



# Inventory Management by the “Prevailing Winds”

by Carl Herlitz



[www.herlitzim.com](http://www.herlitzim.com)



*Prevailing Wind: A wind from the direction that is predominant at a particular place or season.*

How can you sustain profitable inventory levels when different departments have conflicting priorities?



This white paper will show you how to optimize your business for:

- Customer Service
- Inventory
- Freight
- Gross Margin
- Labor Costs



# The Unfortunate History of Prevailing Winds

When Anders Herlitz led E3 and gave lectures at the Inventory Management Institute, his favorite part of the Executive School was when he described the business phenomenon referred to as “prevailing winds.”

After explaining it, he would ask all the CEOs and CFOs in the room to raise their hands, and to keep them raised, if they engaged in this practice at least once a year. All the hands in the room would stay raised. When asked, “...at least twice,” about a quarter of the hands would drop. “At least three times,” and another quarter would drop.

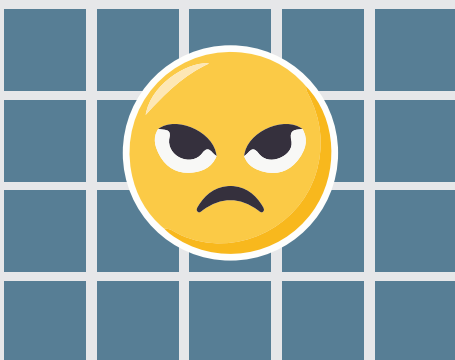
In all the years he lectured, he only found one company that did this more than once per quarter. Two to four times seemed to be most typical.

## What are Prevailing Winds?

Here is how Anders would describe the phenomenon. It typically starts when the CFO feels the need to increase turns. Perhaps there is a credit line review with the bank coming up or another outside circumstance, but most typically this is just the result of the inventory finding a level that the CFO views as undesirable. The CFO issues the edict to “Hold back buying.”

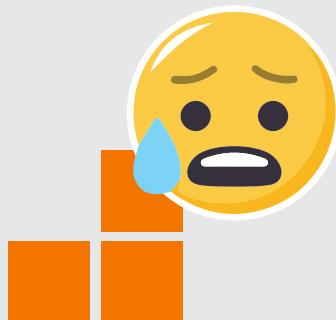
As with any department made up of professionals with diverse business experience, this is interpreted differently from buyer to buyer. What’s worse, each buyer will execute on this change in the management’s “Prevailing Wind” differently during the day due to time constraints, mood, and energy level. The perceived result is the inventory reduction that the CFO needed, so he then moves on to “bother another department,” as Anders would say.

### Overstocked



Finance

### Understocked



Sales & Customers

### Optimal Inventory Levels



Finance, Sales & Customers



- When you are overstocked, Finance gets noisy.
- When you are understocked, Sales and the Customer Base tends to get noisy.
- When the buyers eventually figure out the right inventory level, noise is minimized.
- The element of profit is nowhere in such a buying practice.



## Avoiding Chaotic Inventory Reduction

The actual result is a chaotic inventory reduction without a plan nor a realistic expectation of the effects. The inventory reduction starts to occur with the vendors with the shortest Lead Times and Order Cycles. In the beginning, changes might appear good. As the days and weeks pass, more and more deliveries come in with less and less product. As a result, more receipts need to be scheduled by the traffic manager and because there are more smaller deliveries, he may be forced to push delivery dates.

Most people don't understand, and few purchasing solutions know how to consider, the effect of a change of Order Cycle on Safety Stock. The eventual, actual result is a service level crisis. The rumblings start in the Sales Department as sales revenues begin to drop. These grumblings make their way up to the president of the company, who is always sales oriented. About the time, the first major customer expresses its dismay. Then the edict goes out, "Fix it. No matter what it takes."



- **To us as consultants, this is an all-too-common scenario in the wholesale distribution sector.**
- **To the buyers and all the other support staff, this is downright frustrating.**
- **To the owners, it is a huge inefficiency that clearly affects both the top and bottom lines of the income statement.**

## The Wind Changes.... Again!

**W**ith this statement, the buyer's hands are set free. Customer service is now king again. For this brief time, the buyers can order without worrying about trying to optimize freight, or keeping inventories low or gross margin (buying on deal vs buying now). In some cases, the warehouse manager is allowed to pay overtime or bring on another shift to make sure all inbound goods are received on their due dates.

Again, the vendors with the shortest Lead Time and Order Cycles lead the way to improved customer service. The problem is perceived to be fixed and upper management's attention moves on to other problems and initiatives. Again, as the days and weeks pass, more product continues to be received, and the inventory level grows, in most cases back to about the same level that the CFO didn't like a few months earlier and then this cycle begins all over again.

To us as consultants, this is an all-too-common scenario in the wholesale distribution sector. To the buyers and all the other support staff, this is downright frustrating. To the owners, it is a huge inefficiency that clearly affects both the top and bottom lines of the income statement.

The lesson is to prioritize and then convey the company's priorities. What is the top priority to optimize?

- Customer Service
- Inventory
- Freight
- Gross Margin
- Labor Costs

This is an impossible task within any distribution organization if it does not realize that each department has its own priorities. Using the right buying systems addresses every department's concern. More importantly, it positions a company to achieve its profit goals while delivering efficiency to the buyers. ◀



# About Herlitz Inventory Management

## Delivering Innovative Solutions

The primary goal at Herlitz Inventory Management is to deliver a Supply Chain solution to better serve our customers and build financially stronger companies, delivering the optimal financial results. This is not limited to optimizing inventory and profits, but to also provide insights into your business that help you become more purchasing savvy, improving your competitive position.

We have leveraged our decades of customer experience, understanding of buyer's informational needs, and scientific knowledge of forecasting and replenishment to create a system that is easy to execute so productivity greatly increases. We provide the most user-friendly, effective purchasing application, expertly delivered professional training, and superior services to support our long term partnership.

A client's success is a product of superior customer engagement. At Herlitz IM, we are customer obsessed! We are adaptable, relevant, and appreciate the opportunity to work with our customers for their insight to continue to develop our best of breed solutions.

Growth is born from innovation—we work with our customers to co-develop new ideas and methods, incorporating them into the base product. Customer insights reveal what people want and need. Your insights are essential to the continued improvement of HIMPACT for all customers. We know that we succeed only when our customers succeed.

Along with our customized training and the best support possible, we want to enhance your business by making it more profitable, supporting you to provide your customers what they want, when they want it.

## Our Vision

Optimize & Deliver the right products to the right place at the lowest possible cost, allowing your team to meet or exceed customer expectations.

HIMPACT, a best-of-breed solution for Wholesale and Retail, provides additional insight and value beyond your legacy or ERP system. Our company's decades of experience with hundreds of customers, provides us the knowledge, insight, and experience to lower inventory, while improving sales and profitability.

- Improve Supply Chain Execution
- Optimize Inventory and Costs
- Increase Buyer Productivity
- Improve Customer Service

## Herlitz Inventory Management, Inc.

485 Massachusetts Avenue  
Suite 300  
Cambridge MA, 02139

Phone: 1.617.871.9001  
Fax: 1.617.440.7550  
Email: [info@herlitzim.com](mailto:info@herlitzim.com)