

TABLE OF CONTENTS

PREFACE TO THE FIFTH EDITION.....	i
INTRODUCTION - WHAT IS THE PURPOSE OF GOOD INVENTORY MANAGEMENT?.....	iii
CHAPTER ONE – FOCUS ON INVENTORY	1
UNDERSTAND WHY YOU ARE IN BUSINESS	3
IMPLEMENT THE TRIANGLE OF COOPERATION AND RESPONSIBILITY	4
EVERY EMPLOYEE IS AWARE OF THE COST OF BAD INVENTORY MANAGEMENT	6
PROTECT YOURSELF AGAINST THEFT.....	8
MAINTAIN A CLEAN PHYSICAL PLANT	13
RECORD ALL MATERIAL LEAVING THE WAREHOUSE.....	14
USE TECHNOLOGY TO FACILITATE INVENTORY DISBURSEMENTS.....	16
YOUR WAREHOUSE MANAGER SHOULD BE A LEADER.....	16
PUT YOUR BEST TECHNICAL PEOPLE IN RECEIVING	17
ESTABLISH AN APPROVED STOCK LIST FOR EACH WAREHOUSE.....	17
USE RANKING BY HITS TO SEPARATE STOCK FROM STUFF.....	18
HOW DO YOU HANDLE NON-STOCK ITEMS IN THE FUTURE?	21
ADDING PRODUCTS TO YOUR APPROVED STOCK LIST	22
CHAPTER TWO – GET YOUR (WARE)HOUSE IN ORDER	25
ASSIGN AND USE BIN LOCATIONS	25
FIXED BINS	28
LOCATING ITEMS IN A WAREHOUSE	29
ZONE AND WAVE PICKING	32
RANDOM BINS	34
USING A COMBINATION OF MATERIAL STORAGE METHODS.....	36
THE MOST APPROPRIATE MATERIAL STORAGE SYSTEM.....	37
HOW MUCH SPACE DO YOU ASSIGN TO AN ITEM?.....	39
HOW MUCH ROOM DO YOU NEED IN A WAREHOUSE?	39
BAR CODING IMPROVES ACCURACY AND PRODUCTIVITY	41
PAPERLESS WAREHOUSES	43
VOICE PICKING SYSTEMS.....	43
PICK TO LIGHT SYSTEMS.....	44
RADIO FREQUENCY IDENTIFICATION (RFID) BAR CODES	44
EVALUATING THE COST OF TECHNOLOGY	44
ADOPT LEAN DISTRIBUTION PRINCIPLES.....	46
CYCLE COUNT YOUR PRODUCTS AND PROCESS TRANSACTIONS	48
CONCLUSIONS.....	51

CHAPTER THREE – DEMAND FORECASTS AND USAGE.....	53
MAINTAINING PRODUCTS WITH SPORADIC USAGE.....	54
FORECASTING DEMAND FOR ITEMS WITH RECURRING USAGE	59
HOW DO YOU DETERMINE THE DEMAND FORECAST.....	62
PAST USAGE	63
USAGE AND KITS	69
UTILIZING USAGE TO FORECAST DEMAND.....	72
DIFFERENT FORECAST FORMULAS FOR DIFFERENT PATTERNS OF USAGE	82
DETERMINING THE BEST FORECAST FORMULA FOR A PARTICULAR ITEM.....	84
AN ALTERNATE METHOD OF CALCULATING THE FORECAST ERROR.....	85
OTHER FORECASTING METHODS	86
WHY ISN'T DEMAND BASED ON ACTUAL CUSTOMER REQUESTS?.....	87
ADJUSTING USAGE FOR UNUSUAL SITUATIONS	88
FUTURE USAGE THAT CANNOT BE PREDICTED BY PAST USAGE OR TRENDS	98
COLLABORATIVE PLANNING FORECASTING AND REPLENISHMENT (CPFR).....	99
COLLABORATIVE FORECASTING WITHIN YOUR ORGANIZATION	102
CUSTOMER RELEASE ORDERS.....	103
FORECASTING FAR INTO THE FUTURE.....	104
WEEKLY FORECAST PERIODS.....	104
WHO WILL USE THE FORECAST	105
MANAGEMENT DRIVEN VERSUS DEMAND FORECASTS.....	106
CHAPTER FOUR - ANTICIPATED LEAD TIMES & SAFETY STOCK	107
LEAD TIMES AND VENDOR SHIPMENTS	108
COMPONENTS OF THE ANTICIPATED LEAD TIME	109
ADVANTAGES OF MANUALLY MAINTAINING ANTICIPATED LEAD TIMES.....	110
DEALING WITH UNUSUAL LEAD TIMES	110
OTHER LEAD TIME SITUATIONS	112
LONG LEAD TIMES ARE NOT A PROBLEM, INCONSISTENT LEAD TIMES ARE	113
SAFETY STOCK	115
HOW TO MAINTAIN SAFETY STOCK.....	119
HOW MUCH SAFETY STOCK DO YOU NEED?	123
PRODUCTS WITH INCONSISTENT LEAD TIMES	125
ITEMS THAT REQUIRE LESS SAFETY STOCK	128
USING RESIDUAL INVENTORY TO DETERMINE IF SAFETY STOCK IS ADEQUATE... 	129

CHAPTER FIVE - THE ORDER CYCLE AND THE LINE POINT	131
THE ORDER CYCLE	131
CALCULATING ORDER CYCLES FOR NON-SEASONAL VENDOR LINES.....	133
CALCULATING ORDER CYCLES FOR SEASONAL VENDOR LINES.....	133
USING MANUAL ORDER CYCLES.....	135
THE LINE POINT	135
ADDITIONAL SAFETY STOCK FOR AN ORDER CYCLE	138
MINIMUM AND MAXIMUM ORDER CYCLES	139
CHAPTER SIX - THE ECONOMIC ORDER QUANTITY	143
RECOGNIZE THE TOTAL COST OF INVENTORY.....	144
THE REORDERING COST	144
THE INVENTORY CARRYING COST.....	147
THE TOTAL COST OF INVENTORY	148
THE ECONOMIC ORDER QUANTITY FORMULA.....	149
THE IMPROVED EOQ FORMULA	150
WORKING WITH THE EOQ FORMULA	151
LIMITS OF THE ECONOMIC ORDER QUANTITY FORMULA.....	154
THE EOQ AND SEASONAL ITEMS.....	155
THE IMPORTANCE OF CALCULATING THE REORDERING & CARRYING COST	156
WHEN TO USE EOQ REPLENISHMENT	157
ORDERING TO MINIMIZE TOTAL INVENTORY INVESTMENT	158
CHAPTER SEVEN - OTHER REPLENISHMENT METHODS	161
MAXIMUM STOCK LEVEL AND JUST IN TIME REPLENISHMENT	161
NEW STOCK ITEMS.....	164
PRICE BREAK PURCHASING BY ITEM.....	172
PRICE BREAK PURCHASING FOR A VENDOR LINE.....	175
VENDOR MANAGED INVENTORY.....	177
CHAPTER EIGHT - YOUR INVESTMENT IN STOCK INVENTORY	183
SET APPROPRIATE GOALS FOR YOUR BUYERS.....	183
CUSTOMER SERVICE LEVEL.....	183
CUSTOMER SATISFACTION ANALYSIS.....	184
RECORDING OUT OF STOCK SITUATIONS.....	185
ANALYZING THE CUSTOMER SERVICE LEVEL AND STOCKOUTS	187

TURN/EARN INDEX.....	190
GROSS MARGIN RETURN ON INVESTMENT (GMROI).....	190
ADJUSTED MARGIN.....	191
IS IT BAD OR UGLY?	194
CALCULATE YOUR IDEAL INVENTORY INVESTMENT.....	196
PROJECTED AVERAGE QUANTITY OF ITEMS WITH SPORADIC USAGE.....	196
PROJECTED AVERAGE QUANTITY OF ITEMS WITH RECURRING USAGE.....	197
MAXIMUM STOCK LEVEL AND JIT ITEMS.....	198
NEW STOCK ITEMS.....	199
POTENTIAL INVENTORY TURNOVER.....	199
PRUNING YOUR APPROVED STOCK LIST.....	200
STOCKING DEAD STOCK AND SLOW MOVING ITEMS	201
DEAD INVENTORY	202
SLOW MOVING INVENTORY.....	202
EXCESS QUANTITIES OF NORMAL STOCK ITEMS	203
THREE WAY RANKING	205
DAY'S SUPPLY OF INVENTORY.....	206
DOES EVERY ITEM HAVE TO BE STOCKED IN EVERY BRANCH?	206
THE LIQUIDATION OF UNWANTED INVENTORY.....	208
INVENTORY LIQUIDATION IS A 12-MONTH JOB	211
RESULTS TAKE TIME.....	212
CHAPTER NINE - THE REPLENISHMENT PROCESS.....	213
ANALYZE CURRENT REPLENISHMENT NEEDS.....	213
ASSIGN NON-STOCK PRODUCTS TO A REPLENISHMENT SOURCE	214
ANALYZE OVERALL REPLENISHMENT NEEDS.....	215
SUGGESTED REPLENISHMENT INQUIRY/REPORT	216
SUGGESTED TARGET PURCHASE ORDERS	216
CRISIS PREVENTION ORDERS.....	218
SUGGESTED ORDER QUANTITY FOR CRISIS PREVENTION ORDERS	219
INCREASE A SUGGESTED TARGET ORDER TO MEET VENDOR REQUIREMENT	221
DECREASE A SUGGESTED TARGET ORDER TO MEET VENDOR REQUIREMENT	222
TRANSFER ORDERS	222
ONE-STEP AND TWO-STEP TRANSFERS.....	224
ASSEMBLY ORDERS.....	225
MANUFACTURING REQUIREMENTS PLANNING (MRP).....	226
DISTRIBUTION REQUIREMENTS PLANNING (DRP).....	227

APPROVE SUGGESTED ORDERS.....	230
INTRA-COMPANY BUYING GROUPS.....	230
HOW MUCH IS FREE FREIGHT WORTH?	231
EARLY WARNING NOTIFICATIONS.....	233
CHAPTER TEN - PHYSICAL INVENTORY AND CYCLE COUNTING.....	237
WHY IS A PHYSICAL INVENTORY NECESSARY?.....	237
THE KEY TO A GOOD PHYSICAL INVENTORY IS PLANNING.....	237
CONDUCTING THE ACTUAL COUNT.....	240
THE ADVANTAGES OF CYCLE COUNTING	243
OVERCOMING CYCLE COUNTING CHALLENGES	247
INTERPRETING YOUR DISCREPANCIES	249
PAY PEOPLE TO PROTECT YOUR ASSETS.....	253
SUMMARY - WHAT DO YOU DO NOW?	255
APPENDIX A – CALCULATING THE CARRYING COST PERCENTAGE	259
APPENDIX B – CALCULATING THE COST OF REORDERING INVENTORY	263
APPENDIX C – INVENTORY POLICIES AND PROCEDURES MANUAL GUIDELINES.....	265
NEW ITEM BUDGET	266
DECISIONS CONCERNING STOCKING SPECIFIC NEW PRODUCTS	266
SEPARATE ITEMS WITH RECURRING AND SPORADIC USAGE	269
FORECASTING FUTURE DEMAND OF EXISTING PRODUCTS.....	269
VERIFYING THE ACCURACY OF LEAD TIMES.....	271
DETERMINING SAFETY STOCK QUANTITIES	271
VENDOR TARGET ORDER REQUIREMENTS	272
WHAT REPLENISHMENT PARAMETERS ARE MAINTAINED FOR EACH ITEM?	272
WHEN ARE REPLENISHMENT ORDERS ISSUED	273
EXPEDITING.....	276
RECEIVING	276
INSPECTION/PROCESSING	280
MAINTAIN A CLEAN PHYSICAL PLANT	280
HOW IS STOCK MATERIAL STORED IN YOUR WAREHOUSE.....	281
CONSIGNED INVENTORY FROM A VENDOR	284
CONSIGNED INVENTORY FOR CUSTOMERS	284
FILLING CUSTOMER ORDERS.....	285
FILLING OUTGOING TRANSFERS	286
SAMPLES PROVIDED TO CUSTOMERS	287

INVENTORY ADJUSTMENTS	288
CYCLE COUNTING	288
FULL PHYSICAL INVENTORY.....	290
CUSTOMER RETURNS	291
RETURNS TO VENDOR.....	292
HANDLING BROKEN CARTON QUANTITIES.....	293
PRE-ASSEMBLED KITS.....	293
BUILD TO ORDER KITS.....	293
INTRA-WAREHOUSE TRANSFERS	294
PROCEDURES FOR PACKING AND SHIPPING.....	294
OPEN STOCK INVENTORY	294
INVENTORY COSTING	295
LEADING WAREHOUSE EMPLOYEES	295
HOW DO YOU MEASURE INVENTORY PERFORMANCE?.....	298
HOW DO YOU MEASURE INVENTORY ERRORS?	298
APPENDIX D: A TEST OF YOUR KNOWLEDGE OF EFFECTIVE INVENTORY MGMT.....	301
GLOSSARY	307
SELECTIVE INDEX	313