LOSE YOUR INVENTORY INHIBITIONS

Just imagine Inventory Planning that really stretches the boundaries – now that could be weird!

Picture planners dreaming of fanciful demand projections; the fantasy of 100 percent service levels without any consideration for inventory excesses; being addicted to supplier rebates and oblivious to the dangers of cheap product with high Minimum Order Quantities. Surely adopting a rigorous and disciplined approach is a far better choice.

But perhaps there are times when being a bit weird might be a good idea – maybe there are situations when a different line should be taken, as long as the potential harm doesn't get out of hand.

Orthodox to wait

Before we start looking at the world a bit differently, let's position a challenge we commonly face with forecasting aftermarket parts.

Typically demand volumes are low: often only one or two a month, and those couple of parts could be required on any day within the month, apart from weekends and holidays.

So, if you have seen absolutely no demand in the first two weeks of a month, you could easily still see one or two units being required in the balance of the month. For this reason, we normally only include the demand for a month into the forecasting calculations once each month has finished.

It would be very dangerous, for example, to suggest that no demand in the first two weeks meant no demand for the balance of the month – that sort of assumption could easily reduce the expectation of demand and the expected variability.

More ups than downs

One of the constants in the aftermarket is demand variability. Even the most popular products can exhibit very high variability – we do however have choices in how we interpret that variability and how to react to it.

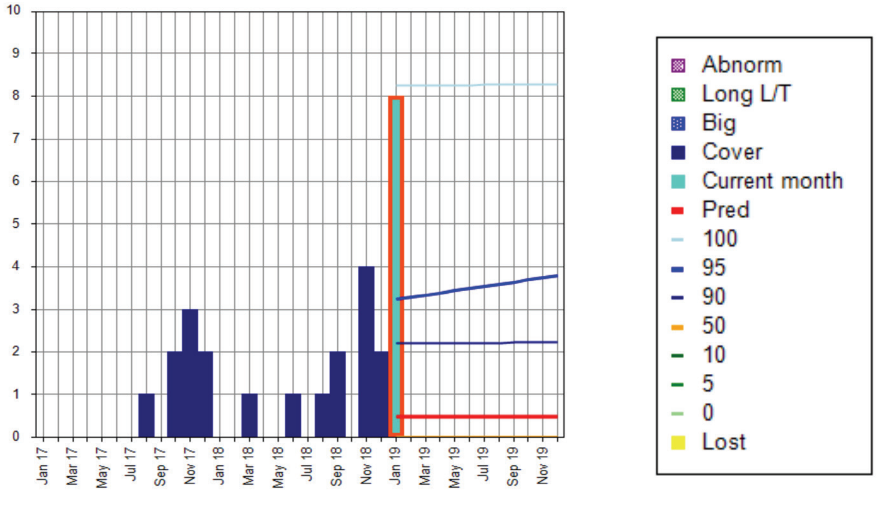
For example, you might have been selling up to four each month over the last couple of years and often nothing, one or perhaps two, but half-way through the current month you have sold eight. What do you do?

It is likely to put pressure on your stock levels. Do you just beef up the safety stock, responding to the greater variability with increased protection, or do you interpret the extra sales as foretelling an uptick in demand and therefore not only should you order more safety stock but perhaps more cycle stock too? Do you even need to get onto the supplier and expedite purchase orders that have already been placed?

Rather than reacting on a whim, it might be a good idea to understand the situation a bit better. How is the product selling from other warehouses? If they are all fairly consistent, then perhaps eight in one month really is an outlier and you do not want to over-react. Have recent forecasts been under what has been experienced? Who bought the eight? One customer? As stock orders? Is the product early in its life? If it is and you do make decisions to substantially raise your safety stock levels, then you probably have plenty of time to recover from a bad decision if you get it wrong.

At the very least, you should be alerted to the need to ask these sorts of questions, but maybe biasing the system to take more inventory risk on your behalf might be a better approach, particularly with tens of thousands of SKUs. Maybe there are times to be more risqué; allowing your forecasting and planning to be biased on the upside.

Often you will hear of the need for unbiased estimators and the like, but we need to remember that there may be times when it is better to be biased with inputs so as to produce better outputs. You can treat ups more generously than downs and it might be a lot better for example to more readily raise forecasts and their variability rather than lower them, especially if the product is popular, early in its life and you stand to achieve stronger returns and a better market position. Sure there are risks, but maybe the improved profits are worth it.



Making rewards with less risks

If you are biasing your system to pursue better results, such as more growth, then it is important to ensure you can test and monitor the risks you take. Can you model the potential results before you decide to adopt more risk?

A better high

Let's assume you have decided to responsibly err on the upside so you adopt upswings in demand more readily than downturns. You have a heightened sense of opportunity and a lesser predisposition to be pessimistic – assuming you favour ups over downs, then what effect might that have?

Well, if you can detect early in the month that demand is on the up then you can perhaps get a couple of weeks ahead of the game. If you are normally looking at supplier lead times of 100 days, then detecting a demand upswing 15-20 days earlier might be very helpful in helping avoid a stock out in several months – look at the gross margin you might capture as opposed to the extra few months you might need to carry stock.

A better balance

A lot of inventory management is about balancing the rewards against the risks. Are you able to adopt a different posture in different situations? Does your planning system help you easily identify when you're probably OK to take a bit more risk? Will it alert you when you need to more carefully weigh up and minimise the risks? Can you be confident that more often than not that it will make the right choices for you?

Haven't thought much about these questions? Well maybe live a little more on the edge – you might just be surprised at the results you can achieve; you can make better choices.

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