

How to Avoid Career Suicide When Changing Your Supply Chain

By: **Linda Nowakowski**

The primary goal of any business is to make money. As a manager my job is to figure out a way to increase sales, reduce costs and lower investment. I have tried many things in the past but the changes only resulted in temporary gains. It is not so much that the changes did not improve things but that they could not be linked to bottom line results.

I know my job depends on not just finding the right balance but finding the right answer. I have to find a way to have what the customers want when they want it and satisfy all of our internal business goals.

I have pressure from the sales staff to increase inventory to protect sales. I also receive pressure from the accounting staff to decrease inventory in order to control costs. I am caught in a vicious cycle.

Obviously, increasing inventory means more investment and sometimes strains our cash flow and adds to carrying costs. What is not so obvious is this also limits our sales. Because when money is so tied up, we may not be in a position to buy the goods we need to capture new business. Higher levels of inventory also risk higher levels of obsolescence. How many times has your customer changed what they were buying and you were caught holding the inventory or had to reduce the price of the product to move the inventory?

While on the other hand, decreasing inventory causes shortages that translate into lost sales. Too many shortages can cause customers to never return. Lost customers are fairly easy to track by comparing current sales to past sales. The shortages that are not tracked are where a potential customer does not buy because the product was not available at the time they wanted to buy. Our experience is that actual sales dollars lost are 10-20 times the losses currently measured by unavailability of stock in distribution centers. For example, if a distribution center claims that they don't have a requested item 2% of the time, our experience is that retail sales losses are 20-40%.

Decreasing inventory too much results in expediting. Expedited freight costs are no doubt expensive. Our suppliers demand higher prices and even charge rush fees. The time spent expediting reduces the focus on current or new business opportunities.

There is tons of technology with plenty of options and features. Selecting an ERP or another computer system only adds value if the technology removes the limitation that blocks the company from achieving its goal. No matter which is chosen, the bitter experience of many companies is that it will be expensive and time consuming to implement. Unless a constraint is broken, the result will still be increased inventory at the wrong places, not enough inventory at the right places, increased costs and decreased margins.

The only way to avoid career suicide in inventory management is to break the conflict between the need to increase inventory and the need to reduce inventory. Otherwise, all actions will be a compromise that results in minimal performance improvement or may even make things worse ... gulp (target on my back).

Any solution must significantly reduce shortages and inventory, provide faster response to customer needs, produce significant cash and cost savings, reduce risk from competitors and be sustainable long term.

IDEA suggests accomplishing all this by:

1. Aggregating inventory away from the consumption point, where demand is much more stable and where safety stocks can be significantly smaller. Holding inventory at an aggregation point also reduces replenishment time to the downstream points.
2. Setting ordering Targets based on "maximum consumption in the average replenishment time factored for the variability of re-supply". We don't order if on hand inventory is over the target. Since the replenishment time from the aggregated point is reduced, it means less inventory is needed downstream too.
3. Replenishing consumption points more frequently based on actual demand rather than relying on a forecast.
4. Using dynamic inventory buffers that are periodically adjusted when necessary based on the level of on hand inventory relative to the Target mentioned in step 2 above.
5. Constantly working to provide incentives for suppliers to reduce replenishment times and improve due date performance.

By employing IDEA's solution which significantly improves your business' goal you dramatically increase your personal value to your business thereby creating career superstardom.

IDEA'S WAY OF THINKING	IDEA'S METHOD
<ul style="list-style-type: none"> • <i>Neither an accurate forecast nor changing vendors is required for success</i> • <i>There is a way to both increase sales and reduce inventory</i> • <i>Supply chains sell less when clogged with inventory</i> • <i>In the long term, unless the supply chain sells more no link can sell more</i> • <i>We must help clients gain buy-in internally and with supply chain partners</i> • <i>The majority of our fees are based on improved return on inventory</i> 	<ul style="list-style-type: none"> • <i>Verify the existence of inventory imbalances and the benefits of moving from a "Push" to a "Pull" system</i> • <i>Gain top management buy-in to the assessment and support of the approach</i> • <i>Build knowledge and understanding across the supply chain, at all levels</i> • <i>Utilize systems that deliver actionable information, integrated with existing software</i> • <i>Work with you until expected results are achieved</i> • <i>Share the tools and know-how to continually improve results</i>
<p>IDEA, LLC</p>	<p>Contact: Tom Demuth, President TomDemuth@ideallc.com</p>

