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Inventory Management Strategies

Controlling **inventory** is perhaps the most important aspect of any warehouse distribution operation. How effective inventory is managed can often mean the difference between success or failure of an aftermarket parts business.

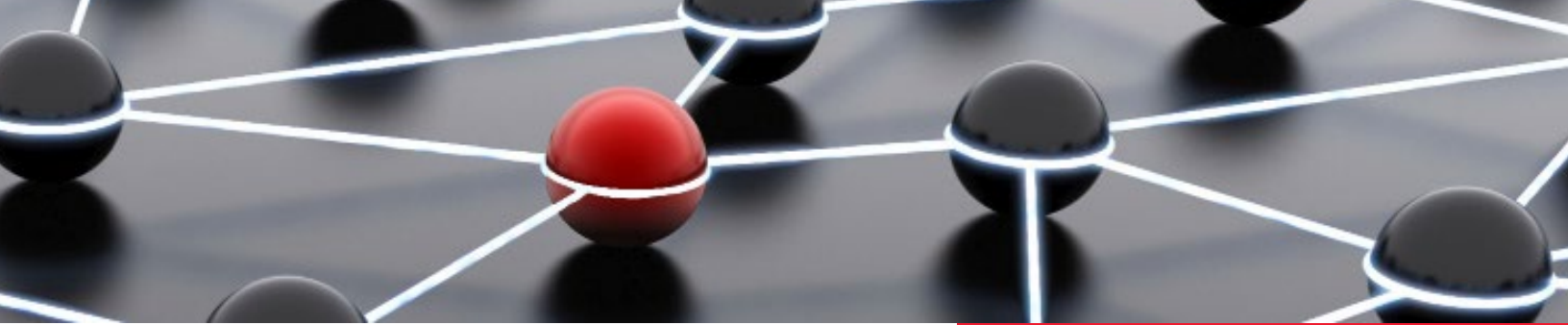


For nearly four decades, AutoPower has helped distributors prioritize and institute best practices that are proven to increase efficiency, provide great customer service and drive profitability.

We've worked with hundreds of distributors in the Heavy Duty industry who distribute just about every type of part and/or product you can imagine. Despite the diversity, they come to us to solve very similar inventory planning and control problems:

- **Inventory is too high in some products.** Excess inventory and dead stock is tying up capital, decreasing turnovers and eroding profits.
- **Inventory is not in tune with customer demand so they experience frequent stock-outs.** They have high numbers of backorders, lost sales and dissatisfied customers.
- **Unsure of what's in inventory.** What's actually on the shelf rarely matches the on-hand quantity in the existing computer or manual systems in use.
- **Unable to locate products in their warehouse.** Many know it's in the warehouse somewhere, but not exactly where.

Solving these problems involve implementing both inventory planning and inventory control.



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Let's clearly define these areas.

- **Inventory Planning** allows a distributor to meet customer's demand for products. Each product is constantly analyzed to meet demand, minimize inventory investment and maximize profit potential. Inventory planning is about when to order products, how much to order and the most effective sources for each item in the warehouse.
- **Inventory Control** is managing the inventory already in your single or multi-warehouse locations. Inventory control is a system of automated workflow processes that tell you what products you have, how much of each item is on hand, what's committed to a sale and what's on order. These control processes are also about knowing where each product is located in a warehouse and storing products in a way that minimize the cost fulfilling customer orders

The AutoPower System unites inventory planning and inventory control to create what we call effective Inventory Management. As a result, distributors develop a systematic approach to managing what is typically their biggest capital asset. This proprietary optimization technology is "Profit by Intention" in action and combines all inventory activities related to inventory demand forecasting, replenishment and efficiently controlling currently stocked items.

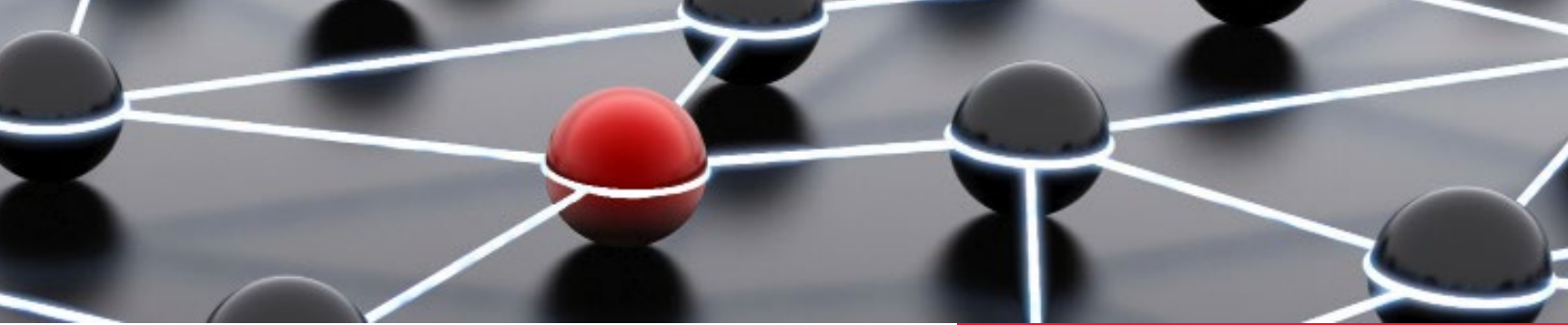
The aftermarket distribution companies we help realize that there is not a single strategy for improving inventory management. In today's competitive world, inventory management is about uniting best-practices with transformative technologies that do not restrict, but allow for a progression to inventory optimization and operational efficiency.

2 Strategies for Effective Inventory Management

Today there are a group of strategies that you can apply across the complex supply chain network that you must manage. Before we start, let's look at the goals for these strategies.

There are three goals that are always common to forward thinking distributors.

1. **Customer Satisfaction** – first and foremost is having the right stock and enough of it to satisfy your customer demands. Inventory Management is always characterized by the objective of satisfying customer needs while keeping inventory costs at a minimum.
2. **Working Capital** – Your biggest capital investment is more than likely inventory. Any optimization that lowers your capital investment or working capital requirements is cash that drops to your bottom-line. This is cash that can be fruitfully directed to fuel your company's growth initiatives.



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- 3. Profit** – Look at your inventory today! Be a realist, step back and acknowledge your inventory is composed of two things: “stock” that sells and “stuff” that is everything else in your warehouse. You’re not making profits on the “stuff”. In fact, the ‘stuff’ is eroding profits with carrying cost and poor warehouse utilization. Great Inventory Management will help you identify and liquidate the “stuff” and replace it with “stock” that is efficiently arranged to minimize the costs associated with filling customer orders. What’s not to like about more inventory turns creating more profit with better profit margins?

Strategy 1 – Inventory Planning and Superior Usage Forecasting

The single most important element of inventory management is predicting usage on all items you will purchase as “stock” for your inventory. So, if you want to be great at inventory management, be great at predicting, since proven inventory control methods favor the distributor that can outguess the future.

Becoming good at usage prediction means your warehouse gets full of “stock” that sells and not “stuff” that just uses valuable space in your warehouse.

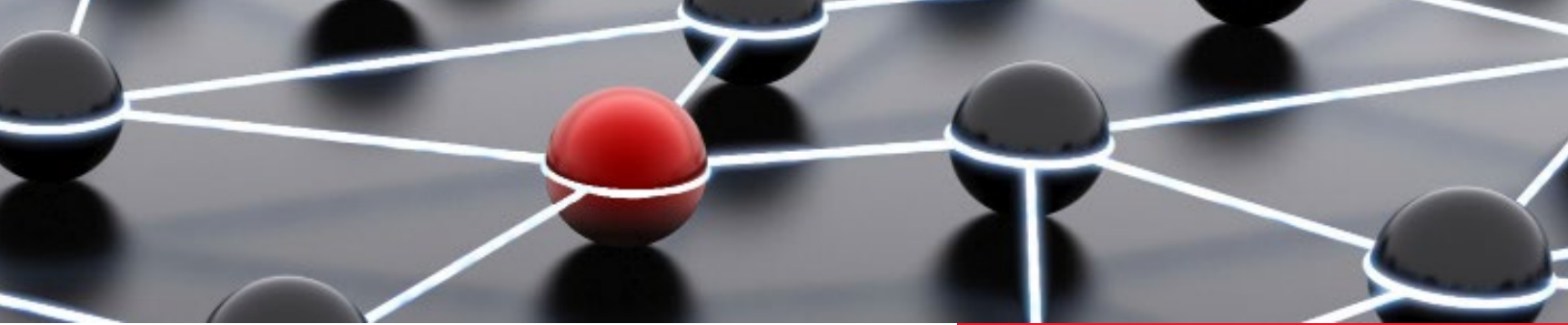
Prediction of future usage has three important requirements:

1. You must do this for every stock item independently
2. You must express this prediction as units not dollars
3. You must relate usage to a time period

In addition to these requirements you will need a firm understanding to the types of usage you are predicting. Typically, you can classify usage as:

- Regular – This is normally sales to customers
- Transfer - If you have multiple warehouses with repetitive needs from your stock
- Components – This stock is typically used for other business purposes (Kits or Assembly, Repair or Service, Internal use)

By now you’re thinking “I would need a computer system to do all that”. If you’re like the service/repair, rebuilders and/or truck and equipment installers we’ve worked with, the answer is absolutely **yes!** Becoming really good at usage predictions means having a system that retains and can access lots of historical data to forecast your stock needs.



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If you want your people to be effective you've got to remove the grunt work with technology that handles the mountains of clerical transactions, performs revealing analyses, makes consistent accurate usage calculations and provides you well-planned profit based replenishment recommendations.

While the math behind the usage calculations is straight forward for about 80% of the typically stocked items, the other 20% is where 95% of your headaches are generated. This is particularly true when the sheer number of items in inventory has grown so fast that the current manual methods or software can't handle the historical data necessary to accurately predict usage.

As an example, there are at least four usage conditions that cause errors if you use historical data to predict future usage.

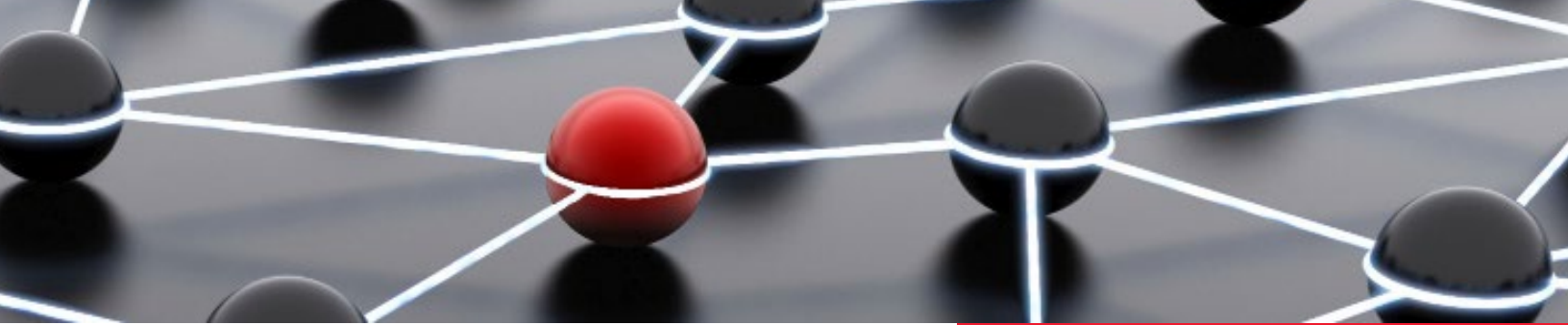
1. Unusual Sales
2. Extended Stock-outs
3. Single Customer Dominated Sales
4. Low Sales/Year Items

Each of these conditions will cause your usage predictions to have large errors that result in unwanted and unneeded stock. This can be some of the "stuff" that turns into dead capital taking up valuable warehouse space.

If you're looking at where you can make one of the biggest impacts in your organization's inventory management and financial future, think usage prediction. It is the most vital aspect of controlling inventory. We understand that every major ordering decision and inventory investment is based on what you expect to sell or transfer.

The AutoPower System contains proprietary optimization technology to help you stock the right inventory to meet your customer demands, maximize revenue and minimize costs. Our robust algorithms and forecasting tools provide:

- Sales Forecasting
- Forecast Error Estimation
- Configured Service Level Targets
- Replenishment Lead Times
- Prepaid Shipping Consideration
- Order Frequency
- Imbedded Holding Costs



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Strategy 1, “Effective Usage Predications”, is the foundation for meeting customer demand, ensuring that your working capital is working for you and starts you down the path of “Profit by Intention”.

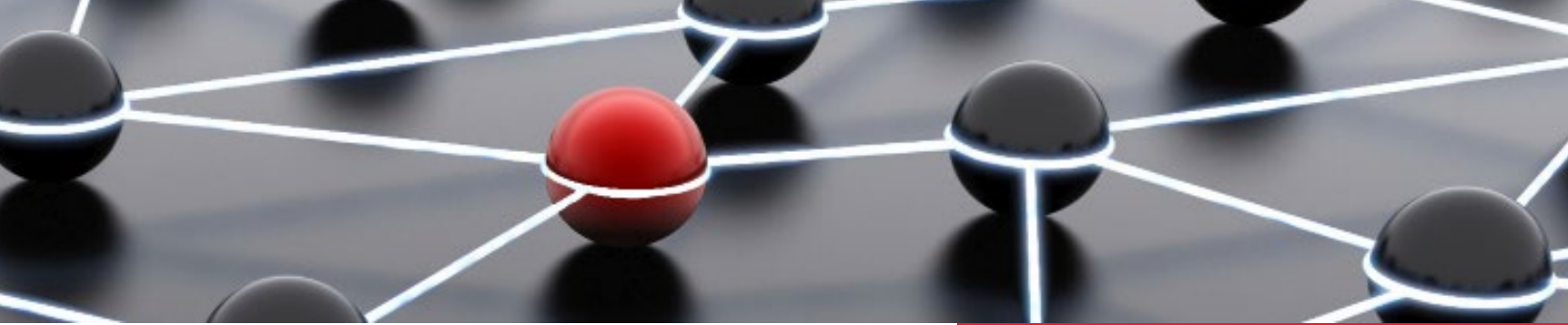
Strategy 2 – Inventory Utilization Optimization

In today’s economy, our distributors are impacted by vendors upstream and customers downstream demanding more efficient business technology interfaces. Dealing with these demands is both necessary and financially rewarding for distributors. These demands present opportunities to create labor savings, expand profit margins and create new revenue. Let’s look at a few examples of different ways you can leverage your inventory and create new sales, internal savings and efficiency.

WebPower

Most of our distributors now have real-time website interfaces for customers fully integrated into their AutoPower System. We created a product called WebPower that satisfies the need for both Business-to-Business (B2B) and/or Business-to-Consumer (B2C) e-commerce. These integrated websites provide:

- Increase Revenue
 - Improved Order Accuracy
 - Increased Customer Controls
 - Elevated Customer Satisfaction
 - Enhanced Customer Availability
 - Improved Customer Self Service
- Decreased Cost
 - Decreases Internal Order Processing Cost
 - Reduced Order Errors
 - Lower Administration Cost
 - Eliminates Customer Wait Time (Open 24/7/365)
 - Shrinks Your Transaction Cycle Time



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It is not unusual for the distributor to experience a sales increase as much as 15% with the implementation of online e-commerce. This is typically because the site can expose all of the lines you carry to your customers. When customers can browse parts by vendor or manufacturer, you will be surprised how often you hear “I didn’t know that you carried that line”.

WebPower eliminates the need to verify and key in faxed orders. There is an order import feature that allows for the import of large stocking orders directly into the AutoPower System.

Opening an online store opens the opportunity to land some monster accounts simply because you offer a convenient way to order parts.

Customers have access to open and view historical invoices with reprint ability and can see their posted payments. This feature of the product alone represents hours/month of labor saving to distributors.

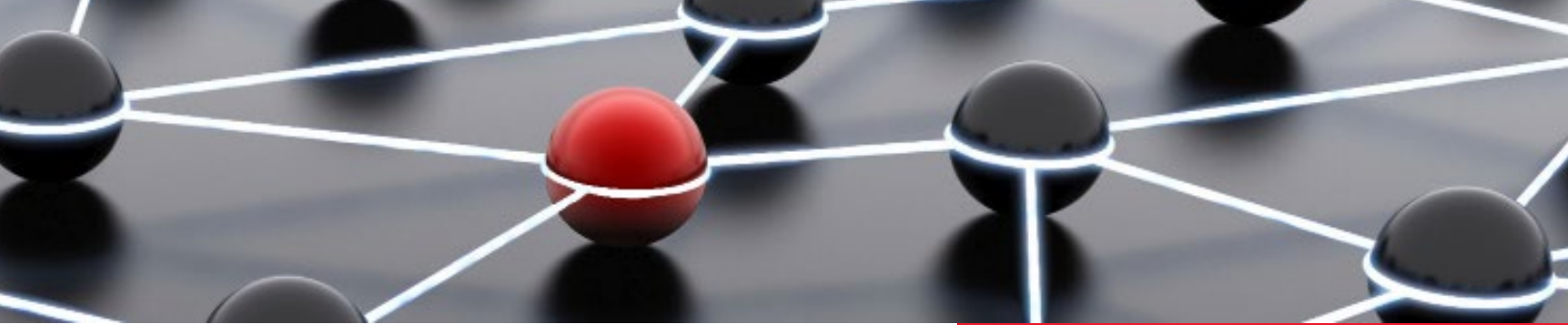
WebPower is the most effective 24/7/365 counter men you will ever hire. He knows all your customers, he knows all the current pricing for each customer, he knows their order history, he knows their credit limits, their payment history and the overall profile and preferences you’ve establish for each customer. Best of all he never goes on vacation, needs a raise or requests time off.

Spend Management Punch-out Sites

Some distributors work with very large enterprise companies that require spending and order approvals, joined with online ordering. We’ve added to our WebPower product the ability for online quotes to be established and transmitted directly into Enterprise Resource Planning (ERP) systems like Oracle. The opportunity to effectively work within the processes of large companies can be a lucrative deal changer when it comes to landing orders from large organizations.

Electronic Data Interchanges (EDI)

Many of our warehouse distributors also use the AutoPower System to electronically communicate with their vendors and customers. EDI has been a buzz word for some time, but now it has almost become a de facto expectation for many warehouse distributors. The AutoPower EDI Module has been designed to deal with the unprecedented supply chain network complexity that is now part of our industry.



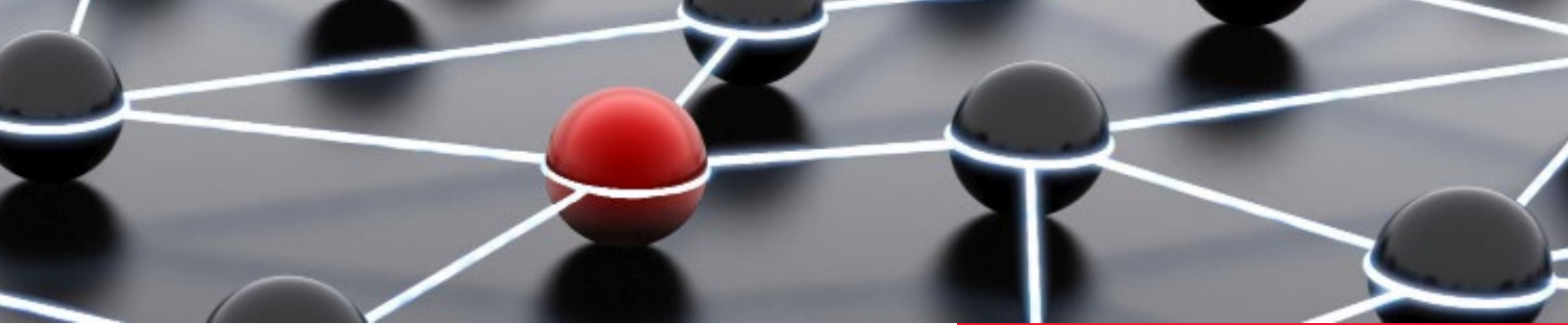
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AutoPower has implemented EDI projects for the major buying organizations in the industry like HDA-Truck Pride and VIPAR connecting our distributors to major manufacturers and suppliers like:

ACCURIDE WHEELS	DYNAFLEX	PAI
AC-DELCO	EATON	PHILIPS
ANCO	ECCO	RACOR
ANCRA	EUCLID	RAYBESTOS
ARVINMERITOR	FEDERAL MOGUL	RAYCO
BALDWIN	FIRESTONE	REMY
BAYCO	GATES	SEALCO
BENDIX	GE	SKF
BEPCO	GOOD YEAR	STEMCO
BETTS	GRAND ROCK	TIMKEN
BOSCH	GROTE	TRIANGLE SPRING
CATERPILLAR	GUNITE	TRUCK-LITE
COBB	HALDEX	VALVOLINE
COLE HERSEE CO.	J.W. SPEAKER	VELVAC
CRC	JOHNSON INDUSTRIES	W.W. WEBBER
DANA CORPORATION	MERITOR	WARNER
DAYTON PARTS	MILTON	WEBB WHEEL
DETROIT DIESEL	NATIONAL SEALS	WIX
DEXTER	NEAPCO	
DIXON	NORCO	

Some of the tangible benefits of EDI are:

- The expenses associated with paper, printing, reproduction, storage, filing, postage and document retrieval are all reduced or eliminated. Transactions cost are lowered by at least 35%.
- The cost of processing an order manually is about \$38 compared to \$1.25 for an EDI order.
- Error due to illegible faxes, lost orders or incorrect entered phone orders are eliminated, providing valuable labor savings. There is at least a 30-40% reduction in transaction errors.
- Shortening the order processing and delivery times means reduced inventory.
- Automating the exchange of data across your supply chain ensures business-critical data is sent on time and tracked in real-time. This improves cash flow and reduces the order-to-cash cycles by more than 20%.



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EDI and VMI (Vendor Managed Inventory)

Many warehouse distributors and marketing groups have adopted vendor managed inventory systems using an EDI link between distributors and parts manufacturers.

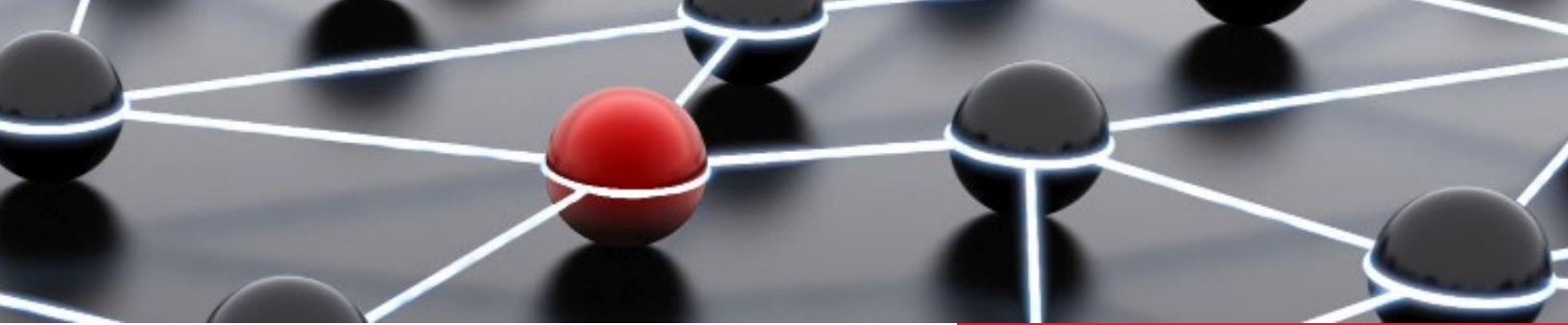
The acceptance of VMI is evident, as many warehouse distributors have shown the willingness to allow VMI to suggest ordering levels. VMI takes on the job of making sure a warehouse/distributor has the correct level of a manufacturer's parts in inventory by monitoring that inventory and generating automatic orders. Instead of the warehouse sending purchase orders to a supplier, it electronically sends a daily report outlining products sold, products left on-hand and products returned. VMI uses specially designed algorithms to evaluate the data in the report and generate an order for the distributor based on previously agreed upon, stocking levels, order amounts, transaction costs and other factors. This order is then sent to the warehouse distributor for approval.

The results are an efficient inventory process that squeezes out unnecessary costs. This type of supply chain management is becoming an essential part of a successful distributor business.

Strategy 2, demonstrates just some of the more effective ways to expand sales and reduce costs. Both strategies when deployed are top-line and bottom-line tactics that improve your operations through AutoPower's "Profit by Intention" technology.

Summing It Up

We are clearly in an era of unprecedented supply chain complexity, combined with extremely competitive market conditions facing warehouse distributors. Our nearly 4 decades of industry experience provides a unique understanding of the diverse challenges facing warehouse distributors. They must not only be great at Inventory Management, but also must implement new tools and technologies to save money, increase revenues and enhance profit margins.



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The AutoPower System is designed to provide a systematic approach and technology improvements necessary for **Effective Inventory Management**. Our proprietary optimization technology is “Profit by Intention” in action and combines all inventory activities related to inventory demand forecasting, replenishment, internal efficiency, controlling and selling stocked inventory.

This document highlights just 2 of our many effective business strategies. There are many more we can share with you. Want to learn more?

Call us now at 800-229-2881 for a free demo!

Be In Control – Be More Efficient – Be Profitable By Intention

freedemo

Tell us more about your business, your key challenges and critical information system needs. We’ll respond with a free demonstration for your team. Call or email us today!

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**FLEXIBLE SOFTWARE SOLUTIONS
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