



# An Executive Guide to Profitable Inventory Management

**Finding Success – Managing your most important asset.**

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## To become more profitable...

### – Shouldn't we just improve sales?

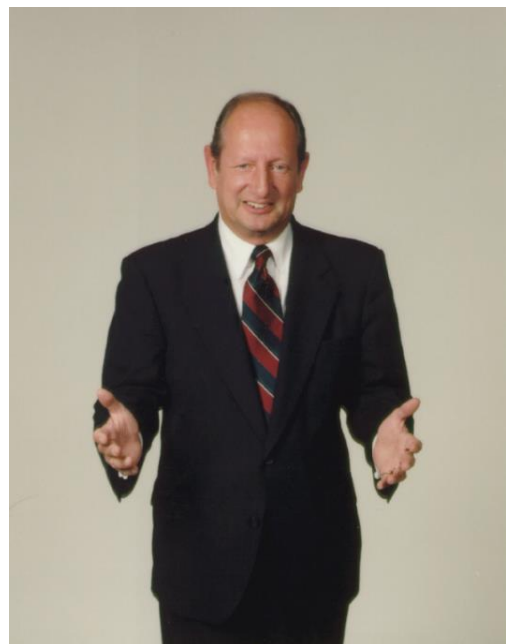
Certainly sales play a key role in profitability. Without sales, there would be no reason to be in business in the first place.

But we believe – and we've proved it repeatedly since 1980 – that buying affords the single largest opportunity to have a direct impact on profitability.

Imagine if you could cut the cost of carrying your inventory by 30%, while at the same time reducing out-of-stock conditions – improving your ability to deliver what customers want to buy.

Wouldn't this have a significant impact on your bottom line? Merely increasing sales will not attain these benefits.

On the other hand, applying scientific inventory management principles to your business, will.



### By Anders Herlitz

*Known as the “Guru” of Inventory Management, Anders has been at the forefront of scientific inventory management for the last 40 years.*

# What Exactly is Scientific Inventory Management?

Before computers and application software, inventory was tracked and replenishment manually using “stock cards.” Buyers kept a file containing these cards with item numbers, descriptions, stock status, little notes, hints and hunches that assisted in formulating the correct level of items to stock.

Needless to say, 40 years of software evolution has allowed us to introduce more and more “science” to the former “art” of buying, automating the purchasing process. The basic formulas for scientific inventory management are only the beginning of a complex story.

Today’s computers support daily or multiple updates, along with sophisticated analytics that improve results and efficiency. These improve profitability, increase service, reduce inventory levels, and boost buyer productivity.



# What Exactly is Scientific Inventory Management?

The Wilson Formula and other EOQ formulas. Probability theory and Normal distributions. Weighted averages. Marginal Revenue and Marginal Costs. Exponential smoothing and other demand forecasting techniques.

These all come in to play in determining what to buy, how much to buy, and most importantly, when to buy.

If you want to understand the mathematics and how it is applied, we will be happy to walk you through it. But like brain surgery, few care about the details of how it happens – only that it happens if they need it.

Seriously, the single biggest problem we've found is that the people who would benefit the most from the use of scientific inventory management – the owners or top management of a company – typically don't get involved in inventory replenishment. Therefore, they do not understand the science or the Seven Steps of Buying.



# What are the 7 Steps of Buying & Why are they so Important?

In some businesses, buying is looked on as a necessary evil, done mainly to fill holes on the shelves. And for many people, it's a chore. It's a time-consuming, tedious endeavor, and there's always that nagging doubt whether you're doing it right.

The millions of dollars tied up in inventory represent your single largest investment. And the people managing that inventory are making decisions that go far beyond mere buying and replenishment – they're managing a huge, diversified portfolio.

The irony is that the buyers are the investors for the company – having a direct impact on the profitability of the products you sell.

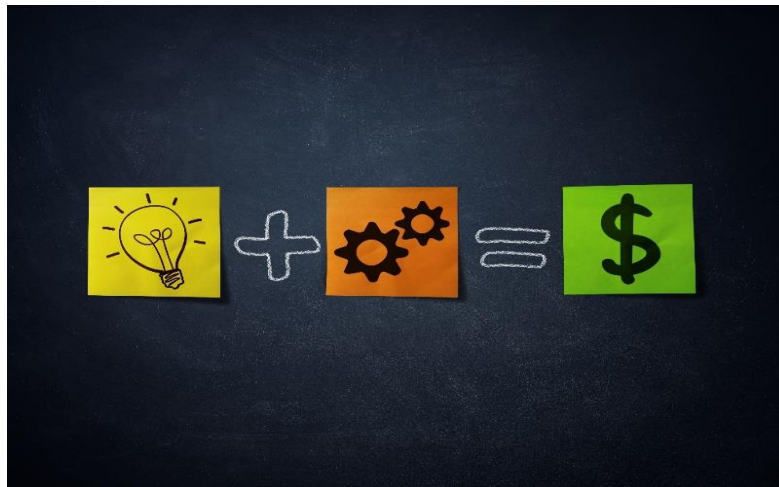
Every buyer, in one way or another, goes through seven major decisions-making processes when building purchase orders.

These steps include:

- |                                  |                                   |
|----------------------------------|-----------------------------------|
| <b>1. Demand forecasting</b>     | <b>5. Replenishment analysis</b>  |
| <b>2. Lead time forecasting</b>  | <b>6. Special order analysis</b>  |
| <b>3. Order policy analysis</b>  | <b>7. Order validity analysis</b> |
| <b>4. Service level analysis</b> |                                   |



# What are the 7 Steps of Buying & Why are they so Important?



Unfortunately for your profitability, many buyers try to do these seven steps at once. The result is usually a decision made using irrelevant information.

Scientific inventory management allows us to isolate and better manage each of the seven steps in an easy to understand system.

So you can see, selecting the right supply chain software and training to help buyers manage those company investments effectively is a decision with significant implications on shareholder value.

***These 7 Steps have been the basis for the successful training of over 5,000 buyers across the world.***



# Doesn't our ERP system effectively handle our inventory?

Of course, most companies already have some kind of inventory management system in place. Typically, it's a component of the ERP system.

**Here's the real question –**

***Do those modules offer a full & complete solution?***



Most ERP systems are broad in scope but shallow in functionality. They are relatively unsophisticated in their inventory and replenishment functions. They don't recognize inventory as an investment, a profit center, an opportunity to generate a significant return on investment.

Their broad-brush focus makes them unresponsive to rapidly changing market conditions. They don't have the strength to handle demand forecasting and inventory replenishment down to the level of individual products and locations – essential if you're determined to manage service and costs.

And since ERP systems treat inventory as a subset of accounting, they concentrate on inventory integrity, measuring turns, and maintaining stock balances – not on giving buyers the information and tools needed to maintain service or exploit profit-maximizing opportunities



## So what is wrong with “Turns” as an Inventory Policy?

If you’re using “turns” as your only measurement of inventory management success, that may mean that you are foregoing valuable discount brackets, forward buying opportunities and economic buying cycles.



While these will have a negative impact on your turn rate, they will have a positive affect on your ROI and your bottom line.

You need to be able to quickly and consistently analyze each and every deal’s profitability – regardless of its impact on turns.

# Can our people handle a sophisticated & scientific system?

A better question would be –

*Can you continue to run your business profitably using your current system?*



Your buyers are managing your company's most valuable asset – its inventory. Their time is being wasted if they are spending it doing routine clerical tasks that could be automated.

Wouldn't you rather they concentrate on profit-oriented activities, like negotiating better pricing, planning promotions, and working out more favorable delivery schedules?

With the right tools and proper support, your buying department can play a major role in helping achieve your company's strategic goals and objectives. That is why we created Herlitz Inventory Management.

Our industry experts work closely with your buyers to make sure they understand how to maximize the profit potential of your scientific inventory management system with continuing education.



## What about costs, implementation time and return on investment?

While licensing fees vary based upon your specific needs and implementation, Herlitz products are easy to integrate with your other core software. For most ERP systems we are a simple bolt-on.

Our architecture allows a rapid implementation and time-to-value. The implementation time is reduced to between eight and twelve weeks.

A 100% return on investment is usually achieved within the first year. It is not uncommon for companies to see a 1000 percent ROI over five years.

## Sounds too good to be true...



### – Prove it to me!

We would love to – We know we've made some pretty lofty claims here.

But don't take our word for it...**listen to our customers.**

Since 1980 we've worked with leading retailers, wholesalers, and distribution companies to increase productivity, decrease inventory, improve customer service and significantly enhance profitability.

We look forward to the opportunity to speak with you to discuss how we can make your next shareholder meeting the best ever.

Contact us – Profit from our expertise...[here](#)