



# INVENTORY AND SUPPLY CHAIN MANAGEMENT

Executive challenges  
and best practices



# Discover what's wanted from inventory and supply chain management solutions for small to midsize manufacturers and distributors in the era of cloud computing

Read this trend report to learn the results of a survey of executives and managers at manufacturing and distribution companies.

The introduction of enterprise resource planning (ERP) in the 1980s brought many small- to midsize manufacturers and distributors into the computer age. An ERP platform delivers a single source of truth for financials, production, supply and human resources operations for companies of all sizes.

Yet others of these same type companies, either because they have never embraced ERP or because they are bogged down with aged systems, are struggling with inventory management or supply chain systems that cannot keep up.

These companies struggle with an increasing number of stock-keeping units (SKU). They find themselves in understocked or overstocked positions. And they lack the metrics needed to optimize inventory. Ultimately what they need is real-time visibility across the supply chain.

CFE Media & Technology, publisher of *Control Engineering* and *Plant Engineering* magazines, recently partnered with cloud ERP provider Oracle NetSuite to survey its readership. It focused on gathering responses from small- to midsize manufacturers and distributors with revenues less than \$200 million about their attitudes towards inventory management.

The results shine a light on the key inventory challenges and issues they face on a day-to-day basis and the best practices these leaders are embracing to keep pace with the needs of complex supply chains.

These businesses are motivated to improve the management of information needed to optimize their operations and improve reliability of its inventory management and supply chain processes; however, for many manufacturers and distributors, getting real-time access to critical information remains challenging.





# BUSINESS CHALLENGES

Small- and midsize companies often don't know what they don't know. Survey respondents do recognize that they face a range of issues related to inventory management. Many small businesses can't track inventory, even manually.

Situations arise where expenses are incurred or sales are lost due to inadequate inventory control practices that culminate in spoilage, lost warehouse goods or out-of-stock positions. Frustration over out-of-stock or backordered items is high on the list of customer service complaints.

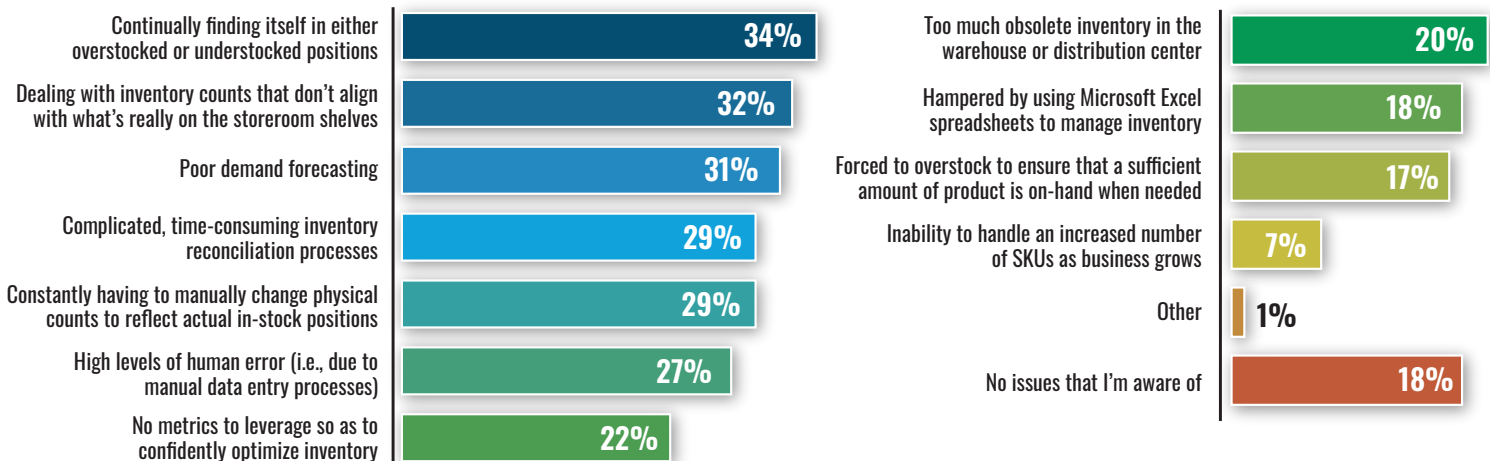
It's not just about avoiding errors. According to David Pyke, co-author of *Inventory and Production Management in Supply Chains* and professor of operations management at the University of San Diego, "owners of small and emerging businesses would be stunned to see how much help they can get and money they can save by wisely managing

their inventory. Many small businesses are not rolling in cash, and much of their funding is tied up in their inventory. Good practices balance customer demand and management of inventory in the smartest possible ways."

Here are a few signs that poor inventory management might be limiting a manufacturing or distribution business:

- Frequent and time-consuming IT support is required for system updates and integration.
- Reporting is limited and not in real-time.
- An inability to customize the system to your business model.
- No supply chain forecasting or budgeting capabilities.

## Current Issues



# THE COMMUNICATIONS CHALLENGE



Survey results show that respondents face challenges in communicating with supply chain partners and customers. Having to deal with overly complex paperwork and processes is a communications challenge as well.

An inventory management solution isn't doing its job if too many communications are from angry customers asking where their order is or why it's wrong. It's no better when disillusioned suppliers clamor to get paid or complain about too many change orders.

Many small and startup businesses will work with systems like QuickBooks, but quickly find the software doesn't answer many of their most pressing questions. For example, those working with inventory often remain unaware of the full import of their decisions.

Good metrics for gauging customer satisfaction include service-level and on-time delivery

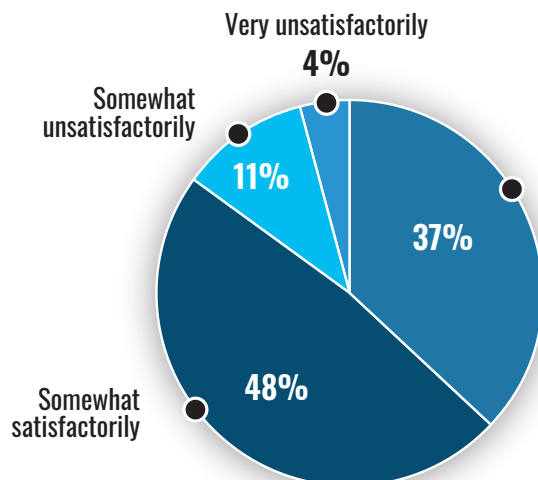
performance. On the supplier side, having a handle on accounts receivable and how long it takes to pay suppliers is where the rubber hits the road.

Having inventory and financial data on the same platform gives manufacturing and wholesale distribution companies the ability to plan effectively and execute predictably with customers, while minimizing labor costs and errors associated with manual reconciliation.

In short, real-time inventory visibility and reporting reveals a business' historic performance, how effectively it's operating today and what opportunities may be recognized in the future.

The power of NetSuite's dashboards is that information is presented in context. Standardized metrics steer production meetings. Quantification, and not some hunch, is used to set agendas. Trends can be discussed. Service levels can be addressed.

## Meeting Flexibility, Functionality, Scalability Needs



**My company's current inventory management practices and systems very satisfactorily meets our needs in terms of flexibility, functionality and scalability.**

# FLEXIBILITY, FUNCTIONALITY & SCALABILITY



Inventory management ensures an organization has supply available for its customers to buy, and at the same time doesn't face having too much product on hand or going out of stock.

Yet almost half of survey respondents (48%) say they are only somewhat satisfied with their inventory management solutions, while 15% say they are either very unsatisfied or somewhat dissatisfied.

An inventory management solution should have the flexibility, functionality and scalability to manage inventory automatically, reduce handling costs and optimize cash flow.

The most efficient inventory management strategy will always include a system that gives manufacturers and distributors real-time visibility into data points related to — but not limited to — purchases, reorders, shipping, warehousing,

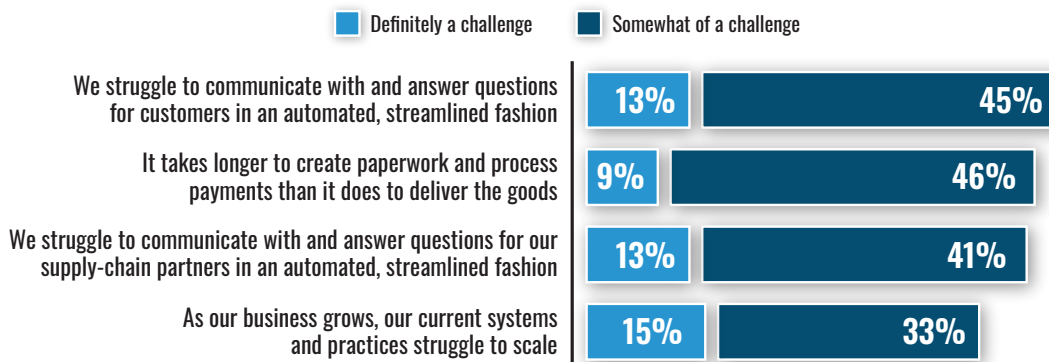
receiving, customer satisfaction, loss prevention and turnover.

To serve as the basis for decision making, it's important that inventory management and financial information are part of the same data set. Without a unified ERP system, it's too hard to find out what's happening across your organization in real time. You have limited visibility into key metrics. And you're unable to scale to multiple locations.

A scalable system is one that doesn't have to be redesigned to maintain high levels of performance when circumstances change, allowing inventory management strategies to evolve with your company.

No longer relegated to using legacy on-premise systems lacking flexibility, leading companies today leverage cloud-based platforms that adapt to business needs.

## Inventory Management, Supply Chain Challenges



# IF YOU DON'T KNOW YOUR NUMBERS, YOU DON'T KNOW YOUR BUSINESS

Fewer than half of survey respondents can confidently say what their company has on hand for each stock-keeping unit.

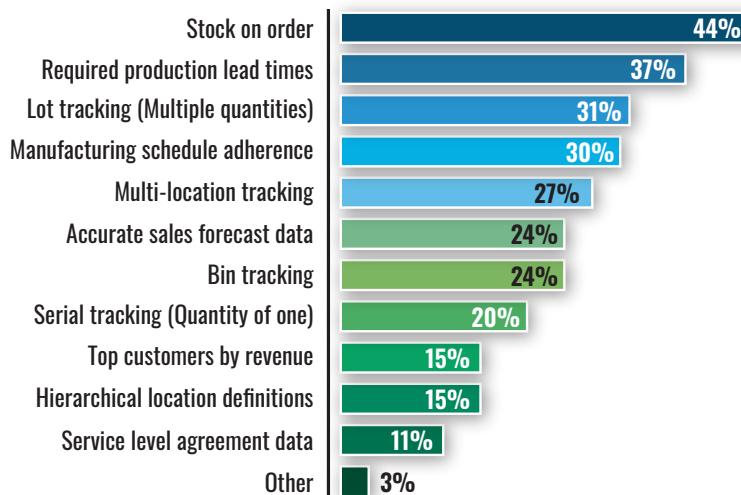
Basic ways of tracking inventory include manually logging inventory with a ledger or stock book; use of stock or bin cards; or simple spreadsheets. Nearly 15% of survey respondents say they struggle using Microsoft Excel spreadsheets to manage inventory. Keeping stock by these means is inadequate for an evolving business. Inefficiencies and time wasted on routine tasks, such as the monthly close, are no longer acceptable for making business decisions.

On the other hand, what fits the bill includes as follows.

Experts say inventory control and management is a continuous process. Forecasts for future months should be updated on a weekly basis. It's important to determine what stock is critical and ensure those items never go out of stock. To find the right balance, companies must know the total cost of inventory stock, including factors like warehousing costs and perishables, and weigh that against demand and the cost of stockouts.

Moreover, key performance data should be used to make faster, better decisions. Real-time visibility coupled with business insight are critical for success.

## SKU Data, Data Points Available to Consider



# ALL THE DIFFERENCE IN THE WORLD



Only a small percentage of survey respondents say they can holistically manage information across their business.

Then how do these companies record, track and process information? They do so with disparate systems, with managers forced to go from one system to another, or through resorting to phone calls and emails to find needed answers.

Startups may practice manual inventory control by some combination of email, spreadsheets and paper. Other startups and small businesses use disparate software from day one. Accounting staff may use one system for receivables and payables and sales uses another to enter in customer orders. Each application addresses only a specific functional need.

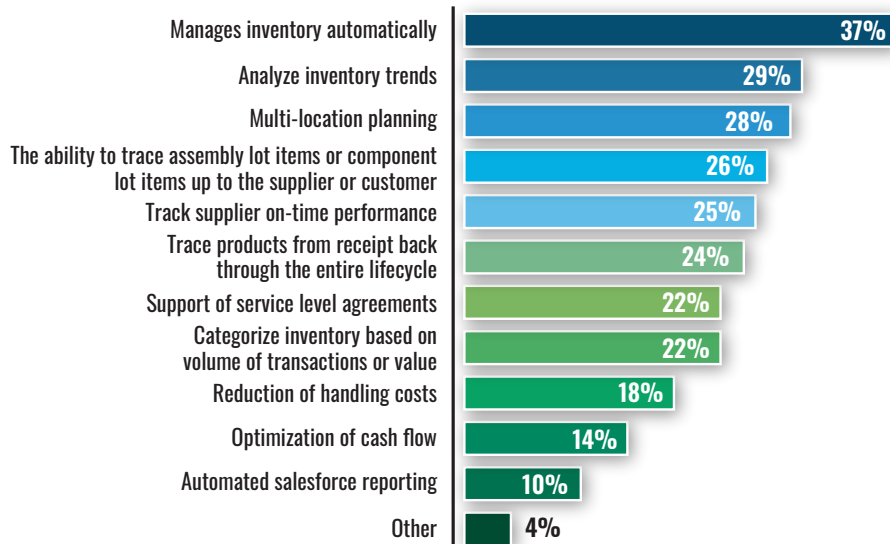
NetSuite’s cloud ERP platform is built on a single data source and supports every business

function. This single source of truth provides accurate real-time data, for everything from cash flow to receivables, inventory and payroll, giving businesses end-to-end reporting and analytics.

In contrast to disparate systems, a unified ERP platform ties inventory management to point of sale and updates stock levels automatically. Users drill down to order details. Reorder creation is automated. Analytics and reporting allow cost comparisons. Inventory is tracked not just in-house, but throughout the supply chain.

In an appropriately implemented cloud system, financial activities appear as soon as triggered. Real-time information coupled with anywhere-anytime access gives decision makers the agility and flexibility they need.

## Inventory Management System Capabilities





# PUT YOUR BEST HEADS IN THE CLOUD



Survey respondents indicate familiarity and interest in cloud technology.

Most notably, 41% are either already using or have begun implementing cloud systems.

Cloud computing empowers the anywhere, anytime business and optimizes collaboration across locations and even extending to partners, giving users the flexibility to work from anywhere with internet access.

Moving to the cloud reduces costs for managing and maintaining IT systems. The cloud provider furnishes upgrades, whether for improved functionality or revamped regulatory environments, without the business expending labor, dealing with hassles, suffering delays or having to rebuild customizations.

Gone are the troubles and costs of traditional on-premise software. NetSuite takes responsibility

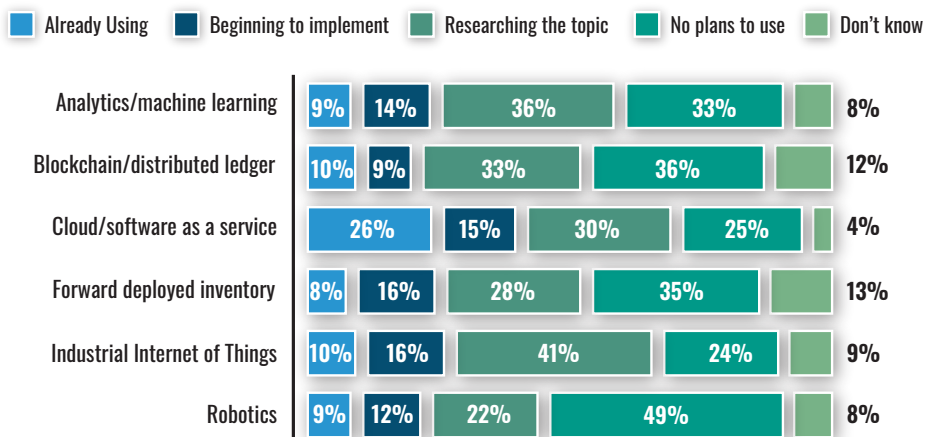
for its software and also supplies the underlying technical infrastructure needed to access the solution. This includes the server hardware and database maintenance and administration, document storage, technical upgrades and ongoing enhancements.

In the unlikely event of a disaster or crisis, data in the cloud is backed up and protected in a secure, safe location. Ease of reconnection minimizes downtime and productivity loss.

NetSuite's cloud ERP platform plays a critical role in helping businesses, especially manufacturers and distributors, expand easily and cost effectively, with the flexibility to change business models and remain aligned with market requirements.

A well-executed move to the cloud results in a better, more predictable cost of operation than is possible with disparate, on-premise systems.

## Technology Trends of Interest





# TO LOOK IS TO LIVE PROFITABLY



For the survey respondents, visibility and process optimization go hand in hand. Not only do manufacturers want to see what's happening as it happens, they want to know where the bottlenecks are.

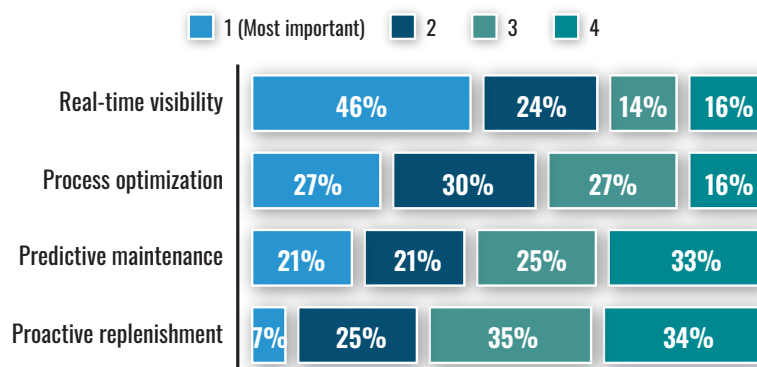
Procure-to-pay capabilities within NetSuite's cloud-based solution deliver real-time visibility with a single unified view of inventory, order and financial management, including inventory profitability and accounts payable aging.

The unified view provides to-the-minute visibility of interactions, transactions and relationships involved when manufacturers deliver product to customers. This accurate information improves customer and supplier relationships.

Key performance indicators can include inventory-turnover ratio, demand forecast accuracy, holding costs, average number of days to sell inventory, lead time, rate of return, gross margins by product, supplier quality index, perfect order performance and customer satisfaction.

KPI availability supports developing leaner inventory approaches that reduce levels while minimizing stock-outs. Good managers watch their inventory turns and are enabled with real-time data to form strategies to meet customer demand, despite demand fluctuation, reduce inventory costs and mitigate high working capital levels.

## Company Goals for Digital Supply Chains



# CLOSING THOUGHTS

The survey results identify common themes for companies that are either dissatisfied with their current systems and strategies or are looking to what's next for their inventory management solutions. The larger issue, while it may originate in questions about inventory management, is how you can run your business based on information and not gut instinct.

Inventory and supply chain management issues impacting production and distribution remain at the heart of it, but it involves much more. These are the same issues that must be addressed by any company seeking to:

- Kickstart or overhaul its ecommerce approach.
- Develop new product lines and distribution partners.
- Promulgate a leaner inventory approach that reduces stocking levels while minimizing stock-outs.
- Drive costs out of the manufacturing process.
- Expand into new geographies.

## Let the data speak

Small to midsize manufacturers and distributors taking the survey struggle to communicate effectively with customers, suppliers and within the business. More than half say that it takes longer to create paperwork and process payments than it does to deliver the goods.

More than 30% of respondents say they struggle with:

- Continually finding themselves in either overstocked or understocked positions.
- Dealing with inventory counts that don't align with what's really on storeroom shelves.
- Constantly having to change physical counts to reflect actual in-stock positions.

More than 20% of respondents say they struggle with:

- High levels of human error.
- No metrics to leverage to confidently optimize inventory.

- Too much obsolete inventory in the warehouse or distribution center.
- Poor demand forecasting.

The top data or data points available to take into consideration are stock on order (44%), required production lead times (37%), and multi-location tracking (31%). These companies are lacking some essential data.

Only 29% of respondents say their current inventory management system provides analyzed inventory trends and automatically manages inventory. Only 28% say these systems are equipped for multi-location planning and abilities to trace assembly lot items or component items up to the supplier or customer.

## The single source of truth

Having a single source of truth eliminates the time employees spend looking for answers to customers' and suppliers' questions, when key data points aren't visible or accurate. Automation eliminates the inevitable human errors that arise when using disparate systems.

What's also important is that data be furnished within its context. Executives and managers need real-time, trustworthy business data across the company to make more strategic, well-informed decisions.

Survey respondents indicate their companies are already transitioning away from on-premise solutions. Cloud systems can make available role-appropriate, real-time information for both executive management teams and operations personnel.

With NetSuite, you get a single source of truth across finances, cash flow, payroll, inventory and more, with the ability to see what is going on in your business in real time.

NetSuite's unified data model allows accurate reporting and analysis of the business end to end. Yet as a roles-based system, it provides the checks and balances to keep information secure while giving all employees, from executives to warehouse personnel, the information needed to do their jobs.

At the same time, it provides personalization, customization and development capabilities so that NetSuite supports your business as it scales and evolves.

