

KNOW WHEN TO HOLD 'EM AND WHEN TO FOLD 'EM

The automotive aftermarket is characterised by very large product ranges with lots of very slow-moving parts, often with pack sizes and MOQs, and long lead times

The risk of creating obsolete stock is very high, and this is made even harder by the difficulty of making the thousands (even millions) of decisions that are needed to effectively manage products as they near end of life, and ultimately to decide when to exit products from the product range.

Managing a mature product

To paraphrase the song, you've got to know when (and how) to hold 'em. You need a series of techniques to help manage portfolios of slow moving parts to help gently and profitably wind back stock levels as product sales decline. These can include:

- Knowing when you need to change the way you approach each product. You could easily have thousands of products that are becoming mature and starting to decline in volume. Their demand will decrease but also become more intermittent. It is important that you have ways to recognise this in time to react, and as automatically as possible. You may need to improve your gross margin to sustain longer stock carrying times, and ultimately, perhaps reduce the prices to clear.
- Dynamic Supply Chain Reconfiguration (as described in our June 2017 article) may also be needed. Rather than deciding to import the product into every warehouse around the country and suffer the penalties of MOQs and high demand variability and higher safety stocks everywhere, maybe it's time to only import via one warehouse and then ship to other locations. DSCR can help you optimise the importing location based on relative demands and the transport costs of different lanes. Similarly, cross dock optimisation can help you optimise how incoming stock is receipted or transhipped to other sites. Savings of 10-20 percent of inventory are possible.
- Automated alternative supplier selection – maybe you get the product 10 percent cheaper from one supplier, but maybe it's time to recognise that their high MOQ is no longer appropriate given the product's slow sales rate. Maybe it's time to switch to another supplier who can provide in quantities of one, even at a slightly higher price.
- Automated excess re-distribution. This is particularly critical – you need to constantly be picking those products that appear to be in excess and move them somewhere where they will have more chance of selling.



It needs to be relentless and disciplined – if you take your eye off the ball, it is all too easy to be overwhelmed; you will never win every hand, but you do want to win the majority.

Picking the time to exit – a paradigm shift

Ultimately you have to know when to fold 'em, that is, when to stop selling the product.

The problem is that most people recognise that they have excess after the fact. They learn about excess by reporting on those products that have, for example, no movements in the last one or two years.

By that time however, it is already too late – your responses are limited to things like reducing the price (which can work against your market positioning generally), shifting the product to your 'get rid of it' channel, or ultimately, scrapping it.

A paradigm shift is needed and is now possible. Why not **stop ordering the stock in the first place?**

If you are prepared to be disciplined and clinical, you can adopt a new approach pioneered by Horizon Inventory with the Auto Parts Group.

The approach uses VOR (Vehicle on Road) data (TecDoc data provided by TecAlliance) so that you can project when the different makes and models will decline. This is correlated with the items which fit these makes and models (PARTs DB helps with Fitment data). Ultimately the levels at which it is no longer prudent to continue to support the items in your range are determined.

This approach produces projections as to demand, product life and profitability, along with estimates as to the accuracy of these predictions so you can get an idea of what is in terminal decline, and how sure you can be of a product's imminent demise.

You can set policies like, "I don't want to stock

anything that will take more than two years to sell" or "I don't want to stock a product if it has more than a 60 percent chance of making a loss."

When you consider that the average age of a car in the car parc is of the order of ten years, then product lives for aftermarket parts can easily be fifteen years. If you have, say, 30,000 parts in your portfolio then at any one time:

- You will have 2,000 products entering your range and 2,000 exiting each year; and
- 2,000 products that are within two years of end of life, or just one purchasing cycle away from when they ideally should no longer be ordered.

If you have a product range like this, you should be able to dispassionately kill 200 products a month on average, and do so with the proper analysis so you mainly only commit justifiable 'producticide'? Or will you continue to look in the rear vision mirror to see the litany of past mistakes? If you really need to be killing 200 products per month, then even stopping 100 of them from moving into your obsolescence program could make a very big difference to your bottom line.

The trump card in the pack that these new capabilities represent is the fact it can enable people to avoid ordering the stock in the first place – you can play a much better hand. Sure, there will be some mistakes, and you will exit early, but it is much better to place better bets more often. How big are your write-offs for obsolescence? Is it time for a new deal? A whole new game?

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