Catalog Success

Inventory Management: An Integrated, Disciplined Process ...

George Mollo

We all recognize that inventory usually is one of our largest assets. Yet many of us don't give it the importance or priority it deserves.

Inventory management impacts almost every area of the company and can help contribute substantial hidden profits or losses depending on how it's managed. The effect of poor inventory management often is hidden when business is good, and although quite evident when business is bad, businesses don't have the resources at that point to address the issues.

Unfortunately, this cycle is repeated far too often. Establishing a sound inventory management process within the ongoing company culture will cushion the negative impacts when business is soft.

Effective inventory management is an integrated and disciplined process that must be part of a company's culture. Although most companies have some planning processes in place, inventory management isn't formalized or closely controlled to achieve maximum results. In addition, to be successful it must be embraced and followed by all levels of management.

Middle of the Wheel

To get an idea of inventory management's impact, picture a bicycle wheel. All of the spokes at some point intersect in the middle hub; consider inventory management as that hub. To have the most efficient impact on the business, inventory management must interact with every other department in the company.

As the owner or president of a company, you ideally want constant communication between all departments. Unfortunately most companies, regardless of size, seem to naturally create "silos" and thus limit open cross-departmental communication. Inventory management is one of the few departments in a catalog company that, to do its job effectively, must regularly communicate with all other departments.

Consider how your inventory management department should interact with other departments:

1. Marketing: Regardless of product lead times, for most catalogers the planning cycle should begin approximately 10 to 12 months earlier than the catalog drop. This includes initial circulation and demand plans developed by marketing. Inventory management works with marketing throughout the cycle, creating a checks and balances system and reinforcing the top line plan.

Develop a partnership to ensure that marketing is informed of changes that potentially impact marketing forecasts, such as changes in average price offered (which will impact average order value). In a given season, a solid working relationship between inventory and marketing reinforces demand forecasts for improved and confident re-buy strategies.

2. Merchandising: When harmoniously working together, these two areas are a winning combination. But many catalogers create an adversarial relationship between the two departments. While I'm a strong advocate of having separate reporting structures for merchandising and inventory for control reasons, many catalogers physically separate these two.

To make matters worse, catalogers often set P&L responsibilities that are by nature conflicting. Best industry practices recommend that inventory and merchandising jointly are responsible for company fill rates and overstock levels, reinforcing a team approach.

This team approach can further be reinforced in developing vendors relationships. Too often vendors provide differing lead times to buyers and inventory control personnel. When these areas work together, vendors realize that both departments speak with one voice. That improves information flow and accuracy with receipt planning and fill rates.

3. Finance: Inventory management is the "merchandise banker" and should control merchandise spending. Communication with finance ensures that spending controls are in place and inventory levels are properly balanced. Communication with finance, including accounts payable, improves outside vendor relations as inventory management is made aware of potential cash flow constraints on the season.

4. Creative: Having inventory management involved in catalog preproduction improves the accuracy of information and builds yet another partnership between departments.

Inventory management alerts creative and merchandising of copy errors in descriptions or pricing, and likely fill rate shortfalls based on creative reviews.

I established a catalog "walk-through" before final copy corrections were due, in which representatives from most departments would review the catalog tacked to a wall in pagination sequence.

These few extra weeks of lead time can make a big difference in final fill rate and overstock results.

5. Distribution Center (DC): Communication in this critical relationship should be daily. Steady information flow on item specs, receipts, back-orders, quality control issues and returns is the way to ensure that inventory can flow expeditiously, both inbound and outbound through the DC.

Many companies' DCs may not be located within convenient distance from the inventory control personnel; however, whenever I've had inventory management personnel tour DCs and meet the staff, inventory management approaches the position aware of ways to improve DC efficiencies — a win-win.

6. Contact Center: Similar to the DC experience, whenever inventory management personnel can listen to inbound order calls and customer service calls, the experience will bring a heightened awareness of the contact center's relationship to inventory management.

Inventory management then becomes the first point of contact for the contact center to resolve inventory issues. By default, the contact center should alert inventory management of potentially larger inventory-related issues.

Daily Communication is Required

Other departments have occasional cross-departmental communication, but effective inventory management requires near-daily communication with all.

Inventory management certainly can make or break a company. Constant communication and understanding the key role inventory management can have on bottom line results is the start. Measuring key metrics — or key performance indicators — is necessary to ensure the company stays on track.

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