NETSTOCK

A Business Leader's Guide to Optimizing Inventory.

5

Steps to accelerate your business through smart inventory optimization.

**Grow your
business with smart
inventory optimization.**

This eBook explores steps
to **challenge** how your
business approaches
inventory planning.

Content.

\ Introduction.

Supply chains remain fragile and ongoing disruptions will continue to add immense pressure on how businesses can efficiently manage their inventory, meet demand and grow their business.

The solution:
Your business needs accurate information to react and respond quickly to demand and supply fluctuations. Accelerate growth in your supply chain by:

1. Reviewing and adjusting inventory processes.
2. Enabling greater team alignment.
3. Re-evaluating the effectiveness of its inventory planning tools.

Inventory holding businesses manage change daily. With ongoing disruptions to supply chains, how you respond to these challenges will set your business apart from your competitors and make sure you don't jeopardize the future success of your business.

"Keep agile! This year, supply chain disruptions will continue, making it incredibly difficult to plan inventory replenishment. Lead times will be very long, and supply will be extremely unreliable. You could perhaps plan around long lead times if suppliers could guarantee the stock would arrive on time. But, with no certainty, communication up and down the supply chain will be more critical this year. Keep your communication lines open, and adjust your planning accordingly," Barry Kukkuk, CTO and Founder, Netstock.

The Greek philosopher, Heraclitus, once said, "The only constant is change."

\ Core Challenges Businesses Face in their Supply Chain.

Today, many business leaders realize their supply chains are no longer seen as a cost center and **can** contribute to business growth. More businesses invest in inventory optimization software to gain **greater visibility, traceability**, and **scalability** across their supply chains.

The main challenges supply chains face today:

1. They are underestimating and misunderstanding their inventory problem.
2. Not knowing what the optimal planning processes are for their business.
3. They continue to use spreadsheets for planning and replenishment when a massive shift in the global supply chain has occurred.

Managing inventory is a collaborative process where you need the right team and processes in place. To support your team and processes, you need the right technology to unlock your data, giving you the visibility and information to respond quickly to change in the market.

Every business has its own goals and objectives, and therefore, your processes need to remain fluid to support your goals. **Why fluid?** Your inventory processes should be agile to respond quickly to market changes.

If you keep doing what you always do, you can't expect a different outcome. Relying on your previous planning methods is no longer good enough!

\ The question is: Is your inventory optimized for success?

\ Five Steps to Help Optimize your Inventory Planning.

1. Understand the current reality in your business.

Insights to consider.

Reviewing historical sales data and the actual target fill rate achieved will help identify external disruptions that **directly impact your business.** This information will inform where to focus resources and flex planning to mitigate supply and demand risks.

To constantly meet customer demand and know what processes need improvement, you and your team need to know which supply and demand risks affect **your** supply chain.

Supply risk examines how well your suppliers perform. Unreliable suppliers place your supply chain at risk of not meeting demand. Factoring in supply risk information is critical to building up a risk profile for each stock item in your inventory to calculate the right safety stock needed.

Demand risk deals with understanding the projected demand so planners can forecast the stock expected to sell. The impact of demand risk is having the demand exceed the supply and experiencing stock-outs in your supply chain.

Given that lead times are perpetually changing and demand is volatile, draw a line in the sand, decide what you believe will affect your supply chain, and plan accordingly.

The solution.

○ Plan out 'what if' scenarios for your future inventory and cash requirements to meet demand. **Create forecasts** that assess the risk and impact of placing big or small orders, opening a new warehouse, or introducing a new product line.

○ Assess how well your current planning tool supports your ability to make quick, accurate decisions. Businesses that are still managing inventory off spreadsheets can't perform the sophisticated planning needed to make the right decisions in complex situations.

Optimizing **critical processes with the right tools** will safeguard your inventory investment and mitigate the risks associated with carrying inventory. Managing inventory with spreadsheets will only limit your ability to thrive in the modern supply chain.

Be fully aware of the limitations of spreadsheets.
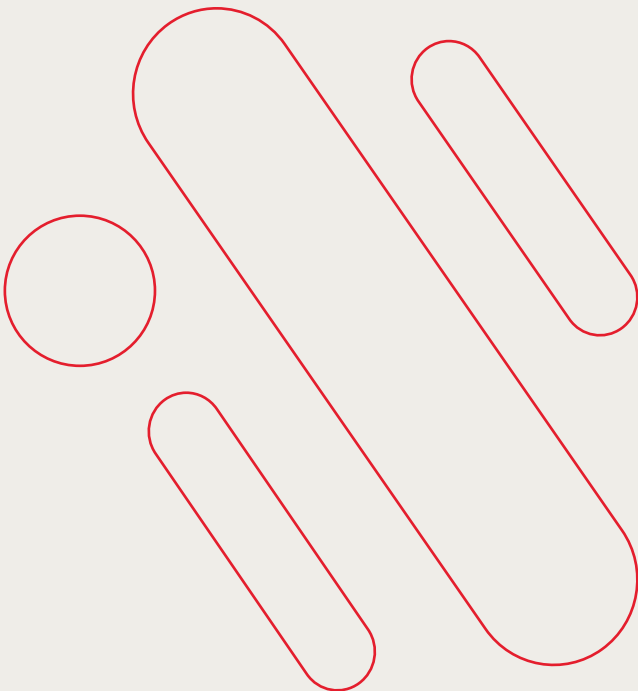
- **Limited collaboration:** data errors occur when multiple people add or edit data on the same spreadsheet.
- **Human error:** mistakes can be expensive. If you order too much stock, your business will sit with excess inventory on a slow-moving product.
- **Lack of security:** the increase of cyber attacks can put your company and your customer's information at high-risk, resulting in lost sales and customers.
- **Inaccurate data:** access to accurate information will take time to collate when you have to consolidate information off many spreadsheets.
- **Static:** spreadsheets can't enable agility, adjusting inputs to speed to market in response to disruption.

Acumatica customer

Netstock customer insights

"Using Netstock has enabled us to minimize our stock-outs and reduce our excess across certain SKU's. As a result, we now have a more balanced investment in inventory, and I would recommend Netstock to any inventory holding company." Tayse Rugs

Read Tayse Rugs' full success story

2. Keep data accurate to make strategic decisions.

Accurate data is the foundation for smart inventory optimization.

Why is accurate data so vital?

Data **unlocks critical information** by **providing actionable insights** to make **decisions** to **improve inventory** effectiveness.

Being data-driven is an **essential input** that provides transparency across your supply chain and visibility of your inventory holding. Your team can monitor key inventory inputs and determine how well your business can meet demand.

Accurate data **empowers** demand planners to be better prepared and make the right inventory decisions.

How can your business improve data accuracy?

Since modern supply chains are relying more on data, it's imperative the data is accurate. Data quality looks at how accurate, up to date and **reliable** the data is.

To ensure your data remains accurate, your business should look at appointing team members who are responsible for ensuring data accuracy.

Your business should look at:

- **Gathering data from the right sources:** review data against other sources and establish the sources you want to use as part of your data collection.
- **Reducing the volume of data entries:** review and reduce the processes that require manual data entries. This will drastically reduce errors.
- **Reviewing access:** limit the number of team members who have access to certain data. This will help prevent any errors from occurring.
- **Regularly monitoring:** the dedicated data team should regularly review and fix data inaccuracies, and record the changes made.

Here are a few data measures to be aware of with your inventory:

- Items with zero cost
- Items with negative cost
- Items with no supplier
- Items with zero lead times
- Invalid Bill of Materials (BOM) links
- Invalid Supersession links
- Overdue purchase/works orders by days overdue
- Overdue sales orders by days overdue

Implementing inventory optimization software provides an excellent opportunity to clean up your data.

How will your supply chain benefit?

Accurate data will accelerate your team's ability to make quick responsive decisions by:

- **Managing critical key inventory indicators:** identify where you may incur stock-outs or hold excess stock of a particular stock item.
- **Monitoring target fill rate vs actual fill rate:** ensuring excellent customer service.
- **Modeling different demand strategies:** plan your business's future sales.
- **Measuring supplier's performance:** know the suppliers who deliver on time and in full.

- **Forecasting sales up to 24-months in advance:** your business has more control and clarity about future sales and the stock required to meet demand.
- **Placing optimal orders in line with your inventory policy:** ensuring you order the right amount of stock in time to meet demand.
- **Review new products:** how the new items performed and if any forecast adjustments are needed.

Insights to consider for your business.

- **Working off more than one system to collate data:** The data you currently have is your "pot of gold" that can improve your inventory planning. However, your data is probably being captured and stored in spreadsheets and/or in an ERP. How do you mine that data to give you accurate information?

- **The data is only as good as what you input:** The old saying goes "garbage in, garbage out" best describes this. Inaccurate data is a significant risk where your business can incur unnecessary costs. Do you know how much capital is tied up in excess stock right now?

Discover how Netstock will improve your fill rate, place optimal orders and generate accurate forecasts.

The solution.

- **Increase data accuracy:** fully commit to ensuring all the information inputted into the inventory software is correct. This needs to become an integral part of your business's best practices and be managed closely. The more accurate your data, the more your team will start to trust the data in the software.

> *"Create an ongoing maintenance routine to ensure the information used in your software is accurate. No process or software improvement will help enhance your inventory planning if the data is wrong"*, says Gail Haggerty Director Onboarding, Netstock.

- **Improve data interpretation:** data is only helpful if it's interpreted correctly. Investing in software that uses sophisticated algorithms to refine the raw data will increase your team's ability to analyze and quickly make decisions based on the data.

- **Share data across various business functions:** if all the business functions work from the same software, data sharing becomes more effortless and enables visibility of each function, leading to accurate inventory decisions.

- **Share data with your suppliers:** the power of accurate data can also help improve your supplier's performance. Demand planners can share accurate forecasts with relevant suppliers to know what stock they need to supply you and when. The supplier can flag immediate issues, placing your demand planner in a better position to find an alternative.

Netstock customer insights

How accurate data helped Tayse Rugs

"For me, the Netstock classification matrix is an impressive feature as it looks at your high-value and high-velocity items and plots them on a matrix that defines each item's level of importance in your business. We could quickly see which were our slow-moving items and, by running promotions, could reduce those. We now have that "big picture" view and can action things like potential stock-outs before it becomes a problem." Tayse Rugs

3. Review key inventory inputs.

Do you know what is affecting your inventory?

Insights to consider.

First up, understand why you have **excess stock** and unpack the reasons. The flip side to this is examining why you're experiencing **stock-outs**. It's easy to say that long lead times affect stock levels; however, not all stock items have equal importance in your inventory planning.

The solutions.

Classify your inventory and focus on the right items to drive sales.

Group your items into categories to help the demand planning team focus on items that are fast-moving as well as those with big profit margins. To achieve this, classifying your inventory will identify obsolete, stocked, and non-stocked items. By identifying your obsolete items the demand planning team will no longer spend time or resources focusing on those items.

- **Obsolete:** items you no longer will store or sell.
- **Non stocked:** items you won't stock in your warehouse but will order in for a customer.
- **Stocked:** items that will drive sales. These items will be classified according to sales and the speed at which they are sold.

Once the items are classified, your team can focus on the stocked items to:
- Working off the demand forecast, and understand the demand for these items.
- Review the reliability of the suppliers of these stocked items.
- Allocate the appropriate amount of safety stock needed for these items.

Classifying your inventory helps create a more balanced inventory by preventing stock-outs of your profit-generating items and reducing the incurrence of excess stock of slow-moving items.

	Low	Medium	High
A	AL 78 >	AM 124 >	AH 138 >
B	BL 345 >	BM 303 >	BH 90 >
C	CL 2,226 >	CM 362 >	CH 95 >
	Stocked 3,761 >	Non stocked 1,079 >	Obsolete 3,761 >

Netstock's classification matrix explained

A - bestselling items   High - fast-moving
B - medium selling items   Medium - medium moving
C- slow-moving items   Low - slow-moving

▶ **Watch how Nestock's classification feature automatically classifies your stock items.**

A practical example

In a typical electronics shop, they sell expensive smartphones (A items), but they also sell very inexpensive screen protectors for those smartphones (C items). Since it's such a competitive market today, if a customer comes into your shop to buy a smartphone, but you can't sell them the $2 screen protector they were also looking for, the customer could go to a competitor to get the entire purchase. That's a huge loss of revenue for something that probably costs pennies!

Netstock customer insights

"With the Netstock dashboard, I can quickly see stockouts and potential stockouts, which allows me to have a focussed conversation with my sales team to determine what's coming up and what else I need to consider when placing orders." Best Vinyl

Align your safety stock to the risk associated with each item.

For each item in your catalog, you need to predict how much capital to invest in that item and how much safety stock you may need.

Safety stock is your insurance policy.

The primary purpose of holding safety stock is to protect your business from the two significant inventory risks:

1. **Forecast risk:** Your forecast can't be 100% accurate.
2. **Supply risk:** Suppliers who can't deliver on time and in full can result in your business losing sales and customers.

Setting the right safety stock is determined by:

- **The set inventory policy and target fill rate:** how well your business wants to meet demand.
- **Forecast:** your forecast won't always be accurate and it's vital to gain market intel or intel about upcoming campaigns from sales and marketing to adjust the forecast.
- **Replenishment cycle:** a shorter replenishment cycle of high-performing items may require more safety stock.
- **Supplier Lead Time:** if your supplier is unreliable, you may need to factor in more safety stock.

Inventory tip: Regularly review your safety stock levels to factor in any changes to your supplier's lead times, your forecasts, and business objectives.
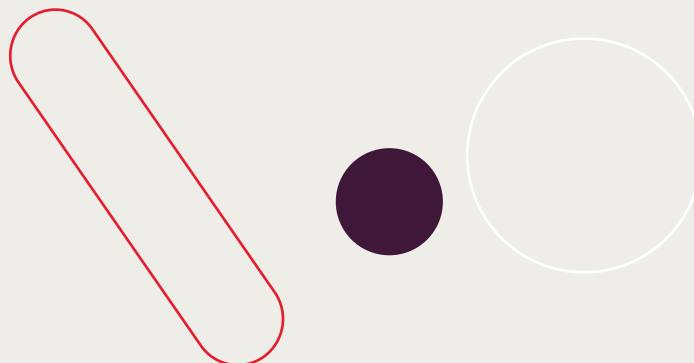
Track and measure how well you are serving your customers vs what you're targeting.

Work from a **dashboard** that gives you complete visibility of your inventory KPIs. Having visibility of essential indicators, such as your stock holding and fill rate, can help demand planners make adjustments to prevent incurring excess stock or experiencing stock-outs. The goal is to ensure your customer is central in your supply chain planning, while at the same time, investing the right amount of capital in the right stock at the right time.

Inventory tip: To offer exceptional customer service, your business needs:

1. An effective communication plan incorporated into the supply chain processes.
2. Access to accurate data to have visibility about what's happening across the supply chain.

Netstock's dashboard instantly shows the key indicators you need to manage your inventory effectively.
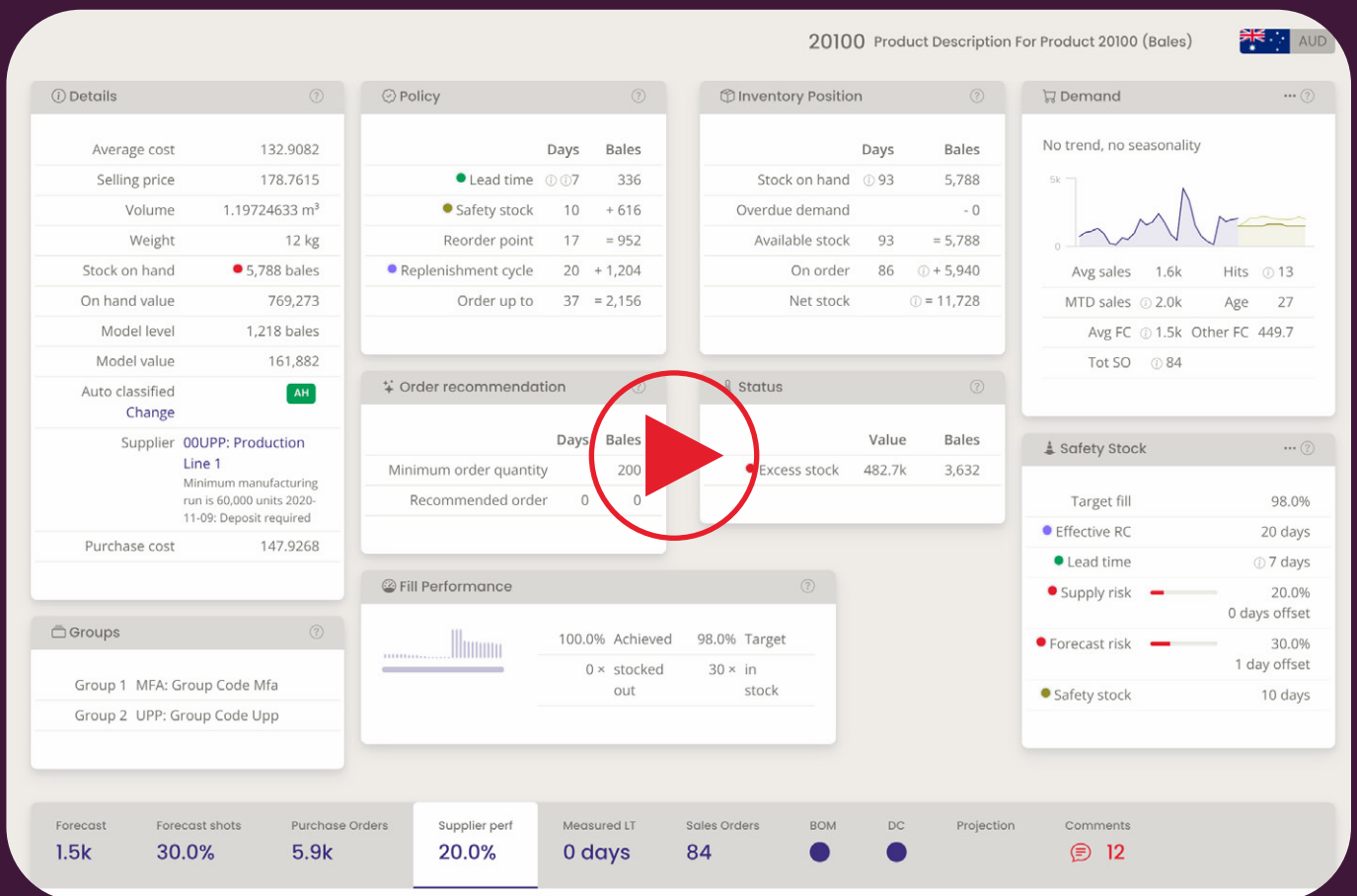
4. Increase internal team collaboration.

Team collaboration is vital to react quickly to changes in the supply chain.

Insights to consider.

Conflicting inputs from various functions in your business will impact inventory decisions. Finance wants low inventory levels to minimize working capital costs, sales and marketing want high inventory levels to ensure excellent customer service, and production wants long-term planning with low flexibility to create high production efficiencies.

The solution.

Bridge the gap between all the functions, paying special attention to the finance manager and the demand planner.

The finance manager primarily performs two strategic functions:
Internally: by assessing, quantifying, and managing inventory risk across the supply chain.
Externally: by ensuring that the financials of the business are in good order should they require external funding.

Financial lenders are more inclined to support a business that has well-managed systems in place.

Understanding the various inventory calculations and how planners factor in disruptions to meet demand will help the finance manager have confidence and trust in how the demand planner derived that number. For example, suppose the demand planner asks the finance manager for half a million USD and signs the purchase order. The finance manager must trust that all the supply and demand risk factors were taken into account, including the right amount of safety stock required to meet demand.

"It is now more critical than ever to gain in-depth insight into the inventory needed to achieve company goals. The increases in inflation rates across the globe create a financial incentive for companies to focus on inventory optimization. With the value of cash being eroded and the cost of some physical goods rising rapidly, companies will want to carry more safety stock than under normal circumstances," Paul Allerhand, CFO, Netstock.
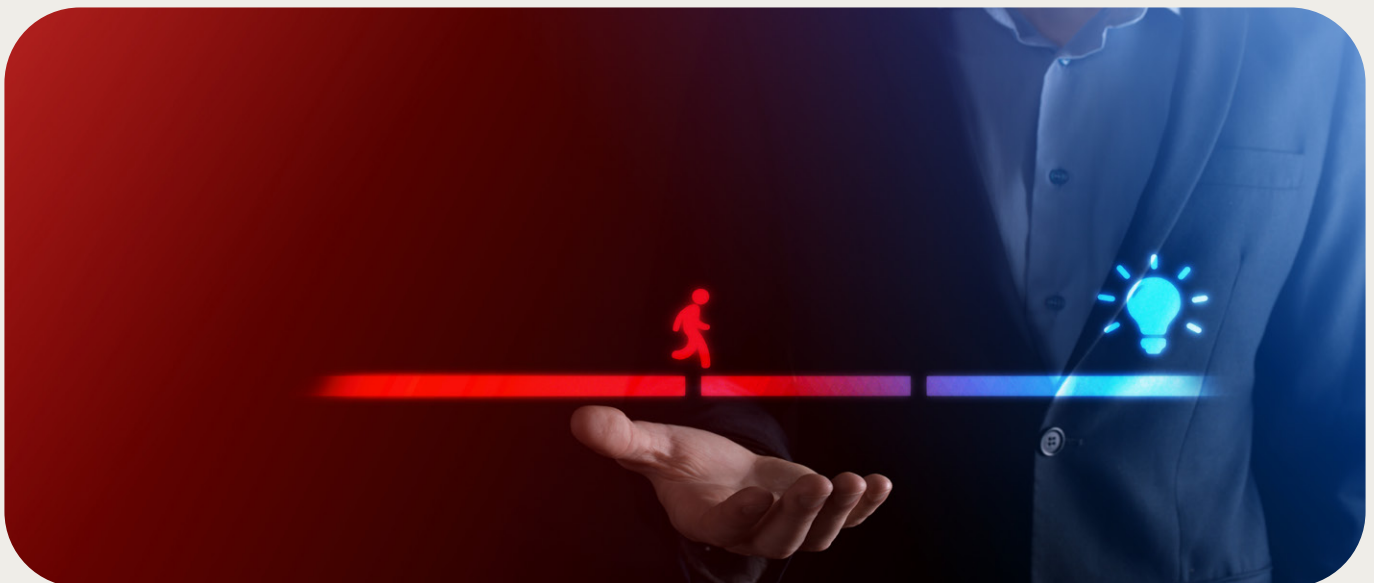
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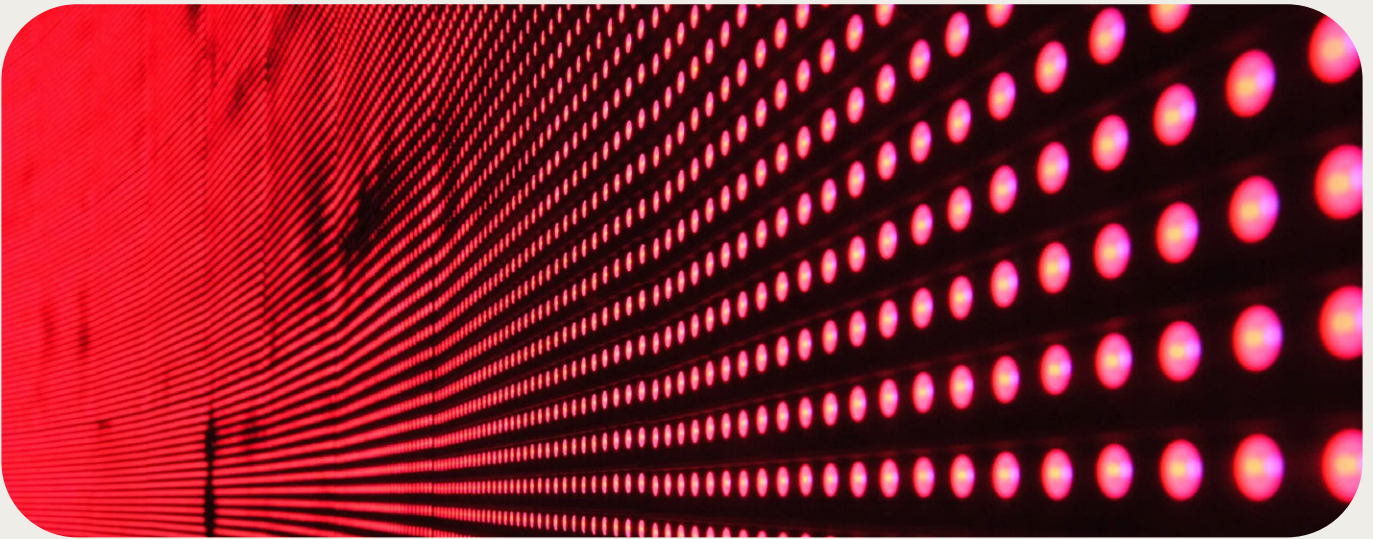
Insights to consider.

Your business will only experience ROI once it invests in new technology intended for its purpose. One of the main challenges businesses face is trusting the data's results, and this lack of trust often influences why businesses fail at adopting new software.

When a business has decided to invest in an inventory optimization solution, it's vital that the team clearly understand why the technology was selected and how the technology will support the business objectives.

An effective ongoing onboarding process will help bridge any concerns about the new technology's impact on your team. The onboarding process should continue even after the software is implemented.

The solution.

Before implementing an inventory optimization software, it's vital to consider:

1. What processes must you have in place to make sure the implementation runs smoothly?
2. Who are the right team members to help champion the process?

When selecting a vendor, do your research about their onboarding and support process. Introducing new software to help optimize your inventory is similar to introducing a new expert to join your team. It takes time to get to know someone and trust their ability.

Firstly, appoint a project manager to lead the implementation and onboarding process. This person is crucial in driving and encouraging team-wide acceptance and use of the software.

The project manager's role is to:

- Motivate the team to use the software.
- Hold the team accountable to complete their onboarding tasks.
- Communicate with the various stakeholders to ensure everyone is on the same page until the post-onboarding process.

Post-onboarding focuses on **continuous learning**, sharing those learnings with new team members, and refresher courses for existing team members to ensure the software is used to its full potential and delivers on the business objectives.

Grow your business by investing in your team! A team that is continuously learning, becomes innovative, and will help your business thrive as a modern supply chain.

- Understand the level of expertise within your team.
- Identify learning gaps and select the appropriate learning path for each team member.
- When you invest in demand planning software, ensure the onboarding process is rigorous and offers continuous learning support for all users.
- Include continuous learning as a strategic business objective!

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> *Besides the robust features in the product, I have found Netstock's e-learning platform and online training materials to be far superior to any other software application that I have dealt with in the past. You can see Netstock has put in a lot of time and effort to create welldocumented tutorials, on-demand webinars, and other online resources. This has helped us a great deal, especially when new staff members join, as they can quickly upskill.*
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Tayse Rugs

\ Key Take-outs to Optimize Inventory Planning.

1   Identify what disruptive events are affecting your inventory.

2   Review your inventory processes.

3   Improve data accuracy.

4   Collaborate as a team and invite your finance manager to join the conversation.

5   Invest in inventory optimization software to automate processes and give visibility to make strategic decisions for your business.
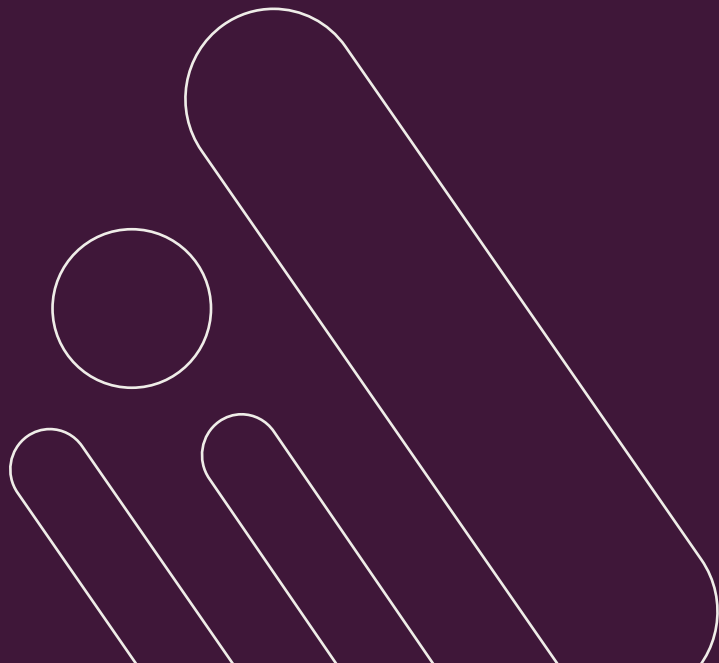
\ Grow your Business by Optimizing your Inventory.

Netstock helps businesses make smart inventory decisions.

Connecting into your Acumatica ERP, Netstock will help your business:

Make quicker decisions and save time on forecasting and ordering.

Minimize stock-outs and retain customers.

Release cash tied up in excess stock.

Discover how Netstock will transform your inventory. Watch Netstock in action.

By using Netstock effectively, Best Vinyl has reduced its inventory from $2.7 million to $1.4 million in under two years while maintaining high customer service levels.

Best Vinyl

NETSTOCK

About Netstock:

Netstock is a leader in inventory management and has earned the trust of over 2,200 global customers. Integrating into leading ERP platforms, Netstock empowers small-to-medium businesses to place orders quicker, reduce stock-outs, minimize excess inventory and optimize capacity planning. Delivering immediate ROI, Netstock provides customers with the visibility to free up working capital, adapt to changes, and deliver outstanding customer service.

\ www.netstock.com