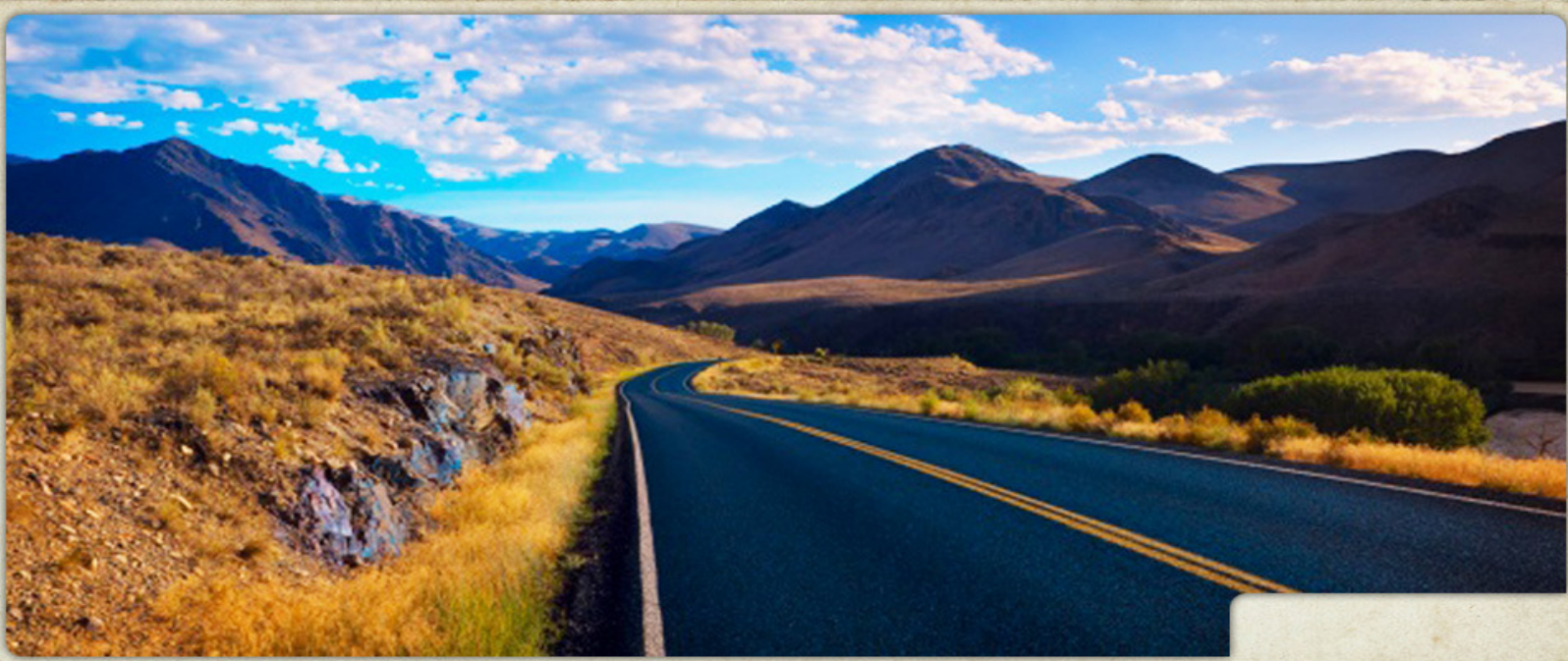




*Inventory Alignment for Game-Changing Results*



## **The Costly Pitfalls of Inventory Replenishment**

*Technology is only part of the solution*

*Forecasting is not the only answer*

*Selling generates revenue, but*

*Buying right generates profit*

# How to use the Pitfalls Document



No matter how you manage your inventory, you need to avoid these costly pitfalls..... some of these are not avoided simply by employing technology.

Science and software is powerful for solid inventory replenishment, yet not the sole answer. In our decades of experience we've found that truly successful companies also make a commitment to the constant growth and development of their people, organizations and processes.

This checklist will help you discover where you have opportunity and where to attack to assure maximum profit for your company.

# Your 40 Pitfalls Discovery Checklist

*A guide for building your Inventory Profit Projection*

Level of Strength  
Lo = Pitfall is applicable

Lo Med Hi

## I. Demand Forecasting

- |                          |                          |                          |   |
|--------------------------|--------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 1. Using one single demand forecasting calculation on all items even though each item has unique characteristics and unique needs.  |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 2. Over-reacting to high demand spikes by moving the forecast and buying up although the occurrence will probably not continue  |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 3. Not taking lost sales in account when forecasting and only including shipped or sales information.   |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 4. Allowing inflated demand to increase forecasts/buying when the product is out of stock and the same customers order multiple times.  |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 5. Not taking seasonal patterns into account, which will lead to out of stocks during the up season and overstock in the down season.   |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 6. Relying mainly on Period to Date information to develop a forecast and buying decisions, which might show a very different, trending picture than many periods of smooth movement with occasional short-term spikes. |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 7. Not filtering promotional movement, which will inflate the forecast/inventory or make the buying tool unusable.  |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 8. Not tracking each item's deviation tendencies for the building of safety stocks and the proper analysis of each item's true profit picture.  |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 9. Not adjusting the demand forecast and other factors properly as sizeable accounts are gained or lost in the customer mix.  |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 10. Not managing the transition of replacement items to avoid double inventory and smoothly manage the new items.   |

## II. Lead Time Forecasting

- |                          |                          |                          |   |
|--------------------------|--------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 11. Buying with a 'cushioned' Lead Time that describes a worst-case scenario and keeps 'just in case' inventory dollars unnecessarily.  |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 12. Not actually 'forecasting' a Lead Time from receipt history, but buying with a static number based on vendor promises or gut feel.  |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 13. Using one Vendor level Lead Time number for all the line's items even though some items have experienced occasional short ships or other mishaps and require a unique item Lead Time. |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 14. Not tracking and utilizing the historical deviation / consistency information of the item's receipt history for proper safety stock building.   |

Level of Strength  
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**Lo Med Hi**

- |                          |                          |                          |   |
|--------------------------|--------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 15. If forecasting vendor or item Lead times, using one single forecasting calculation although each item has unique receipt history characteristics. |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 16. Overreacting to one-time, long lead time spikes and building the inventory up unnecessarily in reaction.  |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 17. Not filtering promotional, or other special order receipts out of the Lead Time calculations that could inflate the inventory.                    |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 18. Not taking seasonal Lead Time patterns into account when buying.  |

### III. Order Policy Analysis

- |                          |                          |                          |   |
|--------------------------|--------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 19. Buying on a fixed-cycle, scheduled basis, which does not allow the ability to react if needed between orders and can harm service.  |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 20. Padding the inventory with 'just in case' inventory dollars in fear that sales might be strong between orders, knowing that the fixed cycle schedule does not allow for reacting in time. |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 21. Manually creating Vendor Order Cycles without analyzing the costs and true profit picture of all possible ordering frequencies.   |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 22. Buying on a schedule, and consistently buying before the products are really needed which builds inflated inventories.  |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 23. If buying to volume, weight or other size constraints or brackets, not matching the Order Cycle to the forecasted movement of the products.   |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 24. Sub-Optimizing pricing brackets by not analyzing the profit picture of each optional pricing bracket and choosing the best one.   |

### IV. Service Level and Safety Stock Management

- |                          |                          |                          |  |
|--------------------------|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 25. Maintaining one time supply of safety stock on all or most items, even though each item has unique movement and receipt patterns and requires a specific amount of safety stock.                                   |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 26. Not recognizing the smooth demand patterns of most high volume items and thus keeping inflated, unnecessary amounts of inventory on the key items.   |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 27. Not recognizing the very erratic nature of slower moving products and thus not keeping enough safety stocks on the items to maintain acceptable service levels.  |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 28. Not using the Lead Time and important Lead Time Deviation factors when calculating safety stock needs.   |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 29. Overreacting to concerns and requests from customers, sales and management about low service by simply emotionally 'buying more' rather than scientifically increasing service through precise safety stock calcs. |

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- |                          |                          |                          |  |
|--------------------------|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 30. Creating Service Level objectives only based on ABC type rankings without taking the profit picture into account.  |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 31. Requesting low in stock service goals on items considered C or D items when they have extremely strong net profit margins that more than make up for the extra cost of safety stock. |

## V. Replenishment

- |                          |                          |                          |   |
|--------------------------|--------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 32. Not reviewing each item and each vendor each day to allow the fastest reaction time and the lost possible inventory levels.                     |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 33. Determining the item's component values on the day of buying, although those values actually determine the important question of 'when' to buy. |

## VI. Special Order Opportunity Analysis

- |                          |                          |                          |  |
|--------------------------|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 34. Managing promotional planning and buying as part of the normal replenishment numbers, which will impact the serviceability of the promo buys, the validity of the normal replenishment stock status, the replenishment forecast and the overstock picture. |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 35. Not treating deal / forward buy opportunities as a scientific, economic decisions that require a strategy that is followed by the entire company, so that every possible dollar of profit is realized.   |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 36. Treating discounts and price increases as the same calculation, although they offer different opportunities  |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 37. Buying too heavily on dating opportunities, not realizing that much of the goods are being brought in at a time sooner than planned or needed, which reduces the actual financial benefit.   |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 38. Going directly to the main vendor after replenishment needs are established, rather than checking a more economic source like an alternate supplier or another strategic location in the company's network that may have costly overstock to transfer.     |

## VII. Order Validity Analysis

- |                          |                          |                          |   |
|--------------------------|--------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 39. 'Padding' the top item or items with inventory to move an order to meet a 'size' like a truckload from what was actually needed, which takes the line out of balance and makes it difficult and costly to place the next order. |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 40. Rounding order quantities to inefficient multiples by not looking at each item for more economic rounding multiples based on the volume of each item in each location.  |