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Operational & Inventory Optimization Remains a Challenge

9 practical tips to support Operations to better optimise performance while managing the pressures of a volatile supply chain and portfolio variability.

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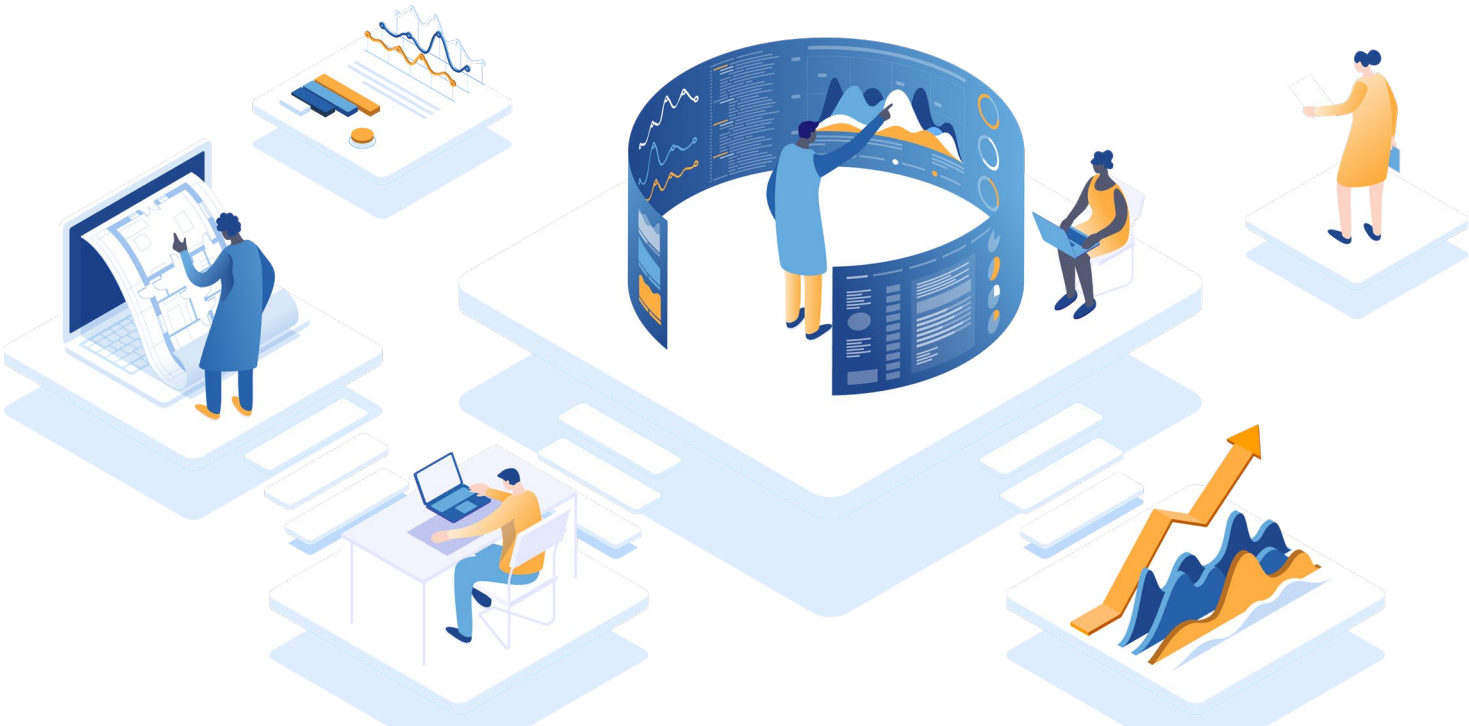
Beyond sales growth and pricing, a company's operations becomes key in driving customer satisfaction and therefore overall businesses success. Often forgotten when sales & marketing look to drive incremental growth is the impact on operations, where everything from service, quality, product specification will need attention and adjustment to ensure business success.

The complexity of managing operations has significantly increased with the drive for growth and the acceptance of more personalised customers requirement, leading to more product variety and therefore variability in operations. Equally operational complexity has increased as market volatility has impacted the value chain: changing supplier & manufacturing lead times, increasing material costs, drive for increased localisation, unpredictable demand, misaligned customer service.

Today the consequence of these "shocks" is the visibility of excessive inventory, poor and/ or deteriorating customer service and weaker margins due to cost pressures and increased hidden indirect costs. In short working capital control is a key area requiring constant attention.

Operations is expected to manage these pressures and optimize performance, but often without the tools as traditional stock management systems are unable to model best strategic option or identify the specifics for remedial activities.

This document highlights some key challenges encountered and areas to review to support a coherent health check of operations and optimise inventory management. If several of these resonate, then it is time to take action.



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9 Insights to support an Operations health check and optimise inventory management

1

Inventory health. Whenever parts of the inventory are over or under stocked this causes an increasing cost to the business and impacts the service delivered - unless there is constant vigilance and fine tuning.

While inventory metrics, such as stock turns, give a perspective on inventory health, few businesses and systems offer regular insight on where there is over vs under stock. This requires use of stock parameters and demand profiling.

2

Managing the "Runner" Core for business success. A classic ABC-XYZ analysis using standard CoV calculations is not ideal in managing your inventory and product portfolio optimization.

Having a view on core portfolio demand usage allows for a refinement since a lot of tail items will be classified as Bs (CoV) but these are not critical to business performance. However, a Runner, Repeater, Stranger classification will bring together the key metrics of volume demand, coefficient of variance and monthly/weekly usage. This will offer an optimised focus on the most valuable items, combined with a focus of those items that set Stock Policy Codes and key service levels.

3

Service as competitive differentiator. Only a modest number of items will contribute to the majority of gross margin of any business. A focus on managing these key product/customer service combinations is key.

Driving service excellence for the core SKU/customer combination (e.g. 80:80, the top 80% of customers and products by margin that generate 64% of GP), simplifies the operational focus, mitigates service risk where it counts and drives satisfaction for your key customers. Clarity in focus vs the whole portfolio ensures that available resources are prioritized where they count most.

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4 **Managing the commercial drivers.** With higher variability in demand, supply costs and lead times, sensitivity to Economic Order Quantities has increased, needing regular re-assessment.

The variables impacting an efficient operation of inventory are frequently changing: whether these are cost changes, replenishment targets or minimum order quantities. The resulting impact will be underperformance in stock turns. Performance will improve by understanding these sensitivities.

5 **Historic stock profiling.** Consistent adherence to existing stock policies is often a challenge and does not necessarily occur - the issue is to identify the "what", "when" and "how" of such stock policy failures.

By backward engineering demand and profiling implied stock based on stock policy codes, anomalies can be identified. These can then become flags to assess where internal processes are weak or failed and how to improve.

6 **Stock policy improvements.** In a changing market environment, understanding the impact and exposure to minimum order quantities helps prioritise remedial action.

What happens to inventory & service levels if there was no minimum order quantity requirement and what savings could be delivered? By examining the impact, opportunities for rethinking lead times, minimum order quantities with certain suppliers can be highlighted and negotiated. Driving these changes will lead to real benefits in service and working capital use.

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7 **Multi-plant & distribution optimisation.** Any supply chain network has strengths and weaknesses but also opportunities for restructuring to optimise footprint and service performance. This is a dynamic process as constraints change across the value chain.

Diagnosing and modelling the impact of changes to the service location and footprint of items being stocked, can identify cost savings and more importantly service improvements. Such modelling can be complex, but a multi-scenario approach can bring clarity of execution, supply chain savings and service gains.

8 **Multi-demand type reconfiguration.** A key issue is often how best to manage different demand types, for example Original Equipment (OE) service versus the Aftermarket (AM) as demand tends to be combined

By flagging different demand needs from different locations and running reconfigured demand scenarios, a clear picture can be developed of what is required to meet customer expectations. A better understanding of how to support "strategic" demand will lead to improved service where it counts and opportunity for growth.

9 **Demand adjustments.** Any S&OP process looks to evaluate likely demand, plan and align operational needs, but a sensitivity analysis of the working capital and service impact will aid in a proactive engagement with suppliers as demand patterns change.

Demand changes on certain product items can have significant impact on service performance based on inadequate review of impact on supply chain. Modelling the impact of key areas of demand change vs history allows for a more proactive approach to inventory management, less fire-fighting and fewer complaints by customers.

Are you taking advantage of every chance to address operational optimization? Explore practical ways to diagnose your inventory health and modelled operational improvement opportunities.

Visit our Operations Page or contact info@align-alytics.com to learn more