

## 8 best practice tips for inventory management

are you working  
with good data?

**GARBAGE IN, GARBAGE OUT!**

IF YOU HAVE FAULTY OR INCOMPLETE DATA,  
YOUR REPORTING AND  
PURCHASING DECISIONS WILL BE FLAWED.

are top down  
controls in place?

**YOU REALLY DO  
GET WHAT YOU ASK FOR.**

IF YOU BUDGET FOR BOTH DEMAND AND  
INVENTORY, YOU ESTABLISH GOALS FOR ITEM  
LEVEL DEMAND PLANNING AND MONTHLY  
INVENTORY SCHEDULING.  
IGNORE THESE CONTROLS, AND DEMAND PLANS  
AND INVENTORY LEVELS  
WILL BE MUCH TOO HIGH.

are you managing  
by exception?

**YOU KNOW YOUR  
CONTROL BUYERS HAVE A  
HEAVY WORKLOAD.**

REVIEWING EVERY ITEM WEEKLY OR EVEN  
MONTHLY SIMPLY ISN'T POSSIBLE. USE THE  
**80/20 RULE: TWENTY PERCENT OF ITEMS WILL  
ALMOST ALWAYS REPRESENT 80% OF YOUR  
NEED. YOUR PRACTICES SHOULD INCLUDE  
EXCEPTION REPORTS OR HOT LISTS TO DIRECT  
YOUR CONTROL BUYERS TO THE ITEMS  
THAT REQUIRE ATTENTION.**

**1 Report demand by source.** This is important both for accurate demand planning and aligning inventory demand with marketing. First, conduct an audit of the entire data capture process to ensure you are requesting and capturing source information from your customers. If source code is not provided by your customer, use matchback processing to assign a source *before* data is posted to inventory planning systems.

**2 Update purchase order information.** Many changes occur on purchase orders after they are created. Changes in dates. Updated quantities. Late or incomplete deliveries. Receiving errors in the distribution center. All inventory projections rely on accurate purchase order information. Ensure that daily and weekly processes are in place to continually review and revalidate the accuracy of that data.

**3 Use audit reporting to flag missing data.** Inventory reporting relies on a variety of item master data like retail price, cost, status code, lead times, and more. Implement weekly reporting processes to flag missing data and correct it *now, before* it interferes with buying decisions.

**4 Be timely.** Even *one day* can have significant financial impact on your business. It can determine if your vendor can meet your purchase order request, if you can expedite a delivery, and whether you can impact a future marketing decision. Put systems in place now to allow for nightly demand reforecasting and inventory projections.

**5 Budget for total demand.** Control Buyers buy inventory to match item forecasts. It is much more difficult to forecast demand by item than to forecast higher level demand at the company or product category levels. Apply top-down forecasts at these levels as a control point versus bottom-up or item level forecasts. Your result: better overall forecasts and better quality of inventory purchased.

**6 Budget inventory levels by month.** Establishing inventory budgets by month provides a constant reminder to your Control Buyers to schedule purchase orders when needed and avoid carrying unnecessary safety stock. You will free up inventory budget dollars by prompting action on overstocks.

**7 Use forecast variance reporting.** Inventory needs reporting is only as accurate as the quality of the forecast. A forecast variance report directs your Control Buyers to those items where actual and planned demand differ significantly. Now, your Control Buyers can review and update all future demand plans by item and evaluate inventory ownership against your new, more accurate demand plan.

**8 Prepare inventory hot lists.** With an accurate forecast, you can prepare hot list reporting of those items that have too much and too little inventory. Include vendor lead times, and your Control Buyers will know both the size of the inventory need and **WHEN** it will occur.