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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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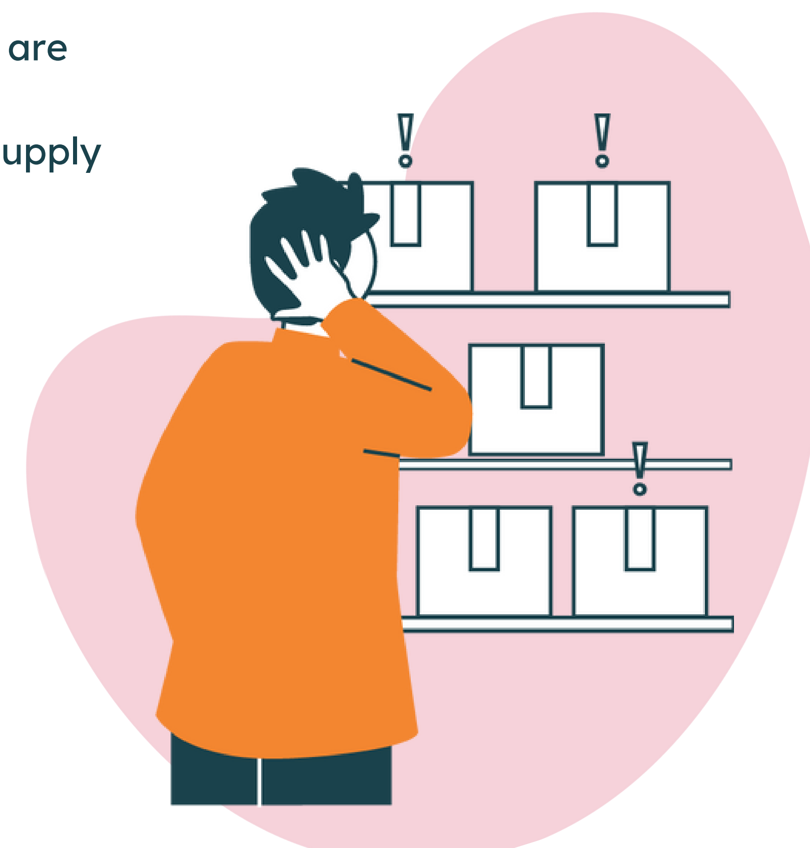
The stock availability challenge

North American businesses have faced an unprecedented array of supply chain challenges in recent years. First came a trade war with China, then came COVID-19, closely followed by container shortages, the Suez Canal blockage and now an ongoing lack of over-priced raw materials.

Together, these supply chain issues are negatively affecting stock availability, leading to unhappy customers and super-stressed operational teams.

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

While there is no silver bullet to overcome these problems, here we provide ten proven ways to help manage your stock and deal with 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, with everyone (including your competitors) scrambling for stock right now, it's more important than ever to build and nurture strong relationships.

Simply asking for sensible volumes of stock when you need it, rather than trying to grab as much as you can, is likely to lead to better supplier fill rates, happier warehouse staff, and a healthier relationship with your supplier. 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. And, in return, they should be transparent about their current and future risks to supply.

One tool you can use to help this process is to create and share a monthly order schedule. This is a demand projection, based on your sales/production forecast, that can be sent to each supplier, giving them a clear picture of your requirements e.g. what stock you need delivering and by when.

If they can provide potential lead times for these items, these can be added to make the prediction even more realistic. Armed with this information, it's then the responsibility of both parties to agree whether these expectations can be met, and, if not, what can be achieved.

This process provides much more structure than simply asking your suppliers for 'everything you usually have' or 'for 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 are they 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 on hand, you can enact a plan to help 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 stock you have left until you run out
- Shortfall time: total number of days you will be out-of-stock
- Max shortfall time: longest time period you will be out-of-stock
- Shortfall quantity: the total amount of units you will have out-of-stock
- Maximum shortfall quantity: the highest number of units you 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/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

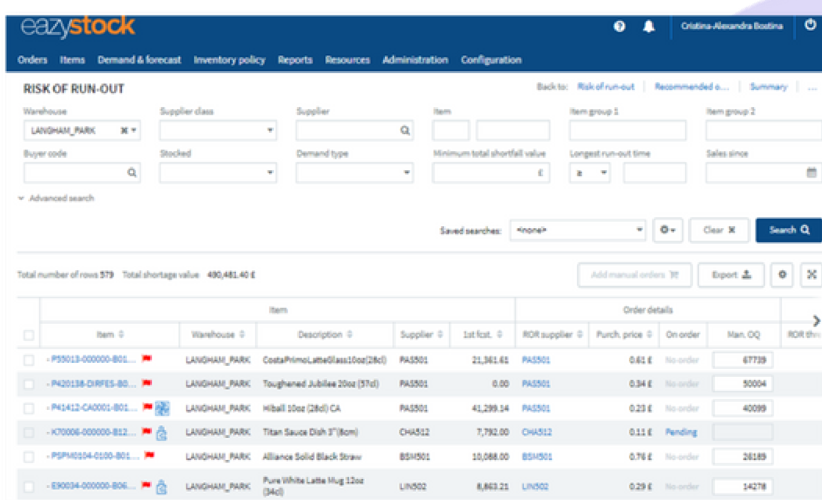
To be ultra-cautious, you can include safety stock levels in your calculations, e.g. set out-of-stock alerts at 50% of your safety stock, so ‘out-of-stock’ will be when you only have 50% of your safety stock left (so you know you have a little extra as a back-up).

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.

While this process sounds time-consuming, you could choose to just 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 put a plan in place to alleviate the issues.

EazyStock’s Risk of Run-out report



3 | Up your forecasting game

Demand forecasting has never been more challenging. For starters, the sales/production data from the last few years is heavily skewed, making it useless for this year's calculations. Secondly, COVID-19 has caused significant shifts in customer behavior, so there's no precedent for sales forecasts to follow. Both these factors are giving demand planners a difficult time.

But, even with all the current volatility in sales, you can still take some practical steps to improve your forecasts.

Find appropriate historical data

Firstly, if you can, go back through your records and aim to find a sales/production period that's similar to now (for most this will be a period of growth) and use that as your base forecast, instead of 2020 or 2021 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 the annual report by MHI and Deloitte

Talk, talk, talk

Ensure your purchasing and sales/production departments are collaborating and working closely to track demand, look for trends and communicate on a regular basis.

At the same time, having a 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 be growing due to a booming marketplace, while 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 and 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 may also decide to check these items’ actual demand against their forecasts more regularly to help 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, it can have such a devastating impact on stock availability (if not managed correctly) that it deserves a rule all its own!

Over the past 6-12 months, you will most likely have experienced periods when items have been out-of-stock. Make sure you exclude these periods from your forecasts, or they will incorrectly bring them down overall.

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.

While forecasting right now is extremely difficult, it's extremely important 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!

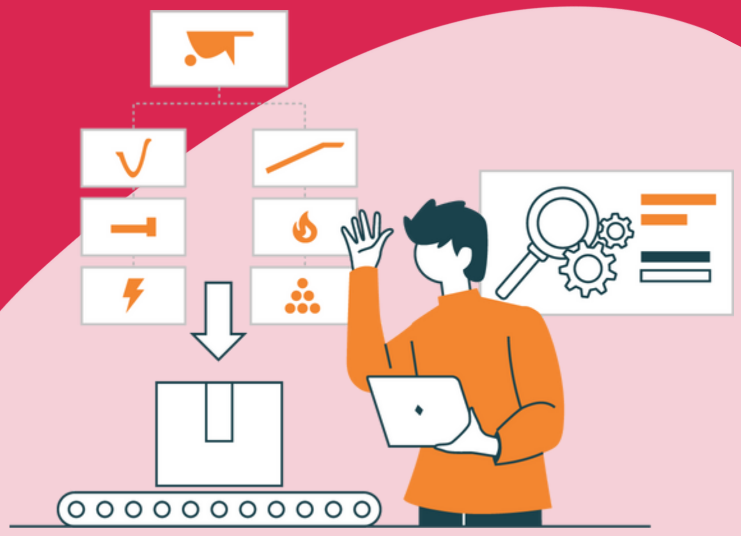
5 | Prioritize your stock

We're going to assume that 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, while 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 items that are most important to your business.

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

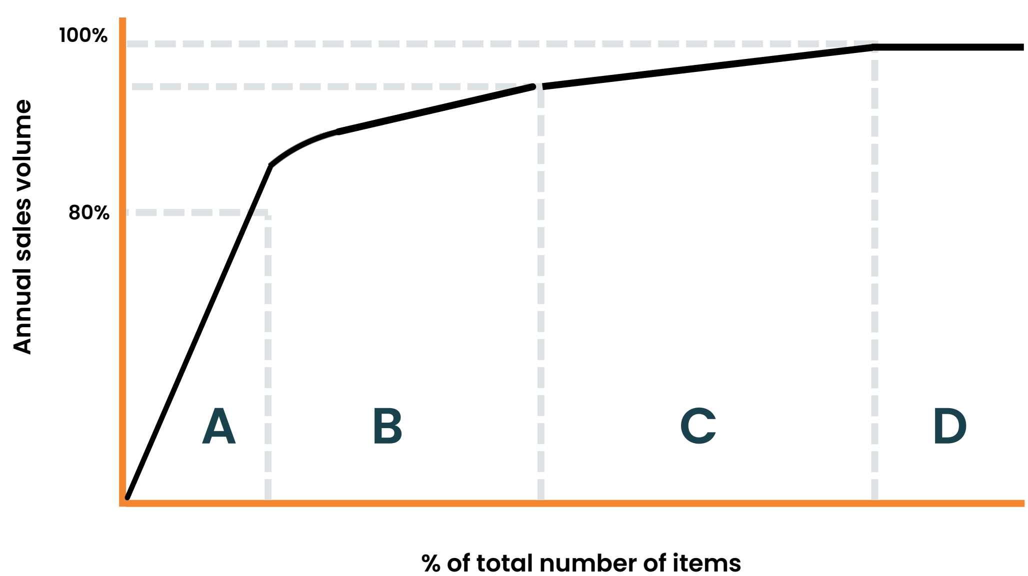
How you define 'business-critical' is your decision. For manufacturers, this may be components that could cause production delays or stoppages. For wholesalers or retailers, it could be products that they need in stock to keep key customers happy or those that are the most profitable to the business. Profitable items may be different to your critical items but could be equally as important to track and closely manage.



A simple way to do this is to use ABC analysis. This model is most commonly used to categorize 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 prioritize their management over ‘B’ and ‘C’ items – i.e. check forecasts, stock levels and lead times more frequently.

For a more accurate picture, you may want to 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 ways 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 and 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. Often, when ordering is done remotely, people naturally ask for more than their forecast states so that they've got that extra cover. But 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 prioritize (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 stock you have left.

This may include:

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

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

If possible, centralize your ordering, so the previous stock decisions can be made with the widest possible view of your business. If this isn't operationally viable, make sure everyone is following the same replenishment processes and 'rules', and feeding information back to a central database. This 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, based on factual data.

7 | Adjust reordering calculations for variable lead times

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

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

Switching suppliers

Some stock management systems have the functionality to take supplier lead times into account when calculating reorder points. If resources allow, you should find time to manually update these lead times 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 realizing 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 when issues arise in one country, there's an alternative on hand.

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

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

Some stock management systems will offer up this information prior to 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 | Optimize your shipping

If you're importing goods into the US, you need to make every (expensive) shipment count. For example, if you're bringing shipping containers to the US on a long lead time, be sure to check that every item coming over has an upcoming demand to fulfill.

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

Alternatively, businesses who 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 for lower freight costs.

While you want to avoid the additional delivery cost, make sure the order only includes goods that you know are needed in your sales/production projections. Otherwise, you're simply filling up your warehouse and investing much-needed cash in items that your business can do without.

10 | Let computers do the computing

Investment 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 era of trading. Here's why:

Tech makes businesses responsive and agile

Better systems will give your team the visibility and control it 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 and not 'guess-work'.

Tech increases efficiency

Busy inventory managers will save valuable time by automating every day, 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 North America, stock availability issues are extremely difficult to avoid.

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

1. **Improve your forecasting quality**
2. **Prioritize specific inventory groups**
3. **Deal with fluctuating lead times better**
4. **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 are faced with the same stock shortage challenges that you are experiencing. So if you can be one step ahead of your competitors in how you manage your supply chain, you may steal a win and come out on top!