



## Strategic Inventory Management In the New Normal

Steve Deist, Indian River Consulting Group

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## The Role of “Purchasing”



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1. Ensure a reliable source of supply (fill rate)
2. Maximize product profitability (GMROI)
3. Have what we can get rid of (marketing)



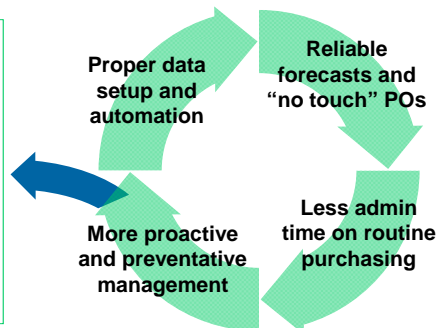
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## Getting Strategic Is a Choice

### Strategic activities

- Data driven decision making
- Proactive forecasting and sales coordination
- Product line evaluation
- Vendor management and negotiation
- Strategic re-sourcing
- Product marketing



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## Product Marketing Roles

- Supplier facing and management
- Sourcing and re-sourcing
- Managing product assortment
- Pricing
- Market share analysis
- Selling lines to the sales force
- Sales support tools and promotions

		Product Marketing <i>"Having what we can get rid of"</i>			Net profit
		Prod Line A	Prod Line B	Prod Line C	
Sales <i>"Getting rid of what we have"</i>	Branch 1				\$10
	Branch 2				\$10
	Branch 3				\$10
	Branch 4				\$10
Net profit		\$25	\$10	\$5	\$40

*Changing the way the world views cleaning*



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## Product Line Profitability Example

- Prod sales X gross margin %
- + Prod rebates and other financial concessions
  - Inventory carrying costs (e.g. 20% of average daily inventory)
  - + Payables financing (e.g. 8% of average daily AP balance)
  - Inventory write down
  - Other easily measurable costs (e.g. invoice errors)
  - = Net product contribution \$
- The exact formula is less important than our ability to compare performance of products, vendors and product managers and see trends over time
  - The final measurement will typically not foot directly with company net profit or sales rep gross margin



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## Inventory Scorecard Example



Stock  
Inventory Turns

- Drill down by:
- Period
  - Region
  - Product type
  - Buyer
  - Vendor



Service  
Level

- Drill down by:
- Period
  - Region
  - Product type
  - Buyer
  - Vendor
  - Customer segment
  - Customer



Ailing  
Inventory

- Drill down by:
- Period
  - Region
  - Program Type
  - Buyer
  - Vendor
  - Short term excess
  - Long term (dead)

*How much time do we spend debating anecdotes?*



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## Individual Exercise

- ✓ Fill in the table shown with current actual and desired total time allocation for your company's buyers or purchasing group

Activity	Current	Ideal
Transaction processing (placing POs, expediting, resolving issues, etc.)		
Product, supplier and customer data file maintenance		
Proactive automation and buying parameter maintenance		
Vendor management, negotiation		
Sourcing and re-sourcing		
Product line analysis and merchandising		
Market share analysis, selling to the sales force, sales tool development		
Other:		
<b>Total</b>	<b>100%</b>	<b>100%</b>

- ✓ What are the major sources of the big gaps between ideal and actual? What could you do to reduce or remove them?
- ✓ We will ask for volunteers to share their thoughts with the entire group



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## Vendor Management Game Plan

1. Understand true product line profitability
2. Develop a vendor scorecard with rankings
3. Incorporate the scorecard into regularly scheduled vendor performance reviews
4. Create and execute profitability improvement plans for “top” 3 large, loser suppliers
  - o Determine what you want from them
  - o Create a value proposition
  - o Identify alternatives that will sound plausible to your supplier (remember: negotiation is about information)
  - o Assign an owner (agent of limited authority), outcomes and dates
  - o Monitor progress and track results
  - o Adjust plans using experience
  - o Expand to additional vendors



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## The Supplier Scorecard

- o Supplier profitability score =  $\sum GP\$ + \sum ME\$ - \sum MD\$$  *The actual formula is irrelevant. The more mystical the better!*

Gross Profit dollars inclusive of rebates and discounts

- Margin Enhancers could include:
- Strategic brand value
  - Co-op advertising
  - Training, joint sales calls
  - Product exclusivity
  - Extended terms
  - Emergency shipment responsiveness

- Margin Detractors could include:
- Errors in ASNs, shipments, receipt docs, invoices
  - Inadequate technical or customer service support
  - Lack of brand investment
  - Low flexibility on competitive bids
  - Difficult claim procedures

- o Pick measurements that are strategically important **to you**

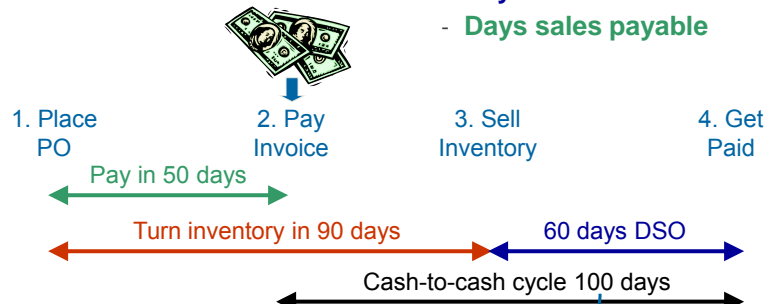
*“Why do I need a better price? Because you rank #99 out of our 100 largest suppliers and you’re pulling down my score with my boss.”*



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## The Cash-to-Cash Cycle

Cash-to-cash cycle = **Days sales in inventory**  
 + **Days sales in receivables (DSO)**  
 - **Days sales payable**



This means that  $100/365 = \$0.27$  of working capital is required per \$1.00 increase in revenue



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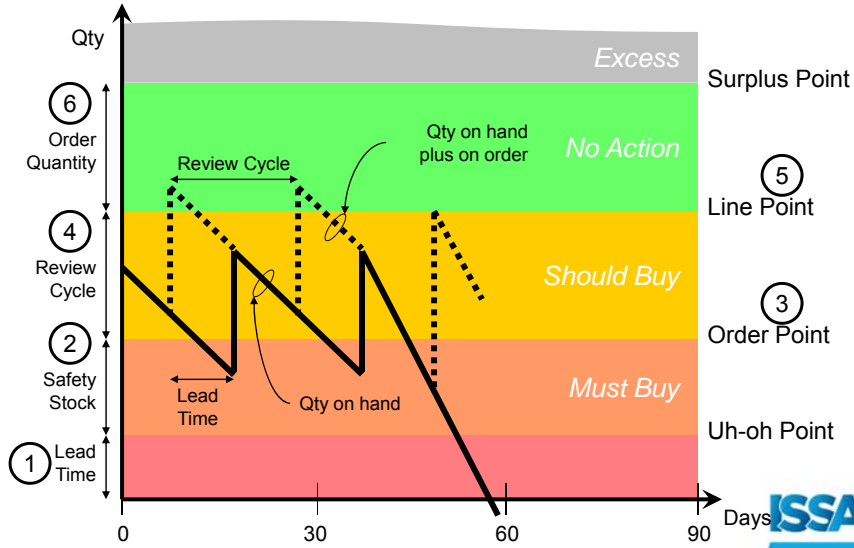
## The New Economic Realities

- In a “steady state” we don’t need to question the assumptions behind standard operating procedures  
*“It always worked before...”*
- Major market discontinuities disrupt the old, standard patterns and assumptions. The only way forward is to return to the **fundamentals** and understand how they are impacted by the new conditions.
- The past few years have been a series of discontinuities (in case you didn’t notice)



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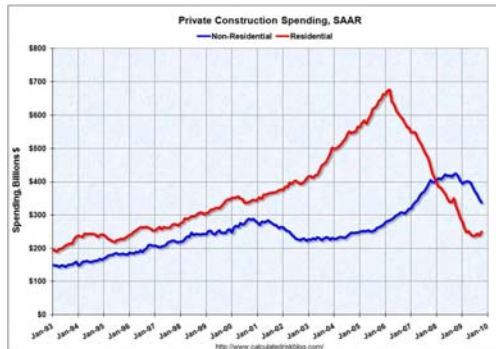
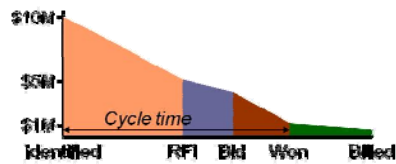
## The Science of Smart Buying



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## Proactive Forecasting

- Macro economic trends
- Supplier market data
- Customer consumption estimates
  - Sales and quotation pipeline
  - Book to bill ratio
  - Project tracking



Source: US Census Bureau News, 2/1/2010

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## After the Meteor

*How does the new economic reality impact “smart buying” parameters, data and algorithms?*

- Does 2010 sales history provide the best available basis for 2011 forecasts?
- Will rapid restocking affect lead time and variability?
- When customers switch to lower cost or private label items does their sales history follow?
- Are customers' service level expectations different than they used to be?
- Is daily demand more highly variable?
- Is our inventory carrying cost lower (interest rates <5%) or higher because we are cash constrained?
- Do vendor volume and early payment discounts affect our EOQ?
- **DO OUR BUYERS UNDERSTAND THE FUNDAMENTALS BEHIND THE CALCULATIONS?**



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## Question and Answer Session

*Thank You!*

Steve Deist  
Indian River Consulting Group  
sdeist@ircg.com  
562.547.9181



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