

An Executive Guide to Profitable Inventory Management

Finding Success in
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.

However, effective buying is the best way to improve profitability, and we've proved it repeatedly since 1980.

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. Applying scientific inventory management principles to your business, will.



WHAT EXACTLY IS SCIENTIFIC INVENTORY MANAGEMENT?

Before computers and application software, inventory was tracked and replenishment was conducted 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.

Forty years of software evolution have 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.

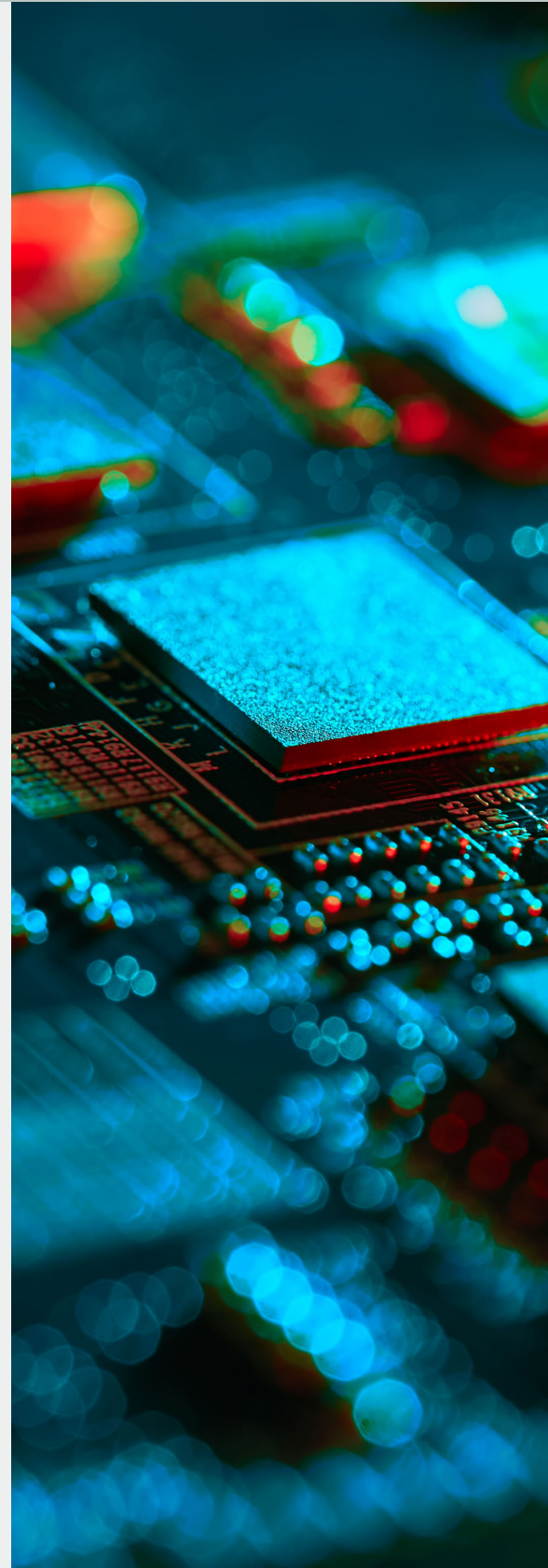
Today’s computers support daily or multiple updates and sophisticated analytics that improve results and efficiency. These improve profitability, increase service, reduce inventory levels, and boost buyer productivity.

There are many factors used in determining what to buy, how much to buy, and most importantly, when to buy:

- 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

If you want to understand the math and how it is applied, we will be happy to walk you through it. But like brain surgery, most don’t care about the details of how it happens—only that it happens if they need it.

The biggest problem we’ve found is that the people who would benefit the most from using 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 AND WHY ARE THEY SO IMPORTANT?

In some businesses, buying is viewed as a necessary evil, done mainly to fill holes on the shelves. 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. The people managing that inventory make decisions far beyond mere buying and replenishment—they're managing a huge, diversified portfolio.

The irony is that buyers are more like investors for the company. They have a direct impact on the profitability of the products you sell.

Every buyer, in one way or another, goes through a major [seven-step decision-making process when building purchase orders](#).

These steps include:

1. Demand Forecasting
2. Lead Time Forecasting
3. Order Policy Analysis
4. Service Level Analysis
5. Replenishment Analysis
6. Special Order Analysis
7. Order Validity Analysis

Unfortunately for your profitability, many buyers try to do these seven steps simultaneously. 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.

Therefore, 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 successfully training over 5,000 buyers globally.



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 and complete solution?

Most ERP systems are broad in scope but shallow in functionality and are unsophisticated in their inventory and replenishment functions. They don't recognize inventory as an investment, a profit center, or 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 rather than giving buyers the information and tools needed to maintain service or exploit profit-maximizing opportunities.

WHAT IS WRONG WITH “TURNS” AS AN INVENTORY POLICY?

If you're using “turns” as your only measurement of inventory management success, you are missing out on valuable discount brackets, forward buying opportunities, and economic buying cycles.

While these can impact your turn rate, they will positively affect your ROI and bottom line.

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



CAN OUR PEOPLE HANDLE A SOPHISTICATED AND 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 wasted if they are 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 to achieve your company's strategic goals and objectives. That is why we created Herlitz Inventory Management and the HIMPACT system.

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 on specific needs and implementation, Herlitz products are seamlessly integrated 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 1,000 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 discussing how to make your next shareholder meeting the best it has ever been.

[Contact us](#) to schedule a demo or to ask any questions you may have.

