How to Survive the Economic Crunch – *Five Things You Can Do Now*

Better forecasting and inventory planning are key supply chain solutions

By Charles N. Smart

Current economic conditions are challenging everyone's business. This is especially true for companies in the manufacturing and distribution sectors that have a large percentage of their supply chain resources tied up in inventory. With credit tight, these companies are looking for ways to preserve as much cash as possible. Because inventory is cash sitting on the shelves, a prime way to reduce costs and increase cash flows is to improve the forecasting and planning of inventory requirements.

For those of you with demand forecasting and inventory planning software, if you're like most software users, you're only benefiting from a small fraction of its capabilities. We've found that's because users of these applications normally do not have the time available to implement new features or truly appreciate the utility of advanced features. However, in these challenging times, adversity should be a catalyst to get you to implement some of those powerful features that can have a real positive impact your business.

Depending on the software application you are using and the needs of your organization, here are a few things you can do. Please don't be surprised if they require a reallocation of priorities and/or resources to put more time into training. But if done well, they can have a rewarding payoff that not only helps your company in the short term but also positions it for success in the eventual long-term economic recovery.

Optimize Your Inventories

Your company's goal should be to stock the optimal amount of inventory needed to satisfy product demand over a specified lead time and at a desired service level. Doing this successfully will help you to achieve balanced inventory levels, reducing over-stocking and under-stocking, and also uncovering obsolete inventory.

You need to find a way to generate accurate estimates of safety stock and inventory levels based on demand patterns, lead time and desired service levels. And, because the cost of trans-shipping products can be so high, you need to do it for each of the distribution/stocking locations in your supply chain. With the right software solutions, you should be able to automatically generate accurate estimates of stocking requirements to help "right-size" your inventory levels. This will let you determine how much you should have in stock for each item at each location, showing you where you're over-stocked and under-stocked, and pinpointing your obsolete inventory.

Prioritize Service Levels for Your Products

In these tough times, certain product items may be more important to your company's success than others. To optimize inventory and maximize sales, service levels should be set high (90-99 percent) for those items highly demanded by budget-conscious consumers, but can probably be set much lower (70-80 percent or even less) for other items. Try doing a revenue-based ABC analysis of your company's stock-keeping units (SKUs) and set service levels accordingly in your software planning solution. You may find that you need much less stock for many of your SKUs than you previously thought.

Use More Recent Demand History

The economy has been changing so fast that past demand history may not be a good indicator of future demand for your products. To improve short-term forecast accuracy, one solution is to shorten the demand history used to generate a forecast so that more emphasis is placed

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on recent trends and demand patterns rather than those contained in outdated history from two or three years ago. So, instead of using 24 or 36 months of demand history to create forecasts, consider using only the most recent 12. While there may be some risks in doing this, such as discounting relevant long-term trends and seasonal patterns, the increase in short-term accuracy may be worth it. In any case, the risks and benefits of this strategy should be thoroughly evaluated.

Pay Attention to "Slow-moving," Intermittent Demand

Companies in the service/spare parts, auto aftermarket distribution and capital goods industries commonly experience intermittent, "slow-moving" demand for a large percentage of their inventory items. Because intermittent demand is so difficult to forecast, companies often wind up doing a poor job of forecasting and inventory planning for as much as 70 percent of their SKUs. That's a lot of supply chain inventory, frequently running in the millions of dollars in value, and this means that there's a lot of room for cost savings.

If your software vendor offers an intermittent demand forecasting feature and you're not using it as part of your planning process, this is the time to come up to speed. If you're in one of those businesses that manages lots of intermittently demanded items but you don't have a tool to help forecast that type of demand, the investment in an appropriate software solution can pay for itself in a matter of months.

Invest in Technology and Training

Yes, I know it's hard to shake the money tree for new technology investments when money is tight, but please remember strategic investments can pay off handsomely. Get your top management team involved and make demand forecasting and inventory planning a corporate priority that can put more cash in the company coffers.

Look for software solutions that are scalable, yet have a relatively low total cost of ownership, fast payback and high return on investment (ROI).

Finally, don't scrimp on training. Get your employees up to speed on the product features that are going to give your company the best returns. And, if it's necessary, get help reengineering your supply chain planning processes to take better advantage of your technology investments.

Get Started Now

In every economic crisis there have always been opportunities. I suggest you use some of the strategies I've outlined in this article to make changes that will help your business weather the rough seas ahead and better position itself to compete when times get better. ■