



# Three Steps to Profitable Inventory Management

## How Best-in-Class Business Networks Maintain Control

In the last ten years manufacturers have ridden the roller coaster of business cycles. During the decade they saw the dot-com crash of 2001, enjoyed a mini-economic boom during the middle of the decade and then bore the brunt of an unprecedented financial crisis in 2008-2009. Even as the economy now shows mild recovery, manufacturers still face very uncertain demand. Intelligent inventory management is one of the critical functionalities needed to successfully navigate these unpredictable times. However, the sprawl and complexity of supply chain networks—exacerbated by outsourcing, off-shoring and short product life spans—makes it challenging to achieve the visibility and control needed to reliably meet customer demand.

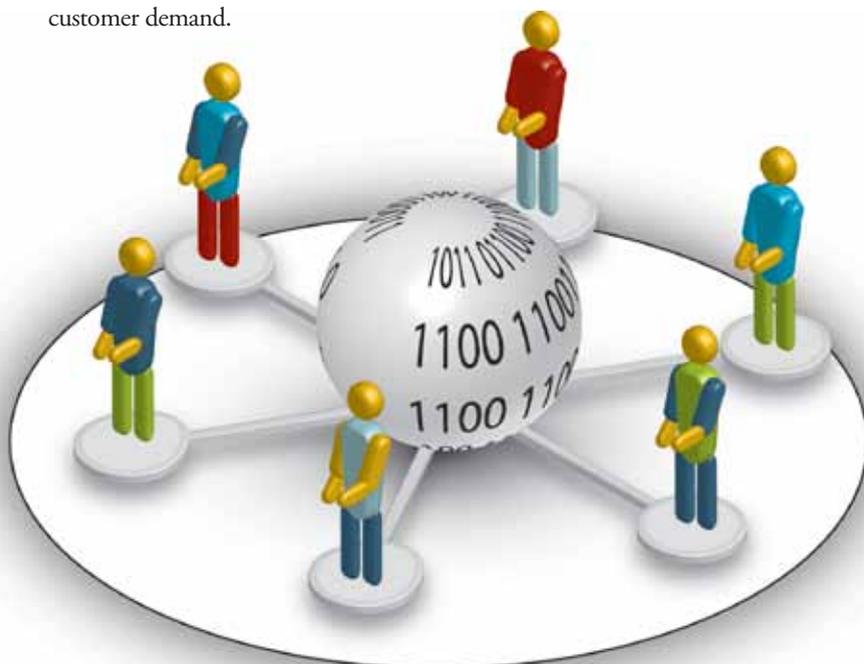
What separates best-in-class supply chains from industry laggards is a commitment to continual operational improvement—often achieved through careful investments in technologies and services offering visibility, collaboration, and control across the extended business network. Incidentally, these are also the key capabilities needed to ensure more reliable, profitable inventory management.

The following sections outline a pragmatic, three-phase approach to establishing best-in-class inventory management capabilities, including real-time visibility, end-to-end collaboration, and intelligent inventory control across the network.



### Step One Real-Time Visibility: Connecting to All Partners in Your Network

In order to effectively manage inventory processes, data must be shared across all business partners—including suppliers, logistics providers, distributors, and customers. The initial step, then, is to establish real-time visibility by electronically connecting to partners along a single, multi-enterprise platform. Visibility allows companies to react to changes in the market by communicating with partners on demand and inventory information in real time. But with hundreds or thousands of trading partners spread across the globe, complete supply chain visibility is certainly no small feat for today's manufacturers. By implementing sophisticated B2B integration solutions, however, companies can gain visibility into channel, supplier, and even in-transit



inventories—enabling them to accurately monitor inventory levels and quickly respond to potential disruptions or upside.

The best connectivity solutions offer flexible integration options, ensuring that all supplier and channel partner systems are supported, regardless of technical maturity or size of partner. This enables partners working with different processes, systems, and protocols to connect with minimal overhead. On the buy side, real-time inventory visibility provides virtual access to supplier, internal, and VMI hub inventories, enabling companies to reduce inventory liabilities and improve supplier responsiveness. Real-time visibility on the sell side provides transparency across customers, partners, and internal sites, ensuring that supply is consistently flowing to the areas of greatest demand.

The bottom line is this: real-time visibility is the foundation for any sound inventory management program because it provides all supply chain parties with a true, dynamic picture of demand. Companies are able to more intelligently utilize working capital and eliminate stock outs, surpluses, and the need for “just-in-case” inventory. A shared view of demand also ensures improved risk mitigation and superior customer service.

### **Step Two** **End-to-End Partner Collaboration:** **Driving Efficiency and** **Responsiveness**

Once real-time electronic connectivity and visibility are established across all trading partners, the next step is to enable these partners to communicate and make decisions in response to demand/supply movements or disruptions. Real-time collaboration enables a spectrum of business-critical capabilities, including collaboration on min/

max inventory levels; mitigation of surpluses and stock outs; and automation of supplier replenishment programs, such as VMI or SMI—all crucial to maintaining a lean, cost-efficient supply chain.

Real-time collaboration is also critical to improving the flexibility, or “change agility,” of your supply chain operations. The ability to resolve issues in real time with the appropriate partners can be the difference in meeting on-time delivery or fulfillment requirements that dictate customer satisfaction. To be responsive, then, companies must maintain and extend collaborative capabilities to partners. To accomplish this, companies need access to technologies designed to both communicate with partners and integrate with their internal operational systems. These technologies should be flexible to partner or customer process requirements, particularly when companies are assuming the supplier role.

### **Step Three** **Intelligent Control across the** **Network**

The last phase of the inventory road map is establishing control across the network, which requires complete automation of inventory processes flowing across the business network. Companies with this level of automation can define end-to-end, rule-based inventory tracking and KPI monitoring, leading to actionable strategies for continuous supply chain improvement. For example, automated channel and supplier inventory monitoring provide alerts on impending shortfalls or



obsolescence in real time—enabling companies to respond to actual supplier and consumer behavior instead of relying on forecasts and predictions. Companies with visibility into inventory process performance across the multi-tier supply chain are also able to set inventory policies and continuously improve inventory programs. In this way, the supply chain becomes simultaneously more intelligent and hands-off.

Supply chain leaders pay close attention to inventory, not only as a key indicator of business health, but also as a way to derive competitive advantage. With a best-in-class inventory management program – based on real-time visibility, end-to-end collaboration, and control, and enabled by the right technology – they are able to improve their responsiveness to demand changes and lower costs by implementing real-time, fully automated inventory management operations. They also outperform their peers in inventory turns and sell through, while eliminating stock outs and surpluses to establish superior customer service.



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