

ADVANCED INVENTORY MANAGEMENT PRACTICES



Managing inventory is a delicate balance between supply and demand: Stock too little of an item, and you will not be able to meet your customers' needs. Stock too much of an item, and valuable dollars and warehouse space will be taken up by slow-moving or dead stock.

Understanding the intricacies of this balance requires that you track usage history and the unique patterns associated with each item in your warehouse. However, tracking item history on a weekly, monthly, and yearly basis, while manually calculating averages and forecasting formulas takes time.

Fortunately, as advanced inventory concepts and formulas found their way into distribution, a solution to these problems was within reach. However, without any concrete applications for these concepts, they remained just that – concepts. With recent developments in enterprise software solutions, these concepts and formulas have leapt off the drawing board and into distributors' hands in the form of integrated, fully functional inventory forecasting modules.

DEMAND ANALYSIS

Designed to give you the flexibility to view your inventory performance on many different levels, demand forecasting functionality allows you to specify your analysis by item or location, product group, supplier, or ABC class, to name a few.

Your software solution should perform each calculation using industry-proven, distribution-specific weighted formulas, so you can be confident in the accuracy of the forecast, no matter which method you choose. These weighted formulas not only provide you with an accurate forecast, but also identify the unique demand pattern – either level, seasonal, slow, trend, or erratic – for each item in your warehouse. For example, take an item where the usage has been increasing by 10 percent per month on average over the last four months. Your software should identify this with a trend demand pattern and adjust forecast usage to account for the 10 percent upward trend, thus ensuring that your purchase requirements include this additional demand.

Identifying demand patterns for items allows your system to calculate forecast usage appropriately. This more precise forecast usage is then used in such things as purchase order requirements generation to further help to decrease carrying costs while maintaining a high service level for your customers.

SERVICE LEVEL ACHIEVEMENTS

At the end of the day, your ability to meet your customers' needs in a timely manner is what separates you from the competition. Service level goals, the targets you set for filling customer orders, often hinge upon forecast accuracy and the lead times you receive from vendors. In the past, meeting service level goals meant over-purchasing safety stock, just to gain the peace of mind that service level goals would be reached. While this practice kept customer satisfaction high, it meant crucial funds were wasted on unnecessary stock.

To help you reduce the amount of money spent on safety stock, demand forecasting functionality allows you to define the service level goal you want to reach for each individual or group of items. If you want to achieve a 98 percent service level for a certain group of items, you simply need to enter this percentage in your solution's demand forecasting module, and, by analyzing the variance between forecast and actual usage, demand forecasting functionality provides you with an accurate safety stock calculation.

For example, if you have two different items with the same forecast and same lead time, but one item has a 10 percent variance in forecast to actual demand, and the other item has a 25 percent variance, you'll need more safety stock for the second item to cover the greater variability. Having the software recognize the difference and adjust safety stock accordingly results in big savings, and turns your service level goals into service level achievements.

EXTRACTING VALUE

In order to foster a greater understanding of your inventory, demand forecasting functionality includes comprehensive graphical displays of the actual usage, forecast usage, and the current forecast. These graphs allow you to extract further value from your software solution by helping you clearly see and compare actual usage and forecast usage, without combing through a screen full of data.

By analyzing the relationship between actual and forecast usage in a concise, graphical representation, you can see how the current forecast fits your business model, and make any necessary changes. Since this functionality offers extensible formulas, you have the freedom to add formulas or manipulate the weighting of each formula to achieve a closer relationship between forecast and actual usage.

With a strong set of industry-proven formulas, intuitive graphical displays, and customizable options, demand forecasting offers all of the tools you need to understand your inventory's performance, and make the most informed purchasing decisions. By accounting for seasonality and trend, and automating manual calculations, demand forecasting eliminates errors and reduces purchasing time, so you can focus on increasing sales and boosting customer service.

ALL IN ONE PACKAGE

As stated earlier, advanced inventory concepts and formulas have recently made their way into enterprise software solutions, in the form of integrated, fully functional inventory forecasting modules. Activant Prophet 21™ is one such solution.

Making use of this powerful functionality provides you with greater inventory and purchasing accuracy by automatically identifying the unique demand pattern for each item you stock. Using an intuitive system of industry-proven weighted averages, standard reports, graphical views, and extensible formulas, demand forecasting functionality increases the accuracy of your forecast, provides you with precise purchasing quantities, and improves customer service.

Find out more about how Activant® can help your business grow by visiting www.activant.com; e-mailing distribution@activant.com; or calling 1-800-776-7438, press 1.

ABOUT ACTIVANT'S WHOLESALE DISTRIBUTION SOLUTIONS

Activant provides technology solutions and services to more than 3,800 wholesale distributors throughout North America. A leading technology provider for the distribution industry, Activant develops comprehensive enterprise software solutions to help distributors improve customer service and maximize the return on their technology investment. In addition, the company offers an Internet trading network that expedites sourcing, expands geographic reach, and streamlines transactions between distributors and manufacturers. Activant solutions are backed by a host of professional services, including support, consulting, and educational programs.

Activant Solutions Inc. ("Activant") is a leading technology provider of business management solutions serving small and medium-sized retail and wholesale distribution businesses in three primary vertical markets: hardlines and lumber; wholesale distribution; and the automotive parts aftermarket. Founded in 1972, Activant provides customers with tailored proprietary software, professional services, content, supply chain connectivity, and analytics. More than 30,000 customer locations use an Activant solution to manage their day-to-day operations. Activant has operations in California, Colorado, Connecticut, Illinois, New Jersey, Pennsylvania, South Carolina, Texas, Utah, Canada, France, Ireland, and the United Kingdom.

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