteristics, costs, popularity and risk profile? This is all very easy to model with the right tools – it is amazing what you can discover if you just start asking the right questions.

For further information consult  
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