

Inventory Optimization

One of the key industry phrases of 2019, Inventory Optimization is seen as a must-have for forward-thinking businesses. We asked Andrew de Bray, MD of multi-faceted consultancy Factum, to tell us what IO is and why it matters.

Start by giving us a broad definition of inventory optimization within logistics.

Inventory optimization is the process of determining the proper level of stock to enable successful service of customer obligations, while also minimizing the business capital tied up in that stock and the cost of waste or loss as a result of being unable to sell items in stock.

Whether a producer, wholesaler, or manufacturer, if you deal with any physical item, this is one of the key problems to solve.

Too little stock reduces funds tied up in inventory, but it also increases the risk of not meeting your orders. The inverse is true with too much stock: it means more spend on inventory but less risk with order fulfilment, along with the added risk of waste through ageing or damage.

Why does inventory optimization matter now?

Servicing customer demand is more important than ever, as buyers continue to expect greater convenience. Inventory optimization is becoming less about what is good for the business and more about what is good for the customer.

At one time, it was acceptable to hold some stock and to have reasonable logistics delays with restocking and shipping.

The move to 'Just in Time' drove stock optimization to a different point, with all businesses in a supply chain aiming to hold minimal stock and focusing to deliver items quickly and continuously to their customers. This drove inventory costs down but left businesses vulnerable to a break in the supply chain.

Now, we are in a different age again. A more demanding customer base is being paired with massive leaps forward in terms of technology capability and logistics operational excellence. It is not a case of one driving the other. In some cases, businesses are introducing new technology to help attract customers. In others, customer demands are shifting and business solutions have to be developed to keep up. In any event, the customer is at the centre.

Business and consumer customers have more suppliers to choose from and higher expectations. In store or online, customers want to be able to select their item, arrange or make payment, and receive it as soon as possible, whether it's the latest smartphone, a garden hose, or live tropical fish requiring a host of storage and environmental changes. They also want a no-hassle return policy, either because the item is faulty or because they just dislike it. And they have the tools and channels to publicly rate and comment on service, further increasing the pressure on suppliers to perform to perfection.



Stock optimization matters as it is becoming one of, if not the key, success factors to businesses who distribute a product or item. It is at the heart of customer satisfaction, whether you are a billion-pound supermarket chain, or a one-person home-based business. Your customers take receiving goods seriously, so you should take having and delivering the goods seriously.

What is Factum's role in all this? How would I as a business notice a difference/improvement in terms of my day-to-day activities?

Factum can help businesses visualize and map their strengths and weaknesses in this area, along with the data points and analysis needed to improve inventory management. In addition, Factum's knowledge and experience with tools that aid stock optimization—such as ERP, WMS, Order Management, Web technologies—provide quick, practical, successful solutions to business challenges inhibiting good stock management.

Factum takes the learnings from previous engagements and applies them to the business from within. This gives us the foresight to quickly and adeptly identify and understand the business' challenges, even if the business is unclear themselves. It also accelerates the ability to identify, develop, and apply solutions, as well as makes those solutions much more relevant and tailored.

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