

Q+A

A conversation with Herb Shields,
president, HCS Consulting. by Jim Romeo

INVENTORY CONTROL FOR NONEXPERTS

Q: What about inventory control should concern electrical distributors now that may have been less of a concern in the past?

A: Inventory control is a vital function in making sure that a distributor has the right products and the right quantities in stock. Product sourcing has become more global, and lead times and inventory costs have increased. Improving the inventory control process will allow a distributor to manage such issues without carrying more inventories.

Q: What are some precepts of inventory control that managers of electrical distributorships should know?

A: There are two fundamentals: inventory accuracy and inventory turnover. Accuracy is critical to ensure that the right items and quantities are in stock and should be measured with a cycle-count program. If the accuracy level is less than 95%, the distributor cannot expect its people and systems to deliver proper customer service. Inventory turns should be measured at the product line and item level, and inventory decisions made at those levels rather than on a total company basis. Another principle to keep in mind: Inventory will fill available space. Building another warehouse or renting temporary storage should be the very last option. It is much better to find a way to maintain service levels without adding inventory.

Q: How has technology improved inventory control? What role will it play in the future of inventory control?

A: While technology has been a key enabler of improvements in inventory management, it's people who make the critical inventory decisions, so they must be well trained in what-

ever technology the company employs. Enterprise resource planning systems are available and cost-effective even for small distributors and, if properly utilized, can improve the results achieved in inventory control. One of the big technology opportunities for the future is improvement in demand planning, which should result in carrying fewer inventories while maintaining service levels. In general, technology improvements should help a distributor lower its operating expenses and improve the visibility of supply and demand throughout the entire supplier-to-customer process. However, the financial payback should be identified before investing in any new technology.

Q: Looking forward, what will be some of the greatest concerns of inventory control, and what can be done now to prepare?

A: At least for the next few years, inventory managers should be aware of the viability of major suppliers and work with purchasing and finance to mitigate any risks. Customer expectations will continue to increase, so improvement in the inventory control process will be fundamental to maintain competitiveness. Lowering the total acquisition costs for products, which includes transportation and inventory carrying costs, will be more important than just the lowest unit price. Finally, people need the proper skills and training to deal with technology and the e-business environment.

Romeo, a freelance writer in Chesapeake, Va., can be reached at JimRomeo.net. Shields is president of HCS Consulting (hshieldsconsulting.com) and a principal with the Distributors Advisory Board. He can be reached at 847-498-9510 or hcsconsnb@aol.com.

1181 Corporate Lake Drive
Saint Louis, Missouri 63132

P: 314.991.9000 F: 314.991.3090

www.TedMag.com

The above article was published in the November 2009 issue of "tED" magazine, which is published by the National Association of Electrical Distributors (NAED). For more information or to subscribe to the digital edition, visit tedmag.com. Learn more about NAED at naed.org.