TOP 10 INVENTORY PRACTICES OF HIGH PERFORMING DISTRIBUTORS

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Top 10 Inventory Practices of High Performing Distributors

Time and time again, people ask what differentiates high performing distributors from the rest of the pack. What's the secret? What's key in maintaining a lean, efficient inventory and high customer service levels? Is it the processes that I put in place? Is it the software I implement?

Inventory is the lifeblood for distributors and maintaining the right inventory on the right items at the right locations is of utmost importance for maintaining high levels of customer service and loyalty. Maintaining proper inventory levels is challenging for most companies. It takes a concerted effort to maintain lean inventory and still meet service requirements. Implementing and following the Top 10 Inventory management practices of high performing distributors will set you apart from the average performers.

TOP 10 INVENTORY PRACTICES:

No.1

DEMAND PLANNING

Poor demand forecasting is the leading source of issues when it comes to poor customer service. Managing inventory, cost and service depends on an accurate forecast. High performing organizations will analyze history, assess trends and evaluate seasonality and variability. Statistical forecasting algorithms are often employed for the development of a baseline demand plan. The baseline demand plan can be enhanced by employing a collaborative forecast process (see #2). An accurate demand forecast will provide the foundation for a replenishment schedule.

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IN ENABLING SUPPLY CHAIN TO DELIVER HIGH SERVICE AT APPROPRIATE INVENTORY LEVELS AND COST IN AN ENVIRONMENT OF EXTREME DEMAND VOLATILITY.

Take Seven Actions to Improve Demand Management Capability in Consumer Products, Gartner, November 2015

No.2

COLLABORATIVE FORECAST DEVELOPMENT

Injecting marketing insight into the demand forecast will improve forecast accuracy. The additional insight provided by the sales or product management team will provide visibility to future events that will impact the demand for products. Meeting on a regular and consistent basis will drive accountability and ownership of the demand plan throughout the organization. Task your sales and marketing organization with accountability for forecasting inputs. This includes: insight into customer events, internal promotions and other events that will influence demand for product. A regular review of forecast performance will provide opportunities for shaping the demand plan, and improving the consensus demand planning process.

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> Take Seven Actions to Improve Demand Management Capability in Consumer Products, Gartner, November 2015

No.3

MEASURE FORECAST ACCURACY

Forecast error is a given, measuring it will assist your organization in improving product availability. Top performing organizations measure and focus on forecast error to improve the demand planning process. It will guide the decision to put additional effort into improving the demand forecast. Forecast error can also be reduced by building accountability for forecast inputs. Furthermore, understanding and correcting the sources of error in the consensus demand plan (as defined in #2 Collaborative Forecast Development). This will result in higher forecast accuracy and lower inventories.

POOR FORECAST ACCURACY TOPS THE LIST OF CHALLENGES BY COMPANIES IN THEIR ABILITY TO DELIVER CUSTOMER SERVICE, ACCORDING TO GARTNER'S 2015 CROSS-INDUSTRY CUSTOMER SERVICE STUDY.

No.4

DEVELOP THEIR PEOPLE

It's the people you put in charge of your inventory processes that make a significant impact on the overall success. Sure, a software solution can help organize your data, alert you of potential threats and even suggest next steps, but it's how you (and your team) configure the alerts and act on this information that really make the biggest impact on your success. Ensuring team members are properly trained on the tools they use and are up to date on best practices is the single most effective improvement you can make to your inventory management operations. A proactive approach to inventory management depends on having a team that is empowered to analyze, question, and apply knowledge to the data that is collected from your procedures and software. Without their expertise, your inventory management processes and software are less than optimal. Invest in the continued education and development of the people who manage your inventory. A skilled and motivated inventory-planning organization is key to high performing organizations.

No. 5

APPROVED STOCK LIST

This is the list of products your organization has committed to carry. It is based on a careful evaluation of various measures like: total quantity sold, number of times your customers purchased the product (i.e. hits), margin contributed by each product, what are customers asking for. The list is comprised of product that is producing margin, selling, or important to your customers. The items that appear on this list have a good reason to be here and are carefully selected. An effective and ongoing process for 'Separating the stock from the stuff' will ensure inventory is only being carried on stock your customers expect you to have immediately available.

No.6

SERVICE LEVEL TARGETS

Not all inventory is created equal. Intentional service objectives for categories direct investment to the products your organization deems important. Higher service level targets should be set for products that need to be available a greater percentage of the time. These targets are goals established by the organization and inventory practices and resources will be allocated proportionally.

No.7

INVEST IN SAFETY STOCK

Ensuring you will meet your customer service objectives will require an additional investment in inventory. This extra buffer of inventory is a requirement for bridging the forecast error gap and will help ensure inventory is on the shelf when customers order product. Measured forecast error (see #3 Measure Forecast Accuracy) is required for each and every item at all stocking locations. A clear understanding of your organization's customer service level objectives (see #6 Service Level Targets) for each item is a key input to the process. The approved stock list also plays an important role in determining how effective the additional investment in inventory will be. Placing safety stock on items customers expected to have in stock is a sound investment that helps avoid lost sales.

No.8

NEW PRODUCT INTRODUCTIONS

Carefully controlling the products that make it to the approved stock list will control inventory investment and go a long way to maintaining the approved stock list. Top performing organizations implement a rigorous item approval process. Before an item makes it on the approved stock list, a thorough review is completed for each proposed production addition. A review will include items like the anticipated sales, sponsoring individual and initial inventory investment. Once approved, the item should remain in a probationary status and its performance reviewed on a regular basis to validate the item is meeting expectations and is an appropriate addition for the approved stock list. This process will hold the organization accountable to inventory investments.

No.9

MEASURE SUPPLY VARIABILITY

Your suppliers' performance will greatly impact your organization's ability to meet its stated customer service levels. Delivering on time to stated lead times is essential for lean inventory management. Consistently review and measure your vendors' performance to stated goals. This will assist in establishing working relationships that can lead to improved fulfillment in periods of changing demand signals and customer requirements. This will set the stage for focusing on reduced lead times and supplier strategies that improve supply fulfillment.

No.10

INVENTORY PERFORMANCE METRICS

"You can't manage what you don't measure" is an old management adage that still resonates today. Measuring and benchmarking plays a valuable role in identifying priorities and building the business case for investing in your business. Analyzing lagging indicators such as customer service, revenue growth, profitability, return on assets, and forecast accuracy enables your organization to review past decisions and processes. Assessing leading indicators such as inventory levels, future sales and manufacturing and supplier capacity will assist in measuring inventory availability. Establish a scorecard that encapsulate these lagging and leading indicators to enable business transformation and support continuous improvement.

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Stock IQ is a supply chain planning suite designed for distributors, manufacturers and 3PL's. With over 18 years in the industry, we know what you need to run efficiently, improve forecast accuracy and reduce inventory levels, while providing unmatched service to your customers and shippers.

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LEARN MORE ABOUT STOCKIQ AND SPEAK WITH OUR EXPERTS ANYTIME.

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