Inventory Management Fuels Supply Chain Optimization

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Major Pain Points of Supply Chain Management

Every supply chain has its own set of unique challenges. The top 10 pain points affecting supply chains today are:

1. Lack of visibility and responsiveness.

2. Reactive management due to late notification of unplanned events.

3. Uncertainty in demand leading to excess inventory and speculative ordering.

4. Lack of planning into stock levels, upstream and downstream, leading to shortages, followed by overcompensation and excesses.

5. Increased level of discounting and write-offs for slow moving and obsolete inventory.

6. Deployment issues in determining where and what quantity of inventory to deploy in the network across dimensions of time, geography and demographics.

7. Out-of-stocks lead customer to substitute brands or make purchases from competitor.

8. Lost productive time tending to low-value data collection and manipulation efforts.

9. Critical information not available when needed, resulting in lost sales, out-of-stocks, markdowns and reductions.

10. Inability to track and trace product across multiple ERP, SCM and CRM applications internally and within the partner ecosystem.

It may come as a surprise that the common thread between all of these is the lack of inventory visibility. Without a clear understanding of inventory, none of the other parts of the supply chain can operate to their fullest potential. Lack of transparency creates weaknesses in the supply chain, which increases your risk of being impacted by disruptions.

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Inventory Management Overview

Nothing is more frustrating to a customer than placing an order online, only to find out after the fact that it's out of stock. A recent study found that **70% of customers will go to a competitor, rather than wait for an item that's out of stock**. Striking the balance between too much inventory and not enough can be difficult, especially if you're relying on Excel spreadsheets or pen and paper. **43% of small businesses either track inventory manually or don't track it at all**.

Inventory management is more than knowing how much of something you have on the shelf. It is the tracking and organizing of goods from supplier through the manufacturing process and into customers hands. Holding too much inventory leads to discounting and obsolete inventory and ties up cash that could otherwise be used in other areas of the business. Not having enough ends in lost sales due to out of stocks and disappointed customers.

With an inventory management system in place you have visibility of items across all channels, ensuring the right items are available, at the right time, in the right place.

Inventory management should not only be a concern for the purchasing department. It is central to the success of the entire supply chain, from demand planning to customer service, and everything in between. An inventory system that is integrated across the organization not only optimizes inventory to ensure product availability, it enables the entire supply chain to run efficiently and effectively:

- Demand Planning — Inventory management provides insight into historical demand, including seasonal and promotional periods, providing more accurate forecasting and optimizing inventory levels.

- Vendor Management/Procurement — Inventory management enables tracking of where and which vendor components and raw materials came from, improving vendor management and enhancing the vendor scorecard.

- Production — Inventory management provides current status and expected availability dates based on real-time data. This can be used to ensure product is available and production runs are scheduled promptly.

- Quality — Inventory management links products based on components and raw materials consumed, enabling quality issues to be identified and rectified quickly.

- Warehouse — Inventory management is key for defining the amount of warehouse space needed and capacity planning.

- Order Fulfillment — Inventory management aids in fulfilling orders quickly and accurately because you know exactly where each item is in the warehouse and can optimize picking and packing processes based on location.

- Customer Service — Inventory management provides insight into order status and simplifies the return and exchange process.

The Importance of Inventory Management in Demand Planning

Not having enough product to fulfill customer orders is a nightmare, leaving you with unfulfilled orders and lost sales. Customers may go to a competitor or you spend more on expedited shipping for unplanned replenishment. Having too much inventory leaves you with another set of problems. Obsolete inventory that's gone out of season or is close to

its expiration date is another problem many companies face when they lack accurate demand planning. Excess inventory then has to be rid through discounts or off-price retailers. Both scenarios reduce your profit margin and overall sales.

Striking the balance between too much inventory and not enough is no simple undertaking. Add to this managing items stored across multiple locations and the complexity deepens, especially if you don't have a clear understanding of what you have and where. Demand planning is an important tool to ensure the right items are available at the right time, in the

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right place, but it's only as good as the data you put into it. Without an inventory management system that is integrated across the organization, the process of manually pulling historical sales and existing inventory takes a lot of time and quickly becomes complex.

Inventory management is not just about managing items you have on the shelf. It allows you to track and keep records so that you can predict and plan for the future based on historical demand. It also takes seasonality and promotions into account. For example, imagine you run a summer promotion on a specific line of products and it's very successful, doubling sales in July. But the next year, you're planning production for July without a promotion. Without visibility into why sales were higher in July, you may accidentally over-forecast demand for the month, or at the very least waste time trying to figure out why sales were higher and the total for non-promotional sales.

Inventory management also gives you visibility into product across all locations, including retail locations. It is important to have visibility into all locations to best utilize the inventory you already have before producing more. If you have two warehouses and five retail stores, for instance, and notice you're running low on a certain product in your warehouses

and at three stores, you may refill these items. However, with better inventory visibility across the organization, you would realize the other two retail locations haven't sold through the item and you should move that inventory to other locations or use it to fulfill online orders. Either way, it prevents obsolete inventory down the road.

Inventory management provides a real-time view of inventory quantities, location and status, which feeds into the demand planning tool. The more accurate your inventory management, the more accurate your demand planning will be.

The Importance of Inventory Management in Vendor Management

In order to minimize risk within the supply chain, many companies source the same item from multiple vendors to reduce the chance of a major disruption. If one vendor is unable to fulfill an order, the business can react quickly and increase the order size from another vendor, eliminating a disruption in production, and ultimately product availability.

Without an inventory management system in place, however, there is no way to tell which components or raw materials came from which vendor after they're received. If

a component is faulty and a recall is necessary, you will have to recall all items produced within a certain timeframe versus being able to drill down to find out which vendor made the faulty piece and only recalling those. Using lot management or serialized tracking, you can forward trace and backward trace products. This gives you visibility into each component used to make a product and the vendor it came from, as well as what product customers receive including that component. So a lack of traceability increases your waste and operating costs while potentially decreasing sales.

Furthermore, inventory management holds vendors responsible for the quality of their products beyond the receipt and inspection process and acts as a vital tool in developing a thorough vendor scorecard and proactively managing the vendor relationship, especially when multiple vendors supply the same item. It also allows a company to track returns by vendor and monitor and ensure vendor quality, ultimately leading to better, more reliable suppliers.

The Importance of Inventory Management in Production

Production is one of the most critical elements of delivering product on time, and it is also one of the most complex.

Orchestrating a plan that seamlessly ensures material availability, positions items in workstations, schedules employees, and reserves machines and work centers requires organization and enterprise-wide visibility. Without accurate inventory visibility, employees and machines can be reserved for a scheduled production run only to discover the required components are not available. That results in frustration, increased overhead costs, and decreased yield and utilization.

Utilizing material availability status and shortage reports within an inventory management system allows you to know exactly when the material is going to be available and

schedule production accordingly. With real-time visibility, the inventory record is automatically updated with any delays or shortages, enabling you to proactively adjust production plans as necessary. Based on this, you know when the work order should be finished and are better able to deliver inventory to customers as promised.

If you're producing many different products using the same components or raw materials, understanding which materials are allocated to specific work orders requires an inventory management system.

Without such a system, you could easily over-allocate the same components to multiple builds, leaving you short and unable to complete the build on time. Likewise, if you have inventory in stock that is reserved for a future build without the ability to change its availability status, it could be used for a less important build that was completed first. Trying to manually manage supply allocation is messy and results in unfulfilled work orders and having to place unplanned, expedited replenishment orders. With an inventory

management system, you can allocate specific parts to a work order or a customer order before the inventory is even within your warehouse's walls.

Additionally, an inventory management system enables you to track production by production run. If you identify any production issues or if a certain run is produced outside of specification, you can update the inventory record so that if any quality issues occur, it links back to the specific

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production run. The solution also allows you to update the inventory record quickly and disposition the inventory, if necessary (scrap, rework or approve as is). This becomes especially important if you need to rework or scrap the inventory, as it will potentially impact the delivery date; if a rework or scrap is necessary, this allows you to quickly schedule another work order and purchase order for additional component inventory.

Inventory management makes the production cycle more efficient and enables staff to schedule production based on availability while quickly responding to required reworks.

The Importance of Inventory Management in Warehouse Management

The key to streamlining your warehouse operations is a thoughtfully laid out and meticulously organized facility. When each product has a specific place in the warehouse, it prevents staff from moving about the warehouse inefficiently and maximizes labor efficiency. But these processes are only as good as the inventory records that drive them.

Inventory management gives you visibility into an item from the supplier purchase order (PO) to the customer order,

and every step in between. When an item is received at the warehouse, an employee can make notes in the inventory record confirming qualification specifications as well as any irregularities. Using lot and serial tracing, items can be back and forward traced—this links them to their supplier PO and ultimately the customer order. Furthermore, an inventory management system allows the use of mobile devices to scan item barcodes and enter data directly into the system, this further decrease back and forth required for staff to perform daily functions and helps standardize warehouse operations.

Businesses can also optimize receiving and putaway functions by using an inventory management system. Putaway functions can be grouped by location or zone to keep staff from moving back and forth throughout the warehouse to put away items. Similarly, routine warehouse functions, such as cycle counting, can be integrated into everyday business operations without disrupting productivity.

To further inventory tracking capabilities, the use of lots and serial numbers provides the opportunity for warehouses to specify whether or not lots and batches can be mixed within the same bin as well as picking strategies, ensuring the soonest expiring products are used to fulfill customer orders first (if desired).

Streamlining warehouse operations is difficult enough with a single location, but managing it across multiple locations can be much more challenging without the right system in place.

Without inventory visibility across multiple locations, you have to operate each warehouse as a standalone unit, meaning you need sufficient stock in each location. With an inventory management system that allows you to see product levels across all locations, you will significantly reduce the amount of stock on hand since you can strategically fulfill orders from the warehouse with adequate stock.

Inventory visibility is central to a streamlined warehouse. It provides the insights necessary to optimize everyday processes and increase labor efficiency, reducing costs and delivering products on time.

The Importance of Inventory Management in Order Fulfillment

Customers expect the right product on their doorstep quickly and without hassle. Order fulfillment excellence is an opportunity for brands to differentiate themselves and create

loyal customers who become brand advocates. But executing a flawless fulfillment strategy across multiple selling channels requires enterprise-wide visibility and coordination.

Without visibility into inventory, the fulfillment process can quickly become muddled and unprofitable. If orders are sent for fulfillment to the closest warehouse without checking inventory availability, you risk only being able to partially fulfill the order and then paying for the remaining items to be picked and shipped from another location. This increases overhead and has a negative effect on the customer experience.

An inventory management system helps with fulfillment by providing visibility into item quantities and location across all sites, including retail stores. With this insight, companies can execute on a cross-channel fulfillment strategy, including direct shipping from warehouse, store fulfillment and drop shipping. Orders can be automatically cross-checked against global inventory availability and routed to the most efficient location, based on a set of pre-defined rules, such as fulfilling from the closest warehouse location, always assigning certain items to a select warehouse or prioritizing VIP customer orders.

Once the order has been sent to fulfillment, inventory management aids in expediting the fulfillment process. By consolidating the picking process and following an optimized pick path, staff can pick multiple orders at once and pick all items from each zone at once. This minimizes the steps they are taking and reduces the need to revisit the same area multiple times.

Inventory management also helps companies use their inventory smarter. Lot and serial numbers allow inventory to be tracked by expiration date and you can set fulfillment rules so that orders are fulfilled based on the expiration date. This is especially important for items that may spoil or expire and promotional SKUs.

Inventory management is a key component in expediting the fulfillment process and optimizing inventory use across all selling channels, leading to minimal obsolete inventory and happy customers.

The Importance of Inventory Management in Quality and Customer Service

Your brand is defined by its quality and consistency. But quality and consistency don't happen by chance. Designing, manufacturing, distributing and selling the same product every time requires a company-wide commitment to excellence and a system to ensure these standards are met.

Without an inventory management system to link components to finished goods to customer orders, it is hard to track quality issues, hold suppliers accountable and provide exceptional customer experiences.

Using forward tracing and backward tracing, items are linked from supplier PO to customer order, and every step in between. With this information in hand, customer service reps can more accurately and quickly address customer issues, including order status, exchanges and returns. Furthermore,

with inventory visibility across all selling channels and locations, customer service reps are empowered to help customers get the product they need instead of potentially losing the sale due to out of stocks in a specific location.

Inventory management provides a seamless customer experience and empowers sales and customer service reps. It provides them with the information they need to proactively solve customer issues on the spot, saving the sale and creating loyal brand advocates.

Inventory Management is the First Step to Supply Chain Efficiency

Inventory management provides valuable insight into the status, movement and availability of items throughout the supply chain. To build a more efficient supply chain, companies must first address weaknesses in their inventory visibility and enable real-time visibility of items as they enter, move through and depart the supply chain. Learn more about selecting the right inventory management system for your business here.
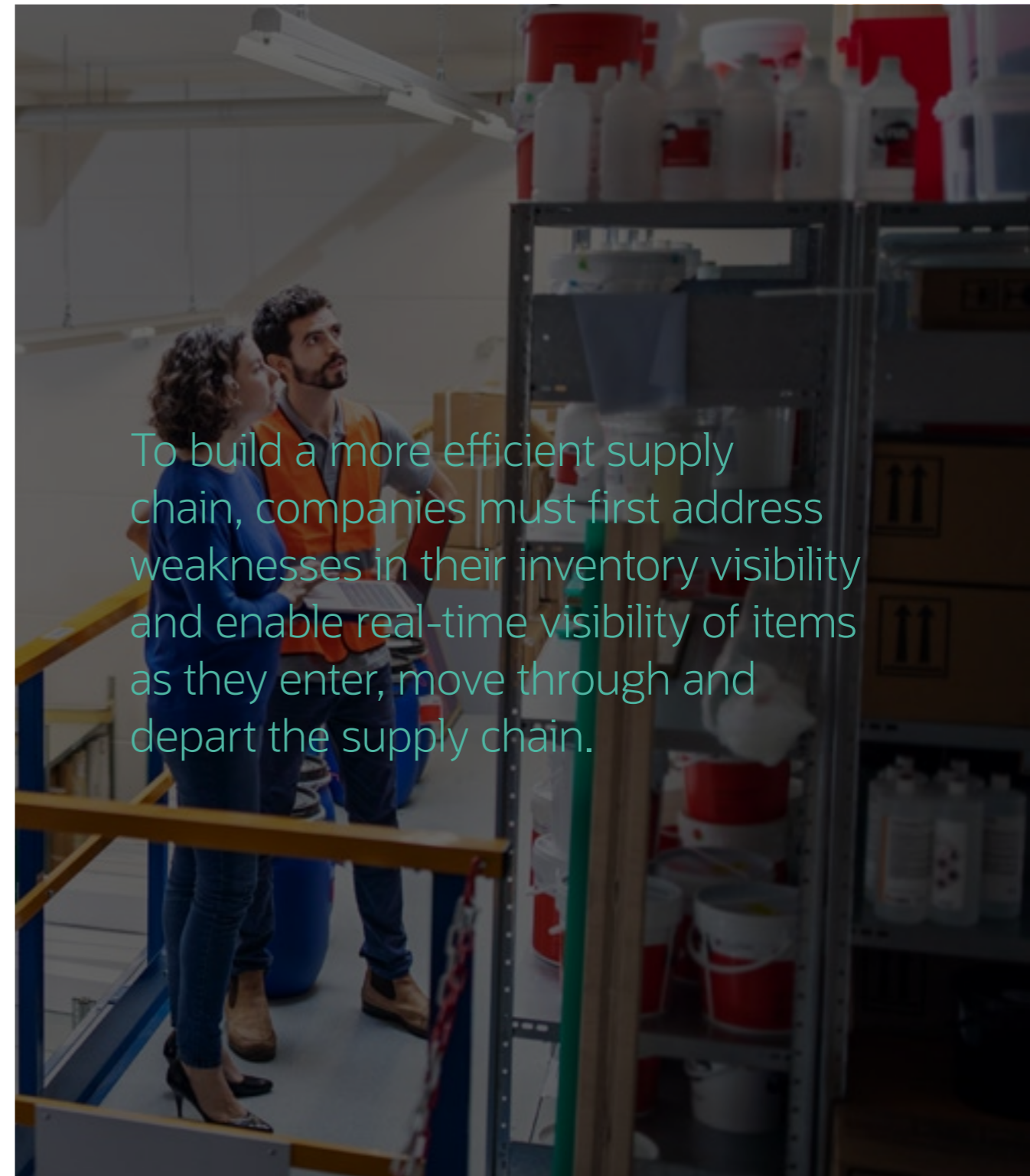
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