

## Customer Care Tip – January 2006

### **OP Management: OP/Demand Spikes – ‘To Override or Not to Override Demand’?**

The Datalliance® system offers a unique tool for managing replenishment levels by exception, the OP Management report. As Datalliance® recalculates optimal inventory levels each week, this report is refreshed at the beginning of each week to help you, the planner, feel more confident going into the week’s orders. There are five unique categories of tests, each aimed at identifying specific types of exceptions at the item level. Each category has specific tests associated with it, all driven by our goal to help the planner identify those items that might benefit from individual review prior to reviewing and launching the first PO Worksheet of the week. With the increased number of tests and variations in how distributors report data, we realize that all of this can get confusing and leave a user wondering just what they are supposed to do.

During our training sessions and post training reviews, we have fielded lots of questions related to the tests that fall under the OP/Demand Spike category. Most of these questions revolve around whether or not to override a demand spike and, if so, how best to do so. As a result, we thought this was a perfect topic for this version of our Customer Care Tips.

The primary purpose of the tests that fall under the OP/Demand Spike category is to identify those items whose recent demand is either unusually high and/or has resulted in a significant increase in the amount of inventory that will be recommended to be kept. A goal of inventory management is to maintain a balance between inventory investment and customer service, so how do you determine whether or not it makes sense to hold sufficient inventory to cover such unusual demand? The answer is that many times you won’t know, not without input from the distributor’s buyer, who is closest to and better suited to understand consumer demand and the level of support they wish to offer.

That said, perhaps we can offer some guidelines as to how to determine whether or not an item warrants discussion with the distributor buyer and/or the setting of a demand/frequency override and offer a couple of examples of how this might play out in real life. All items that fail the ‘OP Change 1’ or ‘Expensive Change’ tests are being highlighted as the newly calculated order point has increased by a significant level (based on the configuration parameters for the Location). Now the question is whether or not the recent demand warrants stocking to such levels. Here are some questions you might ask:

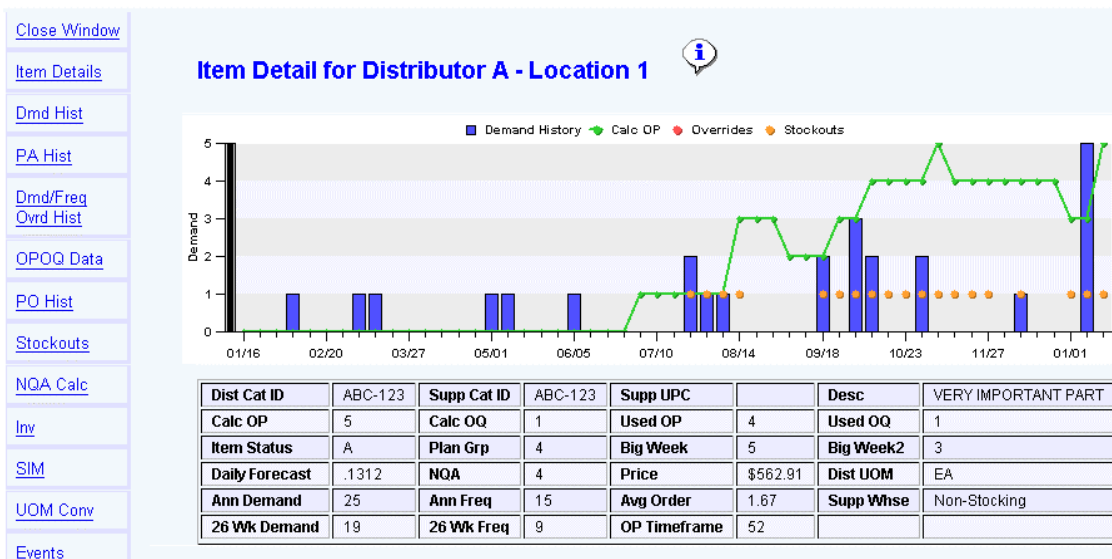
- Has the item experienced repeated stock-outs, i.e. is the graph peppered with orange dots? If so, this may be an indication that the calculated replenishment levels are not sufficient. Remember though, with items that

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fall into Planning Group 10, 12, 2, and 3, you almost expect them to stock out with each sale. The real question relative to the stock-outs, then, is do you believe they should or could be avoided by letting the demand fly?

- Has there been pent up demand due to long out-of-stock conditions caused by supplier delivery issues? If so, while this demand is ‘real’, it would have been spread out over multiple weeks if product was available. In this case, it might be reasonable to override the demand to what would normally be expected in a given week.
- Is the new, calculated order point (Calc OP) close to the order point reported by the distributor in the Product Activity transaction (Dist OP)? If it is, you might let the demand ride. This assumes, of course, that you have confidence in the Dist OP value being reported.
- Is the demand/frequency value that you are considering to override similar to one that you have set in the past? In other words, does this demand spike look like it might be a trend? If so, you might decide to remove the previously set demand/frequency override and not override the recent demand.
- Does the new Calc OP value seem ‘reasonable’ given the amount of time the inventory is needed to last (given Review Time and Lead Time)? If so, it would again seem reasonable to leave the demand alone, i.e. not set a demand/frequency override.

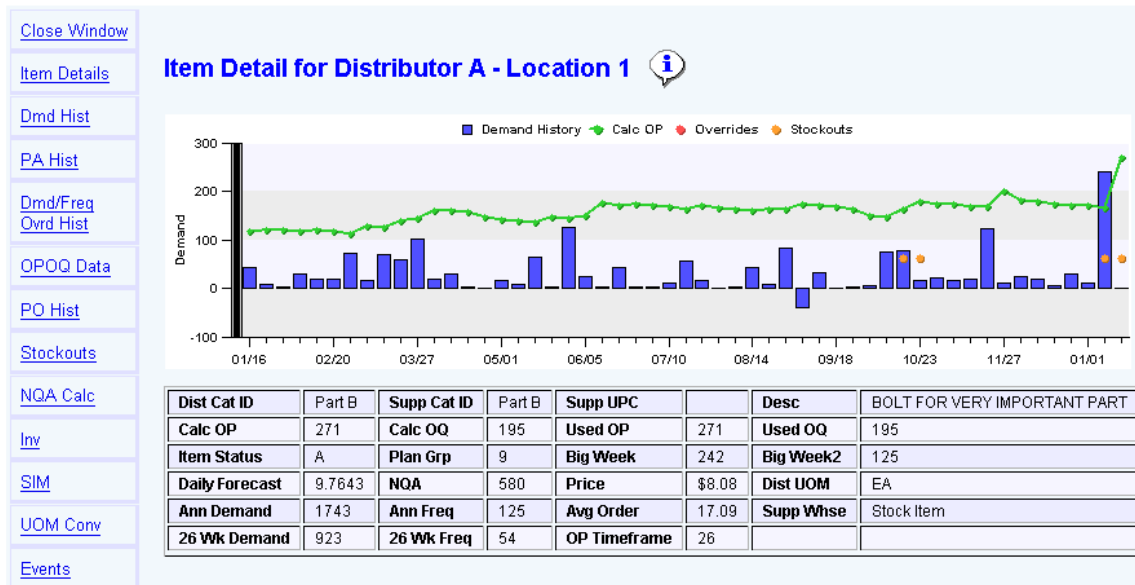
Perhaps an example would be helpful. The item below has failed this week’s Expensive Change test as the new Calc OP value of 5 will result in over \$1,000 additional inventory to be placed on the shelf versus last week’s Calc OP value of 3.



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Demand has certainly picked up in the last 6 months, leading to regular stock-outs and a steadily increasing Calc OP value. Let's assume that the supplier is not having delivery issues and is replenishing product within the expected lead time. By navigating to the OPOQ data page, we find that the Distributor has reported an Order Point of 5. It would then seem that the new Calc OP of 5 would not be considered to be unreasonable by the Distributor. While the demand for the week is larger than that experienced in any week previously (5 EA on one day), we see that this is a part that is not stocked in the supplier warehouse. Assume that we know that orders are launched once a week and that it will take 15 days for this product to be picked, shipped, and made available on the Distributor's shelf. Knowing this, the new Calc OP looks more and more reasonable. Based on the evaluation above, the appropriate action would seem to be to take no action, and simply mark the item as Reviewed and move on to the next item. However, whenever in doubt, call the buyer at the distributor, and solicit his/her input.

Let's take a look at another example. The item below failed the OP Change 1 test after last week's demand of 242 EA that occurred over two days (this was discovered by dwelling over the blue demand bar for the week). The new Calc OP is 271, while last week's Calc OP was 167; a significant difference in inventory value even with an item price of just over \$8.



This item has not been the victim of repeated stock-outs, as one would hope given that this is a very fast moving item (PG 9). By clicking on the [Dmd Hist](#) link, we find that the 242 EA were sold as 10 EA on one day and 232 EA on the other. Given historical demand, it certainly appears that a sale of 232 EA on one day is exceptional. The question now is whether to allow this demand to influence future stocking levels. This is

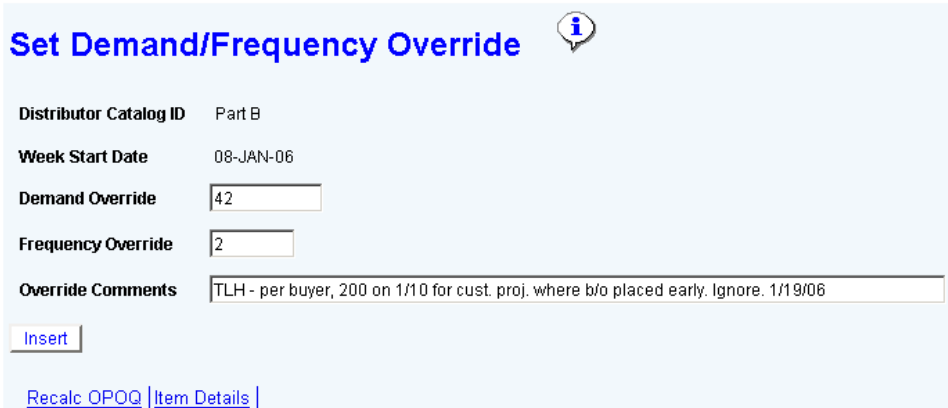
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an item that appears to warrant a demand/frequency override; however, a discussion with the distributor's buyer can best confirm whether this demand spike is truly exceptional or is a sign of future increased demand.

Let's assume we have decided to contact the distributor's buyer to discuss this item's recent demand. What information should we share in order to facilitate the review? First, most distributors should have a user id and password created so that they can access Item Detail information via the Datalliance® secure website (<https://www.datalliance.com>). That said, the notification to the distributor could be as simple as asking them to check out the website for the item in question. It might also be helpful to inform them of what the new Calc OP would be if the entire week's demand was ignored, or overridden. For example, in this case, if the entire week were ignored (null demand and frequency overrides), the new Calc OP would be 169.

Let's now assume that the buyer has reviewed the demand history for the item in question and informs you that 200 of the 232 sold on one day were for a special project for which a back order was placed two weeks ago. Their customer (the consumer) was more than willing to wait for the product to arrive and does not expect that the distributor will have sufficient stock on the shelf to fill such a large order. A demand/frequency override is definitely called for in this situation, so how should it be set? Of course you will first want to click on the blue bar associated with the week in question so that you will be presented with the Set Demand/Frequency Override page.

Given the information from the buyer, only 200 EA of the week's demand should be overridden. Below is an example of how the Demand/Frequency Override should be set:



The screenshot shows a web form titled "Set Demand/Frequency Override" with an information icon. The form contains the following fields and values:

Distributor Catalog ID	Part B
Week Start Date	08-JAN-06
Demand Override	42
Frequency Override	2
Override Comments	TLH - per buyer, 200 on 1/10 for cust. proj. where b/o placed early. Ignore. 1/19/06

Below the fields is an "Insert" button and two links: "Recalc OPOQ" and "Item Details".

The values entered for the **Demand Override** and **Frequency Override** fields should reflect those that you want the system to use **not** the values to be ignored. Of the 242 EA sold for the week, 232 were sold on one day of which 200 are exceptional while the remaining 32 sold on that same day are considered to be *normal* demand. So, the demand

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that should be used for future replenishment calculations should be 42 EA (10 EA on one day and 32 EA on the other) across 2 days. If the actual value of the *exceptional* demand is not known, it is best to leave these two values blank (or null) which will cause the entire week to be ignored.

Don't forget to enter meaningful comments for your demand/frequency overrides. Remember that your distributors will be able to see these, and if your memory is like mine, it is always helpful to have comments that will remind you of why you chose to ignore real demand.

Once the override values and comments have been entered, click on the **Insert** button to tell the system you are finished. In order to see the effect of the override, click on the [Recalc OPOQ](#) link, and the system will perform its calculations and return you to the Item Details page so that you can view the resulting Calc OP value. Also, don't forget that if today is an order day for this location, make sure to go to the Location Job Workbench and 'Rebuild Suggested Orders'. This will ensure that the PO Worksheet you review and launch will reflect your efforts.

The bottom line is that if you and your customer feel comfortable that the newly recommended stocking level is appropriate, no action need be taken. However, if this stocking level is being inappropriately influenced by demand that is unusual and will result in a higher customer service level than the distributor wants to provide, a demand/frequency override is warranted. And remember, just because the system identifies an item as having a spike in either or demand or Calc OP, it does not mean that a demand/frequency override is warranted. In other words, it is possible that more harm than good *could* be done by overriding demand for the week identified.

If you are ever unsure as to why an item appears on the OP Management Report and what action is appropriate, please call us and we'll help you work through it. Don't forget the toll free number for our Customer Care Line (888.364.3361).

We look forward to hearing from you!