Leveraging Automated Purchasing Solutions for Effective Inventory Management

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Today’s business environment requires distributors and their trading partners to manage inventory more efficiently in order to grow profits and satisfy customers. Advanced interactive inventory management solutions can help a company sales and cash flow while reducing inventory costs. By leveraging historical sales data systems can forecast demand and predict long-range trends, as well as seasonality for each item. Not only should a forecasting system capture seasonality and trends, but it should just as importantly calculate how volatile the sales are for each item. No matter how good the forecasting system is, there are always going to be items with volatile and unpredictable swings in sales beyond seasonality and trends. By incorporating sales volatility per item into the safety stock calculations, companies will be covered for sales spikes that occur above the forecasted demand.

Most systems utilize the concept of time-phasing inventory to maximize customer service with minimum inventory investment. To do these systems must evaluate all demand and supply requirements to create time-phased replenishment plans for each product at each location.

Evaluations done by the system include:
- Lead-time length and variability
- Desired customer service-level requirements
- Order cycle economics
- Item level safety-stock and targets
- Order generation rules and preferences

The ultimate goal is to achieve a perfect balance of inventory versus acceptable customer service levels. Replenish software will maintain the minimum inventory levels needed to achieve your desired levels of customer service by product grouping. Additionally, users can simulate the additional investment in inventory required to support a customer service level increase from 90 percent to 95 percent. Systems can project the impact on inventory investment for proposed changes at the Item level, including safety stock options and ordering preferences. Users can review analytics to show the projected impact on inventory investment and customer service level, and adjust their buy accordingly.

The goal with any automated buying solution it is to generate purchase order quantities that support the company’s strategic goals for profits and customer service while doing so in the most efficient and economic fashion. Automated systems can optimally push order quantities up to get prepaid freight, or to hit vendor minimums, or to cube out a full container, if desired, all while honoring pack sizes. Additionally, automated buying solutions can consider multiple warehouses in the distribution network and check for overstocked items and facilitate stock transfers before buyers place orders to the vendor. By calculating the costs and upcoming
demand for each of your items, automated systems can tell you if a vendor incentive makes economic sense, and if so, how much more of each item to buy.

The typical distributor stocks thousands of items at each warehouse. Buyers and planners do not have time to manage each item individually; they need to focus on selected items that require action. Automated purchasing systems perform the complex calculations for each item at each location, and then flag those items with specific conditions that are beyond user defined tolerances. Most importantly, the company’s capabilities to handle important clients are greatly improved because the investment in inventory versus customer service tradeoff is now visible and controllable.

Many distributors have made the strategic decision to gain cost efficiencies by importing products from other parts of the globe. Although this can certainly lower unit costs, it creates complexities in other areas such as significantly increased and variable lead times. This poses a new challenge to buyers and planners, who must now place orders for products that will not arrive for months. Automated purchasing systems can factor in the lead time for each item at each location, in its calculations of optimized order quantities. They also factors in the variability of the vendor lead time into its safety stock calculations to provide insurance against late deliveries.

Another effective tool in inventory management is classifying your inventory into ABC categories. Typically distributors will classify inventory units, cost, selling price, or margin dollars. By doing this, this allows inventory planners to focus their time on the most important Items. It also allows buyers to quickly review slow moving items, and take action to reduce dead stock items.

Automated purchasing systems are a key tool in helping distributors reduce inventory and increase sales. They are imperative in helping maintain customer service levels and retaining your customers. Companies that utilize automated forecasting and purchasing tools will also have a strategic advantage in lower costs and increased profits.