Strategies for inventory performance

Inventory performance is a consequence of all the management and control activities related to inventory. The stock reduction is one of the multiple targets of improving inventory performance due to planning and managing inventory as a resolution of better inventory performance. The role of inventory in driving business performance can be realized by enhancing customer service, increasing revenue, and streaming operational efficiency.

To achieve better inventory performance, in that respect are several significant issues that company needs to include: Business growth, cost reduction, structural changes, and supply risk mitigation (risk of supply shortage and break down).

To push the inventory performance, a combination of policies, procedures, technology and data coordination needed. Each additional layer adds more variability and bias to the inventory level.

The four characteristics that are undermining inventory performances:

1. Inventory reduction: there is a difference between inventory reduction and inventory performance. For some companies not having enough of one product can change to having a lot of that product in stock. Focusing on reducing inventory by businesses in the short term may end up regaining that inventory and dropping in customer service level.
2. Inventory performance as an ancillary benefit: this approach can contribute to an inability to connect changes in performance to an instance one project and result in double counting benefits.

3. Overemphasis on system and technology: these led companies fully leverage their ability, and they often find themselves weighted down (at best), never fully used their capital, and simply abandoned (at worst) over time.
4. Lack of focus on attaining and sustaining inventory performance targets: lack of three things: effective performance targeting, recognizing of goal achievement and continuous measurement and targeting are commonly characteristic of inventory performance failed.

The leaders of companies need to change their way of thinking in the way they establish the performance objectives to achieve from the following three angles:

1. Holistic approach: starts with an understanding of how all functions for performance drive result with making decisions in functional silos. For example, promising delivery dates for lower priority products with minimum quantity far beyond the current order number rather than minimizing the average inventory level by serving multiple orders for the same product over time.
2. Focus on drivers: brings inventory strategy down to an action level with the company. For example, for building customized airplanes, the key drivers can be supplier lead time, reliability, quality, engineering design changes and so forth. Some of these drivers minimize adverse impacts on inventory performance.
3. Effective governance: prioritize, organize, execute, and evaluate companies’ investment and align them with operational strategy and performance objectives.

Inventory performance management (IPM) involves four stages to link inventory performance to financial, operational, and organizational drivers.

1-performance baseline and diagnostic: This stage has the highest impact on performance. The output of this stage should include:

- Details data analysis of inventory driver, and baseline performance
- Opportunity heat maps to provide potential areas for improvement across supply chain functions
- Key capability gaps like in managing demand is the inability to generate a baseline forecast that can have an impact on the safety stock level.

2-developing an effective inventory performance strategy: this stage should include: a portfolio of performance improvement to lead up and relate benefits, and a transformation of road map that outlines priorities, dependency, and timelines.

3-governance and program execution: this stage is for establishing a program management and structure for governance to facilitate the performance activities. The output of this stage includes structure for IPM governance, management benefits framework, tools for managing metrics and monitoring risks, initiative details, improvement initiative definitions, and comprehensive plans for the development and the deployment of the improvement initiative.

4-benefits attainment and extensions: this stage involves continuous monitoring, analyzing, and adjustment and outputs for this stage include:

Institutionalized learning, driver visibility, benefits management, behaviors and incentives, and portfolio development.

Companies can achieve and sustain the benefits by changing the way in which they establish their inventory performance objectives.

Examples of bad inventory performance: producing more than the forecasted demand, keeping more inventory without analyzing the previous demand, unable to satisfy customer's demand due to stock unavailability, slow in completing inventory process for customer, not knowing what is left in stock .

Reference:

Can A. Dogan | From the Quarter 1 2015 issue. (n. d.). A different path to better inventory performance. Retrieved February 25, 2017, from http://www. supplychainquarterly. com/topics/Finance/20150331-a-different-path-to-better-inventory-performance/