

THE ART AND SCIENCE OF SUPPLY CHAIN PLANNING

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BUSINESS REPORTER KNOWLEDGE HUB

RIGHT-SIZED INVENTORY

- The real reason for holding an inventory
- Use the product segmentation to build the right inventory
- Volume, variability and location

Inventory is a necessary evil. Finance is usually focused on the cost of holding it, but why do we have inventory? Inventory should only exist for anticipated sales. We can use it to offset the volatility of customer demand. We can also use it to offset that perceived long lead time of components in a manufacturing cycle. We can also use it to level-load manufacturing, where capacity may be constrained in one period of time, and we can spread manufacturing orders out over time. But it's absolutely necessary to support customer service levels, and that's why we hold inventory.

So we need to think about the right inventory, not just inventory. We don't hold inventory for all products. We should use our product segmentation to identify the right inventory. Analysis may not change the financial valuation of that inventory, but it will change the mix. So we need to determine which products are most appropriate to hold.

The retail industry can be very challenging. There are so many SKU, or stock keeping unit, numbers that exist. The demand changes. What's hot this week may not be next week. We have many points of distribution. And long component and procurement lead times on top of long overseas transportation makes for a long delivery of product.

But the challenges are not insurmountable. We need to determine what are our high running SKUs. We should also determine the volume necessary to cover that variability and where we should be holding it. And having clear communication and collaboration with our customers will also help us to make sure that we get the product that they want, when they want it, and where they want it.

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BRING A STEP CHANGE TO YOUR SUPPLY CHAIN WITH CHAINSEQUENCE

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