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Ten rules for managing stock and improving availability during times of shortage

Your guide to improving stock availability.

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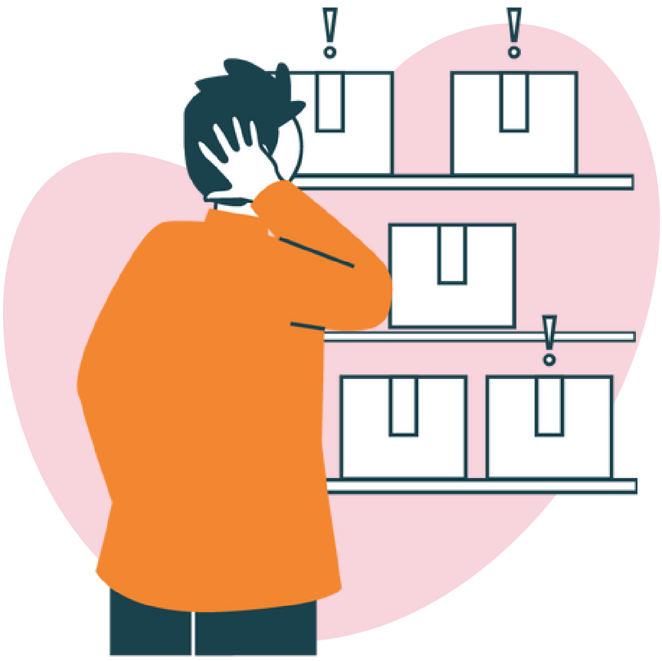
The stock availability challenge

UK businesses have faced an unprecedented array of supply chain challenges. First came COVID-19, then Brexit, closely followed by container shortages, the Suez Canal blockage and an ongoing lack of over-priced raw materials.

These supply chain issues negatively affect stock availability, leading to unhappy customers and stressed operational teams.

Businesses in many sectors, including manufacturing, wholesale and distribution, must find new ways of dealing with demand and supply volatility.

While there is no silver bullet to overcome these problems, in this eGuide, we provide 10 proven ways to help manage your stock availability challenges during times of shortage.



1. Be extra nice to your suppliers

When your business is experiencing stock shortages, tensions may run high between you and your suppliers. 'Being nice' may not be your first inclination. However, when stock shortages affect everyone - including your competitors - building and nurturing strong relationships is more important than ever.

Simply asking for sensible volumes of stock when you need it, rather than trying to grab as much as possible, is likely to lead to better supplier fill rates, happier warehouse staff, and a healthier relationship with your supplier. Such partnerships rely on three key pillars:

- Data
- Communication
- Transparency

The more data you can give suppliers about your future sales/production predictions and order requirements, the better. You can then have regular, open and honest communication with them at all levels of your business. In return, they should be transparent about their current and future supply risks.

Creating and sharing a monthly order schedule can help. This is a demand projection based on your sales and production forecast you send to suppliers to provide a clear picture of your requirements, e.g. what stock you need to be delivered and when.

If they can provide potential lead times for these items, you can add these to make the prediction even more realistic. This information allows you to see whether these expectations can be met and, if they can't, understand what is achievable.

This process provides a better structure than simply asking your suppliers for 'everything you usually have' or 'whatever they can send'.

2. Track your risk of run out KPIs

Do you know what stock items are most ‘at risk’ of running out? When they are likely to run out during the coming lead time? And by how much are you likely to be short?

If you have this critical information, you can plan how to procure the shortfall and intelligently allocate your remaining stock (see section six). After all, nobody likes surprises!

Important risk of run out KPIs include:

- Number of stock days – how many days of stock you have left until you run out.
- Shortfall time – the total number of days you will be out of stock.
- Max shortfall time – the longest period you will be out of stock.
- Shortfall quantity – the total amount of units that will be out-of-stock.
- Maximum shortfall quantity – the highest number of units that will be out-of-stock.

These can be calculated in a ‘risk of run out’ spreadsheet’.

Start simple by working out your ‘number of stock days’. This will provide you with dates when stock is due to fall below a specified point.

For example, when there is only a day, a week, or a month’s worth of stock left, based on the item’s average sales and usage.

You can set up a risk of run out spreadsheet using:

- Current stock items, items on order and in transit
- Demand forecasts (see section three)
- Lead times

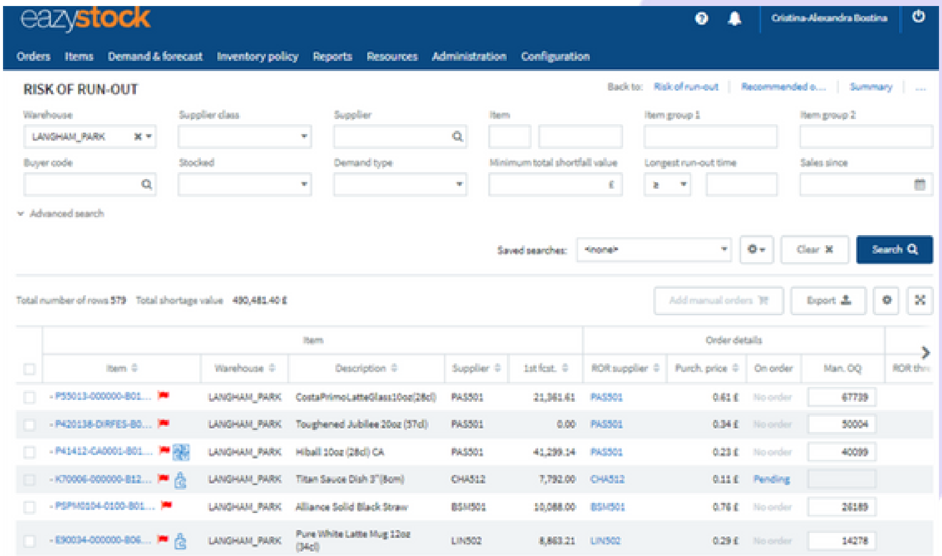
To be ultra-cautious, you can include safety stock levels in your calculations, e.g. set out-of-stock alerts at 50% of your safety stock, so 'out-of-stock' will be when you only have 50% of your safety stock left (so you know you have a little extra as a back-up).

It's important to stress that such calculations are only useful if you a) have accurate data on your current stock levels and b) have an accurate forecast.

If demand is consistent, you could do these calculations once a week, maybe less. In a dynamic environment with orders changing more frequently, this would need to be done as often as possible.

Whilst this process sounds time-consuming, you could focus on your most critical or profitable items (see section five). Remember: the key objective is to help your team understand their upcoming stock challenges and implement a plan to alleviate them.

EazyStock Risk of Run out



3. Up your forecasting game

Demand forecasting has never been more challenging. For starters, using sales and production data from during the pandemic is heavily skewed, making it useless for current calculations.

Secondly, COVID-19 caused significant shifts in customer behaviour, so there's no precedent for sales forecasts to follow. Both these factors are giving demand planners a difficult time. Even with all the current sales volatility, you can still take some practical steps to improve your forecasts.

Find appropriate historical data

Firstly, go back through your records to find a similar sales and production period to now (for most, this will be a period of growth) and use that as your base forecast instead of 2019 or 2020 data.

Use qualitative data

Secondly, and perhaps most critically, include qualitative data in your forecasting. As markets are changing at a dramatic pace, some of the most up-to-date information you can source will be from your sales team, customers and industry trade bodies.

50%

of companies said forecasting was extremely challenging or very challenging, in a report by MHI and Deloitte

Talk, talk, talk

Ensure your purchasing, sales, and production departments collaborate and work closely to track demand, look for trends and communicate regularly.

At the same time, proactive dialogue with your major customers on upcoming requirements is essential to maintain good relationships and healthy stocks.

Trends and seasonality

As challenging as it may sound, look out for stock items where demand is seasonal or trending in a certain direction.

For example, demand for some items may grow due to a booming marketplace. For others, it may be stable or in decline due to supersessions by newer designs or models.

It's also important to identify items with seasonal demand. You should adjust forecasts to ensure you make the most of sales peaks and prevent holding excess stock as they taper off.

Flag these items and adjust your forecasts accordingly. You can also check these items' actual demand against their forecast more regularly. This will prevent over- or under-stocking and improve the accuracy of future forecasts.

4. Remove periods of stockouts from your forecast

Although this point is related to demand forecasting, mismanagement can have such a devastating impact on stock availability that it deserves a rule all of its own!

Over recent years, you will most likely have experienced periods when items have been out-of-stock. Ensure you exclude these from your forecasts, or they will incorrectly bring them down.

For example, if you have a period where you only sold 10 of one item because that's all you had in stock, whereas you could have actually sold 200 with the right availability, make sure you don't reorder based on a forecast that's looking at the lower number.

Flag periods for exclusion or, even better, make an assumption about the sales you lost and add this number into the forecast.

Whilst forecasting right now is difficult, it's vital to spend as much time as you can on getting your calculations as accurate as possible.

The number one way to help improve stock availability is to understand how much stock you are going to sell.

5. Prioritise your stock

We assume you already have a business system to manage your stock levels. This could be an enterprise resource planning (ERP) or warehouse management system (WMS). Hopefully, it provides accurate, real-time data on your current stock levels, as this is fundamental to helping improve your stock availability.

However, whilst such systems help you manage and replenish your stock, they are rarely intuitive enough to ensure you carry optimum levels of the right stock, e.g. the most important items to your business.

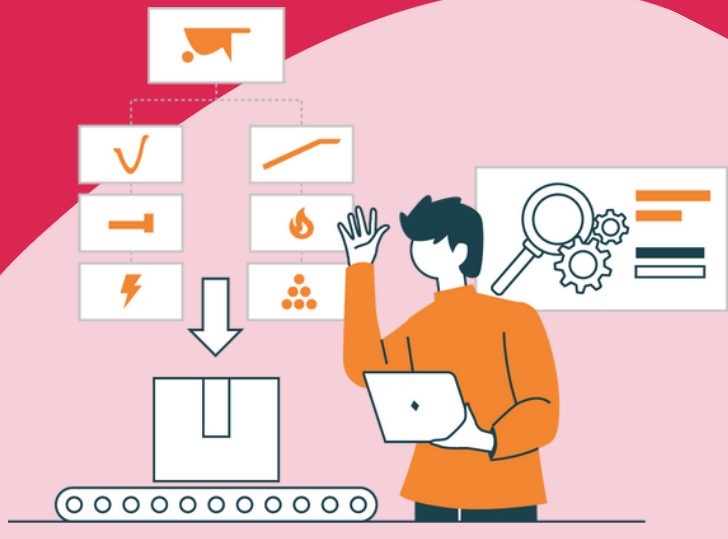
It's therefore important that you do your own analysis, working with all relevant business teams, to identify business-critical stock items and then build a plan to alleviate their risk of run out.

How you define 'business-critical' is your decision.

For manufacturers, this may be components that could cause production delays or stoppages.

For wholesalers or retailers, it could be products needed in stock to keep key customers happy or those most profitable to the business.

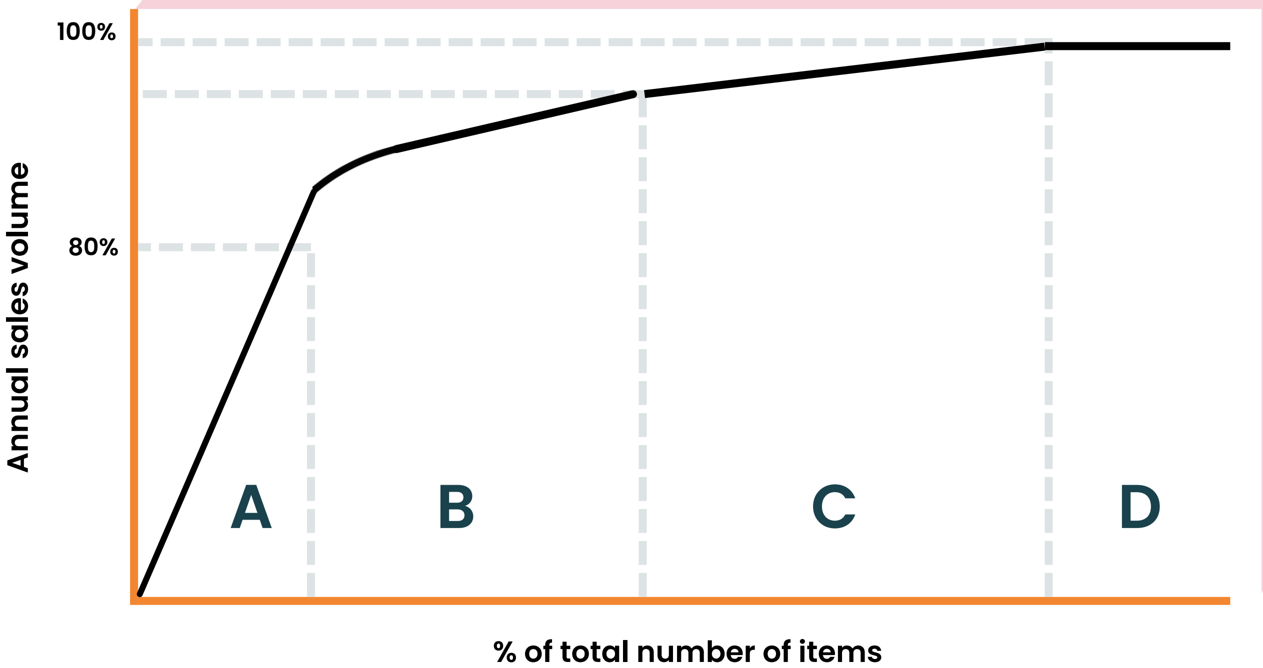
Profitable items may differ from your critical items but could be equally important to track and closely manage.



A simple way to do this is using ABC analysis. This model is most commonly used to categorise inventory items based on their sales value, e.g. number of sales x unit price. ‘A’ items would have the highest sales value, so you would prioritise their management over ‘B’ and ‘C’ items, e.g. check forecasts, stock levels and lead times more frequently.

For a more accurate picture, include the number of times an item is sold. This can prevent over-stocking of relatively high-value, slow-moving items and ensure that low-value items with regular sales are identified as ones to watch. These can be equally important, as often, these low-value items have high margins.

You can also create stock classification systems based on other ‘business critical’ criteria, including ‘risk of run-out’, ‘uncertainty of supply’, or ‘importance to critical customers’.



6. Allocate your stock intelligently

When inventory supply is disrupted, it's critical to make optimum use of every stock item in your supply chain. Here are some examples of how you can be smarter with stock allocation:

Multi-site

If you trade across multiple sites, double-check for excess stock sitting in warehouses where demand is low. It makes sense to relocate this inventory to places where sales are more buoyant to help prevent stockouts.

Hub and spoke

If you have a central warehouse providing stock to smaller regional sites, be 'strict' with your stock allocation and only send the goods they need, not what they want. When ordering is done remotely, people often ask for more than their forecast states, so they've got that extra cover. Shipping more stock than needed to one site risks leaving your central warehouse short to supply other regions and customers.

Manufacturing

If you're a manufacturer, review your bills of materials so you can allocate components intelligently. For example, if a component is used in multiple finished goods, you may need to decide which ones to prioritise (see section five).

Use your risk of run out report (section two) to help you understand your stock limitations, and then you can decide what to do with what you have left.

This may include giving it to:

- customers that offer the highest margin
- customers that take the biggest volumes
- customers where you have critical service level agreements.

As always, don't forget to communicate with your sales and production planning teams so they understand what stock they will be short of, what will be available, and how you suggest they use it.

If possible, centralise your ordering so that the above stock decisions can be made with the broadest possible view of your business.

If this isn't operationally viable, ensure that everyone follows the same replenishment processes and 'rules' and then feeds information to a central database. Having this data will make it easier to understand stock requirements across your whole business and make it simpler to re-distribute stock to the locations with the most urgent requirements.

7. Adjust reordering calculations for variable lead times

When supply disruption is a major concern, it goes without saying that you need to monitor your lead times closely. Full visibility of your suppliers' delivery performance is key to mitigating its impact on fulfilment.

Where possible, track actual lead times and 'act' when they begin to deviate from your expectations. Actions may include:

Increasing safety stock levels

While this will result in more cash being tied up in stock, this should only be an interim measure, and you can look to reduce stock levels again when your suppliers' availability improves.

Shortening order cycles

If possible, order less, more frequently. Shorter order cycles will help you keep a closer eye on your stock levels and reduce the stockout risks associated with delayed big orders.

Switching suppliers

Some stock management systems have the functionality to consider supplier lead times when calculating reorder points. If resources allow, you should find time to update these lead times manually as often as possible - even if you just focus on your most profitable or business-critical lines.

8. Diversify your supplier network

Many companies are realising that it's time to 'hedge their bets' and source their goods from more than one supplier. Using partners strategically located across the world means that when issues arise in one country, there's an alternative to hand.

If you have a broad supplier base, you need to continually re-evaluate it to ensure you're getting the best deal regarding unit costs, delivery speed and reliability.

Compare suppliers based on criteria that are important to your purchasing needs. This could be their lead times, unit prices and/or minimum order quantities (MOQs).

Some stock management systems will provide this information before placing an order but be sure that you update the system with the most up-to-date data to make the most informed decisions!

9. Optimise your shipping

If you're importing goods into the UK, you need to make every (expensive) shipment count. For example, if shipping containers coming to the UK have long lead times, ensure every item has upcoming demand to fulfil.

Don't let suppliers ship half-full containers or fill them up with items that are not business-critical. Return to your order schedule and check that the shipment reflects your forecast's needs.

Businesses that buy closer to home have different challenges. If you deal with smaller, local deliveries, you most likely have minimum order values or quantities to hit to prevent paying carriage.

While you want to avoid the additional delivery cost, ensure the order only includes goods that you know are needed in your sales and production projections. This avoids simply filling up your warehouse and investing much-needed cash in items your business doesn't need.

10. Let computers do the computing

Investing in technology is critical to help you manage your supply chain during periods of severe disruption. It will also keep you one step ahead of the competition as we move into a new trading era. Here's why:

Tech makes businesses responsive and agile

Better systems provide the visibility and control your team needs to manage the moving parts of your supply chain. When challenges arise, software, such as warehouse management systems and inventory control tools, are invaluable, providing the data and capabilities to act quickly and decisively.

Tech improves decision-making

Digital supply chains ensure data transparency and improve data accuracy. With accurate, up-to-date information, decisions can be made based on facts, not guesswork.

Tech increases efficiency

Busy inventory managers will save valuable time by automating everyday manual tasks. Instead of spending hours calculating safety stock levels or updating supplier lead times, they can focus their energy on value-adding tasks.

Tech gives you more time for customers

With more efficient processes, teams will have time to communicate with customers, manage their expectations and solve their issues. During times of disrupted supply, these are critical tasks that will help maintain and reinforce relationships.

Summary

With the after-effects of the global coronavirus lockdown still being felt by businesses across the UK, stock availability issues are extremely difficult to avoid.

The tips in this eGuide can hopefully help you manage your stock better, so you can:

- ***improve your forecasting quality***
- ***prioritise specific inventory groups***
- ***deal with fluctuating lead times better, and***
- ***improve how you manage your suppliers.***

Armed with these tools, we hope your teams can work more proactively and have better inventory data available to improve communication with your customers, helping to manage their expectations and maintain their trust.

It's worth remembering that many businesses face the same stock shortage challenges that you are experiencing. So, if you can be one step ahead of your competitors in managing your supply chain, you may steal a win and come out on top.

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Learn more about automated inventory optimisation

Contact us