



**Customer
Care Tip
July 2009**

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July 2009: Reacting to an Improving Economy

Overview:

Various sources in the media have been reporting the sightings of “green shoots” of a recovery, indicating the beginning of a turnaround in the economy.

You might be wondering just how one might tell that things are truly improving? The truth is that it can vary from industry to industry and, actually, that is not what is really important. What is important is for you, as VMI Planners, to be prepared for the eventual economic upturn, and to respond accordingly.

What to Do:

Collaborate

Collaboration between a Supplier and Distributor is a cornerstone of a successful VMI partnership. However, in times of economic uncertainty, collaboration becomes even more essential. Whether business is expanding or shrinking, adjustments to the inventory replenishment model may need to be made and, if they are required they should be made in a timely manner relative to the change in the business climate. The timing of the collaboration is critical. Responding too quickly or too tardily can result in too much inventory being held too quickly and/or too little inventory being held with a result of stock outs and/or lost business.

Review the Datalliance automated monthly and quarterly performance reports to keep a pulse on demand increases/decreases, add this to your company’s outlook on the state of the business, and collaborate with your customers to get their view of the world. By doing so, you put yourself in a position to respond with replenishment model changes that make sense when they make most sense.

Change the Replenishment Model

There are several ways to affect how and when items are replenished in response to an upturn/downturn in the economy should the outcome of your collaboration with your customer warrant such, including:

1. Use a shorter time frame for determining safety stock by selecting a 26 week planning horizon versus the ‘default’ system setting of 52 weeks.
2. Rely more heavily on recent sales activity for forecasting by configuring a smoothing factor of 10, 15 or 20% versus the ‘default’ system setting of 5%
3. Lower/Raise the number of demand hits required to start stocking Active items (PG 10 Ending Frequency)
4. Carry more/less Safety Stock by adjusting the V/V2 multipliers for each Planning Group
5. Order more/less upon suggested replenishment by adjusting the OQ by Price configuration settings.
6. Adjust even more rapidly to expected changes by utilizing an OP Adjustment Factor.

We are always here to assist you with your discussions with your customer and with walking you through the replenishment model configuration changes that are deemed most appropriate for the situation.

Pay Attention to Alerts & OP Management

Once the replenishment model has been changed, how and when items are suggested for order will most likely change. You might see 'Item not sold in recent history' or 'Excess Pre Days Supply' alerts that didn't appear before, indicating that replenishment may not be warranted. In addition, during times of economic upturns, OP Management is more critical than ever. Depending on your industry, distributor business which had been placed on hold will now start flowing, with a commensurate rush of customer demand. This activity may result in demand and order point spikes that may or may not need to be dampened and treated as 'exceptional'. Understand that demand spikes may occur more frequently and that Calculated Order Points may rise based solely on configuration changes rather than actual new demand.

All of this puts a higher degree of importance on Order Alert review and OP Management. It will be necessary to fully understand the exceptions presented and to carefully address them. Just remember, addressing the exceptions may mean that you do not do anything at all.

Summary:

Whether or not the pundits believe the economy is improving, your industry and each of your individual customer's business may or may not experience the economic uptick. It is critical that you remain engaged with your customer (collaborate) to understand the impact of economic factors on your replenishment strategy. The Datalliance system can be configured to help you respond to a changing business climate and/or performance objectives. Realize that any changes that you make to the replenishment model and decreases/ increases in demand can affect the exceptions that are presented to you for review. Pay attention to the exceptions and realize that changing times may result in changing actions.