

PROACTIVE BETTER THAN REACTIVE

We all know that when you are driving, to drive faster and to drive safely it is important to set up well in advance of the corner

You need to brake at the right time, steer for the apex and then you can accelerate out of the corner. Preparation is key.

If on the other hand, you discover too late you are going too fast, or get off the racing line, you more than likely will struggle with the corner and come out of it second best (or worse). Successful drivers of course, think several corners ahead at least and ensure they position themselves well ahead of when they encounter each corner.

Inventory management is much the same. Ideally you need to think well ahead and set up for each stock move so that you don't trigger emergency stock moves and the like to recover from decisions made too late or suffer from poor execution.

Traditional Reorder Point Thinking

A reorder point (ROP) is a much used concept in purchasing and inventory management. It can be defined simply as:

The level of inventory, at which a replenishment action or reorder is triggered so that the inventory levels are maintained so as to deliver a desired service level or similar objective.

A ROP is in essence however reactive. It is saying how you should react (reorder) when inventory levels fall to or below a certain level.

Sure, it considers how much demand you might expect in upcoming periods, but the mindset is inherently about when you should react on the next occasion that your stock levels dip too low. Importantly it focuses on what is happening right now. Do we need to order now? It does not help you necessarily with when you need to order after that, and then order after that.

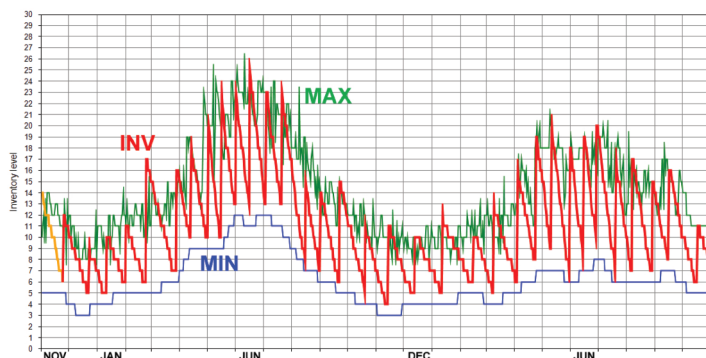
Proactive Mindset

In contrast, a proactive mindset and approach equips you to forecast not only what the upcoming demand might be (the graph shows the supply plan for a heater hose which tends to be needed more in winter), but also what safety stock you should be carrying at different times in a seasonal cycle.

You can dynamically adjust the min stock values and work out how much stock needs to be in each warehouse and when it needs to be receipted so that the stock position is ready to handle any expected changes in volatility.

You can also decide how the Economic Order Quantity (EOQ) might vary over time, what inventory levels should you expect and how often and in what quantities the purchase orders ought to be.

Importantly, with a proactive approach, you can look at these things, not just for the next occasion on which you wish to order, but for every day over the next two years or so.



What advantages are there from thinking proactively?

There are many, many benefits from thinking proactively as you plan out your inventory and supply plans. Let's explore a few.

If set up properly, you can dynamically adjust the min-max values, every month, even every week or every day, adjusting them to handle seasonal highs and lows or trends, dramatically improving productivity compared with static, manually maintained Min/ROP and Max values.

You can also now advise your suppliers of your expected purchasing activity over the next 12-24 months or so. You can even accommodate all their Minimum Order Quantities (MOQs) and Pack Sizes, minimum order values and their holidays and manufacturing shut downs. This can help ensure better continuity of supply.

If the supplier advises that there is a bit more room in the container, or you decide you need to order a bit more to make a rebate level, then a proactive approach will enable you, with the right optimisation approaches, to order just what is needed, not too much though, because now you have a quality set of projections of what is needed months and months ahead.

If you are running short of supply, then a proactive approach also helps position stock in the best places to maximise the likelihood of sales over coming months.

From time to time there will be situations where you do have to react. Like the loss of containers from the YM Efficiency off the NSW coast, or an earthquake in Japan.

Sure, these sorts of situations are difficult to manage and to react to, but they are made easier if you have been proactive in building some flexibility into your supply lines, well in advance, just in case you are affected by a nasty surprise or accident. Reacting is also easier if you are highly productive and have the time and resources to be able to react properly too.

And ultimately, if you see the Vehicle On Road figures decreasing (see the June AAAA Magazine article: 'know when to hold 'em and when to fold 'em) you can decide years in advance when to stop ordering associated items. You can genuinely plan for ZERO OBSOLESCENCE. You don't have to order too much, wait a couple of years and then look in the rear vision mirror and discover that there is a massive write-off looming up just behind you, so that you are forced to react and have a bad experience and bad result forced on you.

So what do you prefer? Reacting too late and suffering the consequences? Or trying to be as proactive as possible and enjoy much better performance as a result? Do you want to win? If you do, then maybe it is time to make sure you have the right vehicle to get you there, the vision to look far enough ahead as you and the world move even faster, and the skills and knowledge to stay in the lead.

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